

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

**Form 10-Q**

(Mark One)

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

For the quarterly period ended July 29, 2006

OR

**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**

(State or other jurisdiction of incorporation or organization)

**52-2150697**

(I.R.S. Employer Identification No.)

**102 Fahm Street Savannah, Georgia**

(Address of principal executive offices)

**31401**

(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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" as defined in Rule 12b-2 of the Exchange Act.

(Check one): Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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.

Class	Outstanding at August 11, 2006
Common Stock, \$.01 par value	13,543,227shares

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**Item 1. Financial Statements.**

**Citi Trends, Inc.**

**Condensed Balance Sheets**  
**July 29, 2006 and January 28, 2006**  
**(unaudited)**

	July 29, 2006	January 28, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,293,638	\$ 9,079,388
Marketable securities, available for sale	45,375,122	54,458,146
Inventory	67,075,988	54,020,879
Prepaid and other current assets	4,652,993	3,099,919
Income tax receivable	2,860,886	—
Deferred tax asset	1,710,331	1,620,400
Total current assets	129,968,958	122,278,732
Property and equipment, net	26,287,770	23,425,601
Goodwill	1,371,404	1,371,404
Other assets	238,306	213,800
Total assets	\$ 157,866,438	\$ 147,289,537
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Borrowings under revolving lines of credit	\$ —	\$ —
Accounts payable	40,694,164	45,789,220
Accrued expenses	6,550,057	6,896,442
Accrued compensation	3,628,253	4,980,434
Current portion of capital lease obligations	500,862	662,196
Income taxes payable	—	1,047,968
Layaway deposits	1,280,680	317,647
Total current liabilities	52,654,016	59,693,907
Long-term debt, less current portion	112,140	108,936
Capital lease obligations, less current portion	222,913	422,128
Other long-term liabilities	4,458,824	3,315,265

Total liabilities	57,447,893	63,540,236
Commitments and contingencies (note 6)		
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 20,000,000; 13,708,977 shares issued at July 29, 2006 and 13,179,765 shares issued at January 28, 2006; 13,543,227 shares outstanding at July 29, 2006 and 13,014,015 outstanding at January 28, 2006	137,090	131,798
Additional paid-in-capital	58,248,001	49,753,909
Retained earnings	42,198,004	34,028,144
Treasury stock, at cost; 165,750 shares	(164,550)	(164,550)
Total stockholders' equity	100,418,545	83,749,301
Total liabilities and stockholders' equity	<u>\$ 157,866,438</u>	<u>\$ 147,289,537</u>

See accompanying notes to the condensed financial statements.

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**Citi Trends, Inc.**  
**Condensed Statements of Operations**  
**Twenty-Six Weeks Ended July 29, 2006 and July 30, 2005**  
**(unaudited)**

	July 29, 2006	July 30, 2005
Net sales	\$ 168,011,161	\$ 123,065,929
Cost of sales	103,483,952	76,165,891
Gross profit	64,527,209	46,900,038
Selling, general and administrative expenses	52,922,248	41,028,800
Income from operations	11,604,961	5,871,238
Interest income	953,504	187,221
Interest expense, including redeemable preferred stock dividend in 2005	(78,605)	(242,608)
Income before provision for income taxes	12,479,860	5,815,851
Provision for income taxes	4,310,000	2,170,000
Net income	<u>\$ 8,169,860</u>	<u>\$ 3,645,851</u>
Basic income per common share	<u>\$ 0.61</u>	<u>\$ 0.34</u>
Diluted income per common share	<u>\$ 0.58</u>	<u>\$ 0.30</u>
Average number of shares outstanding		
Basic	13,481,836	10,610,154
Diluted	<u>14,068,831</u>	<u>12,230,180</u>

See accompanying notes to the condensed financial statements.

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**Citi Trends, Inc.**  
**Condensed Statements of Operations**  
**Thirteen Weeks Ended July 29, 2006 and July 30, 2005**  
**(unaudited)**

	July 29, 2006	July 30, 2005
Net sales	\$ 76,329,936	\$ 59,449,429
Cost of sales	48,112,234	37,682,861
Gross profit	28,217,702	21,766,568
Selling, general and administrative expenses	26,680,735	21,270,958
Income from operations	1,536,967	495,610
Interest income	456,411	135,782
Interest expense, including redeemable preferred stock dividend in 2005	(37,743)	(80,649)
Income before provision for income taxes	1,955,635	550,743
Provision for income taxes	680,000	170,000
Net income	<u>\$ 1,275,635</u>	<u>\$ 380,743</u>
Basic income per common share	<u>\$ 0.09</u>	<u>\$ 0.03</u>
Diluted income per common share	<u>\$ 0.09</u>	<u>\$ 0.03</u>
Average number of shares outstanding		
Basic	13,516,060	11,925,307

Diluted	14,099,565	13,587,400
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See accompanying notes to the condensed financial statements.

**Citi Trends, Inc.**  
**Condensed Statements of Cash Flows**  
**Twenty-six Weeks Ended July 29, 2006 and July 30, 2005**  
**(unaudited)**

	July 29, 2006	July 30, 2005
<b>Operating activities:</b>		
Net income	\$ 8,169,860	\$ 3,645,851
Adjustment to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,899,619	2,846,538
Gain on disposal of property and equipment	(267,089)	—
Deferred income taxes	(89,931)	563,676
Stock option expense	415,431	50,357
Dividends on preferred shares subject to mandatory redemption	—	100,308
Tax benefit on stock option exercise	—	412,544
Changes in assets and liabilities:		
Inventory	(13,055,109)	(13,891,068)
Prepaid and other current assets	(1,553,074)	(723,809)
Other assets	(33,395)	(59,063)
Accounts payable	(5,095,056)	8,115,766
Accrued expenses and other long-term liabilities	800,378	1,629,826
Accrued compensation	(1,352,181)	482,510
Income tax payable/receivable	(3,908,854)	(3,691,751)
Layaway deposits	963,033	744,572
Net cash (used in) provided by operating activities	<u>(11,106,368)</u>	<u>226,257</u>
<b>Investing activities:</b>		
Investments in marketable securities	(9,897,430)	(12,012,915)
Sales of marketable securities	18,980,454	—
Insurance proceeds received for property and equipment	268,744	—
Purchase of property and equipment	(6,754,554)	(4,873,106)
Net cash provided by (used in) investing activities	<u>2,597,214</u>	<u>(16,886,021)</u>
<b>Financing activities:</b>		
Repayments on long-term debt and capital lease obligations	(360,549)	(2,021,428)
Proceeds from payment of shareholder note receivable	—	23,691
Repayment of preferred shares subject to mandatory redemption	—	(3,605,000)
Excess tax benefits realized from the exercise of stock options	7,344,873	—
Proceeds from the sale of stock	—	41,074,909
Proceeds from the exercise of stock options	739,080	145,748
Net cash provided by financing activities	<u>7,723,404</u>	<u>35,617,920</u>
Net (decrease) increase in cash and cash equivalents	<u>(785,750)</u>	<u>18,958,155</u>
<b>Cash and cash equivalents:</b>		
Beginning of period	9,079,388	11,801,442
End of period	<u>\$ 8,293,638</u>	<u>\$ 30,759,597</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 59,002	\$ 421,375
Cash paid for income taxes	\$ 963,911	\$ 4,885,531
Purchases of property and equipment financed by entering into capital leases	\$ —	\$ 514,191

See accompanying notes to the condensed financial statements.

**Notes to the Condensed Financial Statements (unaudited)**  
**July 29, 2006**

**1. Basis of Presentation**

The condensed balance sheet as of July 29, 2006, the condensed statements of operations for the twenty-six and thirteen-week periods ended July 29, 2006 and July 30, 2005, and the condensed statements of cash flows for the twenty-six week periods ended July 29, 2006 and July 30, 2005 have been prepared by Citi Trends, Inc. (the "Company"), without audit. The condensed balance sheet as of January 28, 2006 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 July 29, 2006 and January 28, 2006, and its results of operations and cash flows at July 29, 2006 and July 30, 2005 and for all periods presented.

Certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted from these condensed financial statements. The Company suggests that you read its condensed financial statements in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

The results of operations for the twenty-six and thirteen weeks ended July 29, 2006 are not necessarily indicative of the operating results that may be expected for the year ending February 3, 2007.

The following contains references to years 2006 and 2005, which represent fiscal years ending or ended on February 3, 2007 (fiscal 2006) and January 28, 2006 (fiscal 2005), respectively. Fiscal 2006 has a 53-week accounting period and fiscal 2005 has a 52-week accounting period.

**2. Stock-Based Compensation**

In 1999, the Company established the 1999 Citi Trends, Inc. Stock Option Plan (the "1999 Plan"). The 1999 Plan provided for the grant of incentive and nonqualified options to key employees and directors. The Board of Directors determined the exercise price of the option grants. The option grants generally vested in equal installments over four years from the date of grant and are generally exercisable up to ten years from the date of grant, which is the contractual life of the options. The Company authorized up to 1,950,000 shares of common stock for issuance under the 1999 Plan.

On March 8, 2005 the Company adopted the 2005 Citi Trends, Inc. Long Term Incentive Plan, (the "Incentive Plan"), which became effective upon the consummation of the Company's initial public offering in May, 2005. The Incentive Plan supersedes and replaces the 1999 Plan. The Incentive Plan provides for the grant of incentive and nonqualified options to key employees and directors. The Board of Directors determines the exercise prices of the option grants which are generally equal to the closing market price of the Company's stock on the date of grant. Option grants generally vest in equal installments over four years from the date of grant and are generally exercisable up to ten years from the date of grant. Under the Incentive Plan, the Company may issue up to 1,300,000 shares of common stock that may be issued upon the exercise of stock options and other equity incentive awards.

For fiscal years prior to 2006, the Company applied the intrinsic-value-based method of accounting prescribed by the Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including Financial Accounting Standards Board ("FASB") interpretation (FIN) No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25* to account for its fixed-plan stock options. Under this method, compensation expense was recorded on the date of grant only if the then-current fair value of the underlying stock exceeded the exercise price. The Company recognized the fair value of stock rights granted to non-employees in the financial statements. Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation, and SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB statement No. 123*, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by the accounting standards, the Company continued to apply the intrinsic-value based method of accounting as described previously and adopted only the disclosure requirements of SFAS No. 123, as amended.

Effective January 29, 2006, the Company began recording compensation expense associated with all stock options and other forms of equity compensation in accordance with SFAS No. 123R, *Share-Based Payment*, as interpreted by SEC Staff Accounting Bulletin No. 107. The Company has selected the "Modified Prospective" transition approach for adoption of SFAS No. 123R. Under the Modified Prospective approach, prior periods are not restated. Compensation expense for the unvested portions of grants awarded prior to January 29, 2006, will be recognized over the grants' remaining service periods using the compensation cost calculated previously for pro-forma disclosure under APB Opinion No. 25, *Accounting for Stock Issued to Employees*. For awards granted after January 28, 2006, the Company is recognizing compensation expense based on the grant-date fair value calculated in accordance with SFAS No. 123R. Such expense will be recognized on a straight line basis over the service period of the option recipients which is generally equal to four years.

Under SFAS No. 123R, the fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model, which uses the assumptions noted in the following table. Expected volatility is based on estimated future volatility of the Company's common stock price. Having completed its initial public offering in May 2005, the Company has limited historical data regarding the price of its publicly traded shares. To estimate future volatility of the Company's stock price, the stock price volatility of similar entities for which shares have been publicly traded for a period of seven years or more was measured. The Company uses a volatility measure which is approximately equal to the average volatility of such similar entities as measured over a period of the most recent seven years. The Company uses historical data to estimate employee terminations used in the model. The expected term of options granted is based on guidance provided by the SEC Staff Accounting Bulletin 107 ("simplified method" for "plain vanilla" options.). The simplified method (available for entities which do not have sufficient historical exercise data available for making a refined estimate of expected term) assumes a 10 year contractual term with vesting at a rate of 25% per year. Accordingly, expected term = ((vesting term + original contractual term)/2). The risk-free interest rate for the periods which corresponds with the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following is a summary of the Company's assumptions as of July 29, 2006 under SFAS No. 123R.

Twenty-six Weeks Ended		Thirteen Weeks Ended	
July 29, 2006	July 30, 2005	July 29, 2006	July 30, 2005

Expected Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	50.00%	50.00%	50.00%	50.00%
Risk-free interest rate	4.63% - 5.26%	3.61% - 3.88%	4.63% - 5.26%	3.61% - 3.88%
Weighted-average expected lives, in years	6.25 years	6.25 years	6.25 years	6.25 years
Forfeiture rate	0% - 5.0%	10.0%	0% - 5.0%	10.0%

A summary of the status of stock options under our plans and changes during the twenty-six weeks ended July 29, 2006 is presented in the table below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of period	1,572,833	\$ 2.60		
Granted	86,500	40.83		
Exercised	(529,212)	1.40		\$ 2,163,811
Forfeited	(19,525)	14.50		
Outstanding end of period	<u>1,110,596</u>	<u>\$ 5.94</u>	<u>5.4</u>	<u>\$ 26,580,260</u>
Options exercisable end of period	<u>831,846</u>	<u>\$ 1.21</u>	<u>4.4</u>	<u>\$ 23,090,953</u>

The weighted average grant-date fair value of options granted during the twenty-six and thirteen weeks ended July 29, 2006 was \$22.16 and \$20.80 per share, respectively or approximately \$1,917,000 and \$292,000, respectively for all options granted. The weighted average grant-date fair value of options granted during the twenty-six and thirteen weeks ended July 30, 2005 was \$7.44 per share or approximately \$974,000 for all options granted. Cash received from options exercised totaled approximately \$739,000 and \$146,000 for the twenty-six weeks ended July 29, 2006 and July 30, 2005, respectively and approximately \$205,000 and \$146,000 for the thirteen weeks ended July 29, 2006, and July 30, 2005, respectively.

Prior to the adoption of SFAS No. 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Condensed Statements of Cash Flows. SFAS No. 123R requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised ("excess tax benefits") be classified as financing cash flows. For the twenty-six and thirteen weeks ended July 29, 2006, excess tax benefits realized from the exercise of stock options was approximately \$7,345,000 and \$655,000, respectively.

During the twenty-six week and thirteen weeks ended July 29, 2006, the Company recognized approximately \$415,000 (\$272,000 after tax) and \$235,000 (\$154,000 after tax), respectively, in share-based compensation expense with a resulting increase in its deferred tax assets of approximately \$81,000. No compensation cost was recognized prior to January 29, 2006, except for option grants made in 2001 and 2004 that were issued below fair market value. Had compensation cost for our share-based compensation plans been determined consistent with SFAS No. 123R, the Company's net income and earnings per share for the twenty-six weeks and thirteen weeks ended July 30, 2005 would have been reduced to the following pro forma amounts:

	Twenty-six Weeks Ended July 30, 2005	Thirteen Weeks Ended July 30, 2005
Net income, as reported	\$ 3,645,851	\$ 380,743
Add stock-based employee compensation expense included in reported net income, net of tax of \$18,784 for the twenty-six weeks and \$9,392 in the thirteen weeks	31,576	15,788
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax of \$153,544 for the twenty-six weeks and \$141,971 in the thirteen weeks	(258,102)	(238,648)
Pro forma net income	<u>\$ 3,419,325</u>	<u>\$ 157,883</u>
As reported basic income per common share	<u>\$ 0.34</u>	<u>\$ 0.03</u>
Pro forma basic income per common share	<u>\$ 0.32</u>	<u>\$ 0.01</u>
As reported diluted income per common share	<u>\$ 0.30</u>	<u>\$ 0.03</u>
Pro forma diluted income per common share	<u>\$ 0.28</u>	<u>\$ 0.01</u>

As of July 29, 2006, the total compensation cost related to non-vested awards that will be incurred in future periods amounts to approximately \$2,583,000. The weighted-average period over which this amount is expected to be recognized is 38.2 months. The Company's stock option plans allows the Company to issue new shares from shares authorized for issuance or repurchase shares on the open market to complete employee stock option exercises. The Company does not currently plan to repurchase shares.

### 3. Earnings per Share

Earnings per share is based on the weighted average number of common shares outstanding and diluted earnings per share are based on the weighted average number of common shares outstanding plus the incremental shares that would have been outstanding upon the assumed exercise of all dilutive stock options.

The following table is a reconciliation of the number of average common shares outstanding used to calculate earnings per share to the number of common shares and common share equivalents outstanding used in calculating diluted earnings per share for the twenty-six weeks ended July 29, 2006 and July 30, 2005:

	Twenty-six Weeks Ended	
	July 29, 2006	July 30, 2005
Average number of common shares outstanding	13,481,836	10,610,154
Incremental shares from assumed exercises of stock options	586,994	1,620,026
Average number of common shares and common stock equivalents outstanding	<u>14,068,831</u>	<u>12,230,180</u>

According to SFAS No. 128, *Earnings per Share*, the dilutive effect of stock-based compensation arrangement is determined 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 adoption of SFAS No. 123R, *Share-Based Payment* requires the Company to include as assumed proceeds the amount of compensation cost attributed to future services and not yet recognized, and the amount of tax benefits (both deferred and current), if any, that would be credited to additional paid-in capital assuming exercise of the options. For the twenty-six weeks ended July 29, 2006 the recognition of these assumed proceeds using the Treasury Stock method reduces the recognized dilution due to the Company's stock options outstanding.

For the twenty-six weeks ended July 29, 2006 and the twenty-six weeks ended July 30, 2005 there were no options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution.

For the twenty-six weeks ended July 30, 2005, had the amount of incremental shares from assumed exercises of stock options been calculated consistently with the treasury stock method as modified due to the Company's implementation of SFAS No. 123R on January 29, 2006, incremental shares assumed issued, the average number of common shares and common stock equivalents, and the resulting diluted earnings per share would have been as follows:

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	Twenty-six Weeks ended July 30, 2005	
	As Reported	Pro Forma
Average number of common shares outstanding	10,610,154	10,610,154
Incremental shares from assumed exercises of stock options	1,620,026	1,003,193
Average number of common shares outstanding and common stock equivalents outstanding	12,230,180	11,613,347
Net income as reported	\$ 3,645,851	\$ 3,645,851
Basic earnings per share	\$ 0.34	\$ 0.34
Diluted earnings per share	\$ 0.30	\$ 0.31

The following table is a reconciliation of the number of average common shares outstanding used to calculate earnings per share to the number of common shares and common share equivalents outstanding used in calculating diluted earnings per share for the thirteen weeks ended July 29, 2006 and July 30, 2005:

	Thirteen Weeks Ended	
	July 29, 2006	July 30, 2005
Average number of common shares outstanding	13,516,060	11,925,307
Incremental shares from assumed exercises of stock options	583,505	1,662,093
Average number of common shares and common stock equivalents outstanding	14,099,565	13,587,400

For the thirteen weeks ended July 29, 2006 and the thirteen weeks ended July 30, 2005 there were 5,850 options and 0 outstanding respectively, to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution.

For the thirteen weeks ended July 30, 2005, had the amount of incremental shares from assumed exercises of stock options been calculated consistently with the treasury stock method as modified due to the Company's implementation of SFAS No. 123R on January 29, 2006, incremental shares assumed issued, the average number of common shares and common stock equivalents, and the resulting diluted earnings per share would have been as follows:

	Thirteen Weeks ended July 30, 2005	
	As Reported	Pro Forma
Average number of common shares outstanding	11,925,307	11,925,307
Incremental shares from assumed exercises of stock options	1,662,093	1,029,213
Average number of common shares outstanding and common stock equivalents outstanding	13,587,400	12,954,520
Net income as reported	\$ 380,743	\$ 380,743
Basic earnings per share	\$ 0.03	\$ 0.03
Diluted earnings per share	\$ 0.03	\$ 0.03

#### 4. Marketable Securities

Marketable securities consist of highly liquid, auction rate municipal securities of at least grade AA by Standard and Poor's or Aa by Moody's. While the underlying security has a long-term nominal maturity, the interest rate is periodically reset through "Dutch Auctions" typically every seven through forty-nine days. As of July 29, 2006, all auction rate securities held by the Company were purchased with reset periods of 35 days. The Company has the opportunity to sell its investment during such periodic auctions subject to the availability of buyers. Since these auction rate securities are priced and subsequently traded at short-term intervals, they are classified as current assets.

The Company classifies all investments as available-for-sale. Available-for-sale securities are carried at estimated fair value, based on available market information, with unrealized gains and losses, if any, reported as a component of stockholders' equity. As a result of the resetting variable rates, the carrying value of available-for-sale securities approximates fair market value due to their short maturities. For these reasons, the Company has no cumulative gross unrealized or realized gains or losses from these investments. All income generated from these investments is recorded as interest income. The Company has no investments considered to be trading securities.

#### 5. Revolving Lines of Credit

The Company has a revolving line of credit with Wachovia Capital Finance that is secured by substantially all of the Company's assets and pursuant to which the Company pays customary fees. This secured line of credit expires in April 2007. At July 29, 2006, the line of credit provided for aggregate cash borrowings and the issuance of letters of credit up to the lesser of \$25,000,000 or the Company's borrowing base (approximately \$25,000,000 at July 29, 2006), as defined in the credit agreement. Borrowings under this secured line of credit bear interest at either the prime rate or the Eurodollar rate plus 2.25%, at the Company's election, based on conditions in the credit agreement. Additionally, there is a letter of credit fee of 1.25% per annum on the outstanding balance of letters of credit. On May 18, 2006, the Company entered into an amendment (the "Fifth Amendment") to its Loan and Security Agreement dated April 2, 1999, as amended (the "Loan Agreement"), with Wachovia Capital Finance. The Fifth Amendment provides, subject to certain conditions, that the reduction by Hampshire Equity Partners, L.P., the Company's largest stockholder, of its investment in the

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Company is not an event of default under the Loan Agreement. At July 29, 2006, there were no outstanding borrowings on the revolving line of credit, nor were there any outstanding letters of credit. Under the terms of the credit agreement, the Company is required to maintain a minimum tangible net worth. The Company was in compliance with this requirement at July 29, 2006.

On June 16, 2006, the Company entered into a renewal of its unsecured revolving line of credit with Bank of America. The renewal extends the expiration date on the line of credit to June 30, 2007. At July 29, 2006, the line of credit provided for aggregate cash borrowings up to \$3,000,000. Borrowings under the credit agreement bear interest at the London Interbank Offered Rate (LIBOR) plus 2.00%. At July 29, 2006, there were no outstanding borrowings on this unsecured revolving line of credit.

#### 6. Contingencies

The Company from time to time is involved in various legal proceedings incidental to the conduct of its business, including claims by customers, employees or former employees. While litigation is subject to uncertainties and the outcome of any litigated matter is not predictable, the Company is not aware of any legal proceedings pending or threatened against it that it expects to have a material adverse effect on its financial condition or results of operations.

#### 7. Related Party Transactions — Management Consulting Agreement

The Company was a party to an Amended and Restated Management Consulting Agreement (the "Consulting Agreement"), effective as of February 1, 2004 with Hampshire Management Company LLC (the "Consultant"), an affiliate of the Company's largest shareholder, pursuant to which the Consultant provided the Company with certain consulting services related to, but not limited to, financial affairs, relationships with lenders, stockholders and other third-party associates or affiliates, and the expansion of the Company's business. In connection with the Company's initial public offering in May 2005, the parties terminated the Consulting Agreement, and the Company paid the Consultant a one time termination fee of \$1.2 million in the second quarter of 2005.

Included in operating expenses for the twenty-six weeks ended July 29, 2006 were management fees of \$0 compared to management fees of \$72,857 for the twenty-six weeks ended July 30, 2005 and the termination fee of \$1.2 million for the twenty-six weeks ended July 30, 2005. Included in operating expense for the thirteen weeks ended July 29, 2006 were management fees of \$0 compared to management fees of \$12,857 for the thirteen weeks ended July 30, 2005 and the termination fee of \$1.2 million for the thirteen weeks ended July 30, 2005.

#### 8. Secondary Offering

On January 31, 2006, the Company completed a secondary offering of shares of its common stock by certain shareholders of the Company. The shares sold were priced at \$42.25 per share. The offering consisted of 1,926,250 shares of common stock, including 251,250 shares that were subject to the underwriters' over-allotment option. All of the shares were sold by the Company's shareholders and, as a result, the Company did not receive any of the proceeds from the offering. The Company incurred expenses in fiscal 2005 in connection with the secondary offering of approximately \$525,000.

#### 9. Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN 48"), an interpretation of SFAS No. 109, *Accounting for Income Taxes*, ("SFAS No. 109"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is "more-likely-than-not" that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 applies to all tax positions related to income taxes subject to SFAS 109. Additionally, FIN 48 provides guidance on de-recognition, income statement classification of interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact of FIN 48 on its consolidated financial statements.

In October 2005, the FASB issued FASB Staff Position (FSP) No. FAS 13-1, *Accounting for Rental Costs Incurred during a Construction Period*, which mandates that rental costs associated with ground or building operating leases incurred during construction shall be recognized as rental expense. The guidance is effective as of the first reporting period beginning after December 15, 2005. The adoption of FSP No. FAS 13-1 did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.



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,” “will likely result,” or “will continue” and similar words and expressions generally identify forward-looking statements. 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; interest rate fluctuations; a continued rise in insurance costs; a deterioration in general economic conditions caused by acts of war or terrorism; 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, expanding or converting new or existing distribution centers; and other factors.

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.

## Overview

The Company is a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. The Company’s merchandise offerings are designed to appeal to the preferences of fashion conscious consumers, particularly African-Americans. Stores are located in the Southeast, the Mid-Atlantic region, Texas and the Midwest. As of July 29, 2006, there were 253 stores in operation in both urban and rural markets in sixteen states.

The Company measures its performance using key operating statistics. One of the main performance measures is comparable store sales growth. A comparable store is defined as a store that has been open for an entire fiscal year. Therefore, a store will not be considered a comparable store until its 13<sup>th</sup> month of operation at the earliest or its 24<sup>th</sup> month at the latest. As an example, stores opened in fiscal 2004 and fiscal 2005 were not considered comparable stores in fiscal 2005. Relocated and expanded stores are included in the comparable store sales results. Other operating statistics, most notably average sales per store, are utilized in managing the Company. The Company typically occupies existing space in established shopping centers rather than sites built specifically for its stores, and, therefore, store square footage (and sales per square foot) varies by store. The Company focuses on the overall store sales volume as the critical driver of profitability. Average sales per store have increased from approximately \$0.8 million in fiscal 2000 to approximately \$1.3 million in fiscal 2005. The Company also measures gross margin percentage and store operating expenses, with a particular focus on labor as a percentage of sales. These results translate into store level contribution, which is used to evaluate overall performance of each individual store. Corporate expenses are monitored against budgeted amounts.

The Company’s cash requirements are primarily for working capital, construction of new stores, remodeling of existing stores and improvements to its information systems. Historically, these cash requirements have been met from cash flow from operations, short-term trade credit and borrowings under the revolving lines of credit, long-term debt, capital leases and the proceeds from the initial public offering.

## Accounting Periods

The following discussion contains references to years 2006 and 2005, which represent fiscal years ending or ended on February 3, 2007 (fiscal 2006) and January 28, 2006 (fiscal 2005), respectively. Fiscal 2006 has a 53-week accounting period and fiscal 2005 had a 52-week accounting period. This discussion and analysis should be read with the condensed financial statements and the notes thereto.

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## Results of Operations

The following discussion of the Company’s financial performance is based on the condensed 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 July 29, 2006 and July 30, 2005

*Net Sales.* Net sales increased \$44.9 million, or 36.5%, to \$168.0 million for the twenty-six weeks ended July 29, 2006 from \$123.1 million in the twenty-six weeks ended July 30, 2005. The increase in net sales was primarily due to 33 new stores opened since July 30, 2005 and a comparable store sales increase of 14.6% for the twenty-six weeks ended July 29, 2006 compared to the twenty-six weeks ended July 30, 2005. The 33 stores opened since July 30, 2005 accounted for \$22.5 million of the total increase in sales, the 21 stores opened between January 30, 2005 and July 30, 2005 accounted for \$6.9 million and the 199 comparable stores contributed \$16.4 million of the increase in sales. These sales increases were partially offset by one store that was closed in fiscal 2005. Three stores have been expanded and/or relocated since July 30, 2005, two of which occurred in the twenty-six weeks ended July 29, 2006. The increase in same store sales was due primarily to increased store traffic and a higher average item price, which we believe, resulted from the increasing popularity of branded goods.

*Gross Profit.* Gross profit increased \$17.6 million, or 37.6%, to \$64.5 million in the twenty-six weeks ended July 29, 2006 from \$46.9 million in the twenty-six weeks ended July 30, 2005. The increase in gross profit is primarily a result of the increase in sales for the same period. As a percentage of net sales, gross profit increased to 38.4% in the twenty-six weeks ended July 29, 2006 from 38.1% in the twenty-six weeks ended July 30, 2005. This increase, as a

percentage of net sales, was primarily due to a higher initial mark up on merchandise and lower freight costs that were partially offset by higher markdown rates as a percent of sales in the twenty-six weeks ended July 29, 2006 compared to the twenty-six weeks ended July 30, 2005.

*Selling, General and Administrative Expense.* Selling, general and administrative expenses increased \$11.9 million, or 29.0%, to \$52.9 million in the twenty-six weeks ended July 29, 2006 from \$41.0 million in the twenty-six weeks ended July 30, 2005. The increase in these expenses was due primarily to additional store level, distribution and corporate costs arising from the opening of 33 new stores since July 30, 2005 and the Darlington, South Carolina distribution center purchased in the third quarter of last year. Selling, general and administrative expense as a percentage of net sales decreased to 31.5% in the twenty-six weeks ended July 29, 2006 from 33.3% in the twenty-six weeks ended July 30, 2005. The decrease as a percentage of net sales was primarily due in part to the payment in the twenty-six weeks ending July 30, 2005 of a \$1.2 million fee to terminate the consulting agreement with Hampshire Equity Partners and to the Company's strong comparable sales growth which has outpaced the growth of selling, general and administrative expenses. Partially offsetting these favorable items were \$1.1 million in additional costs incurred by the Company for compliance with section 404 of the Sarbanes-Oxley Act, other legal and professional fees and increased insurance costs for medical claims in the twenty six weeks ended July 29, 2006.

*Interest Income.* Interest income increased to approximately \$954,000 in the twenty-six weeks ended July 29, 2006 from approximately \$187,000 in the twenty-six weeks ended July 30, 2005. The increase in interest income was due primarily to interest income earned on proceeds received from the Company's initial public offering in the second quarter of 2005. These proceeds are invested in marketable securities.

*Interest Expense.* Interest expense decreased 67.6% to approximately \$79,000 in the twenty-six weeks ended July 29, 2006 from approximately \$243,000 in the twenty-six weeks ended July 30, 2005. The decrease in interest expense was due primarily to the Company's redemption in the second quarter of 2005 of the preferred shares subject to mandatory redemption and the Company repaying in full the mortgage on its Fahm Street Distribution Center in the second quarter of 2005.

*Provision for Income Taxes.* The provision for income taxes increased 98.6% to \$4.3 million in the twenty-six weeks ended July 29, 2006 from \$2.2 million in the twenty-six weeks ended July 30, 2005. The income tax rate for the twenty-six weeks ended July 29, 2006 was 34.5% compared to 37.3% for the twenty-six weeks ended July 30, 2005. The decrease in the effective tax rate was due to the Company's investment in tax exempt securities and Company's redemption of its non-deductible preferred stock in the second quarter of 2005.

*Net Income.* Net income increased 124.1% to \$8.2 million in the twenty-six weeks ended July 29, 2006 from \$3.6 million in the twenty-six weeks ended July 30, 2005. The increase in net income was due to the factors discussed above.

### **Thirteen Weeks Ended July 29, 2006 and July 30, 2005**

*Net Sales.* Net sales increased \$16.9 million, or 28.4%, to \$76.3 million for the thirteen weeks ended July 29, 2006 from \$59.5 million in the thirteen weeks ended July 30, 2005. The increase in net sales was primarily due to 33 new stores opened since July 30, 2005 and a comparable store sales increase of 7.3% for the thirteen weeks ended July 29, 2006 compared to the thirteen weeks ended July 30, 2005. The 33 stores opened since July 30, 2005 accounted for \$11.9 million of the total increase in sales, the 21 stores opened between January 30, 2005 and July 30, 2005 accounted for \$1.5 million and the 199 comparable stores contributed \$3.9 million of the increase in sales. These sales increases were partially offset by one store that was closed in fiscal 2005. Three stores have been expanded

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and/or relocated since July 30, 2005, none of which occurred in the thirteen weeks ended July 29, 2006. The increase in same store sales was due primarily to an increase in the average price of items sold, which occurred primarily due to branded goods increasing as percentage of the Company's assortment of goods sold.

*Gross Profit.* Gross profit increased \$6.5 million, or 29.6%, to \$28.2 million in the thirteen weeks ended July 29, 2006 from \$21.8 million in the thirteen weeks ended July 30, 2005. The increase in gross profit is primarily a result of the increase in sales for the same period. As a percentage of net sales, gross profit increased to 37.0% in the thirteen weeks ended July 29, 2006 from 36.6% in the thirteen weeks ended July 30, 2005. This increase, as a percentage of net sales, was primarily due to a higher initial mark up on merchandise and lower freight costs that were partially offset by higher markdown rates as a percent of sales in the thirteen weeks ended July 29, 2006 compared to the thirteen weeks ended July 30, 2005.

*Selling, General and Administrative Expense.* Selling, general and administrative expenses increased \$5.4 million, or 25.4%, to \$26.7 million in the thirteen weeks ended July 29, 2006 from \$21.3 million in the thirteen weeks ended July 30, 2005. The increase in these expenses was due primarily to additional store level, distribution and corporate costs arising from the opening of 33 new stores since July 30, 2005 and the Darlington, South Carolina distribution center purchased in the third quarter of last year. Selling, general and administrative expense as a percentage of net sales decreased to 35.0% in the thirteen weeks ended July 29, 2006 from 35.8% in the thirteen weeks ended July 30, 2005. The decrease as a percentage of net sales was due in part to the payment of a \$1.2 million fee in the thirteen weeks ending July 30, 2005 to terminate the consulting agreement with Hampshire Equity Partners. This was partially offset by a deleveraging of store payroll costs compared to the second quarter last year and approximately \$750,000 in higher than expected costs incurred by the Company for SOX compliance, other professional fee and legal costs and by increased insurance costs related to higher medical claims in the thirteen weeks ended July 30, 2006.

*Interest Income.* Interest income increased to approximately \$456,000 in the thirteen weeks ended July 29, 2006 from approximately \$136,000 in the thirteen weeks ended July 30, 2005. The increase in interest income was due primarily to interest income earned on proceeds from the Company's initial public offering in the second quarter 2005. These proceeds are invested in marketable securities.

*Interest Expense.* Interest expense decreased 53.2% to approximately \$38,000 in the thirteen weeks ended July 29, 2006 from approximately \$81,000 in the thirteen weeks ended July 30, 2005. The decrease in interest expense was due primarily to the Company's redemption in the second quarter of 2005 of the preferred shares subject to mandatory redemption and the Company repaying in full the mortgage on its Fahm Street Distribution Center in the second quarter of 2005.

*Provision for Income Taxes.* The provision for income taxes increased 300.0% to approximately \$680,000 in the thirteen weeks ended July 29, 2006 from approximately \$170,000 in the thirteen weeks ended July 30, 2005. The income tax rate for the thirteen weeks ended July 29, 2006 was 34.5% compared to 30.9% for the thirteen weeks ended July 30, 2005. The increase in the effective tax rate was due to the Company's revising its tax rate downward in the

second quarter of 2005 to include the projected full year impact of the Company's investment in tax exempt securities that began in the second quarter of 2005 and the Company's redemption of its non-deductible preferred stock in the second quarter of 2005.

*Net Income.* Net income increased 235.0% to \$1.3 million in the thirteen weeks ended July 29, 2006 from approximately \$381,000 in the thirteen weeks ended July 30, 2005. The increase in net income was due to the factors discussed above.

## **Liquidity and Capital Resources**

*Current Financial Condition.* At July 29, 2006, the Company had total cash and marketable securities of \$53.7 million compared with total cash and marketable securities of \$63.5 million at January 28, 2006. The most significant factors in the change in the Company's net liquidity position during the first thirteen weeks of 2006 were positive net income from operations adjusted for depreciation and other non-cash charges, cash retained due to the excess tax benefit of stock options exercised that would otherwise been paid for income taxes and cash deposits received for goods placed on layaway offset by the purchase of additional inventory, capital expenditures related to new store openings and the build out of our new distribution center in Darlington, South Carolina and an increase in prepaid assets and other current assets.

Inventory represented approximately 42% of the Company's total assets as of July 29, 2006. Management's ability to manage its inventory can have a significant impact on the Company's cash flows from operations during a given interim period or fiscal year. In addition, inventory purchases can be somewhat seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise.

*Cash Flows (Used in) Provided by Operating Activities.* Net cash (used in) provided by operating activities was (\$11.1) million in the twenty-six weeks ended July 29, 2006 compared to approximately \$226,000 in the twenty-six weeks ended July 30, 2005. Uses of cash consisted of the net increase in net inventory of \$18.2 million, a \$3.9 million increase in the net income tax receivable/payable, a \$1.6 million increase in prepaid assets and other current assets related to tenant improvement dollars (as described below) owed by landlords for improvements to stores built out in the twenty-six weeks ended July 29, 2006 and a \$1.4 million decrease in accrued compensation. The main sources of cash provided during the twenty-six weeks ended July 29, 2006 was net income adjusted for depreciation and other non-cash charges of \$12.1 million, deposits taken on layaway transactions of approximately \$963,000 and increases in accrued expenses of approximately \$800,000.

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*Cash Flows Provided by (Used in) Investing Activities.* Cash provided by (used in) investing activities was \$2.6 million in the twenty-six weeks ended July 29, 2006 and (\$16.9) million in the twenty-six weeks ended July 30, 2005. Investment activities in marketable securities consisted of net redemptions of \$9.1 million of cash in municipal auction rate securities. Capital expenditure activities consisted of \$6.8 million used for the purchase of property and equipment for the build out of 18 new stores, two relocations and remodels, the build out of the distribution center in Darlington, South Carolina and other general corporate purposes. \$1.6 million of the Company's capital expenditures on new stores in the twenty-six weeks ended July 29, 2006 will be reimbursed to the Company in the form of cash or free rent by the landlords of the leased properties. These tenant improvement dollars will be amortized over the life of the individual store's lease as a reduction to occupancy expense. Capital expenditures during fiscal 2006, are projected to be approximately \$13 million to \$15 million. The Company anticipates funding its fiscal 2006 and longer term capital requirements with cash flows from operations, and cash obtained from its initial public offering in May 2005, if necessary.

*Cash Flows Provided by Financing Activities.* Cash provided by financing activities was \$7.7 million in the twenty-six weeks ended July 29, 2006 and approximately \$35.6 million in the twenty-six weeks ended July 30, 2005. Financing activities in the twenty-six weeks ended July 29, 2006 included the tax benefit from stock option exercises of \$7.3 million, the receipt of approximately \$739,000 from options exercised during our secondary offering and employee stock option exercises that occurred in the twenty-six weeks ended July 29, 2006 and scheduled repayments of approximately \$361,000 on outstanding capital leases.

## **Cash Requirements**

The Company's cash requirements are primarily for working capital, construction of new stores, remodeling of existing stores, improvements to its distribution infrastructure and improvements to its information systems. Historically, the Company has met these cash requirements from cash flow from operations, short-term trade credit and borrowings under the revolving lines of credit, long-term debt, capital leases and cash proceeds from the initial public offering in May 2005. The Company expects to be able to meet its cash requirements for at least the next twelve months using cash flow from operations and the cash generated from the sale of its marketable securities.

## **Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. The Company believes the following critical accounting policies describe the more significant judgments and estimates used in the preparation of its financial statements:

### *Revenue Recognition*

While the recognition of revenue is predominantly derived from routine retail transactions and does not involve significant judgment, revenue recognition represents an important accounting policy of the Company. The Company recognizes retail sales at the time the customer takes possession of the merchandise and purchases are paid for less an allowance for returns. The Company allows for returns up to 10 days after the date of sales and the estimate for returns is based on actual observed return activity 10 days after the period ends. Revenue from layaway sales is recognized when the customer has paid for and received the merchandise. However, revenue from the \$2.00 service charge for participating in the layaway program and from the \$5.00 re-stocking fee, if charged as part of the program, is recognized at the time of payment. All sales are from cash, check or major credit card company transactions.

### *Inventory*

Inventory is stated at the lower of cost (first-in, first-out basis) or market as determined by the retail inventory method less a provision for estimated inventory shrinkage. Under the retail inventory method, the cost value of inventory and gross margins are determined by calculating a cost-to-retail ratio and applying it

to the retail value of inventory. Inherent in the retail inventory calculation are certain significant management judgments and estimates including, among others, merchandise markups, markdowns and shrinkage, which impact the ending inventory valuation at cost as well as resulting gross margins. The Company estimates a shrinkage reserve for the period between the last physical count and the balance sheet date. The estimate for the shrinkage reserve can be affected by changes in actual shrinkage trends. The Company believes the first-in first-out retail inventory method results in an inventory valuation that is fairly stated. Many retailers have arrangements with vendors that provide for rebates and allowances under certain conditions, which ultimately affect the value of the inventory. The Company has not entered into any such material arrangements with its vendors.

#### *Property and Equipment, net*

The Company has a significant investment in property and equipment. Property and equipment are stated at cost less accumulated depreciation. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation and amortization are computed using the straight-line method over the lesser of the estimated useful lives (primarily three to five years for computer equipment and furniture, fixtures and equipment, five years for leasehold improvements, and 15 years for buildings) of the related assets or the relevant lease term, whichever is shorter. Any reduction in these estimated useful lives would result in a higher annual depreciation expense for the related assets.

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#### *Impairment of Long-Lived Assets*

The Company continually evaluates whether events and changes in circumstances warrant revised estimates of the useful lives or recognition of an impairment loss for intangible assets. Future adverse changes in market and legal conditions or poor operating results of underlying assets could result in losses or an inability to recover the carrying value of the intangible asset, thereby possibly requiring an impairment charge in the future. If facts and circumstances indicate that a long-lived asset, including property and equipment, 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. Impairment losses in the future are dependent on a number of factors such as site selection and general economic trends, and thus could be significantly different from historical results. To the extent the Company's estimates for net sales, gross profit and store expenses are not realized, future assessments of recoverability could result in impairment charges.

#### *Stock-Based Compensation*

The Company adopted SFAS No. 123R during the first quarter of fiscal 2006. SFAS No. 123R requires the measurement and recognition of compensation expense for all stock-based awards made to employees based on estimated fair value. The determination of the fair value of the Company's stock options on the date of grant using an option-price model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The fair values of options and shares issued pursuant to the Company's stock based compensation plans at each grant date were estimated using the Black-Scholes Merton option pricing model. If factors change and the Company employs different assumptions in the application of SFAS No. 123R in future periods, the compensation expense recorded under SFAS No. 123R may differ significantly from the amount recorded in the current period. (See Note 2 to the Company's Condensed Financial Statements.)

#### *Operating Leases*

The Company leases substantially all of its store properties and accounts for the leases as operating leases in accordance with SFAS No. 13, *Accounting for Leases*. Many lease agreements contain tenant improvement allowances, rent holidays, rent escalation clauses and/or contingent rent provisions. For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, the Company uses the date of initial possession to begin amortization, which is generally when the Company enters the space and begins to make improvements in preparation of intended use.

For scheduled rent escalation clauses during the lease terms or for rental payments commencing "rent holidays" at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases. For tenant improvement allowances the Company records a deferred rent liability on the consolidated balance sheets and amortizes the deferred rent over the terms of the leases.

Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

#### *Accounting for Income Taxes*

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. The computation of income taxes is subject to estimation due to the judgment required and the uncertainty related to the recoverability of deferred tax assets or the outcome of tax audits. The Company adjusts its income tax provision in the period it is determined that actual results will differ from its estimates. Tax law and rate changes are reflected in the income tax provision in which such changes are enacted.

The above listing is not intended to be a comprehensive list of all the Company's accounting policies. In many cases the accounting treatment of a particular transaction is specifically dictated by U.S. generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

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### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The market risk of the Company's financial instruments as of July 29, 2006 has not significantly changed since January 28, 2006. The Company's risk profile as of January 28, 2006 is disclosed in Quantitative and Qualitative Disclosures About Market Risk included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

### Item 4. Controls and Procedures.

The Company has carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of July 29, 2006 pursuant to Rule 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer each concluded that the Company's disclosure controls and procedures are effective in ensuring that all information required to be disclosed in the reports that the Company files or submits, under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There were no changes in internal controls over financial reporting during the fiscal quarter ended July 29, 2006 identified in connection with the Chief Executive Officer's and Chief Financial Officer's evaluation that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

At the end of fiscal 2006, Section 404 of the Sarbanes-Oxley Act will require the Company's management to provide an assessment of the effectiveness of the Company's internal control over financial reporting, and the Company's independent registered public accountants will be required to audit management's assessment. The Company is in the process of performing the system and process documentation, evaluation and testing required and has engaged a third party professional firm to assist management to make this assessment and for its independent registered public accountants to provide their attestation report. The Company has not completed this process or its assessment, and this process will require significant amounts of management time and resources. In the course of evaluation and testing, management may identify deficiencies that will need to be addressed and remediated.

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## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

The Company from time to time is involved in various legal proceedings incidental to the conduct of its business, including claims by customers, employees or former employees. While litigation is subject to uncertainties and the outcome of any litigated matter is not predictable, the Company is not aware of any legal proceedings pending or threatened against it that it expects to have a material adverse effect on its financial condition or results of operations.

### Item 1A. Risk Factors.

There are no material changes to the Risk Factors described under the title "ITEM 1A. RISK FACTORS" in our Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

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

Not applicable.

### Item 3. Defaults Upon Senior Securities.

Not applicable.

### Item 4. Submission of Matter to a Vote of Security Holders.

The annual meeting of our shareholders was held on May 24, 2006. The following proposals were submitted to a vote:

The election of one director, to hold office until our annual meeting of shareholders in 2009 and until her successor is duly elected and qualified.

This proposal received the following number of votes:

	<u>Affirmative</u>	<u>Withheld</u>
Patricia Luzier	13,037,143	432,484

The other members of our board of directors whose terms of office continued after the meeting are R. Edward Anderson, John S. Lupo and Tracy L. Noll.

The amendment of Citi Trends' Second Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 20,000,000 shares to 32,000,000 shares. This proposal was approved with 12,530,752 shares voting for approval, 655,703 shares voting against approval, and 4,460 shares abstaining.

The ratification of the appointment of KPMG LLP as our independent auditors for fiscal year 2006. This proposal was approved with 13,178,133 shares voting for approval, 10,287 shares voting against approval, and 2,495 shares abstaining.

### Item 5. Other Information.

Not applicable.

**Item 6. Exhibits.**

Exhibits

- 3.1 Second Amended and Restated Certificate of Incorporation, as amended by the Certificate of Amendment dated June 22, 2006.\*
- 10.1 Fifth Amendment to the Company's Loan and Security Agreement with Wachovia Capital Finance dated April 2, 1999, as amended.\*
- 10.2 \$3.0 Million Promissory Note of Citi Trends, Inc. payable to Bank of America issued on June 16, 2006.\*
- 31.1 Certification of 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 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.\*†

\* Filed 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 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 Secretary and Chief Financial Officer (Principal Financial Officer).

Date: August 25th, 2006

CITI TRENDS, INC.

By: /s/ Thomas W. Stoltz  
Name: Thomas W. Stoltz  
Title: Secretary and Chief Financial Officer

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**SECOND AMENDED AND RESTATED CERTIFICATE OF INCORPORATION**

**OF**

**CITI TRENDS, INC.**

Citi Trends, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, as amended (the "GCL"), DOES HEREBY CERTIFY as follows:

1. The name of the Corporation is Citi Trends, Inc. The Corporation was originally incorporated under the name "Allied Fashion, Inc." and filed its original Certificate of Incorporation with the Secretary of State of the State of Delaware on March 3, 1999. The Corporation filed a restatement of its Certificate of Incorporation with the Secretary of State of the State of Delaware on April 12, 1999 and a Certificate of Amendment on June 26, 2001 changing its name from "Allied Fashion, Inc." to "Citi Trends, Inc."

2. In the manner prescribed by Sections 242 and 245 of the GCL, resolutions were duly adopted by the Board of Directors and the stockholders of the Corporation, respectively, duly adopting this Second Amended and Restated Certificate of Incorporation and amending and restating the Amended and Restated Certificate of Incorporation of the Corporation as herein provided.

3. The text of the Second Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") shall read in its entirety as follows:

FIRST: The name of the corporation is Citi Trends, Inc. (the "Corporation").

SECOND: The address of the Corporation's registered office in the State of Delaware is c/o The Corporation Trust Company, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The nature or purpose of the business to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware, as amended (the "GCL").

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 20,005,000 shares, consisting of:

- (i) 20,000,000 shares of common stock, par value \$0.01 per share (the "Common Stock"); and
- (ii) 5,000 shares of preferred stock, par value \$0.01 per share (the "Preferred Stock").

A statement of the powers, designations, preferences, and relative participating, optional or other special rights and the qualifications, limitations and restrictions of the Common Stock and the Preferred Stock is as follows.

1. Common Stock.

(a) Dividends. Dividends may be declared and paid on the Common Stock from funds lawfully available therefor as, if and when, determined by the Board of Directors and subject to any preferential dividend rights of any then outstanding shares of Preferred Stock.

(b) Liquidation Rights. In the event of a voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, the holders of shares of Common Stock shall be entitled, after payment or provision for payment of the debts and other liabilities of the Corporation, to share in the distribution of any remaining assets available for distribution to its stockholders ratably, subject to any preferential rights of any then outstanding Preferred Stock.

(c) Voting Rights. The holders of Common Stock shall be entitled to one vote per share in voting or consenting to the election of directors and for all other matters presented to the stockholders of the Corporation for their action or consideration. Cumulative voting for the election of directors is not permissible. Except as otherwise required by law, the holders of the Common Stock shall vote together as a single class on all matters submitted to the stockholders of the Corporation.

2. Preferred Stock. The Board of Directors is authorized, subject to limitations prescribed by law, to provide for the issuance of the Preferred Stock in one or more series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof, as shall be stated in the resolutions providing for the issuance of such series adopted by the Board of Directors.

The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but not be limited to, determination of the following:

- (a) the number of shares constituting that series and the distinctive designation of that series;
- (b) the rate of dividend, and whether (and if so, on what terms and conditions) dividends shall be cumulative (and if so, the terms and conditions of such dividend policy and whether unpaid dividends shall compound or accrue interest) or shall be payable in preference or in any other relation to the dividends payable on any other class or classes of stock or any other series of the Preferred Stock;
- (c) whether that series shall have voting rights in addition to the voting rights provided by law and, if so, the terms and extent of such voting rights;

(d) whether the shares must or may be redeemed and, if so, the terms and conditions of such redemption (including, without limitation, the dates upon or after which they must or may be redeemed and the price or prices at which they must or may be redeemed, which price or prices may vary under different circumstances or at different redemption dates);

(e) whether the shares shall be issued with the privilege of conversion or exchange and, if so, the terms and conditions of such conversion or exchange (including without limitation the price or prices or the rate or rates of conversion or exchange or any terms for adjustment thereof);

(f) the amounts, if any, payable upon the shares in the event of voluntary liquidation, dissolution or winding up of the Corporation in preference of shares of any other class or series and whether the shares shall be entitled to participate generally in distributions on the Common Stock under such circumstances;

(g) the amounts, if any, payable upon the shares in the event of involuntary liquidation, dissolution or winding up of the Corporation in preference of shares of any other class or series and whether the shares shall be entitled to participate generally in distributions in the Common Stock under such circumstances;

(h) sinking fund provisions, if any, for the redemption or purchase of the shares (the term "sinking fund" being understood to include any similar fund, however designated) and, if so, the terms and amount of such sinking fund; and

(i) any other relative rights, preferences, limitations and powers of that series.

3. No Preemptive Rights. Except as expressly set forth in this Certificate of Incorporation, any certificate of designation, any resolution or resolutions providing for the issuance of a series of stock adopted by the Board of Directors, or any agreement between the Corporation and its stockholders, the holders of Common Stock or any series of Preferred Stock shall have no preemptive right to subscribe to an additional issue of any shares of any class of capital stock of the Corporation or any security convertible into such stock whether now or hereafter authorized.

#### FIFTH:

1. Limits on Director Liability. Directors of the Corporation shall have no personal liability to the Corporation or its stockholders for monetary damages for breach of a fiduciary duty as a director; provided that nothing contained in this Article FIFTH shall eliminate or limit the liability of a director (i) for any breach of a director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the GCL or (iv) for any transaction from which a director derived an improper personal benefit. If the GCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then by virtue of this Article FIFTH the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the GCL, as so amended.

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#### 2. Indemnification.

(a) The Corporation shall indemnify and hold harmless, in accordance with the By-Laws of the Corporation and to the fullest extent permitted from time to time by the GCL or any other applicable laws as presently or hereafter in effect, any person who was or is made a party to or is threatened to be made a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation, by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or an officer of the Corporation or is or was serving at the request of the Corporation as a director, officer or trustee of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action in an official capacity as a director, officer or trustee or in any other capacity while serving as a director, officer or trustee, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith; provided, however, the Corporation shall be required to indemnify such person in connection with an action, suit or proceeding (or part thereof) initiated by such person only if such action, suit or proceeding (or part thereof) was authorized by the Board of Directors. Furthermore, the Corporation may only indemnify such person if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding had no reasonable cause to believe that his or her conduct was unlawful; except that in the case of an action or suit by or in the name of the Corporation to procure a judgment in its favor (a) such indemnification shall be limited to expenses (including attorneys' fees) actually and reasonably incurred by such person in the defense or settlement of such action or suit; and (b) no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper. Such indemnification is not exclusive of any other right to indemnification provided by law or otherwise. The right to indemnification conferred by this Section 2 of this Article FIFTH shall be deemed to be a contract between the Corporation and each person referred to herein.

(b) If a claim under subdivision (a) of this Section 2 of this Article FIFTH is not paid in full by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where any undertaking required by subdivision (c) of this Section 2 of this Article FIFTH has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the GCL and subdivision (a) of this Section 2 of this Article

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FIFTH for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation.

(c) Indemnification shall include payment by the Corporation of expenses in defending an action or proceeding in advance of the final disposition of such action or proceeding upon receipt of an undertaking by or on behalf of the person indemnified to repay such payment if it is ultimately determined that such person is not entitled to indemnification under this Article FIFTH, which undertaking may be accepted without reference to the financial ability of such person to make such repayment.

3. Insurance. The Corporation shall have the power (but not the obligation) to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss incurred by such person in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under this Article FIFTH or the GCL.

4. Other Rights. The rights and authority conferred in this Article FIFTH shall not be deemed exclusive of any other right which any person may otherwise have or hereafter acquire under any statute, provision of this Certificate of Incorporation, By-Laws of the Corporation, agreement, contract, vote of stockholders or disinterested directors or otherwise.

5. Additional Indemnification. The Corporation may, by action of its Board of Directors, provide additional indemnification to such of the directors, officers, employees and agents of the Corporation to such extent and to such effect as the Board of Directors shall determine to be appropriate and authorized by the GCL. 6. Effect of Amendments. Neither the amendment, change, alteration or repeal of this Article FIFTH, nor the adoption of any provision of this Certificate of Incorporation or the By-Laws of the Corporation, nor, to the fullest extent permitted by the GCL, any modification of law, shall eliminate or reduce the effect of this Article FIFTH or the rights or any protection afforded under this Article FIFTH in respect of any acts or omissions occurring prior to such amendment, repeal, adoption or modification.

SIXTH: At all meetings of stockholders, each stockholder shall be entitled to vote, in person or by proxy, the shares of voting stock owned by such stockholders of record on the record date for the meeting. When a quorum is present or represented at any meeting, the vote of the holders of a majority in interest of the stockholders present in person or by proxy at such meeting and entitled to vote thereon shall decide any question, matter or proposal brought before such meeting unless the question is one upon which, by express provision of law, this Certificate of Incorporation or the By-Laws of the Corporation applicable thereto, a different vote is required, in which case such express provision shall govern and control the decision of such question.

SEVENTH:

1. Number of Directors. The number of directors of the Corporation shall be fixed from time to time by the vote of a majority of the entire Board of Directors, but such number shall

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in no case be less than five (5) nor more than nine (9). Any such determination made by the Board of Directors shall continue in effect unless and until changed by the Board of Directors, but no such changes shall affect the term of any directors then in office.

2. Classification of the Board of Directors. The Board of Directors shall be divided into three classes, designated Classes I, II and III, which shall be as nearly equal in number of directors per Class as possible.

3. Term of Office; Vacancies.

- (i) Directors of Class I shall be elected to hold office for an initial term expiring at the first annual meeting of stockholders held after the date and time at which this Certificate of Incorporation of the Corporation shall become effective in accordance with Section 103(d) of the GCL (the "Effective Time").
- (ii) Directors of Class II shall be elected to hold office for an initial term expiring at the second annual meeting of stockholders held after the Effective Time.
- (iii) Directors of Class III shall be elected to hold office for an initial term expiring at the third annual meeting of stockholders held after the Effective Time.
- (iv) At each annual meeting of stockholders, the respective successors of the directors whose terms are expiring shall be elected for terms expiring at the annual meeting of stockholders held in the third succeeding year.
- (v) Vacancies in the Board of Directors and newly-created directorships resulting from any increase in the authorized number of directors may be filled as provided in the By-Laws of the Corporation.

4. Removal. Subject to the By-Laws of the Corporation, a director may only be removed for cause upon the affirmative vote of the holders of a majority of the votes which could be cast by the holders of all outstanding shares of capital stock entitled to vote for the election of directors, voting together as a class, given at a duly called annual or special meeting of stockholders.

5. Nominations. Advance notice of nominations by stockholders for the election of directors, and of stockholder proposals regarding action to be taken at any meeting of stockholders, shall be given in the manner and to the extent provided in the By-Laws of the Corporation.

EIGHTH: For the management of the business and for the conduct of the affairs of the Corporation, and in further definition, limitation and regulation of the powers of the Corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided:

- (1) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

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- (2) The Board of Directors shall be authorized to adopt, amend and repeal the By-Laws of the Corporation, without a stockholder vote, in any manner not inconsistent with the laws of the State of Delaware, this Certificate of Incorporation and the By-Laws of the Corporation as from time to time in effect, subject to the power of the stockholders entitled to vote to adopt, amend, alter, change, add to or repeal By-Laws made by the Board of Directors as provided below in Section 3 of this ARTICLE EIGHTH.
  - (3) Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the amendment, alteration or repeal of the provisions of ARTICLES SEVENTH and NINTH and this ARTICLE EIGHTH shall require the affirmative vote of the holders of two-thirds (2/3) or more of the combined voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a class.
  - (4) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the GCL, this Certificate of Incorporation, and any By-Laws adopted by the stockholders; provided, however, that no By-Laws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such By-Laws had not been adopted.

NINTH:

1. Stockholder Meetings; Keeping of Books and Records. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Meetings of stockholders may be held within or outside the State of Delaware as the By-Laws of the Corporation may provide. The books of the Corporation may be kept (subject to any provision contained in the GCL) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-Laws of the Corporation.
2. Special Stockholders Meetings. Except as otherwise required by law, special meetings of stockholders of the Corporation may be called only by:
  - (i) the Chairman of the Board of Directors of the Corporation;
  - (ii) the Board of Directors pursuant to a resolution approved by the Board of Directors; or
  - (iii) the Board of Directors upon a request by holders of at least 50% in voting power of all outstanding shares entitled to vote at such meeting.

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3. No Written Ballot. Elections of directors need not be by written ballot unless the By-Laws of the Corporation shall so provide.
  4. Quorum at Stockholder Meetings. The holders of one-third in voting power of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except that the holders of a majority in voting power of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall be required to constitute a quorum for:
    - (i) a vote for any director in a contested election;
    - (ii) the removal of a director; or
    - (iii) the filling of a vacancy on the Board of Directors by the stockholders of the Corporation.

TENTH: The Corporation reserves the right to repeal, alter, change or amend any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by statute and all rights conferred upon stockholders herein are granted subject to this reservation. No repeal, alteration or amendment of this Certificate of Incorporation shall be made unless the same is first approved by the Board of Directors of the Corporation pursuant to a resolution adopted by the directors then in office in accordance with the By-Laws of the Corporation and applicable law and thereafter approved by the stockholders.

ELEVENTH: The Corporation is subject to Section 203 of the GCL.

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IN WITNESS WHEREOF, the undersigned has executed this Second Amended and Restated Certificate of Incorporation this 11th day of May, 2005, and hereby acknowledges that this Second Amended and Restated Certificate of Incorporation is the act and deed of the Corporation and that the facts stated herein are true.

By /s/ R. Edward Anderson  
Name: R. Edward Anderson  
Title: Chief Executive Officer

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**CERTIFICATE OF AMENDMENT  
TO THE  
SECOND AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
CITI TRENDS, INC.**

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**Adopted in accordance with the provisions  
of Section 242 of the General Corporation  
Law of the State of Delaware**

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The undersigned, being the Secretary of Citi Trends, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, as amended (the "GCL"), DOES HEREBY CERTIFY:

I.

That Article FOURTH of the Second Amended and Restated Certificate of Incorporation of the Corporation is hereby amended in its entirety to read as follows:

"FOURTH. The total number of shares of stock which the Corporation shall have authority to issue is 32,005,000 shares, consisting of:

- (i) 32,000,000 shares of common stock, par value \$0.01 per share (the "Common Stock"); and
- (ii) 5,000 shares of preferred stock, par value \$0.01 per share (the "Preferred Stock").

A statement of the powers, designations, preferences, and relative participating, optional or other special rights and the qualifications, limitations and restrictions of the Common Stock and the Preferred Stock is as follows.

1. Common Stock.

(a) Dividends. Dividends may be declared and paid on the Common Stock from funds lawfully available therefor as, if and when, determined by the Board of Directors and subject to any preferential dividend rights of any then outstanding shares of Preferred Stock.

(b) Liquidation Rights. In the event of a voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, the holders of shares of

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Common Stock shall be entitled, after payment or provision for payment of the debts and other liabilities of the Corporation, to share in the distribution of any remaining assets available for distribution to its stockholders ratably, subject to any preferential rights of any then outstanding Preferred Stock.

(c) Voting Rights. The holders of Common Stock shall be entitled to one vote per share in voting or consenting to the election of directors and for all other matters presented to the stockholders of the Corporation for their action or consideration. Cumulative voting for the election of directors is not permissible. Except as otherwise required by law, the holders of the Common Stock shall vote together as a single class on all matters submitted to the stockholders of the Corporation.

2. Preferred Stock. The Board of Directors is authorized, subject to limitations prescribed by law, to provide for the issuance of the Preferred Stock in one or more series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof, as shall be stated in the resolutions providing for the issuance of such series adopted by the Board of Directors.

The authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

- (a) the number of shares constituting that series and the distinctive designation of that series;
- (b) the rate of dividend, and whether (and if so, on what terms and conditions) dividends shall be cumulative (and if so, whether unpaid dividends shall compound or accrue interest) or shall be payable in preference or in any other relation to the dividends payable on any other class or

classes of stock or any other series of the Preferred Stock;

(c) whether that series shall have voting rights in addition to the voting rights provided by law and, if so, the terms and extent of such voting rights;

(d) whether the shares must or may be redeemed and, if so, the terms and conditions of such redemption (including, without limitation, the dates upon or after which they must or may be redeemed and the price or prices at which they must or may be redeemed, which price or prices may be different in different circumstances or at different redemption dates);

(e) whether the shares shall be issued with the privilege of conversion or exchange and, if so, the terms and conditions of such conversion or exchange

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(including without limitation the price or prices or the rate or rates of conversion or exchange or any terms for adjustment thereof);

(f) the amounts, if any, payable upon the shares in the event of voluntary liquidation, dissolution or winding up of the Corporation in preference of shares of any other class or series and whether the shares shall be entitled to participate generally in distributions on the Common Stock under such circumstances;

(g) the amounts, if any, payable upon the shares thereof in the event of involuntary liquidation, dissolution or winding up of the Corporation in preference of shares of any other class or series and whether the shares shall be entitled to participate generally in distributions in the Common Stock under such circumstances;

(h) sinking fund provisions, if any, for the redemption or purchase of the shares (the term "sinking fund" being understood to include any similar fund, however designated) and, if so, the terms and amount of such sinking fund; and

(i) any other relative rights, preferences, limitations and powers of that series.

3. No Preemptive Rights. Except as expressly set forth in this Certificate of Incorporation, any certificate of designation, any resolution or resolutions providing for the issuance of a series of stock adopted by the Board of Directors, or any agreement between the Corporation and its stockholders, the holders of Common Stock or any series of Preferred Stock shall have no preemptive right to subscribe for any shares of any class of capital stock of the Corporation whether now or hereafter authorized."

II.

That the foregoing amendment of the Second Amended and Restated Certificate of Incorporation of the Corporation has been duly adopted in accordance with Section 242 of the GCL.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation this 22nd day of June, 2006, and hereby acknowledges that this Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation is the act and deed of the Corporation and that the facts stated herein are true.

CITI TRENDS, INC.

By /s/ Thomas W. Stoltz  
Name: Thomas W. Stoltz  
Title: Chief Financial Officer and Secretary

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## FIFTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIFTH AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment"), dated as of May 18, 2006, is entered into between WACHOVIA BANK, NATIONAL ASSOCIATION (formerly known as Congress Financial Corporation (Southwest), "Lender"), and CITI TRENDS, INC., a Delaware corporation ("Borrower").

### RECITALS

A. Borrower and Lender have previously entered into that certain Loan and Security Agreement dated April 2, 1999, as amended by that certain First Amendment to Loan and Security Agreement dated June 22, 2000, that certain Second Amendment to Loan and Security Agreement dated November 30, 2000, that certain letter agreement dated August \_\_, 2001 regarding Borrower's name change, that certain Third Amendment to Loan and Security Agreement dated January \_\_, 2003, and that certain Fourth Amendment to Loan and Security Agreement and Consent dated February 9, 2005 (as amended, the "Loan Agreement"), pursuant to which Lender has made certain loans and financial accommodations available to Borrower. Terms used herein without definition shall have the meanings ascribed to them in the Loan Agreement.

B. Borrower has requested that Lender amend the Loan Agreement as more particularly set forth herein, and Lender is willing to amend the Loan Agreement upon the terms and conditions set forth below.

C. Borrower is entering into this Amendment with the understanding and agreement that, except as specifically provided herein, none of Lender's rights or remedies as set forth in the Loan Agreement is being waived or modified by the terms of this Amendment.

### AMENDMENT

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Amendments to Loan Agreement.

(a) The following definition is hereby added to Section 1 in respective alphabetical order:

“Permitted Divestitures’ shall mean, with respect to Hampshire Equity Partners, L.P., a divestiture of any or all of its issued and outstanding voting stock of Borrower through (i) distribution(s) to the limited partners of Hampshire Equity Partners, L.P., (ii) sale(s) into the public market, (iii) private transaction(s), provided, that, such private transaction(s) do not result in an acquirer obtaining a controlling position in the Borrower, or (iv) any combination of (i), (ii) and (iii).”

(b) Section 8.9(a) is hereby amended and restated in its entirety to read as follows:

“(a) All issued and outstanding shares of capital stock of Borrower have been duly authorized and are fully paid and non-assessable.”

(c) Section 9.12 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

“9.12 Transactions with Affiliates. Borrower shall not enter into any transaction for the purchase, sale or exchange of property or the rendering of any service to or by any affiliate, except in the ordinary course of and pursuant to the reasonable requirements of Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than Borrower would obtain in a comparable arm's length transaction with an unaffiliated person.”

(d) Section 10.1(l) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

“(l) Hampshire Equity Partners, L.P. shall own or otherwise control less than 40% of all issued and outstanding voting stock of Borrower; provided, however, that an Event of Default will not occur if Hampshire Equity Partners, L.P. owns or otherwise controls less than 40% of all issued and outstanding voting stock of Borrower as a result of their participation in one or more Permitted Divestitures.”

2. Effectiveness of this Amendment. Lender must have received the following items, in form and content acceptable to Lender, before this Amendment is effective, and before Lender is required to extend any credit to Borrower as provided for by this Amendment.

(a) Amendment. This Amendment, fully executed in a sufficient number of counterparts for distribution to all parties.

(b) Representations and Warranties. The representations and warranties set forth herein and in the Loan Agreement, as amended hereby, must be true and correct.

(c) Other Required Documentation. All other documents and legal matters in connection with the transactions contemplated by this Amendment shall have been delivered or executed or recorded and shall be in form and substance satisfactory to Lender.

3. Representations and Warranties. Borrower represents and warrants as follows:

(a) Authority. Borrower has the requisite corporate power and authority to execute and deliver this Amendment, and to perform its obligations hereunder and under the Financing Agreements (as amended or modified hereby) to which it is a party. The execution, delivery and performance by Borrower of this Amendment have been duly approved by all

necessary corporate action and no other corporate proceedings are necessary to consummate such transactions.

(b) Enforceability. This Amendment has been duly executed and delivered by Borrower. This Amendment and each Financing Agreement (as amended or modified hereby) is the legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms, and is in full force and effect.

(c) Representations and Warranties. The representations and warranties contained in each Financing Agreement, as amended hereby, (other than any such representations or warranties that, by their terms, are specifically made as of a date other than the date hereof) are correct on and as of the date hereof as though made on and as of the date hereof.

(d) Due Execution. The execution, delivery and performance of this Amendment are within the power of Borrower, have been duly authorized by all necessary corporate action, have received all necessary governmental approval, if any, and do not contravene any law or any contractual restrictions binding on Borrower.

(e) No Default. After giving effect to this Amendment, no event has occurred and is continuing that constitutes an Event of Default.

(f) No Duress. This Amendment has been entered into without force or duress, of the free will of Borrower. Borrower's decision to enter into this Amendment is a fully informed decision and Borrower is aware of all legal and other ramifications of such decision.

(g) Counsel. Borrower has read and understands this Amendment, has consulted with and been represented by legal counsel in connection herewith, and has been advised by its counsel of its rights and obligations hereunder and thereunder.

4. Choice of Law. The validity of this Amendment, its construction, interpretation and enforcement, the rights of the parties hereunder, shall be determined under, governed by, and construed in accordance with the internal laws of the State of New York (without giving effect to principals of conflicts of law).

5. Counterparts. This Amendment may be executed in any number of counterparts and by different parties and separate counterparts, each of which when so executed and delivered, shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telefacsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

6. Reference to and Effect on the Financing Agreements.

(a) Upon and after the effectiveness of this Amendment, each reference in the Loan Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Loan Agreement, and each reference in the other Financing Agreements to "the Loan Agreement", "thereof" or words of like import referring to the Loan Agreement, shall mean and be a reference to the Loan Agreement as modified and amended hereby.

(b) Except as specifically amended above, the Loan Agreement and all other Financing Agreements, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed and shall constitute the legal, valid, binding and enforceable obligations of Borrower to Lender.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as results from giving effect hereto or otherwise as expressly provided herein, operate as a waiver of any right, power or remedy of Lender under any of the Financing Agreements, nor constitute a waiver of any provision of any of the Financing Agreements.

(d) To the extent that any terms and conditions in any of the Financing Agreements shall contradict or be in conflict with any terms or conditions of the Loan Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified or amended accordingly to reflect the terms and conditions of the Loan Agreement as modified or amended hereby.

7. Ratification. Borrower hereby restates, ratifies and reaffirms each and every term and condition set forth in the Loan Agreement, as amended hereby, and the Financing Agreements effective as of the date hereof.

8. Estoppel. To induce Lender to enter into this Amendment and to continue to make advances to Borrower under the Loan Agreement, Borrower hereby acknowledges and agrees that, as of the date hereof, after giving effect to this Amendment, there exists no Event of Default and no right of offset, defense, counterclaim or objection in favor of Borrower as against Lender with respect to the Obligations.

9. Integration. This Amendment, together with the other Financing Agreements, incorporates all negotiations of the parties hereto with respect to the subject matter hereof and is the final expression and agreement of the parties hereto with respect to the subject matter hereof.

10. Severability. In case any provision in this Amendment shall be invalid, illegal or unenforceable, such provision shall be severable from the remainder of this Amendment and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

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IN WITNESS WHEREOF, the parties have entered into this Amendment as of the date first above written.

CITI TRENDS, INC.

By: /s/ Thomas W. Stoltz  
Name: Thomas W. Stoltz  
Title: Chief Financial Officer

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ Mark Galovic  
Name: Mark Galovic  
Title: Vice President

[Bank of America LOGO]

## LOAN AGREEMENT

This Agreement dated as of June 8, 2006, is between Bank of America, N.A. (the "Bank") and Citi Trends, Inc. (the "Borrower").

### 1. FACILITY NO. 1: LINE OF CREDIT AMOUNT AND TERMS

#### 1.1 Line of Credit Amount.

- (a) During the availability period described below, the Bank will provide a line of credit to the Borrower. The amount of the line of credit (the "Facility No. 1 Commitment") is Three Million and 00/100 Dollars (\$3,000,000.00).
- (b) This is a revolving line of credit. During the availability period, the Borrower may repay principal amounts and reborrow them.
- (c) The Borrower agrees not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrower exceeds this limit, the Borrower will immediately pay the excess to the Bank upon the Bank's demand.

1.2 Availability Period. The line of credit is available between the date of this Agreement and June 26, 2007, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date").

The availability period for this line of credit will be considered renewed if and only if the Bank has sent to the Borrower a written notice of renewal effective as of the Facility No. 1 Expiration Date for the line of credit (the "Renewal Notice"). If this line of credit is renewed, it will continue to be subject to all the terms and conditions set forth in this Agreement except as modified by the Renewal Notice. If this line of credit is renewed, the term "Expiration Date" shall mean the date set forth in the Renewal Notice as the Expiration Date and the same process for renewal will apply to any subsequent renewal of this line of credit.

#### 1.3 Repayment Terms.

- (a) The Borrower will pay interest on July 26, 2006, and then on the same day of each month thereafter until payment in full of any principal outstanding under this facility.
- (b) The Borrower will repay in full any principal, interest or other charges outstanding under this facility no later than the Facility No. 1 Expiration Date.

#### 1.4 Interest Rate.

- (a) The interest rate is a rate per year equal to the BBA LIBOR Daily Floating Rate plus 2 percentage point(s).
- (b) The BBA LIBOR Daily Floating Rate is a fluctuating rate of interest equal to the rate per annum equal to the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as selected by the Bank from time to time as determined for each banking day at approximately 11:00 a.m. London time two (2) London Banking Days prior to the date in question, for U.S. Dollar deposits (for delivery on the first day of such interest period) with a one month term, as adjusted from time to time in the Bank's sole discretion for reserve requirements, deposit insurance assessment rates and other regulatory costs. If such rate is not available at such time for any reason, then the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which banks in London are open for business and dealing in offshore dollars.

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### 2. FEES AND EXPENSES

#### 2.1 Fees.

- (a) Unused Commitment Fee. The Borrower agrees to pay a fee on any difference between the Facility No. 1 Commitment and the amount of credit it actually uses, determined by the average of the daily amount of credit outstanding during the specified period. The fee will be calculated at 0.125% per year.

This fee is due on September 26, 2006, and on the same day of each following quarter until the expiration of the availability period.

- (b) Late Fee. To the extent permitted by law, the Borrower agrees to pay a late fee in an amount not to exceed four percent (4%) of any payment that is more than fifteen (15) days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank's rights with respect to the default.

2.2 Expenses. The Borrower agrees to immediately repay the Bank for expenses that include, but are not limited to, filing, recording and search fees, appraisal fees, title report fees, and documentation fees.

#### 2.3 Reimbursement Costs.

- (a) The Borrower agrees to reimburse the Bank for any expenses it incurs in the preparation of this Agreement and any agreement or instrument required by this Agreement. Expenses include, but are not limited to, reasonable attorneys' fees, including any allocated costs of the Bank's in-house counsel to the extent permitted by applicable law.



### 3. DISBURSEMENTS, PAYMENTS AND COSTS

#### 3.1 Disbursements and Payments.

- (a) Each payment by the Borrower will be made in U.S. Dollars and immediately available funds by direct debit to a deposit account as specified below or, for payments not required to be made by direct debit, by mail to the address shown on the Borrower's statement or at one of the Bank's banking centers in the United States.
- (b) Each disbursement by the Bank and each payment by the Borrower will be evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrower to sign one or more promissory notes.

#### 3.2 Telephone and Telefax Authorization.

- (a) The Bank may honor telephone or telefax instructions for advances or repayments given, or purported to be given, by any one of the individuals authorized to sign loan agreements on behalf of the Borrower, or any other individual designated by any one of such authorized signers.
- (b) Advances will be deposited in the repayments will be withdrawn from account number 3257772600 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.
- (c) The Borrower will indemnify and hold the Bank harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions the Bank reasonably believes are made by any individual authorized by the Borrower to give such instructions. This paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

#### 3.3 Direct Debit (Pre-Billing).

- (a) The Borrower agrees that the Bank will debit deposit account number 3257772600 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower (the "Designated Account") on the date each payment of principal and interest and any fees from the Borrower becomes due (the "Due Date").
- (b) Prior to each Due Date, the Bank will mail to the Borrower a statement of the amounts that will be due on that Due Date (the "Billed Amount"). The bill will be mailed a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by the Bank and the Borrower. The calculations

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in the bill will be made on the assumption that no new extensions of credit or payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate.

- (c) The Bank will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date (the "Accrued Amount"). If the Billed Amount debited to the Designated Account differs from the Accrued Amount, the discrepancy will be treated as follows:
  - (i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrower will not be in default by reason of any such discrepancy.
  - (ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

Regardless of any such discrepancy, interest will continue to accrue based on the actual amount of principal outstanding without compounding. The Bank will not pay the Borrower interest on any overpayment.

- (d) The Borrower will maintain sufficient funds in the Designated Account to cover each debit. If there are insufficient funds in the Designated Account on the date the Bank enters any debit authorized by this Agreement, the Bank may reverse the debit.
- (e) The Borrower may terminate this direct debit arrangement at any time by sending written notice to the Bank at the address specified at the end of this Agreement. If the Borrower terminates this arrangement, then the principal amount outstanding under this Agreement will at the option of the Bank bear interest at a rate per annum which is 0.5 percentage point(s) higher than the rate of interest otherwise provided under this Agreement.

3.4 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

3.5 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

3.6 Default Rate. Upon the occurrence of any default or after maturity or after judgement has been rendered on any obligation under this Agreement, all amounts outstanding under this Agreement, including any interest, fees, or costs which are not paid when due, will at the option of the Bank bear interest at a rate which is 6.0 percentage point(s) higher than the rate of interest otherwise provided under this Agreement. This may result in compounding of interest. This will not constitute a waiver of any default.

### 4. CONDITIONS

Before the Bank is required to extend any credit to the Borrower under this Agreement, it must receive any documents and other items it may reasonably require, in form and content acceptable to the Bank, including any items specifically listed below.

- 4.1 Authorizations. If the Borrower or any guarantor is anything other than a natural person, evidence that the execution, delivery and performance by the Borrower and/or such guarantor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.
- 4.2 Governing Documents. If required by the Bank, a copy of the Borrower's organizational documents.
- 4.3 Good Standing. Certificates of good standing for the Borrower from its state of formation and from any other state in which the Borrower is required to qualify to conduct its business.
- 4.4 Insurance. Evidence of insurance coverage, as required in the "Covenants" section of this Agreement.

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## 5. REPRESENTATIONS AND WARRANTIES

When the Borrower signs this Agreement, and until the Bank is repaid in full, the Borrower makes the following representations and warranties. Each request for an extension of credit constitutes a renewal of these representations and warranties as of the date of the request:

- 5.1 Formation. If the Borrower is anything other than a natural person, it is duly formed and existing under the laws of the state or other jurisdiction where organized.
- 5.2 Authorization. This Agreement, and any instrument or agreement required hereunder, are within the Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.
- 5.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.
- 5.4 Good Standing. In each state in which the Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes.
- 5.5 No Conflicts. This Agreement does not conflict with any law, agreement, or obligation by which the Borrower is bound.
- 5.6 Financial Information. All financial and other information that has been or will be supplied to the Bank is sufficiently complete to give the Bank accurate knowledge of the Borrower's (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of the Borrower (or any guarantor). If the Borrower is comprised of the trustees of a trust, the foregoing representations shall also pertain to the trustor(s) of the trust.
- 5.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against the Borrower which, if lost, would impair the Borrower's financial condition or ability to repay the loan, except as have been disclosed in writing to the Bank.
- 5.8 Permits, Franchises. The Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights, copyrights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.
- 5.9 Other Obligations. The Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except as have been disclosed in writing to the Bank.
- 5.10 Tax Matters. The Borrower has no knowledge of any pending assessments or adjustments of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank.
- 5.11 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.
- 5.12 Insurance. The Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

## 6. COVENANTS

The Borrower agrees, so long as credit is available under this Agreement and until the Bank is repaid in full:

- 6.1 Uses of proceeds.
  - (a) To use the proceeds of Facility No. 1 only for working capital.
  - (b) The proceeds of the credit extended under this Loan Agreement may not be used directly or indirectly to purchase or carry any "margin stock" as that term is defined in Regulation U of the Board of Governors of the Federal

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Reserve System, or extend credit to or invest in other parties for the purpose of purchasing or carrying any such “margin stock,” or to reduce or retire any indebtedness incurred for such purpose.

6.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time:

- (a) A copy of the Form 10-K Annual Report for the Borrower within one hundred twenty (120) days after the date of filing with the Securities and Exchange Commission.
- (b) A copy of the Form 10-Q Quarterly Report for the Borrower for the quarter ending each July 31 within forty five (45) days after the date of filing with the Securities and Exchange Commission.

6.3 Bank as Principal Depository. To maintain the Bank as its principal depository bank, including for the maintenance of business, cash management, operating and administrative deposit accounts.

6.4 Maintenance of Assets.

- (a) Not to sell, assign, lease, transfer or otherwise dispose of any part of the Borrower’s business or the Borrower’s assets except in the ordinary course of the Borrower’s business.
- (b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.
- (c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.
- (d) To maintain and preserve all rights, privileges, and franchises the Borrower now has.
- (e) To make any repairs, renewals, or replacements to keep the Borrower’s properties in good working condition.

6.5 Investments. Not to have any existing, or make any new, investments in any individual or entity, or make any capital contributions or other transfers of assets to any individual or entity, except for:

- (a) Existing investments disclosed to the Bank in writing.
- (b) Investments in the Borrower’s current subsidiaries.
- (c) Investments in any of the following:
  - (i) certificates of deposit;
  - (ii) U.S. treasury bills and other obligations of the federal government;
  - (iii) readily marketable securities (including commercial paper, but excluding restricted stock and stock subject to the provisions of Rule 144 of the Securities and Exchange Commission).

6.6 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:

- (a) Existing extensions of credit disclosed to the Bank in writing.
- (b) Extensions of credit to the Borrower’s current subsidiaries.
- (c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business to non-affiliated entities.

6.7 Change of Management. Not to make any substantial change in the present executive or management personnel of the Borrower.

6.8 Change of Ownership. Not to cause, permit, or suffer any change in capital ownership such that there is a

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change of more than twenty-five percent (25%) in the direct or indirect capital ownership of the Borrower.

6.9 Additional Negative Covenants. Not to, without the Bank’s written consent:

- (a) Enter into any consolidation, merger, or other combination, or become a partner in a partnership, a member of a joint venture, or a member of a limited liability company.
- (b) Acquire or purchase a business or its assets.
- (c) Engage in any business activities substantially different from the Borrower’s present business.
- (d) Liquidate or dissolve the Borrower’s business.

6.10 Notices to Bank. To promptly notify the Bank in writing of:

- (a) Any lawsuit over Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000.00) against the Borrower (or any guarantor or, if the Borrower is comprised of the trustees of a trust, any trustor).
- (b) Any substantial dispute between any governmental authority and the Borrower (or any guarantor or, if the Borrower is comprised of the trustees of a trust, any trustor).
- (c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.
- (d) Any material adverse change in the Borrower's (or any guarantor's, or, if the Borrower is comprised of the trustees of a trust, any trustor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.
- (e) Any change in the Borrower's name, legal structure, place of business, or chief executive office if the Borrower has more than one place of business.
- (f) Any actual contingent liabilities of the Borrower (or any guarantor or, if the Borrower is comprised of the trustees of a trust, any trustor), and any such contingent liabilities which are reasonably foreseeable.

6.11 Insurance.

- (a) General Business Insurance. To maintain insurance satisfactory to the Bank as to amount, nature and carrier covering property damage (including loss of use and occupancy) to any of the Borrower's properties, business interruption insurance, public liability insurance including coverage for contractual liability, product liability and workers' compensation, and any other insurance which is usual for the Borrower's business. Each policy shall provide for at least 30 days prior notice to the Bank of any cancellation thereof.

6.12 Compliance with Laws. To comply with the laws (including any fictitious or trade name statute), regulations, and orders of any government body with authority over the Borrower's business. The Bank shall have no obligation to make any advance to the Borrower's except in compliance with all applicable laws and regulations and the Borrower's shall fully cooperate with the Bank in complying with all such applicable laws and regulations.

6.13 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

6.14 Books and Records. To maintain adequate books and records.

6.15 Audits. To allow the Bank and its agents to inspect the Borrower's properties and examine, audit, and make

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copies of books and records at any reasonable time. If any of the Borrower's properties, books or records are in the possession of a third party, the Borrower authorizes that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.

6.16 Cooperation. To take any action reasonably requested by the Bank to carry out the intent of this Agreement.

7. DEFAULT AND REMEDIES

If any of the following events of default occurs, the Bank may do one or more of the following: declare the Borrower in default, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately and without prior notice. If an event which, with notice or the passage of time, will constitute an event of default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under this Agreement. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to the Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

7.1 Failure to Pay. The Borrower fails to make a payment under this Agreement when due.

7.2 Other Bank Agreements. Any default occurs under any other agreement the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor, any party pledging collateral to the Bank, or, if the Borrower is comprised of the trustees of a trust, any trustor.

7.3 Cross-default. Any default occurs under any agreement in connection with any credit the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has obtained from anyone else or which the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has guaranteed.

7.4 False Information. The Borrower or any Obligor has given the Bank false or misleading information or representations.

7.5 Bankruptcy. The Borrower, any Obligor, or any general partner of the Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or the Borrower, any Obligor, or any general partner of the Borrower or of any Obligor makes a general assignment for the benefit of creditors.

7.6 Receivers. A receiver or similar official is appointed for a substantial portion of the Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.

7.7 Judgments. Any judgments or arbitration awards are entered against the Borrower or any Obligor, or the Borrower or any Obligor enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000.00) or more in excess of any insurance coverage.

7.8 Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in the Borrower's (or any Obligor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit; or the Bank determines that it is insecure for any other reason.

7.9 Government Action. Any government authority takes action that the Bank believes materially adversely affects the Borrower's or any Obligor's financial condition or ability to repay.

7.10 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.

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7.11 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of the Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject the Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of the Borrower:

- (a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.
- (b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by the Borrower or any ERISA Affiliate.

7.12 Other Breach Under Agreement. A default occurs under any other term or condition of this Agreement not specifically referred to in this Article. This includes any failure or anticipated failure by the Borrower (or any other party named in the Covenants section) to comply with the financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrower or the Bank.

## 8. ENFORCING THIS AGREEMENT; MISCELLANEOUS

8.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.

8.2 Georgia Law. This Agreement is governed by Georgia state law.

8.3 Successors and Assigns. This Agreement is binding on the Borrower's and the Bank's successors and assignees. The Borrower agrees that it may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan, and may exchange information about the Borrower (including, without limitation, any information regarding any hazardous substances) with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrower.

## 8.4 Arbitration

- (a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a "Claim"). For the purposes of this arbitration provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this agreement.
- (b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U.S. Code) (the "Act"). The Act will apply even though this agreement provides that it is governed by the law of a specified state. The arbitration will take place on an individual basis without resort to any form of class action.
- (c) Arbitration proceedings will be determined in accordance with the Act, the then-current rules and procedures for the arbitration of financial services disputes of the American Arbitration Association or any successor thereof ("AAA"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control. If AAA is unwilling or unable to (i) serve as the provider of arbitration or (ii) enforce any provision of this arbitration clause, any party to this agreement may substitute another arbitration organization with similar procedures to serve as the provider of arbitration.
- (d) The arbitration shall be administered by AAA and conducted, unless otherwise required by law, in any U.S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed, judgment entered and enforced.

- (e) The arbitrator(s) will give effect to statutes of limitation in determining any Claim and may dismiss the arbitration on the basis that the Claim is barred. For purposes of the application of the statute of limitations, the service on AAA under applicable AAA rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.
- (f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.
- (g) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.

8.5 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

8.6 Attorneys' Fees. The Borrower shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout" or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator: In the event that any case is commenced by or against the Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of the Bank's in house counsel.

8.7 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:

- (a) represent the sum of the understandings and agreements between the Bank and the Borrower concerning this credit;
- (b) replace any prior oral or written agreements between the Bank and the Borrower concerning this credit; and
- (c) are intended by the Bank and the Borrower as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. Any reference in any related document to a "promissory note" or a "note" executed by the Borrower and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

8.8 Indemnification. The Borrower will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrower hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document, or any such credit. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrower's obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrower, due and payable immediately without demand.

8.9 Notices. Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrower, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as the Bank and the Borrower may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when transmitted, or (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered.

8.10 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

8.11 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

8.12 Prior Agreement Superseded. This Agreement supersedes the Business Loan Agreement entered into as of June 26, 2003, between the Bank and the Borrower, and any credit outstanding thereunder shall be deemed to be outstanding under this Agreement.

8.13 "Interest" Limited. As used in this Agreement the term "interest" does not include any fees (including, but not limited to, any loan fee, periodic fee, unused commitment fee or waiver fee) or other charges imposed on the Borrower in connection with the indebtedness evidenced by this Agreement, other than the interest described above. In no event shall the amount or rate of interest due and payable under this Agreement exceed the maximum amount or rate of interest allowed by applicable law and, in the event any such excess payment is made by the Borrower or received by the Bank, such excess sum shall be credited as a payment of principal (or if no principal shall remain outstanding, shall be refunded to the Borrower). It is the express intent hereof that the

Borrower not pay and the Bank not receive, directly or indirectly, interest in excess of that which may be lawfully paid under applicable law including the usury laws in force in the State of Georgia.

This Agreement is executed as of the date stated at the top of the first page.

Borrower:

Citi Trends, Inc.

By: /s/ Tom Stoltz (Seal)  
Tom Stoltz, Chief Financial Officer

Bank:

Bank of America, N.A.

By: /s/ Steven R. Price  
Steven R. Price, Senior Vice President

Address where notices to Citi Trends, Inc. are to be sent:

104 Coleman Boulevard  
Savannah, Georgia 31401-9565

Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

Address where notices to the Bank are to be sent:

Jacksonville - Attn: Notice Desk  
FL9-100-03-15  
9000 Southside Blvd., 3rd Floor  
Jacksonville, FL 32256

Facsimile: 800-262-4274

USA Patriot Act Notice. Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account or obtains a loan. The Bank will ask for the Borrower's legal name, address, tax ID number or social security number and other identifying information. The Bank may also ask for additional information or documentation or take other actions reasonably necessary to verify the identity of the Borrower, guarantors or other related persons.

## CERTIFICATION

I, R. Edward Anderson, Chief Executive Officer of Citi Trends, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended July 29, 2006, of Citi Trends, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 25th, 2006

/s/ R. Edward Anderson

R. Edward Anderson

Chief Executive Officer (Principal Executive Officer)

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## CERTIFICATION

I, Thomas Stoltz, Chief Financial Officer of Citi Trends, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended July 29, 2006, of Citi Trends, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 25th, 2006

/s/ Thomas W. Stoltz

Thomas Stoltz

Chief Financial Officer (Principal Financial Officer)

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Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350, as adopted).

I, R. Edward Anderson, Chief Executive Officer of Citi Trends, Inc.,

and

I, Thomas Stoltz, Chief Financial Officer of Citi Trends, Inc., certify that:

1. We have reviewed this quarterly report on Form 10-Q of Citi Trends, Inc. for the period ended July 29, 2006;
2. Based on our knowledge, this quarterly report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
3. Based on our knowledge, the financial statements, and other information included in this quarterly report, fairly present in all material respects the financial condition and results of operations of the registrant as of, and for, the periods presented in this quarterly report.

Date: August 25th, 2006

/s/ R. Edward Anderson  
\_\_\_\_\_  
R. Edward Anderson  
Chief Executive Officer (Principal Executive Officer)

Date: August 25th, 2006

/s/ Thomas W. Stoltz  
\_\_\_\_\_  
Thomas Stoltz  
Chief Financial Officer (Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Citi Trends, Inc. and will be retained by Citi Trends, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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