

**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 October 31, 2009

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.)

**104 Coleman Boulevard
Savannah, Georgia**

(Address of principal executive offices)

31408

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 10, 2009
Common Stock, \$.01 par value	14,692,699 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Citi Trends, Inc.

**Condensed Consolidated Balance Sheets
October 31, 2009 and January 31, 2009
(Unaudited)
(in thousands, except share data)**

	October 31, 2009	January 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,487	\$ 33,516
Short-term investment securities	42,225	—
Inventory	105,314	86,259
Prepaid and other current assets	9,432	10,625
Income tax receivable	2,623	—
Deferred tax asset	4,365	3,447
Total current assets	196,446	133,847
Property and equipment, net	62,422	58,861
Long-term investment securities	—	43,825
Goodwill	1,371	1,371
Deferred tax asset	2,409	2,480
Other assets	502	405
Total assets	\$ 263,150	\$ 240,789
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 60,762	\$ 52,295
Accrued expenses	12,506	11,478
Accrued compensation	7,757	7,514
Current portion of capital lease obligations	123	1,403

Income tax payable	—	682
Layaway deposits	3,381	564
Total current liabilities	84,529	73,936
Other long-term liabilities	9,719	8,646
Total liabilities	94,248	82,582
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 32,000,000 shares; 14,858,625 shares issued as of October 31, 2009 and 14,698,852 shares issued as of January 31, 2009; 14,692,875 shares outstanding as of October 31, 2009 and 14,533,102 outstanding as of January 31, 2009	146	145
Paid-in-capital	73,178	70,950
Retained earnings	95,743	87,277
Treasury stock, at cost; 165,750 shares as of October 31, 2009 and January 31, 2009	(165)	(165)
Total stockholders' equity	168,902	158,207
Commitments and contingencies (note 7)		
Total liabilities and stockholders' equity	\$ 263,150	\$ 240,789

See accompanying notes to the condensed consolidated financial statements (unaudited).

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Citi Trends, Inc.

Condensed Consolidated Statements of Operations
Thirty-nine Weeks Ended October 31, 2009 and November 1, 2008
(Unaudited)
(in thousands, except per share data)

	Thirty-nine Weeks Ended	
	October 31, 2009	November 1, 2008
Net sales	\$ 382,058	\$ 341,599
Cost of sales	234,640	211,172
Gross profit	147,418	130,427
Selling, general and administrative expenses	121,116	109,600
Depreciation and amortization	13,679	11,915
Income from operations	12,623	8,912
Interest income	329	2,215
Interest expense	(86)	(256)
Income before income tax expense	12,866	10,871
Income tax expense	4,400	3,544
Net income	\$ 8,466	\$ 7,327
Basic net income per common share	\$ 0.58	\$ 0.51
Diluted net income per common share	\$ 0.58	\$ 0.51
Net income attributable to common shares		
Basic	\$ 8,289	\$ 7,239
Diluted	\$ 8,289	\$ 7,240
Weighted average number of shares outstanding		
Basic	14,351	14,095
Diluted	14,383	14,262

Citi Trends, Inc.

Condensed Consolidated Statements of Operations
Thirteen Weeks Ended October 31, 2009 and November 1, 2008
(Unaudited)
(in thousands, except per share data)

	Thirteen Weeks Ended	
	October 31, 2009	November 1, 2008
Net sales	\$ 127,356	\$ 104,948
Cost of sales	79,720	66,208
Gross profit	47,636	38,740
Selling, general and administrative expenses	41,989	36,482
Depreciation and amortization	4,851	4,134
Income (loss) from operations	796	(1,876)
Interest income	85	790
Interest expense	(17)	(94)
Unrealized gain on investment securities	57	—
Income (loss) before income tax expense (benefit)	921	(1,180)
Income tax expense (benefit)	315	(493)
Net income (loss)	\$ 606	\$ (687)
Basic net income (loss) per common share		

	\$ 0.04	\$ (0.05)
Diluted net income (loss) per common share	\$ 0.04	\$ (0.05)
Net income (loss) attributable to common shares		
Basic	\$ 593	\$ (687)
Diluted	\$ 593	\$ (687)
Weighted average number of shares outstanding		
Basic	14,370	14,141
Diluted	14,409	14,141

See accompanying notes to the condensed consolidated financial statements (unaudited).

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Citi Trends, Inc.

Condensed Consolidated Statements of Cash Flows
Thirty-nine Weeks Ended October 31, 2009 and November 1, 2008
(Unaudited)
(in thousands)

	October 31, 2009	November 1, 2008
Operating activities:		
Net income	\$ 8,466	\$ 7,327
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,679	11,915
Loss on disposal of property and equipment	257	110
Deferred income taxes	(847)	(2,333)
Noncash stock-based compensation expense	1,601	1,500
Excess tax benefits from stock-based payment arrangements	(709)	(863)
Changes in assets and liabilities:		
Inventory	(19,055)	(7,402)
Prepaid and other current assets	1,193	(1,476)
Other assets	(97)	(43)
Accounts payable	8,467	2,800
Accrued expenses and other long-term liabilities	2,101	740
Accrued compensation	243	635
Income tax receivable/payable	(2,596)	(1,441)
Layaway deposits	2,817	1,963
Net cash provided by operating activities	15,520	13,432
Investing activities:		
Purchases of investment securities	—	(4,000)
Sales/redemptions of investment securities	1,600	15,175
Purchases of property and equipment	(17,497)	(18,477)
Net cash used in investing activities	(15,897)	(7,302)
Financing activities:		
Repayments on capital lease obligations	(1,280)	(1,177)
Excess tax benefits from stock-based payment arrangements	709	863
Proceeds from the exercise of stock options	289	469
Cash used to settle equity instruments granted under stock-based payment arrangements	(370)	(73)
Net cash (used in) provided by financing activities	(652)	82
Net (decrease) increase in cash and cash equivalents	(1,029)	6,212
Cash and cash equivalents:		
Beginning of period	33,516	6,203
End of period	\$ 32,487	\$ 12,415
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 71	\$ 239
Cash paid for income taxes	\$ 7,843	\$ 7,272

See accompanying notes to the condensed consolidated financial statements (unaudited).

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Citi Trends, Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)
October 31, 2009

1. Basis of Presentation

Citi Trends, Inc. and its subsidiary (the "Company") operate as a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. As of October 31, 2009, the Company operated 392 stores in 24 states.

The condensed consolidated balance sheet as of October 31, 2009, the condensed consolidated statements of operations for the thirty-nine and thirteen-week periods ended October 31, 2009 and November 1, 2008, and the condensed consolidated statements of cash flows for the thirty-nine week periods ended October 31, 2009 and November 1, 2008 have been prepared by the Company without audit. The condensed consolidated balance sheet as of January 31, 2009 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 October 31, 2009 and January 31, 2009, and its results of operations and cash flows for all periods presented. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended January 31, 2009.

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Operating results for the interim periods ended October 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending January 30, 2010.

The following contains references to years 2009 and 2008, which represent fiscal years ending or ended on January 30, 2010 (fiscal 2009) and January 31, 2009 (fiscal 2008), respectively. Fiscal 2009 and fiscal 2008 both have 52-week accounting periods.

In preparing these financial statements, the Company evaluated the events and transactions through the time of filing these financial statements with the Securities and Exchange Commission ("SEC") on December 7, 2009.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates made by management include those made in the valuation of inventory, investment securities, stock-based compensation, property and equipment, and income taxes. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based on such periodic evaluations.

3. Earnings per Share

Basic earnings per common share amounts are calculated using the weighted average number of common shares outstanding for the period. Diluted earnings per common share amounts are calculated using the weighted average number of common shares outstanding plus the additional dilution for all potentially dilutive securities, such as stock options and nonvested restricted stock. During loss periods, diluted earnings per share amounts are based on the weighted average number of common shares outstanding.

The dilutive effect of stock-based compensation arrangements are accounted for using the treasury stock method. This method assumes that the proceeds the Company receives from the exercise of stock options are used to repurchase common shares in the market. The Company includes as assumed proceeds the amount of compensation cost attributed to future services and not yet recognized, and the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of outstanding options and vesting of nonvested restricted stock. For the thirteen weeks ended October 31, 2009 and November 1, 2008, there were 62,000 and 149,000 options outstanding, respectively, to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution. For the thirty-nine weeks ended October 31, 2009 and November 1, 2008, there were 66,000 and 77,000 options outstanding, respectively, to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution.

On February 1, 2009, the Company changed its method of computing earnings per share as required by the newly issued FASB Staff Position Emerging Issues Task Force ("EITF") 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* ("FSP EITF 03-6-1"). This EITF was subsequently codified under the FASB Accounting Standards Codification, as issued in June 2009, into FASB ASC Topic 260-10, *Earnings Per Share*. This pronouncement addresses determinations as to whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the

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earnings allocation in computing earnings per share under the required two-class method. Nonvested restricted stock awards granted to employees and non-employee directors contained nonforfeitable dividend rights prior to October 31, 2009, when amendments agreed to between the Company and its associates became effective. Such amendments resulted in the dividend rights being forfeitable in the event an associate leaves the employ of the Company prior to the vesting of the restricted stock awards. Accordingly, such awards were considered participating securities through the third quarter of 2009; however, they will not be treated as participating securities after October 31, 2009. We have prepared our current and prior period earnings per share computations to exclude net income allocated to nonvested share awards containing nonforfeitable dividend rights.

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The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

<u>Thirty-nine Weeks Ended</u>	
<u>October 31, 2009</u>	<u>November 1, 2008</u>

Basic:		
Numerator		
Net income	\$ 8,466	\$ 7,327
Net income allocated to participating securities	(177)	(88)
Net income attributable to common stockholders-basic	\$ 8,289	\$ 7,239
Denominator		
Weighted average common shares	14,351	14,095
Net income attributable to common stockholders per share-basic	\$ 0.58	\$ 0.51
Diluted:		
Numerator		
Net income	\$ 8,466	\$ 7,327
Net income allocated to participating securities	(177)	(87)
Net income attributable to common stockholders-diluted	\$ 8,289	\$ 7,240
Denominator		
Denominator for basic calculation	14,351	14,095
Effect of dilutive securities — stock options	32	167
Denominator for diluted calculation	14,383	14,262
Net income attributable to common stockholders per share-diluted	\$ 0.58	\$ 0.51

Thirteen Weeks Ended	
October 31, 2009	November 1, 2008

Basic:		
Numerator		
Net income (loss)	\$ 606	\$ (687)
Net income allocated to participating securities	(13)	—
Net income (loss) attributable to common stockholders-basic	\$ 593	\$ (687)
Denominator		
Weighted average common shares	14,370	14,141
Net income (loss) attributable to common stockholders per share-basic	\$ 0.04	\$ (0.05)
Diluted:		
Numerator		
Net income (loss)	\$ 606	\$ (687)
Net income allocated to participating securities	(13)	—
Net income (loss) attributable to common stockholders-diluted	\$ 593	\$ (687)
Denominator		
Denominator for basic calculation	14,370	14,141
Effect of dilutive securities — stock options	39	—
Denominator for diluted calculation	14,409	14,141
Net income (loss) attributable to common stockholders per share-diluted	\$ 0.04	\$ (0.05)

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4. Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at the measurement date. Fair value is established according to a hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. Level 3 inputs are given the lowest priority in the fair value hierarchy.

As of October 31, 2009, the Company had \$37.8 million (\$42.2 million at par value) of investments in municipal auction rate securities (“ARS”) issued by student loan funding organizations. The ARS are classified as trading securities and are reflected at estimated fair value. These securities are high-grade (at least AA-rated with one or more rating agencies) and approximately 79% are either guaranteed by the Department of Education under the Federal Family Education Loan Program (35%) or backed by insurance companies, AMBAC Assurance Corporation (32%) or MBIA Insurance Corporation (12%).

Historically, liquidity for investors in ARS was provided via an auction process that reset the interest rate every 35 days, allowing investors to either roll over their investments or sell them at par value. Beginning in February 2008, there was insufficient demand for these types of investments during the auctions and, as a result, these securities became illiquid. Although the auctions for the securities have failed, the Company has not experienced any defaults and continues to earn and receive interest on all of the investments still owned by the Company.

There was insufficient observable market information available as of October 31, 2009 to determine the fair value of the Company's ARS. Accordingly, the Company estimated Level 3 fair values for these securities based on assumptions that market participants would use in their estimates of fair value. These assumptions included, among other things, discounted cash flow projections, the timing of expected future successful auctions or redemptions, collateralization of the underlying securities and the creditworthiness of the issuers and insurance companies. Based on this Level 3 valuation, the ARS investments were valued at \$37.8 million as of October 31, 2009, representing a \$4.4 million decline from par value.

In November 2008, the Company accepted an offer (the "Right") from UBS AG ("UBS") allowing the Company to sell at par value the remaining ARS to UBS at anytime during a two-year period from June 30, 2010 through July 2, 2012. In accepting the Right, the Company granted UBS the authority to sell or auction the ARS at par value at any time up until the expiration date of the Right and released UBS from any claims relating to the marketing and sale of ARS. The ARS will continue to earn interest until they are liquidated. The obligations of UBS under the Right are not secured by its assets and do not require UBS to obtain any financing to purchase the ARS. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the Right. If UBS does not have sufficient funding to buy back the ARS and no alternative buyers are located either through the auction process, issuer redemptions or other means, then the Company may not be able to access cash by selling these securities without incurring a loss of principal.

The Right represents a put option and is recognized as an instrument separate from the ARS. The Company elected to account for this Right at fair value. The Right was valued at \$4.4 million as of October 31, 2009 using a discounted cash flow approach that includes estimates of interest rates and the credit risk associated with UBS. This valuation is based on unobservable inputs, therefore, represents a Level 3 fair value. Prior to the acceptance of the Right, the ARS were classified as available-for-sale. Upon acceptance of the Right, the ARS were reclassified to trading securities. The ARS and the Right included in the October 31, 2009 condensed consolidated balance sheet are classified as current assets due to the expectation that liquidity will occur during the next twelve months through the Company's exercise of the Right.

The following table provides a summary of activity for the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the thirty-nine weeks ended October 31, 2009 (in thousands):

	Put Option Related to ARS		Auction Rate Securities	
Balance as of January 31, 2009	\$	4,901	\$	38,924
Unrealized (loss) gain on investment securities included in earnings		(376)		376
Sales/redemptions of investment securities		(147)		(1,453)
Balance as of October 31, 2009	\$	4,378	\$	37,847

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5. Comprehensive Income (Loss)

The components of comprehensive income (loss) for all periods presented are as follows (in thousands):

	Thirty-nine Weeks Ended		Thirteen Weeks Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Net income (loss), as reported	\$ 8,466	\$ 7,327	\$ 606	\$ (687)
Other comprehensive loss:				
Unrealized loss on available-for-sale securities, net of tax benefit of \$1,182 and \$89 in the 39 and 13 weeks ended November 1, 2008, respectively	—	(1,832)	—	(137)
Reclassification of realized gains for redeemed securities, net of tax provision of \$187 in the 39 and 13 weeks ended November 1, 2008	—	288	—	288
Comprehensive income (loss)	<u>\$ 8,466</u>	<u>\$ 5,783</u>	<u>\$ 606</u>	<u>\$ (536)</u>

6. Revolving Line of Credit

On March 25, 2009, the Company's \$35 million unsecured revolving credit facility with Bank of America was amended to extend the expiration date to March 24, 2010 and to lower the commitment to \$20 million, reflecting the Company's cash position and the fact that there had been no borrowings under the facility. In addition, changes were made to the pricing of the facility, including an increase in the unused commitment fee from 0.15% to 0.25% and an amendment of the interest rates. Loans under the facility now bear interest at either (a) a rate equal to the highest of (i) the Federal Funds Rate plus 0.50%, (ii) LIBOR plus 1.0% and (iii) Bank of America's prime rate, plus an applicable margin; or (b) a rate equal to LIBOR plus an applicable margin. The applicable margin, which increased 0.75% under the amendment, is dependent on the Company's consolidated leverage ratio and ranges from 0.75% to 1.25% for loans bearing interest at the rate described under (a) above and from 1.75% to 2.25% for loans bearing interest at the rate described under (b) above. The Company has had no borrowings under this facility.

7. Commitments and 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, results of operations or liquidity.

8. Recent Accounting Pronouncements

In June 2009, the FASB Accounting Standards Codification (the “Codification”) was approved as the single source of authoritative nongovernmental GAAP. All existing accounting standard documents, such as FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and other related literature, excluding guidance from the Securities and Exchange Commission (“SEC”), have been superseded by the Codification. All other non-grandfathered, non-SEC accounting literature not included in the Codification has become nonauthoritative. The Codification did not change GAAP, but instead introduced a new structure that combines all authoritative standards into a comprehensive, topically organized online database. The Codification is effective for interim or annual periods ending after September 15, 2009 and impacts the Company’s financial statements as all future references to authoritative accounting literature will be referenced in accordance with the Codification. There have been no changes to the content of the Company’s financial statements as a result of implementing the Codification during the quarter ended October 31, 2009.

As a result of the Company’s implementation of the Codification, previous references to new accounting standards and literature are no longer applicable. In the current quarter financial statements, the Company has provided reference to both new and old guidance to assist in understanding the impacts of recently adopted accounting literature, particularly for guidance adopted since the beginning of the current fiscal year but prior to the Codification.

The Company adopted the methods of fair value as described in SFAS No. 157, *Fair Value Measurements*, for financial assets and liabilities on February 3, 2008 and for non-financial assets and liabilities on February 1, 2009 and has incorporated the related staff positions and interpretations, including FSP SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which was issued in April 2009. As of June 2009, this guidance became part of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for

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measuring fair value, and requires additional disclosures about fair value measurements. The adoption of the standard did not have a material impact on the Company’s financial statements.

As discussed in Note 3, the Company adopted FSP EITF 03-6-1 (now part of FASB ASC Topic 260, *Earnings Per Share*) on February 1, 2009. Implementation of FSP EITF 03-6-1 has changed the way the Company calculates earnings per share and is expected to reduce basic and diluted earnings per share allocated to common shareholders for the fiscal year ending January 30, 2010 by approximately \$0.01. All prior period earnings per share information must be adjusted retrospectively. Previously reported basic and diluted earnings per share allocated to common shareholders for the year ended January 31, 2009 will decrease by \$0.02.

In April 2009, the FASB issued FSP SFAS 107-1 and Accounting Principles Board (APB) Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, and APB Opinion No. 28, *Interim Financial Reporting*, to require an entity to provide interim disclosures about the fair value of all financial instruments within the scope of SFAS No. 107 and to include disclosures related to the methods and significant assumptions used in estimating those instruments. This FSP is effective for interim and annual periods ending after June 15, 2009, and accordingly, the Company adopted it during the second quarter of 2009. Adoption of this FSP had no material impact on the Company’s financial statements. See Note 4 for these disclosures. As of June 2009, this guidance became part of FASB ASC Topic 825, *Financial Instruments*.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the rationale for why that date was selected. This statement is effective for interim and annual periods ending after June 15, 2009, and accordingly, the Company adopted it during the second quarter of 2009. As of June 2009, this guidance became part of FASB ASC Topic 855, *Subsequent Events*.

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

Forward-Looking Statements

Except for specific historical information, many of the matters discussed in this Form 10-Q may express or imply projections of revenues or expenditures, statements of plans and objectives for future operations, growth or initiatives, statements of future economic performance, or statements regarding the outcome or impact of pending or threatened litigation. These, and similar statements, are forward-looking statements concerning matters that involve risks, uncertainties and other factors that may cause the actual performance of the Company to differ materially from those expressed or implied by these statements. All forward-looking information should be evaluated in the context of these risks, uncertainties and other factors. The words “believe,” “anticipate,” “project,” “plan,” “expect,” “estimate,” “objective,” “forecast,” “goal,” “intend,” “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 deterioration in general economic conditions caused by acts of war or terrorism or other factors; temporary changes in demand due to weather patterns; seasonality of the Company’s business; delays associated with building, opening and operating new stores; delays associated with building, opening, expanding or converting new or existing distribution centers; the future liquidity of auction rate securities; and other factors described in the section titled “Item 1A. Risk Factors” and elsewhere in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2009 and in Part II, “Item 1A. Risk Factors,” and elsewhere in the Company’s Quarterly Reports on Form 10-Q and any amendments thereto and in the other documents the Company files with the Securities and Exchange Commission (“SEC”), including reports on Form 8-K.

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

Overview

We are a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. Our merchandise offerings are designed to appeal to the preferences of fashion conscious consumers, particularly African-Americans. Originally our stores were located in the Southeast, and in recent years we expanded into the Mid-Atlantic and Midwest regions and the states of Texas and California. We operated 392 stores in both urban and rural markets in 24 states as of October 31, 2009.

We measure performance using key operating statistics. One of the main performance measures we use is comparable store sales growth. We define a comparable store as a store that has been opened for an entire fiscal year. Therefore, a store will not be considered a comparable store until its 13th month of operation at the earliest or until its 24th month at the latest. As an example, stores opened in fiscal 2008 and fiscal 2009 are not considered comparable stores in fiscal 2009. Relocated and expanded stores are included in the comparable store sales results. We also use other operating statistics, most notably average sales per store, to measure our performance. As we typically occupy existing space in established shopping centers rather than sites built specifically for our stores, store square footage (and therefore sales per square foot) varies by store. We focus on overall store sales volume as the critical driver of profitability. The average sales per store has increased over the years, as we have increased comparable store sales and opened new stores that are generally larger than our historical store base. Average sales per store increased from \$0.8 million in fiscal 2000 to \$1.4 million in fiscal 2008. In addition to sales, we measure gross profit as a percentage of sales and store operating expenses, with a particular focus on labor, as a percentage of sales. These results translate into store level contribution, which we use to evaluate overall performance of each individual store. Finally, we monitor corporate expenses against budgeted amounts.

Accounting Periods

The following discussion contains references to fiscal years 2009 and 2008, which represent fiscal years ending or ended on January 30, 2010 (fiscal 2009) and January 31, 2009 (fiscal 2008), respectively. Fiscal 2009 and fiscal 2008 both have 52-week accounting periods. This discussion and analysis should be read with the condensed consolidated financial statements and the notes thereto.

Results of Operations

The following discussion of the Company's financial performance is based on the condensed consolidated financial statements set forth herein. The nature of the Company's business is seasonal. Historically, sales in the first and fourth quarters have been higher than sales achieved in the

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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.

Thirteen Weeks Ended October 31, 2009 and November 1, 2008

Net Sales. Net sales increased \$22.5 million, or 21.4%, to \$127.4 million in the thirteen weeks ended October 31, 2009 from \$104.9 million in the thirteen weeks ended November 1, 2008. The increase in net sales was due primarily to 54 new stores opened since last year's third quarter and a 6.3% increase in comparable store sales, partially offset by the effect of closing three stores since last year's third quarter. Comparable store sales benefited from a strong back-to-school season and a favorable comparison to last year's third quarter which was impacted by less discretionary spending by consumers on apparel due to high gasoline and food prices. Also, approximately \$1 million of sales are estimated to have shifted from the second quarter to the first week of the third quarter this year due to later back-to-school sales tax holidays in eight of the states in which we operate. Comparable stores include locations that have been relocated or expanded. There were ten stores relocated or expanded in the first three quarters of 2009 and nine stores relocated or expanded in fiscal 2008, all of which impacted comparable store sales in the third quarter of 2009. Sales in comparable relocated and expanded stores increased 14.4% in this year's third quarter, while sales in all other comparable stores increased 5.7%. The 6.3% increase in overall comparable store sales was driven by an increase in the number of customer transactions, partially offset by a 0.2% decrease in the average customer purchase. Comparable store sales changes by major merchandise class were as follows in the third quarter of 2009: Accessories +19%; Men's +7%; Women's +6%; Home +4%; Children's +4%.

The new stores opened in 2008 and 2009, net of the closed stores, accounted for a \$16.0 million increase in total sales, while the 6.3% sales increase in the 315 comparable stores totaled \$6.5 million.

Gross Profit. Gross profit increased \$8.9 million, or 23.0%, to \$47.6 million in the third quarter of 2009 from \$38.7 million in last year's third quarter. The increase in gross profit is a result of the increase in sales, together with an improvement in the gross margin to 37.4% in this year's third quarter from 36.9% last year. The higher gross margin was the result of a 50 basis point reduction in inventory shrinkage as a percentage of sales due to steps taken to better control shrinkage, including a greater focus on problem stores by the store operations and loss prevention departments, the addition of sophisticated surveillance systems in high shrinkage stores, and lower inventory levels. In addition, there was a 30 basis point improvement in merchandise markdowns in this year's third quarter which was offset by slightly higher freight costs and lower initial merchandise markup.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$5.5 million, or 15.1%, to \$42.0 million in the third quarter of 2009 from \$36.5 million in last year's third quarter. The increase in these expenses was due primarily to additional store level, distribution and corporate costs arising from the opening of 54 new stores, net of the effect of closing three stores, since last year's third quarter. As a percentage of sales, selling, general and administrative expenses decreased to 33.0% in the third quarter of 2009 from 34.8% in the third quarter of 2008, due primarily to the leveraging effect that occurs on expenses as a percentage of sales when comparable store sales increase at a rate as high as 6.3% while operating expenses are increasing only at a normal rate of inflation.

Depreciation and Amortization. Depreciation and amortization expense increased \$0.8 million, or 17.3%, to \$4.9 million in the third quarter of 2009 from \$4.1 million in the third quarter of 2008, as the result of capital expenditures incurred for new and relocated/expanded stores.

Interest Income. Interest income decreased to \$85,000 in the third quarter of 2009 from \$790,000 in last year's third quarter due to a declining interest rate environment which affected our returns on auction rate securities as well as cash and cash equivalents.

Interest Expense. Interest expense decreased to \$17,000 in the third quarter of 2009 from \$94,000 in the third quarter of 2008 due to the normal decline in the interest portion of payments on our capital lease obligations as the principal portion of such obligations is reduced.

Unrealized Gain on Investment Securities. A \$57,000 unrealized gain on our investments in auction rate securities and a related put option is reflected in the third quarter of fiscal 2009, reversing a \$57,000 impairment loss recorded in the first half of 2009.

Income Tax Expense (Benefit). Due to a profitable third quarter in 2009, income tax expense of \$315,000 was recorded, whereas, the third quarter of 2008 included an income tax benefit of \$493,000 due to a pretax loss.

Net Income (Loss). Net income of \$606,000 was recognized in the third quarter of 2009, compared to a net loss of \$687,000 in last year's third quarter due to the factors discussed above.

Thirty-nine Weeks Ended October 31, 2009 and November 1, 2008

Net Sales. Net sales increased \$40.5 million, or 11.8%, to \$382.1 million in the thirty-nine weeks ended October 31, 2009 from \$341.6 million in the thirty-nine weeks ended November 1, 2008. The increase in net sales was due primarily to 54 new stores opened since last year's third quarter and 23 new stores opened in the first thirty-nine weeks of 2008 for which there was not a full thirty-nine weeks of sales in 2008's first three quarters, together with a 0.4% increase in comparable store sales, partially offset by the effect of closing three stores since last year's third quarter. Comparable stores include locations that have been relocated or expanded. There were ten stores relocated or expanded in the first thirty-nine weeks of 2009 and nine stores relocated or expanded in fiscal 2008, all of which impacted comparable store sales. Sales in comparable relocated and expanded stores increased 9.5% in the first thirty-nine weeks of 2009, while sales in all other comparable stores

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decreased 0.3%. The 0.4% increase in overall comparable store sales consisted of an approximate 1% increase in the average customer purchase, partially offset by a slight decrease in the number of customer transactions. Comparable store sales changes by major merchandise class were as follows in the first thirty-nine weeks of 2009: Accessories +7%; Children's +2%; Home +2%; Women's -1%; Men's -1%.

The new stores opened in 2008 and 2009, net of the closed stores, accounted for a \$39.0 million increase in total sales, while the 0.4% sales increase in the 315 comparable stores totaled \$1.5 million.

Gross Profit. Gross profit increased \$17.0 million, or 13.0%, to \$147.4 million in the first thirty-nine weeks of 2009 from \$130.4 million last year. The increase in gross profit is a result of the increase in sales, together with an improvement in the gross margin to 38.6% in this year's first thirty-nine weeks from 38.2% last year. The higher gross margin was the result of a 50 basis point reduction in inventory shrinkage as a percentage of sales due to steps taken to better control shrinkage, including a greater focus on problem stores by the store operations and loss prevention departments, the addition of sophisticated surveillance systems in high shrinkage stores, and lower inventory levels. This improvement in shrinkage, together with a slight reduction in freight costs and a slight increase in the initial markup on merchandise, more than offset a 30 basis point increase in markdowns in response to comparable store sales increases that have been just slightly positive. Inventories in comparable stores have been lower than at the same time of the previous year throughout the first three quarters of 2009, underscoring our commitment to take the markdowns needed to move merchandise in a slow sales environment and maintain appropriate inventory levels.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$11.5 million, or 10.5%, to \$121.1 million in the first thirty-nine weeks of 2009 from \$109.6 million in last year's first thirty-nine weeks. The increase in these expenses was due primarily to additional store level, distribution and corporate costs arising from the opening of 54 new stores, net of the effect of closing three stores, since the end of last year's third quarter. As a percentage of sales, selling, general and administrative expenses decreased in the first thirty-nine weeks of 2009 to 31.7% from 32.1% last year, despite the deleveraging effect that occurs on expenses as a percentage of sales when comparable store sales increase at a rate as low as 0.4% while operating expenses are increasing at a normal rate of inflation. Expenses were managed well, increasing only 10.5% despite a 14.7% average increase in store selling square footage during the first three quarters of 2009 compared to the same time period in 2008.

Depreciation and Amortization. Depreciation and amortization expense increased \$1.8 million, or 14.8%, to \$13.7 million in the first thirty-nine weeks of 2009 from \$11.9 million in the first thirty-nine weeks of 2008, as the result of capital expenditures incurred for new and relocated/expanded stores and the expansion of the Darlington distribution center in early 2008.

Interest Income. Interest income decreased to \$0.3 million from \$2.2 million in the first thirty-nine weeks of 2008 due to a declining interest rate environment which affected our returns on auction rate securities as well as cash and cash equivalents.

Interest Expense. Interest expense decreased to \$86,000 in the first thirty-nine weeks of 2009 from \$256,000 last year due to the normal decline in the interest portion of payments on our capital lease obligations as the principal portion of such obligations is reduced.

Income Tax Expense. The provision for income taxes increased 24.2% to \$4.4 million in this year's first thirty-nine weeks from \$3.5 million in the first thirty-nine weeks of 2008 due to higher pretax income, together with an increase in the effective income tax rate to 34.2% compared to 32.6% last year. The increase in the effective rate is due primarily to having less tax-exempt interest income this year, as discussed above.

Net Income. Net income increased 15.5% to \$8.5 million in the first thirty-nine weeks of 2009 from \$7.3 million in last year's first thirty-nine weeks due to the factors discussed above.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, expansion of our distribution infrastructure, construction of new stores, remodeling of our existing stores and the improvement of our information systems. Historically, we have met these cash requirements from cash flow from operations, short-term trade credit, borrowings under our revolving lines of credit, long-term debt, capital leases, and cash proceeds from our initial public offering. We expect to be able to meet future cash requirements with cash flow from operations, short-term trade credit, existing cash balances and, if necessary, borrowings under our revolving credit facility.

Current Financial Condition. As of October 31, 2009, we had total cash and cash equivalents of \$32.5 million compared with total cash and cash equivalents of \$33.5 million as of January 31, 2009. Inventory represented 40.0% of our total assets as of October 31, 2009. Management's ability to manage our inventory can have a significant impact on our cash flows from operations during a given interim period or fiscal year. In addition, inventory purchases can be seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise. Total inventories at the end of the third quarter of 2009 were up \$15.5 million, or 17.2%, compared to the third quarter of fiscal 2008, consistent with the increase in store selling square footage. Inventory in comparable stores was 0.2% lower than at the end of the third quarter of fiscal 2008, after being down 14.7% last year in relation to the end of fiscal 2007's third quarter.

Cash Flows From Operating Activities. Net cash provided by operating activities was \$15.5 million in the first thirty-nine weeks of fiscal 2009 compared to \$13.4 million in the first thirty-nine weeks of fiscal 2008. The main source of cash provided during the first thirty-nine weeks of this year was net income adjusted for noncash expenses such as depreciation and amortization, loss on disposal of property and equipment, deferred income taxes and stock-based compensation expense, totaling \$23.2 million (compared to \$18.5 million in last year's first thirty-nine

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weeks). Other significant sources of cash in the first thirty-nine weeks of fiscal 2009 were (1) an \$8.5 million increase in accounts payable (compared to \$2.8 million in the first thirty-nine weeks of 2008), due to an increase in inventory and an improvement in inventory turnover this year which results in more of our inventory still being in accounts payable at quarter end; (2) a \$2.8 million increase in layaway deposits (compared to \$2.0 million in last year's first thirty-nine weeks) due to the seasonality of layaway transactions which are low at the end of our fiscal year, because all balances have to be redeemed by customers or they are cancelled by the middle of December each year; (3) a \$2.1 million increase in accrued expenses and other long-term liabilities (compared to \$0.7 million in the first thirty-nine weeks of 2008), which represents a 10.4% increase, consistent with the Company's growth during the past twelve months; (4) a \$1.2 million decrease in prepaid and other current assets (compared to a \$1.5 million increase in the first thirty-nine weeks of fiscal 2008) due primarily to the timing of collecting receivables from landlords for tenant improvement reimbursements. Significant uses of cash included (1) a \$19.1 million increase in inventory (compared to \$7.4 million in the first thirty-nine weeks of 2008), due to the opening of 38 new stores and the relocation/expansion of ten other stores, partially offset by the closing of three stores, in the first thirty-nine weeks of 2009, together with the normal seasonal build leading up to the Christmas season; and (2) a \$2.6 million change in the income tax receivable/payable (compared to \$1.4 million in the first thirty-nine weeks of 2008) due to the seasonality of our earnings (highest earnings in the fourth quarter) and timing of estimated tax payments.

Cash Flows From Investing Activities. Cash used in investing activities was \$15.9 million in the first thirty-nine weeks of fiscal 2009 compared to \$7.3 million in the first thirty-nine weeks of fiscal 2008. Purchases of property and equipment included in cash flows used in investing activities totaled \$17.5 million and \$18.5 million in the first thirty-nine weeks of fiscal 2009 and 2008, respectively, with the decrease being a result of capital expenditures early in 2008 related to the expansion of the Darlington distribution center. Such capital expenditures in both years included routine amounts for new stores, relocated and expanded stores and other general corporate purposes. Sales of municipal auction rate securities, net of purchases, provided cash of \$1.6 million and \$11.2 million in the first thirty-nine weeks of fiscal 2009 and 2008, respectively.

Cash Flows From Financing Activities. Cash flows from financing activities were insignificant in the first thirty-nine weeks of fiscal 2009 and 2008.

Cash Requirements

Our principal sources of liquidity consist of: (i) cash and cash equivalents (which equaled \$32.5 million as of October 31, 2009); (ii) short-term trade credit; (iii) cash generated from operations on an ongoing basis as we sell our merchandise inventory; and (iv) a \$20 million revolving credit facility. Trade credit represents a significant source of financing for inventory purchases and arises from customary payment terms and trade practices with our vendors. Historically, our principal liquidity requirements have been for working capital and capital expenditure needs.

As of October 31, 2009, we had \$37.8 million (\$42.2 million at par value) of investments in municipal auction rate securities ("ARS") issued by student loan funding organizations. These securities are high-grade (at least AA-rated with one or more rating agencies) and approximately 79% are either guaranteed by the Department of Education under the Federal Family Education Loan Program (35%) or backed by insurance companies, AMBAC Assurance Corporation (32%) or MBIA Insurance Corporation (12%). Historically, liquidity for investors in ARS was provided via an auction process that reset the interest rate every 35 days, allowing investors to either roll over their investments or sell them at par value. Beginning in February 2008, there was insufficient demand for these types of investments during the auctions and, as a result, these securities became illiquid. Although the auctions for the securities have failed, we have not experienced any defaults and continue to earn and receive interest on all of the investments that we still own.

In November 2008, we accepted an offer (the "Right") from UBS AG ("UBS") allowing us to sell at par value our remaining ARS to UBS at anytime during a two-year period from June 30, 2010 through July 2, 2012. In accepting the Right, we granted UBS the authority to sell or auction the ARS at par value at any time up until the expiration date of the Right and released UBS from any claims relating to the marketing and sale of ARS. We will continue to earn interest on the ARS until they are liquidated. The obligations of UBS under the Right are not secured by its assets and do not require UBS to obtain any financing to purchase the ARS. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the Right. If UBS does not have sufficient funding to buy back the ARS and no alternative buyers are located either through the auction process, issuer redemptions or other means, then we may not be able to access cash by selling these securities without incurring a loss of principal. The Right was valued at \$4.4 million as of October 31, 2009.

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

Critical Accounting Policies

The preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent

assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. There have been no material changes to the Critical Accounting Policies outlined in the Company's Annual Report on Form 10-K for fiscal 2008.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our market risk during the nine months ended October 31, 2009 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended January 31, 2009.

Item 4. Controls and Procedures.

We have carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2009 pursuant to Rules 13a-15 and 15d-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer each concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information has been accumulated and communicated to our management, including the officers who certify our financial reports, as appropriate, to allow timely decisions regarding the required disclosures.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended October 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

We are from time to time involved in various legal proceedings incidental to the conduct of our 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, we are not aware of any legal proceedings pending or threatened against us that we expect to have a material adverse effect on our financial condition, results of operations or liquidity.

Item 1A. Risk Factors.

There are no material changes to the Risk Factors described under the section "ITEM 1A. RISK FACTORS" in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009.

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 Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

- | | |
|------|---|
| 10.1 | Form of Restricted Stock Award Agreement for Employees* |
| 10.2 | Form of Restricted Stock Award Agreement for Directors* |
| 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.* † |
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* 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 of 1934, except to the extent that the registrant specifically incorporates it by reference.

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SIGNATURES

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

CITI TRENDS, INC.

Date: December 7, 2009

By: /s/ Bruce D. Smith
Name: Bruce D. Smith
Title: Senior Vice President, Chief Financial Officer and Secretary

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RESTRICTED STOCK AWARD AGREEMENT

Non-transferable
GRANT TO

("Grantee")

by Citi Trends, Inc. (the "Company") of
shares of its common stock, \$0.01 par value (the "Shares")

pursuant to and subject to the provisions of the Citi Trends 2005 Long-Term Incentive Plan (the "Plan") and to the terms and conditions set forth on the following page (the "Terms and Conditions"). By accepting the Shares, Grantee shall be deemed to have agreed to the terms and conditions set forth in this Agreement and the Plan. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Plan.

The Shares will vest (become non-forfeitable) in accordance with the following schedule:

Years of Employment after Grant Date	Percent of Shares Vested
1	25%
2	50%
3	75%
4	100%

IN WITNESS WHEREOF, Citi Trends, Inc., acting by and through its duly authorized officers, has caused this Agreement to be duly executed.

CITI TRENDS, INC.

By: _____

Grant Date: _____

TERMS AND CONDITIONS

1. **Restrictions.** The Shares are subject to each of the following restrictions. "Restricted Shares" mean those Shares that are subject to the restrictions imposed hereunder which restrictions have not then expired or terminated. Restricted Shares may not be sold, transferred, exchanged, assigned, pledged, hypothecated or otherwise encumbered. If Grantee's employment with the Company or any Subsidiary terminates for any reason, then Grantee shall forfeit all of Grantee's right, title and interest in and to the Restricted Shares as of the date of employment termination, and such Restricted Shares shall revert to the Company immediately following the event of forfeiture. The restrictions imposed under this Section shall apply to all shares of the Company's Stock or other securities issued with respect to Restricted Shares hereunder in connection with any merger, reorganization, consolidation, recapitalization, stock dividend or other change in corporate structure affecting the Stock of the Company.

2. **Expiration and Termination of Restrictions.** The restrictions imposed under Section 1 will expire on the earliest to occur of the following (the period prior to such expiration being referred to herein as the "Restricted Period"):

(a) as to the percentages of the Shares specified on the cover page hereof, on the respective dates specified on the cover page hereof; provided Grantee is then employed by the Company; or

(b) upon Grantee's death or Disability, but only with respect to the number of Shares that would otherwise have vested within the 12 months following the death or Disability based on Grantee's continued employment with the Company; or

(c) upon a Change of Control of the Company.

3. **Delivery of Shares.** The Shares will be registered in the name of Grantee as of the Grant Date and may be held by the Company during the Restricted Period in certificated or uncertificated form. If a certificate for Restricted Shares is issued during the Restricted Period with respect to such Shares, such certificate shall be registered in the name of Grantee and shall bear a legend in substantially the following form (in addition to any legend required under applicable state securities laws): "This certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture and restrictions against transfer) contained in a Restricted Stock Agreement between the registered owner of the shares represented hereby and Citi Trends, Inc. Release from such terms and conditions shall be made only in accordance with the provisions of such Agreement, copies of which are on file in the offices of Citi Trends, Inc." Stock certificates for the Shares, without the first above legend, shall be delivered to Grantee or Grantee's designee upon request of Grantee after the expiration of the Restricted Period, but delivery may be postponed for such period as may be required for the Company with reasonable diligence to comply, if deemed advisable by the Company, with registration requirements under the Securities Act of 1933, listing requirements under the rules of any stock exchange, and requirements under any other law or regulation applicable to the issuance or transfer of the Shares.

4. **Voting Rights.** Grantee, as beneficial owner of the Shares, shall have full voting rights with respect to the Shares during and after the Restricted Period.

5. **Dividend Rights.** Grantee shall accrue cash and non-cash dividends, if any, paid with respect to the Restricted Shares, but the payment of such dividends shall be deferred and held (without interest) by the Company for the account of Grantee until the expiration of the Restricted Period. During the Restricted Period, such dividends shall be subject to the same vesting restrictions imposed under Section 1 as the Restricted Shares to which they relate. Accrued dividends deferred and held pursuant to the foregoing provision shall be paid by the Company to the Grantee promptly upon the expiration of the Restricted Period (and in any event within 30 days of the date of such expiration).

6. No Right of Continued Employment. Nothing in this Agreement shall interfere with or limit in any way the right of the Company to terminate Grantee's employment at any time, nor confer upon Grantee any right to continue in the employ of the Company.

7. Payment of Taxes.

(a) Upon issuance of the Shares hereunder, Grantee may make an election to be taxed upon such award under Section 83(b) of the Internal Revenue Code. To effect such election, Grantee may file an appropriate election with Internal Revenue Service within thirty (30) days after award of the Shares and otherwise in accordance with applicable Treasury Regulations.

(b) Grantee will, no later than the date as of which any amount related to the Shares first becomes includable in Grantee's gross income for federal income tax purposes, pay to the Company, or make other arrangements satisfactory to the Committee regarding payment of, any federal, state and local taxes of any kind required by law to be withheld with respect to such amount, including without limitation the surrender of shares of Stock to the Company. The obligations of the Company under this Agreement will be conditional on such payment or arrangements, and the Company will, to the extent permitted by law, have the right to deduct any such taxes from the award or any payment of any kind otherwise due to Grantee.

8. Plan Controls. The terms contained in the Plan are incorporated into and made a part of this Agreement and this Agreement shall be governed by and construed in accordance with the Plan. In the event of any actual or alleged conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of the Plan shall be controlling and determinative.

9. Successors. This Agreement shall be binding upon any successor of the Company, in accordance with the terms of this Agreement and the Plan.

10. Severability. If any one or more of the provisions contained in this Agreement is invalid, illegal or unenforceable, the other provisions of this Agreement will be construed and enforced as if the invalid, illegal or unenforceable provision had never been included.

11. Notice. Notices and communications under this Agreement must be in writing and either personally delivered or sent by registered or certified United States mail, return receipt requested, postage prepaid. Notices to the Company must be addressed to Citi Trends, Inc., 104 Coleman Blvd. Savannah, GA 31408, Attn: Secretary, or any other address designated by the Company in a written notice to Grantee. Notices to Grantee will be directed to the address of Grantee then currently on file with the Company, or at any other address given by Grantee in a written notice to the Company.

RESTRICTED STOCK AWARD AGREEMENT

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pursuant to and subject to the provisions of the Citi Trends 2005 Long-Term Incentive Plan (the "Plan") and to the terms and conditions set forth on the following page (the "Terms and Conditions"). By accepting the Shares, Grantee shall be deemed to have agreed to the terms and conditions set forth in this Agreement and the Plan. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Plan.

The Shares will vest (become non-forfeitable) on the first anniversary of the Grant Date, provided that Grantee is a director of the Company as of such date.

IN WITNESS WHEREOF, Citi Trends, Inc., acting by and through its duly authorized officers, has caused this Agreement to be duly executed.

CITI TRENDS, INC.

By: _____

Grant Date: _____

TERMS AND CONDITIONS

1. Restrictions. The Shares are subject to each of the following restrictions. "Restricted Shares" mean those Shares that are subject to the restrictions imposed hereunder which restrictions have not then expired or terminated. Restricted Shares may not be sold, transferred, exchanged, assigned, pledged, hypothecated or otherwise encumbered. If Grantee's service as a director of the Company or any Subsidiary terminates for any reason, then Grantee shall forfeit all of Grantee's right, title and interest in and to the Restricted Shares as of the date of such termination, and such Restricted Shares shall revert to the Company immediately following the event of forfeiture. The restrictions imposed under this Section shall apply to all shares of the Company's Stock or other securities issued with respect to Restricted Shares hereunder in connection with any merger, reorganization, consolidation, recapitalization, stock dividend or other change in corporate structure affecting the Stock of the Company.

2. Expiration and Termination of Restrictions. The restrictions imposed under Section 1 will expire on the earliest to occur of the following (the period prior to such expiration being referred to herein as the "Restricted Period"):

(a) on the first anniversary of the Grant Date; provided Grantee is then a member of the Board of Directors of the Company

(b) upon Grantee's Disability or death, but only with respect to the number of Shares that would otherwise have vested within the 12 months following the Disability or death based on Grantee's continued service with the Company; or

(c) upon a Change of Control of the Company.

3. Delivery of Shares. The Shares will be registered in the name of Grantee as of the Grant Date and may be held by the Company during the Restricted Period in certificated or uncertificated form. If a certificate for Restricted Shares is issued during the Restricted Period with respect to such Shares, such certificate shall be registered in the name of Grantee and shall bear a legend in substantially the following form (in addition to any legend required under applicable state securities laws): "This certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture and restrictions against transfer) contained in a Restricted Stock Agreement between the registered owner of the shares represented hereby and Citi Trends, Inc. Release from such terms and conditions shall be made only in accordance with the provisions of such Agreement, copies of which are on file in the offices of Citi Trends, Inc." Stock certificates for the Shares, without the first above legend, shall be delivered to Grantee or Grantee's designee upon request of Grantee after the expiration of the Restricted Period, but delivery may be postponed for such period as may be required for the Company with reasonable diligence to comply, if deemed advisable by the Company, with registration requirements under the Securities Act of 1933, listing requirements under the rules of any stock exchange, and requirements under any other law or regulation applicable to the issuance or transfer of the Shares.

4. Voting Rights. Grantee, as beneficial owner of the Shares, shall have full voting rights with respect to the Shares during and after the Restricted Period.

5. Dividend Rights. Grantee shall accrue cash and non-cash dividends, if any, paid with respect to the Restricted Shares, but the payment of such dividends shall be deferred and held (without interest) by the Company for the account of Grantee until the expiration of the Restricted Period. During the Restricted Period, such dividends shall be subject to the same vesting restrictions imposed under Section 1 as the Restricted Shares to which they relate. Accrued dividends deferred and held pursuant to the foregoing provision shall be paid by the Company to the Grantee promptly upon the expiration of the Restricted Period (and in any event within 30 days of the date of such expiration).

6. Payment of Taxes.

(a) Upon issuance of the Shares hereunder, Grantee may make an election to be taxed upon such award under Section 83(b) of the Internal Revenue Code. To effect such election, Grantee may file an appropriate election with Internal Revenue Service within thirty (30) days after award of the Shares and otherwise in accordance with applicable Treasury Regulations.

(b) Grantee will, no later than the date as of which any amount related to the Shares first becomes includable in Grantee's gross income for federal income tax purposes, pay to the Company, or make other arrangements satisfactory to the Committee regarding payment of, any federal, state and local taxes of any kind required by law to be withheld with respect to such amount, including without limitation the surrender of shares of Stock to the Company. The

obligations of the Company under this Agreement will be conditional on such payment or arrangements, and the Company will, to the extent permitted by law, have the right to deduct any such taxes from the award or any payment of any kind otherwise due to Grantee.

7. Plan Controls. The terms contained in the Plan are incorporated into and made a part of this Agreement and this Agreement shall be governed by and construed in accordance with the Plan. In the event of any actual or alleged conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of the Plan shall be controlling and determinative.

8. Successors. This Agreement shall be binding upon any successor of the Company, in accordance with the terms of this Agreement and the Plan.

9. Severability. If any one or more of the provisions contained in this Agreement is invalid, illegal or unenforceable, the other provisions of this Agreement will be construed and enforced as if the invalid, illegal or unenforceable provision had never been included.

10. Notice. Notices and communications under this Agreement must be in writing and either personally delivered or sent by registered or certified United States mail, return receipt requested, postage prepaid. Notices to the Company must be addressed to Citi Trends, Inc., 104 Coleman Boulevard, Savannah, GA 31408, Attn: Secretary, or any other address designated by the Company in a written notice to Grantee. Notices to Grantee will be directed to the address of Grantee then currently on file with the Company, or at any other address given by Grantee in a written notice to the Company.

CERTIFICATION

I, R. David Alexander, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended October 31, 2009, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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: December 7, 2009

/s/ R. David Alexander, Jr.

R. David Alexander, Jr.

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Bruce D. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended October 31, 2009 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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: December 7, 2009

/s/ Bruce D. Smith

Bruce D. Smith
Chief Financial Officer
(Principal Financial Officer)

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

I, R. David Alexander, Jr., President and Chief Executive Officer of Citi Trends, Inc.,

and

I, Bruce D. Smith, 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 October 31, 2009;
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: December 7, 2009

/s/ R. David Alexander, Jr.
R. David Alexander, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Date: December 7, 2009

/s/ Bruce D. Smith
Bruce D. Smith
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.
