

**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 August 2, 2008

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 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 (Do not check if a smaller reporting company)

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.

<u>Class</u>	<u>Outstanding at August 15, 2008</u>
Common Stock, \$.01 par value	14,309,870 shares

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FORM 10-Q
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Item 1. Financial Statements.

Citi Trends, Inc.
Condensed Balance Sheets
August 2, 2008 and February 2, 2008
(Unaudited)
(in thousands, except share data)

	August 2, 2008	February 2, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,191	\$ 6,203
Investment securities	—	56,165
Inventory	85,330	82,420
Prepaid and other current assets	8,058	5,888
Deferred tax asset	3,316	2,838
Total current assets	103,895	153,514
Property and equipment, net	57,165	52,207
Investment securities	50,936	—
Goodwill	1,371	1,371
Deferred tax asset	4,939	2,756
Other assets	369	329
Total assets	\$ 218,675	\$ 210,177
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 43,521	\$ 43,566
Accrued expenses	10,690	11,864
Accrued compensation	6,771	5,225
Current portion of capital lease obligations	1,636	1,580
Income tax payable	790	1,155
Layaway deposits	1,617	635
Total current liabilities	65,025	64,025
Capital lease obligations, less current portion	562	1,403
Other long-term liabilities	6,921	6,602
Total liabilities	72,508	72,030
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 32,000,000 shares; 14,475,581 shares issued as of August 2, 2008 and 14,265,471 shares issued as of February 2, 2008; 14,309,831 shares outstanding as of	143	142

August 2, 2008 and 14,099,721 outstanding as of February 2, 2008

Paid-in-capital	69,976	68,276
Retained earnings	77,908	69,894
Accumulated other comprehensive loss	(1,695)	—
Treasury stock, at cost; 165,750 shares as of August 2, 2008 and February 2, 2008	(165)	(165)
Total stockholders' equity	146,167	138,147
Commitments and contingencies (note 7)		
Total liabilities and stockholders' equity	\$ 218,675	\$ 210,177

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

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Citi Trends, Inc.

Condensed Statements of Income
Twenty-six Weeks Ended August 2, 2008 and August 4, 2007
(Unaudited)
(in thousands, except per share data)

	August 2, 2008	August 4, 2007
Net sales	\$ 236,651	\$ 203,402
Cost of sales	144,964	126,612
Gross profit	91,687	76,790
Selling, general and administrative expenses	73,118	62,123
Depreciation and amortization	7,781	5,830
Income from operations	10,788	8,837
Interest income	1,425	1,181
Interest expense	(162)	(265)
Income before income tax expense	12,051	9,753
Income tax expense	4,037	3,404
Net income	\$ 8,014	\$ 6,349
Basic net income per common share	\$ 0.57	\$ 0.46
Diluted net income per common share	\$ 0.56	\$ 0.45
Weighted average number of shares outstanding		
Basic	14,071	13,865
Diluted	14,248	14,234

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

Citi Trends, Inc.

Condensed Statements of Income
Thirteen Weeks Ended August 2, 2008 and August 4, 2007
(Unaudited)
(in thousands, except per share data)

	August 2, 2008	August 4, 2007
Net sales	\$ 115,655	\$ 96,826
Cost of sales	70,731	61,734
Gross profit	44,924	35,092
Selling, general and administrative expenses	36,877	31,548
Depreciation and amortization	4,078	3,009
Income from operations	3,969	535
Interest income	557	536
Interest expense	(75)	(121)
Income before income tax expense	4,451	950
Income tax expense	1,605	323
Net income	\$ 2,846	\$ 627
Basic net income per common share	\$ 0.20	\$ 0.05
Diluted net income per common share	\$ 0.20	\$ 0.04
Weighted average number of shares outstanding		
Basic	14,095	13,922
Diluted	14,279	14,249

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

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Citi Trends, Inc.

Condensed Statements of Cash Flows
Twenty-six Weeks Ended August 2, 2008 and August 4, 2007
(Unaudited)

(in thousands)

	August 2, 2008	August 4, 2007
Operating activities:		
Net income	\$ 8,014	\$ 6,349
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,781	5,830
Loss on disposal of property and equipment	8	7
Deferred income taxes	(1,568)	(1,814)
Noncash stock-based compensation expense	973	709
Excess tax benefits from stock-based payment arrangements	(465)	(3,059)
Changes in assets and liabilities:		
Inventory	(2,910)	(20,549)
Prepaid and other current assets	(1,504)	(873)
Other assets	(40)	(14)
Accounts payable	(45)	(1,475)
Accrued expenses and other long-term liabilities	(855)	983
Accrued compensation	1,546	(926)
Income tax payable	100	1,212
Layaway deposits	982	843
Net cash provided by (used in) operating activities	<u>12,017</u>	<u>(12,777)</u>
Investing activities:		
Purchases of investment securities	(4,000)	(4,629)
Sales of investment securities	5,775	24,149
Purchases of property and equipment	(12,747)	(11,238)
Net cash (used in) provided by investing activities	<u>(10,972)</u>	<u>8,282</u>
Financing activities:		
Repayments on long-term debt and capital lease obligations	(785)	(994)
Excess tax benefits from stock-based payment arrangements	465	3,059
Proceeds from the exercise of stock options	333	348
Cash used to settle equity instruments granted under stock-based payment arrangements	(70)	—
Net cash used in financing activities	<u>(57)</u>	<u>2,413</u>
Net decrease in cash and cash equivalents	988	(2,082)
Cash and cash equivalents:		
Beginning of period	6,203	7,707
End of period	<u>\$ 7,191</u>	<u>\$ 5,625</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 151	\$ 292
Cash paid for income taxes	\$ 5,505	\$ 3,257
Supplemental disclosures of noncash financing and investing activities:		
Cumulative effect of adoption of FIN 48	\$ —	\$ 301

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

Citi Trends, Inc.
Notes to the Condensed Financial Statements (unaudited)
August 2, 2008

1. Basis of Presentation

The condensed balance sheet as of August 2, 2008, the condensed statements of income for the twenty-six and thirteen-week periods ended August 2, 2008 and August 4, 2007, and the condensed statements of cash flows for the twenty-six week periods ended August 2, 2008 and August 4, 2007 have been prepared by Citi Trends, Inc. (the "Company"), without audit. The condensed balance sheet as of February 2, 2008 has been derived from the audited financial statements as of that date, but does not include all required year end disclosures. In the opinion of management, such statements include all adjustments considered necessary to present fairly the Company's financial position as of August 2, 2008 and February 2, 2008, and its results of operations and cash flows for all periods presented. It is suggested that these condensed 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 February 2, 2008.

The accompanying unaudited condensed financial statements are also 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. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim periods ended August 2, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2009.

The following contains references to years 2008 and 2007, which represent fiscal years ending or ended on January 31, 2009 (fiscal 2008) and February 2, 2008 (fiscal 2007), respectively. Fiscal 2008 and fiscal 2007 both have 52-week accounting periods.

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 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.

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 nonvested restricted stock and stock options. During loss periods, diluted earnings per share amounts are based on the weighted average number of common shares outstanding.

The following table provides a reconciliation of the average number of common shares outstanding used to calculate basic earnings per share to the number of common shares and common stock equivalents outstanding used in calculating diluted earnings per share for the thirteen weeks and twenty-six weeks ended August 2, 2008 and August 4, 2007:

	Twenty-six Weeks Ended	
	August 2, 2008	August 4, 2007
Average number of common shares outstanding	14,071,488	13,864,632
Incremental shares from assumed exercises of stock options	176,295	369,313
Average number of common shares and common stock equivalents outstanding	14,247,783	14,233,945

	Thirteen Weeks Ended	
	August 2, 2008	August 4, 2007
Average number of common shares outstanding	14,095,135	13,922,130
Incremental shares from assumed exercises of stock options	183,850	327,125
Average number of common shares and common stock equivalents outstanding	14,278,985	14,249,255

In accordance with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings per Share*, the Company calculates the dilutive effect of stock-based compensation arrangements 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. In accordance with SFAS No. 123R, *Share-Based Payment*, the Company includes as assumed proceeds the amount of compensation

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cost attributed to future services and not yet recognized, and the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of outstanding options and vesting of nonvested restricted stock. For the twenty-six weeks ended August 2, 2008 and August 4, 2007, there were approximately 79,000 and 70,000 options outstanding, respectively, to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution. For the twenty-six weeks ended August 2, 2008 and August 4, 2007, there were no shares of nonvested restricted stock included in the calculation of diluted earnings per share because of antidilution.

4. Fair Value Measurement

Effective February 3, 2008, the Company adopted the methods of fair value as described in SFAS No. 157, *Fair Value Measurements*, to value its financial assets and liabilities. SFAS No. 157 defines fair value 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. This statement also establishes a fair value 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.

The following table provides a summary of changes in fair value of the Company's financial assets for the twenty-six weeks ended August 2, 2008 (in thousands):

	Level 2	Level 3
Balance as of February 2, 2008	\$ 56,165	\$ —
Transfer from Level 2 to Level 3	(56,665)	56,665
Unrealized loss included in other comprehensive loss	—	(2,788)
Sales/redemptions of auction rate securities	(3,500)	(2,275)
Purchases of auction rate securities	4,000	—
Reclassification of interest receivable to other current assets	—	(666)

Investment securities on the condensed balance sheets consist exclusively of 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 83% are either guaranteed by the Department of Education under the Federal Family Education Loan Program (37%) or backed by insurance companies, AMBAC Assurance Corporation (37%) or MBIA Insurance Corporation (9%). 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. Beginning in February 2008, there was insufficient demand for these types of investments during the auctions and, as a result, these securities are not currently liquid. The Company may not be able to access cash by selling these securities without incurring a loss of principal until either, liquidity returns to the auction process, a secondary market emerges, they are redeemed by the issuer, or they mature in years ranging from 2010 to 2040. After the auctions began failing, certain issuers did redeem, at par value, \$2,275,000 of the ARS held by the Company. However, it is not currently possible to determine whether other issuers of the ARS held by the Company will redeem their securities. Subsequent to the end of the second quarter, the Company’s primary investment bank for ARS investments announced publicly that they have committed to provide liquidity solutions to institutional investors, such as Citi Trends, and will agree to purchase from their institutional investors all or any ARS that remain outstanding in June 2010. Approximately 93% of the Company’s ARS are held at its primary investment bank that announced the commitment.

The Company classifies its ARS as available-for-sale and, therefore, they are carried at estimated fair value. As of August 2, 2008, there was insufficient observable market information available 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 issuer. Through February 2, 2008, the ARS were valued at par value due to the frequent resets that historically occurred through the auction process.

Based on the Level 3 valuation, the Company has recorded an unrealized loss of \$1,695,000 (net of tax) to accumulated other comprehensive loss in the condensed balance sheet as of August 2, 2008, reflecting declines in fair value of the Company’s ARS. Since the commitment by the Company’s investment bank to purchase the ARS in June 2010 did not occur until after quarter end, it did not affect the valuation as of August 2, 2008.

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Factors considered in determining whether the unrealized loss is temporary included the length of time and extent to which fair value has been less than cost, recent redemptions of certain ARS at par value, the financial condition and near-term prospects of the issuers, and our current intent and ability to retain our investments for a period of time sufficient to allow for any anticipated recovery in fair value. If it is later determined that the fair value of these securities is other-than-temporarily impaired, the Company will record a loss in the statement of income. Due to the Company’s belief that the market for these investments may take in excess of twelve months to fully recover, the Company has classified them as noncurrent assets on the accompanying condensed balance sheet as of August 2, 2008.

5. [Comprehensive Income](#)

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Net income, as reported	\$ 2,846	\$ 627	\$ 8,014	\$ 6,349
Other comprehensive loss:				
Unrealized loss on available-for-sale securities, net of tax of \$209 and \$1,093 in the 13 weeks and 26 weeks ended August 2, 2008, respectively	(324)	—	(1,695)	—
Comprehensive income	\$ 2,522	\$ 627	\$ 6,319	\$ 6,349

6. [Revolving Line of Credit](#)

In March 2008, the Company obtained a \$35 million unsecured revolving credit facility with Bank of America, replacing a \$3 million facility that had been scheduled to expire on June 30, 2008. The \$35 million facility has a term of 364 days, has an unused commitment fee equal to 0.15%, and has one restrictive financial covenant (adjusted leverage ratio). Loans under the facility bear interest at either (a) a rate equal to the higher of (i) the Federal Funds Rate plus 0.50% and (ii) Bank of America’s prime rate, plus an applicable margin; or (b) a rate equal to LIBOR plus an applicable margin. The applicable margin is dependent on the Company’s adjusted leverage ratio and ranges from 1.00% to 1.50% for LIBOR-based loans, and from 0.00% to 0.50% for prime rate-based loans. 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](#)

Effective February 3, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements that are already required or permitted by other accounting standards, except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value and does not change existing guidance as to whether or not an instrument is carried at fair value. In February 2008, the FASB issued FASB Staff Position No. 157-2, *Partial Deferral of the Effective Date of Statement No. 157*, which provides a one year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least

annually. Therefore, the Company has adopted the provisions of SFAS No. 157 with respect to its financial assets and financial liabilities only. The adoption of this statement did not have a material impact on the Company's financial statements. See related disclosures in Note 4.

Effective February 3, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure specified financial assets and financial liabilities at fair value. Election of the fair value option is irrevocable and is applied on a contract-by-contract basis. The Company has elected not to apply the fair value option to the specified financial assets and financial liabilities, and accordingly, the adoption of SFAS No. 159 had no financial statement impact.

9. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The decrease of cash and accounts payable through a reclassification of outstanding checks for all prior periods caused net cash used in operating activities shown in the statements of cash flows to increase by \$1,540,000 from that previously reported for the twenty-six weeks ended August 4, 2007.

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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; 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 February 2, 2008 and in Part II, "Item 1A. Risk Factors" and elsewhere in the Company's Quarterly Reports on Form 10-Q and in the other documents the Company files with the Securities and Exchange Commission ("SEC"), including other reports on Form 8-K and 10-Q, and any amendments thereto.

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 Texas. We operated 335 stores in both urban and rural markets in 21 states as of August 2, 2008.

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 2007 and fiscal 2008 are not considered comparable stores in fiscal 2008. 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 \$1.5 million in fiscal 2007. 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 2008 and 2007, which represent fiscal years ending or ended on January 31, 2009 (fiscal 2008) and February 2, 2008 (fiscal 2007), respectively. Fiscal 2008 and fiscal 2007 both have 52-week accounting periods. This discussion and analysis should be read with the condensed financial statements and the notes thereto.

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

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third quarters of the fiscal year. Expenses and, to a greater extent, operating income vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of the Company's business may affect comparisons between periods.

Twenty-six Weeks Ended August 2, 2008 and August 4, 2007

Net Sales. Net sales increased \$33.3 million, or 16.3%, to \$236.7 million in the twenty-six weeks ended August 2, 2008 from \$203.4 million in the twenty-six weeks ended August 4, 2007. The increase in net sales was due primarily to 35 new stores opened since last year's second quarter, 23 new stores opened in the first half of 2007 for which there was not a full twenty-six weeks of sales in 2007's first half, and a 3.2% increase in comparable store sales. Comparable stores include locations that have been relocated or expanded. There were 6 stores relocated or expanded in the first half of 2008 and 12 stores relocated or expanded in fiscal 2007, all of which impacted comparable store sales. Sales in comparable relocated and expanded stores increased 16.3% in the first half of 2008, while sales in all other comparable stores increased 2.1%. The 3.2% increase in comparable store sales consisted of a 1.7% increase in the average customer purchase and a 1.5% increase in the number of customer transactions. Comparable store sales changes by major merchandise class were as follows in the first half of 2008: Children's +11%; Home +5%; Women's +1%; Men's +1%; Accessories -2%.

The new stores opened in 2007 and 2008, which are not yet included in comparable store sales, accounted for \$27.1 million of the total increase in sales, while the 3.2% sales increase in the 277 comparable stores contributed \$6.2 million.

Gross Profit. Gross profit increased \$14.9 million, or 19.4%, to \$91.7 million in the first half of 2008 from \$76.8 million last year. The increase in gross profit is a result of the increase in sales, together with an improvement in the gross margin from 37.8% in last year's first half to 38.7% this year. Approximately half of this increase in gross margin was due to lower inventory shrinkage, with the other half being due to lower merchandise markdowns as a percentage of sales. We believe that steps taken to improve the hiring, training and retention of quality store management, a reduction in the span of control given to our district managers in order to improve the focus on individual stores, and the addition of sophisticated surveillance systems in high shrinkage stores have been the keys to reducing theft in our stores. Markdowns were lower due to better management of inventory levels and improved sales results in 2008.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$11.0 million, or 17.7%, to \$73.1 million in the first half of 2008 from \$62.1 million in last year's first half. The increase in these expenses was due primarily to additional store level, distribution and corporate costs arising from the opening of 35 new stores since the end of last year's second quarter. As a percentage of sales, selling, general and administrative expenses increased in the first half to 30.9% from 30.5% last year, due to higher bonus accruals resulting from improved performance in the first half of 2008 and increased store supervision costs associated with a reduction in the span of control given to our district managers, partially offset by improved management of store payroll and the benefit in this year's comparison of approximately \$550,000 of expenses related to a secondary stock offering in last year's first half.

Depreciation and Amortization. Depreciation and amortization expense increased \$2.0 million, or 33.5%, to \$7.8 million in the first half of 2008 from \$5.8 million in the first half of 2007, as the result of capital expenditures incurred for new and relocated/expanded stores and the expansion of the Darlington distribution center.

Interest Income. Interest income increased to \$1.4 million from \$1.2 million in the first half of 2007 due primarily to higher contractual interest rates being earned on our investments in auction rate securities once the auctions of such securities began to fail in February 2008. See the discussion of auction rate securities below under "Cash Requirements" for more information.

Interest Expense. Interest expense decreased to \$162,000 in the first half of 2008 from \$265,000 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 18.6% to \$4.0 million in this year's first half from \$3.4 million in the first half of 2007 due to higher earnings, partially offset by a decrease in the effective income tax rate to 33.5% compared to 34.9% last year. The effective rate reflects the benefit of tax-exempt interest income and various income tax credits.

Net Income. Net income increased 26.2% to \$8.0 million in the first half of 2008 from \$6.3 million in last year's first half due to the factors discussed above.

Thirteen Weeks Ended August 2, 2008 and August 4, 2007

Net Sales. Net sales increased \$18.9 million, or 19.4%, to \$115.7 million in the thirteen weeks ended August 2, 2008 from \$96.8 million in the thirteen weeks ended August 4, 2007. The increase in net sales was due primarily to 35 new stores opened since last year's second quarter, together with a 6.5% increase in comparable store sales. Comparable stores include locations that have been relocated or expanded. There were 6 stores relocated or expanded in the first half of 2008 and 12 stores relocated or expanded in fiscal 2007, all of which impacted comparable store sales. Sales in comparable relocated and expanded stores increased 18.9% in the second quarter of 2008, while sales in all other comparable stores increased 5.5%. The 6.5% increase in comparable store sales consisted of a 3.6% increase in the number of customer

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transactions and a 2.9% increase in the average customer purchase. Comparable store sales changes by major merchandise class were as follows in the second quarter of 2008: Children's +18%; Home +11%; Men's +4%; Women's +2%; Accessories 0%.

The new stores opened in 2007 and 2008, which are not yet included in comparable store sales, accounted for \$13.0 million of the total increase in sales, while the 6.5% sales increase in the 277 comparable stores contributed \$5.9 million.

Gross Profit. Gross profit increased \$9.8 million, or 28.0%, to \$44.9 million in the second quarter of 2008 from \$35.1 million last year. The increase in gross profit is a result of the increase in sales, together with an improvement in the gross margin from 36.2% in last year's second quarter to 38.8% this year. This increase in gross margin was due primarily to markdowns being approximately 160 basis points lower as a percentage of sales in the second quarter of 2008 as a result of better management of inventory levels and improved sales results. In addition, gross margin benefited from inventory shrinkage being approximately 80 basis points lower in the second quarter of 2008 compared to the second quarter of 2007 due to our efforts to improve the hiring, training and retention of quality store management, a reduction in the span of control given to our district managers in order to improve the focus on individual stores, and the addition of sophisticated surveillance systems in high shrinkage stores.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$5.4 million, or 16.9%, to \$36.9 million in the second quarter of 2008 from \$31.5 million in last year's second quarter. The increase in these expenses was due primarily to additional store level, distribution and corporate costs arising from the opening of 35 new stores since last year's second quarter. As a percentage of sales, selling, general and administrative expenses decreased in the second quarter to 31.9% from 32.6% last year, due primarily to the leveraging effect that occurs on expenses as a percentage of sales when comparable store sales increase at a rate, 6.5%, that is higher than the rate of inflation on expenses. In addition, the expense percentage decreased due to improved management of store payroll and because this year's expense comparison benefited from \$450,000 of expenses related to a secondary stock offering in last year's second quarter. The improvements in expenses as a percentage of sales were partially offset by higher bonus accruals resulting from improved performance in the second quarter of 2008 and increased store supervision costs associated with a reduction in the span of control given to our district managers.

Depreciation and Amortization. Depreciation and amortization expense increased \$1.1 million, or 35.5%, to \$4.1 million in the second quarter of 2008 from \$3.0 million in the second quarter of 2007, as the result of capital expenditures incurred for new and relocated/expanded stores and the expansion of the Darlington distribution center.

Interest Income. Interest income increased slightly to \$557,000 in the second quarter of 2008 from \$536,000 last year. Most interest income is earned on auction rate securities, which are discussed further below in the "Cash Requirements" section.

Interest Expense. Interest expense decreased to \$75,000 in the second quarter of 2008 from \$121,000 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 396.9% to \$1.6 million in this year's second quarter from \$323,000 in the second quarter of 2007 due to higher earnings, together with an increase in the second quarter effective income tax rate to 36.1% compared to 34.0% last year. The effective rate reflects the benefit of tax-exempt interest income and various income tax credits.

Net Income. Net income increased 353.9% to \$2.8 million in the second quarter of 2008 from \$627,000 in last year's second quarter 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 and 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 borrowings under our revolving credit facility.

Current Financial Condition. As of August 2, 2008, we had total cash and cash equivalents of \$7.2 million compared with total cash and cash equivalents of \$6.2 million as of February 2, 2008. Inventory represented 39.0% of our total assets as of August 2, 2008. 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 second quarter of 2008 were down \$8.6 million, or 9.1%, compared to the second quarter of fiscal 2007, while inventory in comparable stores was 18% lower, due to our efforts to conservatively control inventory in what had been a slow sales environment heading into the second quarter.

Cash Flows From Operating Activities. Net cash provided by operating activities was \$12.0 million in the twenty-six weeks ended August 2, 2008 compared to cash used in operating activities of \$12.8 million in the twenty-six weeks ended August 4, 2007. Overall efforts to improve our inventory productivity resulted in \$17.6 million of the increase in cash flows from operating activities. The main sources of cash provided

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during the first half of this year were net income adjusted for depreciation and amortization, deferred income taxes and noncash stock-based compensation expense, totaling \$15.2 million (compared to \$11.1 million in last year's first half), and an increase in accrued compensation of \$1.5 million, due primarily to higher bonus accruals resulting from improved performance in the first half of 2008. Significant uses of cash consisted of a \$2.9 million increase in inventory since the beginning of 2008 due to new stores, and a \$1.5 million increase in prepaid and other current assets.

Cash Flows From Investing Activities. Cash used in investing activities was \$11.0 million in the twenty-six weeks ended August 2, 2008 compared to cash provided by investing activities of \$8.3 million in the twenty-six weeks ended August 4, 2007. Purchases of property and equipment included in cash flows from investing activities totaled \$12.7 million and \$11.2 million in the first half of fiscal 2008 and 2007, respectively. The increase during the first half of fiscal 2008 was due primarily to construction work related to the expansion of the Darlington distribution center. Capital expenditures in the first half of both years also included routine amounts for new stores, relocated and expanded stores and other general corporate purposes. Net sales of municipal auction rate securities provided cash of \$1.8 million and \$19.5 million in the first half of fiscal 2008 and 2007, respectively.

Cash Flows From Financing Activities. Cash flows from financing activities were insignificant in the first half of 2008. In the first half of 2007, such cash flows totaled \$2.4 million, primarily related to excess tax benefits from stock option exercises.

Cash Requirements

Our principal sources of liquidity consist of: (i) cash and cash equivalents (which equaled \$7.2 million as of August 2, 2008); (ii) short-term trade credit; (iii) cash generated from operations on an ongoing basis as we sell our merchandise inventory; and (iv) a \$35 million revolving credit facility. Short-term trade credit, which arises from customary payment terms and trade practices with our vendors, represents a significant source of financing for inventory purchases. Historically, our principal liquidity requirements have been for working capital and capital expenditure needs.

As of August 2, 2008, the Company had \$50.9 million, net, 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 83% are either guaranteed by the Department of Education under the Federal Family Education Loan Program (37%) or backed by insurance companies, AMBAC Assurance Corporation (37%) or MBIA Insurance Corporation (9%). 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. Beginning in February 2008, there was insufficient demand for these types of investments during the auctions and, as a result, these securities are not currently liquid. The Company may not be able to access cash by selling these securities without incurring a loss of principal until either, liquidity returns to the auction process, a secondary market emerges, they are redeemed by the issuer, or they mature in years ranging from 2010 to 2040. After the auctions began failing, certain issuers did redeem, at par value, \$2,275,000 of the ARS held by us. However, it is not currently possible to determine whether other issuers of the ARS held by us will redeem their securities. Subsequent to the end of the second quarter, the Company’s primary investment bank for ARS investments announced publicly that they have committed to provide liquidity solutions to institutional investors, such as Citi Trends, and will agree to purchase from their institutional investors all or any ARS that remain outstanding in June 2010. Approximately 93% of the Company’s ARS are held at its primary investment bank that announced the commitment.

We believe that our existing sources of liquidity will be sufficient to fund our operations and anticipated capital expenditures for at least the next 24 months.

Critical Accounting Policies

The preparation of our 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 2007 except as described below.

Investments

As of August 2, 2008, the Company had \$50.9 million, net, of investments in municipal auction rate securities (“ARS”) issued by student loan funding organizations. We account for our investments in accordance with the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. SFAS No. 115 addresses the accounting and reporting for investments in fixed maturity securities and for equity securities with readily determinable fair values. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Currently, all ARS held by the Company are classified as available-for-sale and are classified as long-term investments. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders’ equity. Interest earned on securities classified as available-for-sale is included in interest income.

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Estimating the fair value of investments in ARS requires numerous assumptions such as expected cash flows, the timing of expected future successful auctions or redemptions, collateralization of the underlying securities and the creditworthiness of the issuer. These assumptions are subject to uncertainties, are difficult to predict and require significant judgment. The use of different assumptions and changes in future market conditions could result in significantly different estimates of fair value. There is no assurance as to when the market for ARS will stabilize. The fair value of our ARS could change significantly based on market conditions and continued uncertainties in the credit markets. If these uncertainties continue or if these securities experience credit rating downgrades or changes in the rates of default on the underlying assets, we may incur additional impairment on our ARS portfolio. We continue to monitor the fair value of our ARS and relevant market conditions and will record additional impairment if future circumstances warrant such charges.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to financial market risks related to changes in interest rates connected with our revolving line of credit, which bears interest at variable rates. We cannot predict market fluctuations in interest rates. As a result, future results may differ materially from estimated results due to adverse changes in interest rates or debt availability. A hypothetical 100 basis point increase in prevailing market interest rates would not have materially impacted our financial position, results of operations or cash flows for the twenty-six weeks ended August 2, 2008, because we did not borrow during this period of time. We do not engage in financial transactions for trading or speculative purposes and have not entered into any interest rate hedging contracts.

We source all of our product from apparel markets in the United States in U.S. Dollars and, therefore, are not directly subject to fluctuations in foreign currency exchange rates. However, fluctuations in foreign currency exchange rates could affect our purchasing power with vendors that import merchandise to sell to us. We have not entered into forward contracts to hedge against fluctuations in foreign currency prices.

As of August 2, 2008, the Company had \$50.9 million, net, 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 83% are either guaranteed by the Department of Education under the Federal Family Education Loan Program (37%) or backed by insurance companies, AMBAC Assurance Corporation (37%) or MBIA Insurance Corporation (9%). 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. Beginning in February 2008, there was insufficient demand for these types of investments during the auctions and, as a result, these securities are not currently liquid. The Company may not be able to access cash by selling these securities without incurring a loss of principal until either, liquidity returns to the auction process, a secondary market emerges, they are redeemed by the issuer, or they mature in years ranging from 2010 to 2040. After the auctions began failing, certain issuers did redeem, at par value, \$2,275,000 of the ARS held by us. However, it is not currently possible to determine whether other issuers of the ARS held by us will redeem their securities. Subsequent to the end of the second quarter, the Company’s primary investment bank for ARS investments announced publicly that they have committed to provide liquidity solutions to institutional investors, such as Citi Trends, and will agree to purchase from their institutional investors all or any ARS that remain outstanding in June 2010. Approximately 93% of the Company’s ARS are held at its primary investment bank that announced the commitment.

Item 4. Controls and Procedures.

We have carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of August 2, 2008 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 August 2, 2008 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 February 2, 2008.

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.

The annual meeting of our shareholders was held on May 28, 2008. The following proposals were submitted to a vote:

1) The election of three directors, one to hold office until our annual meeting of shareholders in 2010 and until his successor is duly elected and qualified and two to hold office until our annual meeting of shareholders in 2011 and until their respective successors are duly elected and qualified. This proposal received the following number of votes:

	<u>Affirmative</u>	<u>Withheld</u>
Brian P. Carney (term expiring 2010)	10,788,448	38,350
R. Edward Anderson (term expiring 2011)	10,786,119	40,679
Lawrence E. Hyatt (term expiring 2011)	10,788,466	38,332

The other members of our board of directors whose terms of office continued after the meeting are John S. Lupo and Patricia M. Luzier.

2) The ratification of the appointment of KPMG LLP as our independent auditors for fiscal year 2008. This proposal was approved with 10,814,309 shares voting for approval, 12,132 shares voting against approval, and 356 shares abstaining.

Item 5. Other Information.

Not applicable.

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Item 6. Exhibits.

10.1	Citi Trends, Inc. Amended and Restated 2005 Long-Term Incentive Plan*
10.2	Form of Restricted Stock Award Agreement for Employees*
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 Chief Financial Officer (Principal Financial Officer).

CITI TRENDS, INC.

Date: September 2, 2008

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

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CITI TRENDS

AMENDED AND RESTATED

2005 LONG-TERM INCENTIVE PLAN

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1. Establishment, Purpose and Effective Date.

(a) Establishment. The Company hereby establishes the Citi Trends 2005 Long-Term Incentive Plan (as set forth herein and from time to time amended, the "Plan").

(b) Purpose. The primary purpose of the Plan is to provide a means by which key employees and directors of the Company can acquire and maintain stock ownership, thereby strengthening their commitment to the success of the Company and their desire to remain employed by the Company, focusing their attention on managing the Company as an equity owner, and aligning their interests with those of the Company's stockholders. The Plan also is intended to attract and retain key employees and to provide such employees with additional incentive and reward opportunities designed to encourage them to enhance the profitable growth of the Company.

(c) Effective Date. The Plan shall become effective upon its adoption by the Board and a majority of the stockholders of the Company.

2. **Definitions.** As used in the Plan, terms defined parenthetically immediately after their use shall have the respective meanings provided by such definitions and the terms set forth below shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

- (a) “Award” means Options, shares of restricted Stock, performance units, performance shares, Stock Appreciation Rights or Director’s Shares granted under the Plan.
- (b) “Award Agreement” means the written agreement by which an Award is evidenced.
- (c) ^{§ 1606} “Beneficial Owner,” “Beneficially Owned” and “Beneficially Owning” shall have the meanings applicable under Rule 13d-3 promulgated under the 1934 Act.
- (d) “Board” means the board of directors of the Company.
- (e) “Change in Capitalization” means any increase or reduction in the number of shares of Stock, or any change in the shares of Stock or exchange of shares of Stock for a different number or kind of shares or other securities by reason of a stock dividend, extraordinary dividend, stock split, reverse stock split, share combination, reclassification, recapitalization, merger, consolidation, spin-off, split-up, reorganization, issuance of warrants or rights, liquidation, exchange of shares, repurchase of shares, change in corporate structure, or similar event, of or by the Company.
- (f) “Change of Control” means any of the following:
 - (i) the acquisition by any Person of Beneficial Ownership of Voting Securities which, when added to the Voting Securities then Beneficially Owned by such Person, would result in such Person Beneficially Owning 33% or more

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of the combined Voting Power of the Company’s then outstanding Voting Securities; provided, however, that for purposes of this paragraph (i), a Person shall not be deemed to have made an acquisition of Voting Securities if such Person: (1) acquires Voting Securities as a result of a stock split, stock dividend or other corporate restructuring in which all stockholders of the class of such Voting Securities are treated on a pro rata basis; (2) acquires the Voting Securities directly from the Company; (3) becomes the Beneficial Owner of 33% or more of the combined Voting Power of the Company’s then outstanding Voting Securities solely as a result of the acquisition of Voting Securities by the Company or any Subsidiary which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by such Person, provided that if (x) a Person would own at least such percentage as a result of the acquisition by the Company or any Subsidiary and (y) after such acquisition by the Company or any Subsidiary, such Person acquires Voting Securities, then an acquisition of Voting Securities shall have occurred; (4) is the Company or any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a “Controlled Entity”); or (5) acquires Voting Securities in connection with a “Non-Control Transaction” (as defined in paragraph (iii) below); or

(ii) the individuals who, as of the Effective Date, are members of the Board (the “Incumbent Board”) cease for any reason to constitute at least two-thirds of the Board; provided, however, that if either the election of any new director or the nomination for election of any new director by the Company’s stockholders was approved by a vote of at least two-thirds of the Incumbent Board prior to such election or nomination, such new director shall be considered as a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened “Election Contest” (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a “Proxy Contest”) including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(iii) consummation of:

(A) a merger, consolidation or reorganization involving the Company (a “Business Combination”), unless

(1) ^{§ 1606} the stockholders of the Company, immediately before the Business Combination, own, directly or indirectly immediately following the Business Combination, at least a majority of the combined voting power of the outstanding voting securities of the corporation resulting from the Business Combination (the “Surviving Corporation”) in substantially the same proportion as their ownership of the Voting Securities immediately before the Business Combination, and

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(2) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for the Business Combination constitute at least a majority of the members of the Board of Directors of the Surviving Corporation, and

(3) no Person (other than the Company or any Controlled Entity, a trustee or other fiduciary holding securities under one or more employee benefit plans or arrangements (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Controlled Entity, or any Person who, immediately prior to the Business Combination, had Beneficial Ownership of 33% or more of the then outstanding Voting Securities) has Beneficial Ownership of 33% or more of the combined voting power of the Surviving Corporation’s then outstanding voting securities (a Business Combination satisfying the conditions of clauses (1), (2) and (3) of this subparagraph (A) shall be referred to as a “Non-Control Transaction”);

(B) a complete liquidation or dissolution of the Company; or

(C) the sale or other disposition of all or substantially all of the assets of the Company (other than a transfer to a Controlled Entity).

Notwithstanding the foregoing, a Change of Control shall not be deemed to occur solely because 33% or more of the then outstanding Voting Securities is Beneficially Owned by (x) a trustee or other fiduciary holding securities under one or more employee benefit plans or arrangements (or any trust forming a part thereof) maintained by the Company or any Controlled Entity or (y) any corporation which, immediately prior to its acquisition of such interest, is owned directly or indirectly by the stockholders of the Company in the same proportion as their ownership of stock in the Company immediately prior to such acquisition.

(g) “Committee” means the committee of the Board appointed pursuant to Article 4.

(h) “Company” means Citi Trends, a Delaware corporation.

(i) ^{as used} “Disability” means a mental or physical condition which, in the opinion of the Committee, renders a Grantee unable or incompetent to carry out the job responsibilities which such Grantee held or the duties to which such Grantee was assigned at the time the disability was incurred, and which is expected to be permanent or for an indefinite duration.

(j) “Effective Date” means the date that the Plan is adopted by the Board.

(k) “Fair Market Value” of any security of the Company or any other issuer means, as of any applicable date:

(i) if the security is listed for trading on the New York Stock Exchange, the closing price at the close of the primary trading session of the security on such date on the New York Stock Exchange, or if there has been no

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such closing price of the security on such date, on the next preceding date on which there was such a closing price, or

(ii) if the security is not so listed, but is listed on another national securities exchange, the closing price at the close of the primary trading session of the security on such date on such exchange, or if there has been no such closing price of the security on such date, on the next preceding date on which there was such a closing price, or

(iii) if the security is not listed for trading on the New York Stock Exchange or on another national securities exchange, the last sale price at the end of normal market hours of the security on such date as quoted on the National Association of Securities Dealers Automated Quotation System (“NASDAQ”) or, if no such price shall have been so quoted for such date, on the next preceding date for which such price was so quoted, or

(iv) if the security is not listed for trading on a national securities exchange or is not authorized for quotation on NASDAQ, the fair market value of the security as determined in good faith by the Committee, and in the case of Incentive Stock Options, in accordance with Section 422 of the Internal Revenue Code.

(l) “Grant Date” means the date of grant of an Award determined in accordance with Article 6.

(m) “Grantee” means an individual who has been granted an Award.

(n) “Incentive Stock Option” means an Option satisfying the requirements of Section 422 of the Internal Revenue Code and designated by the Committee as an Incentive Stock Option.

(o) “Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, and regulations and rulings thereunder. References to a particular Section of the Internal Revenue Code shall include references to successor provisions.

(p) “Measuring Period” has the meaning specified in Article 6(e)(ii)(A).

(q) “Minimum Consideration” means the \$.01 par value per share of Stock or such larger amount determined pursuant to resolution of the Board to be capital within the meaning of Section 154 of the Delaware General Corporation Law.

(r) “1934 Act” means the Securities Exchange Act of 1934, as amended.

(s) “Nonqualified Stock Option” means an Option which is not an Incentive Stock Option or other type of statutory stock option under the Internal Revenue Code.

(t) ^{as used} “Option” means an option to purchase Stock granted or issued under the Plan.

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(u) “Exercise Price” means the per share purchase price of (i) Stock subject to an Option, (ii) Stock subject to a Stock Appreciation Right, or (iii) restricted Stock subject to an Option.

- (v) “Performance-Based Compensation” means any Option or Award that is intended to constitute “performance based compensation” within the meaning of Section 162(m)(4)(C) of the Internal Revenue Code and the regulations promulgated thereunder.
- (w) “Performance Percentage” has the meaning specified in Article 6(e)(ii)(C).
- (x) “Person” means a person within the meaning of Sections 13(d) and 14(d) of the 1934 Act.
- (y) “Plan” has the meaning set forth in Article 1(a).
- (z) “SEC” means the Securities and Exchange Commission.
- (aa) “Section 16 Grantee” means a person subject to potential liability with respect to equity securities of the Company under Section 16(b) of the 1934 Act.
- (bb) “Stock” means common stock, par value \$.01 per share, of the Company.
- (cc) “Stock Appreciation Right” means a right that permits the individual to receive a payment equal to the excess of the stock’s value at exercise over the Exercise Price.
- (dd) “Subsidiary” means (i) except as provided in subsection (ii) below, any corporation which is a subsidiary corporation within the meaning of Section 424(f) of the Internal Revenue Code with respect to the Company, and (ii) in relation to the eligibility to receive Options or Awards other than Incentive Stock Options, any entity, whether or not incorporated, in which the Company directly or indirectly owns either (A) Voting Securities possessing at least 50% of the Voting Power of such entity, or (B) if such entity does not issue Voting Securities, at least 50% of the ownership interests in such entity.
- (ee) “10% Owner” means a person who owns stock (including stock treated as owned under Section 424(d) of the Internal Revenue Code) possessing more than 10% of the Voting Power of the Company.
- (ff) “Termination of Employment” occurs the first day on which an individual is for any reason no longer employed by, or providing services to, the Company or any of its Subsidiaries, or with respect to an individual who is an employee of a Subsidiary, the first day on which the Company no longer owns Voting Securities possessing at least 50% of the Voting Power of such Subsidiary.
- (gg) “Voting Power” means the combined voting power of the then outstanding Voting Securities.

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(hh) “Voting Securities” means, with respect to the Company or any Subsidiary, any securities issued by the Company or such Subsidiary, respectively, which generally entitle the holder thereof to vote for the election of directors of the Company.

3. **Scope of the Plan.**

- (a) **Number of Shares Available Under the Plan.** The maximum number of shares of Stock that may be made the subject of Awards granted under the Plan is 1,300,000 (or the number and kind of shares of Stock or other securities to which such shares of Stock are adjusted upon a Change in Capitalization pursuant to Article 18); provided, however, that in the aggregate, not more than 50% of total shares of Stock may be made the subject of Awards other than Options. The maximum number of shares of Stock that may be the subject of Options and Awards granted to any individual pursuant to the Plan in any calendar year period may not exceed 5% of total number of reserved shares. The maximum dollar amount of cash or the Fair Market Value of Stock that any individual may receive in any calendar year in respect of performance units denominated in dollars may not exceed \$2,500,000. The Company shall reserve for the purpose of the Plan, out of its authorized but unissued shares of Stock or out of shares held in the Company’s treasury, or partly out of each, such number of shares as shall be determined by the Board. The Board shall have the authority to cause the Company to purchase from time to time shares of Stock to be held as treasury shares and used for or in connection with Awards.
- (b) **Reduction in the Available Shares in Connection with Award Grants.** Upon the grant of an Award, the number of shares of Stock available under Article 3(a) for the granting of further Awards shall be reduced as follows:
- (i) **Generally.** In connection with the granting of each Award, other than a performance unit denominated in dollars, the number of shares of Stock available under Article 3(a) for the granting of further Awards shall be reduced by a number of shares equal to the number of shares of Stock in respect of which the Award is granted or denominated; provided, however, that if any Award is exercised by tendering shares of Stock, either actually or by attestation, to the Company as full or partial payment of the exercise price, the maximum number of shares of Stock available under Article 3(a) shall be increased by the number of shares of Stock so tendered.
- (ii) **Performance Units Denominated in Dollars.** In connection with the granting of a performance unit denominated in dollars, there shall be no reduction in the number of shares of Stock available under Article 3(a) for the granting of further Awards. If a performance unit denominated in dollars is settled in Stock, the number of shares of Stock available under Article 3(a) for the granting of further Awards shall be reduced at the time of settlement by the number of shares of Stock issued in connection with the settlement of the performance unit.
- (iii) **Cash Settlement; Shares Subject to Multiple Awards.** Notwithstanding anything contained herein to the contrary, (A) if an Award is granted that cannot be settled in shares of Stock, there shall be no reduction in the number of shares of Stock available under Article 3(a) for the granting of further Awards, and (B) where two or more Awards are granted with respect to the same

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shares of Stock, such shares shall be taken into account only once for purposes of this Article 3(b).

(c) Effect of the Expiration, Termination, Cancellation or Settlement of Awards. If and to the extent an Option or Award expires, terminates or is canceled, settled in cash (including the settlement of tax withholding obligations using shares of Stock) or forfeited for any reason without having been exercised in full (including, without limitation, a cancellation of an Option pursuant to Article 4(c)(vi)), the shares of Stock associated with the expired, terminated, canceled, settled or forfeited portion of the Award (to the extent the number of shares available for the granting of Awards was reduced pursuant to Article 3(b)) shall again become available for Awards under the Plan.

4. Administration.

(a) Committee Administration. The Plan shall be administered by the Committee, which shall consist of not less than two “non-employee directors” within the meaning of Rule 16b-3, and to the extent necessary for any Award intended to qualify as Performance-Based Compensation to so qualify, each member of the Committee shall be an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code. For purposes of the preceding sentence, if one or more members of the Committee is not a “non-employee director” within the meaning of Rule 16b-3 and an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code but recuses himself or herself or abstains from voting with respect to a particular action taken by the Committee, then the Committee, with respect to that action, shall be deemed to consist only of the members of the Committee who have not recused themselves or abstained from voting.

(b) Board Reservation and Delegation. Except to the extent necessary for any Award intended to qualify as Performance-Based Compensation to so qualify, the Board may, in its discretion, reserve to itself or exercise any or all of the authority and responsibility of the Committee hereunder and may also delegate to another committee of the Board any or all of the authority and responsibility of the Committee with respect to Awards to Grantees who are not Section 16 Grantees at the time any such delegated authority or responsibility is exercised. Such other committee may consist of one or more directors who may, but need not be, officers or employees of the Company or of any of its Subsidiaries. To the extent that the Board has reserved to itself, or exercised the authority and responsibility of the Committee, or delegated the authority and responsibility of the Committee to such other committee, all references to the Committee in the Plan shall be to the Board or to such other committee.

(c) Committee Authority. The Committee shall have full and final authority, in its discretion, but subject to the express provisions of the Plan, as follows:

- (i) to grant Awards,
- (ii) to determine (A) when Awards may be granted, and (B) whether or not specific Awards shall be identified with other specific Awards, and if so, whether they shall be exercisable cumulatively with, or alternatively to, such other specific Awards,

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- (iii) to interpret the Plan and to make all determinations necessary or advisable for the administration of the Plan,
- (iv) to prescribe, amend, and rescind rules and regulations relating to the Plan, including, without limitation, rules with respect to the exercisability and nonforfeitability of Awards upon the Termination of Employment of a Grantee,
- (v) to determine the terms and provisions of the Award Agreements, which need not be identical and, with the consent of the Grantee, to modify any such Award Agreement at any time,
- (vi) to cancel, with the consent of the Grantee, outstanding Awards,
- (vii) to accelerate the exercisability of, and to accelerate or waive any or all of the restrictions and conditions applicable to, any Award,
- (viii) to authorize any action of or make any determination by the Company as the Committee shall deem necessary or advisable for carrying out the purposes of the Plan, and
- (ix) to impose such additional conditions, restrictions, and limitations upon the grant, exercise or retention of Awards as the Committee may, before or concurrently with the grant thereof, deem appropriate, including, without limitation, requiring simultaneous exercise of related identified Awards, and limiting the percentage of Awards which may from time to time be exercised by a Grantee.

Notwithstanding anything herein to the contrary, the exercise price of outstanding Options may not be decreased (except pursuant to Article 18 of the Plan) and Options may not be cancelled or forfeited and re-granted to effect the same result. Notwithstanding anything herein to the contrary, with respect to Grantees working outside the United States, the Committee may determine the terms and provisions of the Award Agreements and make such adjustments or modifications to Awards as are necessary and advisable to fulfill the purposes of the Plan.

(d) Committee Determinations Final. The determination of the Committee on all matters relating to the Plan or any Award Agreement shall be conclusive and final. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

5. Eligibility.

Awards may be granted to any employee of the Company, and to any nonemployee director of the Company. In selecting the individuals to whom Awards may be granted, as well as in determining the number of shares of Stock subject to, and the other terms and conditions applicable to, each Award, the

6. **Conditions to Grants.**

(a) **General Conditions.**

(i) The Grant Date of an Award shall be the date on which the Committee grants the Award or such later date as specified in advance by the Committee.

(ii) The term of each Award (subject to Article 6(c) with respect to Incentive Stock Options) shall be a period of not more than ten years from the Grant Date and shall be subject to earlier termination as provided herein or in the applicable Award Agreement; provided, however, that the Committee may provide that an Option (other than an Incentive Stock Option) may, upon the death of the Grantee, be exercised for up to one year following the date of the Grantee's death even if such period extends beyond ten years from the date the Option is granted.

(iii) A Grantee may, if otherwise eligible, be granted additional Awards in any combination.

(iv) The Committee may grant Awards with terms and conditions which differ among the Grantees thereof. To the extent not set forth in the Plan, the terms and conditions of each Award shall be set forth in an Award Agreement.

(b) **Grant of Options and Exercise Price.** The Committee may, in its discretion, shall grant Options as follows:

(i) **Employee Options.** Options to acquire unrestricted Stock or restricted Stock may be granted to any employee eligible under Article 5 to receive Awards. No later than the Grant Date of any Option, the Committee shall determine the Exercise Price.

(ii) **Nonemployee Director Options.**

(A) **Discretionary Grants.** Nonqualified Stock Options to acquire unrestricted or restricted stock may be granted to nonemployee directors of the Company from time to time.

(B) **Terms Applicable to all Nonemployee Director Options.** Each Nonqualified Stock Option granted to a nonemployee director will be granted with an Exercise Price of not less than 100% of the Fair Market Value of the Stock on the Grant Date, and will have a term of not more than ten years.

(c) **Grant of Incentive Stock Options.** At the time of the grant of any Option to an employee of the Company, the Committee may designate that such Option shall be an Incentive Stock Option. Any Option designated as an Incentive Stock Option:

(i) shall have an Exercise Price of (A) not less than 100% of the Fair Market Value of the Stock on the Grant Date or (B) in the case of a 10% Owner, not less than 110% of the Fair Market Value of the Stock on the Grant Date;

(ii) shall have a term of not more than ten years (five years, in the case of a 10% Owner) from the Grant Date, and shall be subject to earlier termination as provided herein or in the applicable Award Agreement;

(iii) shall, if, with respect to any grant, the aggregate Fair Market Value of Stock (determined on the Grant Date) of all Incentive Stock Options granted under the Plan and "incentive stock options" (within the meaning of Section 422 of the Internal Revenue Code) granted under any other stock option plan of the Grantee's employer or any parent or subsidiary thereof (in either case determined without regard to this Article 6(c)) are exercisable for the first time during any calendar year exceeds \$100,000, be treated as Nonqualified Stock Options. For purposes of the foregoing sentence, Incentive Stock Options shall be treated as Nonqualified Stock Options according to the order in which they were granted such that the most recently granted Incentive Stock Options are first treated as Nonqualified Stock Options;

(iv) shall be granted within ten years from the earlier of the date the Plan is adopted by the Board or the date the Plan is approved by the stockholders of the Company; and

(v) shall require the Grantee to notify the Committee of any disposition of any Stock issued pursuant to the exercise of the Incentive Stock Option under the circumstances described in Section 421(b) of the Internal Revenue Code (relating to certain disqualifying dispositions), within ten days of such disposition.

(d) **Grant of Shares of Restricted Stock.**

(i) The Committee may, in its discretion, grant shares of restricted Stock to any individual eligible under Article 5 to receive Awards.

(ii) Before the grant of any shares of restricted Stock, the Committee shall determine, in its discretion:

(A) whether the certificates for such shares shall be delivered to the Grantee or held (together with a stock power executed in blank by the Grantee) in escrow by the Secretary of the Company until such shares become nonforfeitable or are forfeited;

(B) the per share purchase price of such shares, which may be zero; provided, however, that the per share purchase price of all such shares (other than treasury shares) shall not be less than the Minimum Consideration for each such share;

(C) the restrictions applicable to such grant and the time or times upon which any applicable restrictions on the restricted Stock shall lapse; provided, however, that except in the case of shares of restricted Stock issued to nonemployee directors or the case of restricted stock issued in full or partial settlement of another Award or other earned compensation, or in the event of the Grantee's Termination of Employment or a Change of Control, as determined by the Committee

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and set forth in an Award Agreement, such restrictions shall not lapse prior to the first anniversary of the Grant Date of the restricted Stock; and

(D) whether the payment to the Grantee of dividends, or a specified portion thereof, declared or paid on such shares by the Company shall be deferred until the lapsing of the restrictions imposed upon such shares and shall be held by the Company for the account of the Grantee, whether such dividends shall be reinvested in additional shares of restricted Stock (to the extent shares are available under Article 3) subject to the same restrictions and other terms as apply to the shares with respect to which such dividends are issued or otherwise reinvested in Stock or held in escrow, whether interest will be credited to the account of the Grantee with respect to any dividends which are not reinvested in restricted or unrestricted Stock, and whether any Stock dividends issued with respect to the restricted Stock to be granted shall be treated as additional shares of restricted Stock.

(iii) Payment of the purchase price (if greater than zero) for shares of restricted Stock shall be made in full by the Grantee before the delivery of such shares and, in any event, no later than ten days after the Grant Date for such shares. Such payment may be made, as determined by the Committee in its discretion, in any one or any combination of the following:

(A) cash; or

(B) with the prior approval of the Committee, shares of restricted or unrestricted Stock owned by the Grantee prior to such grant and valued at its Fair Market Value on the business day immediately preceding the date of payment;

provided, however, that, in the case of payment in shares of restricted or unrestricted Stock, if the purchase price for restricted Stock ("New Restricted Stock") is paid with shares of restricted Stock ("Old Restricted Stock"), the restrictions applicable to the New Restricted Stock shall be the same as if the Grantee had paid for the New Restricted Stock in cash unless, in the judgment of the Committee, the Old Restricted Stock was subject to a greater risk of forfeiture, in which case a number of shares of New Restricted Stock equal to the number of shares of Old Restricted Stock tendered in payment for New Restricted Stock shall be subject to the same restrictions as the Old Restricted Stock, determined immediately before such payment. < /p>

(iv) The Committee may, but need not, provide that all or any portion of a Grantee's Award of restricted Stock shall be forfeited:

(A) except as otherwise specified in the Award Agreement, upon the Grantee's Termination of Employment within a specified time period after the Grant Date; or

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(B) if the Company or the Grantee does not achieve specified performance goals within a specified time period after the Grant Date and before the Grantee's Termination of Employment; or

(C) upon failure to satisfy such other restrictions as the Committee may specify in the Award Agreement.

(v) If a share of restricted Stock is forfeited, then:

(A) the Grantee shall be deemed to have resold such share of restricted Stock to the Company at the lesser of (1) the purchase price paid by the Grantee (such purchase price shall be deemed to be zero dollars (\$0) if no purchase price was paid) or (2) the Fair Market Value of a share of Stock on the date of such forfeiture;

(B) the Company shall pay to the Grantee the amount determined under clause (A) of this sentence, if not zero, as soon as is administratively practicable, but in any case within 90 days after forfeiture; and

(C) such share of restricted Stock shall cease to be outstanding, and shall no longer confer on the Grantee thereof any rights as a stockholder of the Company, from and after the date of the Company's tender of the payment specified in clause (B) of this sentence, whether or not such tender is accepted by the Grantee, or the date the restricted Stock is forfeited if no purchase price was paid for the restricted Stock.

(vi) ^{§ 106} Any share of restricted Stock shall bear an appropriate legend specifying that such share is non-transferable and subject to the restrictions set forth in the Plan and the Award Agreement. If any shares of restricted Stock become nonforfeitable, the Company shall cause certificates for such shares to be issued or reissued without such legend and delivered to the Grantee or, at the request of the Grantee, shall cause such shares to be credited to a brokerage account specified by the Grantee.

(e) ^D Grant of Performance Units and Performance Shares.

(i) The Committee may, in its discretion, grant performance units or performance shares to any employee of the Company eligible under Article 5 to receive Awards.

(ii) Before the grant of any performance unit or performance share, the Committee shall:

(A) designate a period, of not less than one year nor more than five years, for the measurement of the extent to which performance goals are attained (the "Measuring Period");

(B) determine performance goals applicable to such grant; provided, however, that the performance goals with respect to a

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Measuring Period shall be established in writing by the Committee by the earlier of (x) the date on which a quarter of the Measuring Period has elapsed or (y) the date which is ninety (90) days after the commencement of the Measuring Period, and in any event while the performance relating to the performance goals remain substantially uncertain; and

(C) assign a "Performance Percentage" to each level of attainment of performance goals during the Measuring Period, with the percentage applicable to minimum attainment being zero percent (0%) and the percentage applicable to optimum attainment to be determined by the Committee from time to time.

(iii) The performance goals applicable to performance units or performance shares shall, in the discretion of the Committee, be based on stock price, earnings per share, operating income, return on equity or assets, cash flow, EBITDA, revenues, overall revenue or sales growth, expense reduction or management, market position, total shareholder return, return on investment, earnings before interest and taxes (EBIT), net income, return on net assets, economic value added, shareholder value added, cash flow return on investment, net operating profit, net operating profit after tax, return on capital, and return on invested capital, or any combination of the foregoing. Such performance goals may be absolute or relative (to prior performance or to the performance of one or more other entities or external indices) and may be expressed in terms of a progression within a specified range. At the time of the granting of performance units or performance shares, or at any time thereafter, in either case to the extent permitted under Section 162(m) of the Internal Revenue Code and the regulations thereunder without adversely affecting the treatment of the performance unit or performance share as Performance-Based Compensation, the Committee may provide for the manner in which performance will be measured against the performance goals (or may adjust the performance goals) to reflect the impact of specified corporate transactions, special charges, foreign currency effects, accounting or tax law changes and other extraordinary or nonrecurring events.

(iv) ^{§ 116} Prior to the vesting, payment, settlement or lapsing of any restrictions with respect to any performance unit or performance share that is intended to constitute Performance-Based Compensation made to a Grantee who is subject to Section 162(m) of the Internal Revenue Code, the Committee shall certify in writing that the applicable performance goals have been satisfied.

(v) Unless otherwise expressly stated in the relevant Award Agreement, each performance unit and performance share granted under the Plan is intended to be Performance-Based Compensation and the Committee shall interpret and administer the applicable provisions of the Plan in a manner consistent therewith. Any provisions inconsistent with such treatment shall be inoperative and shall not adversely affect the treatment of performance units or performance shares granted hereunder as Performance-Based Compensation. The Committee shall not be entitled to exercise any discretion otherwise authorized hereunder with respect to such performance unit or performance share if the ability to exercise such discretion or the exercise of such discretion itself would cause the compensation attributable to such performance unit or performance share to fail to qualify as Performance-Based Compensation.

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(f) Grant of Stock Appreciation Rights. The Committee may, in its discretion, grant Stock Appreciation Rights to any employee who is eligible under Article 5 to receive Awards as follows:

(i) Employee Stock Appreciation Rights. Stock Appreciation Rights may be granted to any employee eligible under Article 5 to receive Awards. No later than the Grant Date of any Stock Appreciation Right, the Committee shall determine the Exercise Price.

(ii) Nonemployee Director Stock Appreciation Rights.

(A) Discretionary Grants. Stock Appreciation Rights may be granted to nonemployee directors of the Company from time to time.

(B) Terms Applicable to all Nonemployee Director Stock Appreciation Rights. Each Stock Appreciation Right granted to a nonemployee director will be granted with an Exercise Price not less than 100% of the Fair Market Value of the Stock on the Grant Date, and will have a term of not more than ten years.

(g). Tandem Awards. The Committee may grant and identify any Award with any other Award granted under the Plan ("Tandem Award"), on terms and conditions determined by the Committee.

7. **Non-transferability.**

Unless set forth in the applicable Award Agreement with respect to Awards other than Incentive Stock Options, no Award (other than an Award of restricted Stock) granted hereunder shall by its terms be assignable or transferable except by will or the laws of descent and distribution or, in the case of an Option other than an Incentive Stock Option, pursuant to a domestic relations order (within the meaning of Rule 16a-12 promulgated under the Exchange Act). An Option may be exercised during the lifetime of a Grantee only by the Grantee or his or her guardian or legal representatives or, except as would cause an Incentive Stock Option to lose its status as such, by a bankruptcy trustee. Notwithstanding the foregoing, the Committee may set forth in the Award Agreement evidencing an Award (other than an Incentive Stock Option) at the time of grant or thereafter, that the Award may be transferred to members of the Grantee's immediate family, to trusts solely for the benefit of such immediate family members and to partnerships in which such family members and/or trusts are the only partners, and for purposes of this Plan, a transferee of an Award shall be deemed to be the Grantee. For this purpose, immediate family means the Grantee's spouse, parents, children, stepchildren and grandchildren and the spouses of such parents, children, stepchildren and grandchildren. The terms of an Award shall be final, binding and conclusive upon the beneficiaries, executors, administrators, heirs and successors of the Grantee. Each share of restricted Stock shall be non-transferable until such share becomes nonforfeitable.

8. **Exercise.**

(a) **Exercise of Options and Stock Appreciation Rights.** Subject to such terms and conditions as the Committee may impose, each Option or Stock Appreciation Right shall be exercisable in one or more installments commencing not earlier than the

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first anniversary of the Grant Date of such Option or Stock Appreciation Right; provided, however, that all Options or Stock Appreciation Rights held by each Grantee shall become fully (100%) vested and exercisable upon the occurrence of a Change of Control regardless of whether the acceleration of the exercisability of such Options or Stock Appreciation Rights would cause such Options to lose their eligibility for treatment as Incentive Stock Options. Each Option or Stock Appreciation Right shall be exercised by delivery to the Company of written notice of intent to purchase a specific number of shares of Stock subject to the Option. The Exercise Price of any shares of Stock as to which an Option or Stock Appreciation Right shall be exercised shall be paid in full at the time of the exercise. Payment may be made, as determined by the Committee in its discretion with respect to Options or Stock Appreciation Rights granted to eligible employees and in all cases with respect to Options or Stock Appreciation Rights granted to nonemployee directors, in any one or any combination of the following:

- (i) cash,
- (ii) shares of unrestricted Stock held by the Grantee for at least six months (or such lesser period as may be permitted by the Committee) prior to the exercise of the Option or Stock Appreciation Right, and valued at its Fair Market Value on the last business day immediately preceding the date of exercise,
- (iii) through simultaneous sale through a broker of shares of unrestricted Stock acquired on exercise, as permitted under Regulation T of the Federal Reserve Board, or
- (iv) net share settlements.

Shares of unrestricted Stock acquired by a Grantee on exercise of an Option shall be delivered to the Grantee or, at the request of the Grantee, shall be credited directly to a brokerage account specified by the Grantee.

(b) **Exercise of Performance Units.**

(i) Subject to such terms and conditions as the Committee may impose, and unless otherwise provided in the applicable Award Agreement, if, with respect to any performance unit, the Committee has determined that the minimum performance goals have been achieved during the applicable Measuring Period, then such performance unit shall be deemed exercised on the date on which it first becomes exercisable.

(ii) The benefit for each performance unit exercised shall be an amount equal to the product of

(A) the Unit Value (as defined below), multiplied by

(B) the Performance Percentage attained during the Measuring Period for such performance unit.

(iii) The Unit Value shall be, as specified by the Committee,

(A) a dollar amount,

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(B) an amount equal to the Fair Market Value of a share of Stock on the Grant Date,

(C) an amount equal to the Fair Market Value of a share of Stock on the exercise date of the performance unit, plus, if so provided in the Award Agreement, an amount (“Dividend Equivalent Amount”) equal to the Fair Market Value of the number of shares of Stock that would have been purchased if each dividend paid on a share of Stock on or after the Grant Date and on or before the exercise date were invested in shares of Stock at a purchase price equal to its Fair Market Value on the respective dividend payment date, or

(D) an amount equal to the Fair Market Value of a share of Stock on the exercise date of the performance unit (plus, if so specified in the Award Agreement, a Dividend Equivalent Amount), reduced by the Fair Market Value of a share of Stock on the Grant Date of the performance unit.

(iv) The benefit upon the exercise of a performance unit shall be payable as soon as is administratively practicable (but in any event within 90 days) after the later of (A) the date the Grantee is deemed to exercise such performance unit, or (B) the date (or dates in the event of installment payments) as provided in the applicable Award Agreement. Such benefit shall be payable in cash or restricted Stock, except that the Committee, with respect to any particular exercise, may, in its discretion, pay benefits wholly or partly in Stock delivered to the Grantee or credited to a brokerage account specified by the Grantee. The number of shares of Stock payable in lieu of cash shall be determined by valuing the Stock at its Fair Market Value on the business day next preceding the date such benefit is to be paid.

(c) **Payment of Performance Shares.** Subject to such terms and conditions as the Committee may impose, and unless otherwise provided in the applicable Award Agreement, if the Committee has determined in accordance with Article 6(e)(iv) that the minimum performance goals with respect to an Award of performance shares have been achieved during the applicable Measuring Period, then the Company shall pay to the Grantee of such Award (or, at the request of the Grantee, deliver to a brokerage account specified by the Grantee) shares of restricted Stock or Stock equal in number to the product of the number of performance shares specified in the applicable Award Agreement multiplied by the Performance Percentage achieved during such Measuring Period, except to the extent that the Committee in its discretion determines that cash be paid in lieu of some or all of such shares of Stock. The amount of cash payable in lieu of a share of Stock shall be determined by valuing such share at its Fair Market Value on the business day next preceding the date such cash is to be paid. Payments pursuant to this Article 8(d) shall be made as soon as administratively practicable (but in any event within 90 days) after the end of the applicable Measuring Period. Any performance shares with respect to which the performance goals have not been achieved by the end of the applicable Measuring Period shall expire.

(d) **Exercise, Cancellation, Expiration or Forfeiture of Tandem Awards.** Upon the exercise, cancellation, expiration, forfeiture or payment in respect of any

Award which is identified with any Tandem Award pursuant to Article 6(g), the Tandem Award shall automatically terminate to the extent of the number of shares in respect of which the Award is so exercised, cancelled, expired, forfeited or paid, unless otherwise provided by the Committee at the time of grant of the Tandem Award or thereafter.

9. **Effect of Certain Transactions.**

With respect to any Award which relates to Stock, in the event of (i) the liquidation or dissolution of the Company or (ii) a merger or consolidation of the Company (a “Transaction”), the Plan and the Awards issued hereunder shall continue in effect in accordance with their respective terms, except that following a Transaction either (i) each outstanding Award shall be treated as provided for in the agreement entered into in connection with the Transaction (the “Transaction Agreement”) or (ii) if not so provided in the Transaction Agreement, each Grantee shall be entitled to receive in respect of each share of Stock subject to any outstanding Awards, upon the vesting, payment or exercise of the Award (as the case may be), the same number and kind of stock, securities, cash, property, or other consideration that each holder of a share of Stock was entitled to receive in the Transaction in respect of a share of Stock.

10. **Mandatory Withholding Taxes.**

The Company shall have the right to deduct from any distribution of cash to any Grantee an amount equal to the federal, state and local income taxes and other amounts as may be required by law to be withheld (the “Withholding Taxes”) with respect to any Award. If a Grantee is to experience a taxable event in connection with (i) the receipt of an Award, (ii) the receipt of shares pursuant to an Option exercise, (iii) the vesting or payment of another type of Award or (iv) any other event in connection with the Plan (a “Taxable Event”), the Grantee shall pay the Withholding Taxes to the Company prior to the issuance, or release from escrow, of such Award or shares or vesting or payment of such Award or occurrence of such event, as applicable. Payment of the applicable Withholding Taxes may be made, as determined by the Committee in its discretion, in any one or any combination of (i) cash, (ii) shares of restricted or unrestricted Stock owned by the Grantee prior to the Taxable Event and valued at its Fair Market Value on the business day immediately preceding the date of exercise, or (iii) by making a Tax Election (as described below). For purposes of this Article 11, the Committee may provide in the Award Agreement at the time of grant, or at any time thereafter, that the Grantee, in satisfaction of the obligation to pay Withholding Taxes to the Company, may elect to have withheld a portion of the shares then issuable to him or her having an aggregate Fair Market Value equal to the Withholding Taxes.

11. **Termination of Employment.**

The Award Agreement pertaining to each Award shall set forth the terms and conditions applicable to such Award upon a Termination of Employment of the Grantee by the Company, a Subsidiary or an operating division or unit, which, shall be as the Committee may, in its discretion, determine at the time the Award is granted or thereafter.

12. **Securities Law Matters.**

(a) ^{A-1160} If the Committee deems it necessary to comply with the Securities Act of 1933, the Committee may require a written investment intent representation by the Grantee and may require that a restrictive legend be affixed to certificates for shares of Stock.

(b) If, based upon the opinion of counsel for the Company, the Committee determines that the exercise or nonforfeitability of, or delivery of benefits pursuant to, any Award would violate any applicable provision of (i) federal or state securities law, (ii) the listing requirements of any national securities exchange on which are listed any of the Company's equity securities or (iii) any other law or regulation, then the Committee may postpone any such exercise, nonforfeitability or delivery, as the case may be, but the Company shall use its best efforts, if applicable, to cause such exercise, nonforfeitability or delivery to comply with all such provisions at the earliest practicable date.

(c) Notwithstanding any provision of the Plan or any Award Agreement to the contrary, no shares of Stock shall be issued to any Grantee in respect of any Award prior to the time a registration statement under the Securities Act of 1933 is effective with respect to such shares.

13. No Funding Required.

Benefits payable under the Plan to any person shall be paid directly by the Company. The Company shall not be required to fund, or otherwise segregate assets to be used for payment of, benefits under the Plan.

14. No Employment Rights.

Neither the establishment of the Plan, nor the granting of any Award shall be construed to (a) give any Grantee the right to remain employed by the Company or to any benefits not specifically provided by the Plan or (b) in any manner modify the right of the Company or any of its Subsidiaries to modify, amend, or terminate any of its employee benefit plans.

15. Rights as a Stockholder.

A Grantee shall not, by reason of any Award (other than restricted Stock), have any right as a stockholder of the Company with respect to the shares of Stock which may be deliverable upon exercise or payment of such Award until such shares have been delivered to him. Shares of restricted Stock held by a Grantee or held in escrow by the Secretary of the Company shall confer on the Grantee all rights of a stockholder of the Company, except as otherwise provided in the Plan.

16. Nature of Payments.

Any and all grants, payments of cash, or deliveries of shares of Stock hereunder shall constitute special incentive payments to the Grantee and shall not be taken into account in computing the amount of salary or compensation of the Grantee for the purposes of determining any pension, retirement, death or other benefits under (a) any pension, retirement, profit-sharing, bonus, life insurance or other employee benefit plan of the Company or any of its Subsidiaries or (b) any agreement between the Company, on the one hand, and the Grantee, on the other hand, except as such plan or agreement shall otherwise expressly provide.

17. Non-Uniform Determinations.

^{D-46} Neither the Committee's nor the Board's determinations under the Plan need be uniform and may be made by the Committee or the Board selectively among persons who receive, or are

eligible to receive, Awards (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations, to enter into non-uniform and selective Award Agreements as to (a) the identity of the Grantees, (b) the terms and provisions of Awards, and (c) the treatment of Terminations of Employment.

18. ^{D-46} Adjustments.

In the event of Change in Capitalization, the Committee shall, in its sole discretion, make equitable adjustment of

^{D-46} (a) the aggregate number and class of shares of Stock or other stock or securities available under Article 3,

^{A-1160} (b) the number and class of shares of Stock or other stock or securities covered by an Award and to be covered by Options or Stock Appreciation Rights,

(c) the Exercise Price applicable to outstanding Options,

(d) ^{D-46} the terms of performance unit and performance share grants (to the extent permitted under Section 162(m)) of the Internal Revenue Code and the regulations thereunder without adversely affecting the treatment of the performance unit or performance share as Performance-Based Compensation,

(e) the Fair Market Value of Stock to be used to determine the amount of the benefit payable upon exercise of performance units and performance shares,

(f) ^{As 100:} the maximum number and class of shares of Stock or other securities with respect to which Awards may be granted to any individual in any calendar year period.

19. **Amendment of the Plan.**

The Board may from time to time in its discretion amend or modify the Plan without the approval of the stockholders of the Company, except as such stockholder approval may be required (a) to retain Incentive Stock Option treatment under Section 422 of the Internal Revenue Code, (b) to permit transactions in Stock pursuant to the Plan to be exempt from potential liability under Section 16(b) of the 1934 Act or (c) under the listing requirements of any securities exchange on which any of the Company's equity securities are listed.

20. **Termination of the Plan.**

The Plan shall terminate on the tenth (10th) anniversary of the Effective Date or at such earlier time as the Board may determine. Any termination, whether in whole or in part, shall not affect any Award then outstanding under the Plan.

21. **No Illegal Transactions.**

The Plan and all Awards granted pursuant to it are subject to all laws and regulations of any governmental authority which may be applicable thereto; and notwithstanding any provision of the Plan or any Award, Grantees shall not be entitled to exercise Awards or receive the benefits

thereof and the Company shall not be obligated to deliver any Stock or pay any benefits to a Grantee if such exercise, delivery, receipt or payment of benefits would constitute a violation by the Grantee or the Company of any provision of any such law or regulation or applicable court order.

22. **Governing Law.**

Except where preempted by federal law, the law of the State of Georgia shall be controlling in all matters relating to the Plan, without giving effect to the conflicts of law principles thereof.

23. **Severability.**

If all or any part of the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any portion of the Plan not declared to be unlawful or invalid. Any Article or part of an Article so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Article or part of an Article to the fullest extent possible while remaining lawful and valid.

24. **Translations.**

Any inconsistency between the terms of the Plan or any Award Agreement and the corresponding translation thereof into a language other than English shall be resolved by reference, solely, to the English language document.

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 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 and Dividend Rights.** Grantee, as beneficial owner of the Shares, shall have full voting and dividend rights with respect to the Shares during and after the Restricted Period. Each dividend payment, if any, shall be made no later than the end of the calendar year in which the dividend is paid to the shareholders or, if later, the 15th day of the third month following the date the dividend is paid to shareholders. Any non-cash dividends shall be subject to the restrictions imposed under Section 1. If Grantee forfeits any rights he may have under this Agreement, Grantee shall no longer have any rights as a stockholder with respect to the Restricted Shares or any interest therein and Grantee shall no longer be entitled to receive dividends on such stock. In the event that for any reason Grantee shall have received dividends upon such stock after such forfeiture, Grantee shall repay to the Company any amount equal to such dividends.

5. **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.

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., 102 FAHM Street, Savannah, GA 31401, 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. 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 August 2, 2008, 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: September 2, 2008

/s/ R. Edward Anderson

R. Edward Anderson

Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Bruce D. Smith, Chief Financial Officer of Citi Trends, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended August 2, 2008 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: September 2, 2008

/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. Edward Anderson, 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 August 2, 2008;
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: September 2, 2008

/s/ R. Edward Anderson

R. Edward Anderson
Chief Executive Officer
(Principal Executive Officer)

Date: September 2, 2008

/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.
