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 November 2, 2019

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**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	CTRN	NASDAQ Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer ☐	Accelerated Filer ☒	Non-Accelerated Filer ☐
Smaller Reporting Company ☐		Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 18, 2019 the registrant had 11,650,114 outstanding shares of common stock, $0.01 par value per share.

CITI TRENDS, INC.
FORM 10-Q
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Citi Trends, Inc.
Condensed Consolidated Balance Sheets
November 2, 2019 and February 2, 2019
(Unaudited)
(in thousands, except share data)

	November 2, 2019	February 2, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 23,731	$ 17,863
Short-term investment securities	32,305	50,350
Inventory	135,395	139,841
Prepaid and other current assets	13,826	17,544
Income tax receivable	2,948	—
Total current assets	208,205	225,598
Property and equipment, net of accumulated depreciation of $257,849 and $245,958 as of November 2, 2019 and February 2, 2019, respectively	55,704	56,224
Operating lease right of use assets	154,267	—
Long-term investment securities	16,272	8,883
Deferred tax asset	7,045	6,539
Other assets	757	745
Total assets	$ 442,250	$ 297,989
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$ 71,699	$ 73,391
Operating lease liabilities	41,659	—
Accrued expenses	14,060	15,311
Accrued compensation	9,571	12,746
Income tax payable	—	395
Layaway deposits	2,208	526
Total current liabilities	139,197	102,369
Noncurrent operating lease liabilities	120,485	—
Other long-term liabilities	1,921	8,195
Total liabilities	261,603	110,564
Stockholders’ equity:		
Common stock, $0.01 par value. Authorized 32,000,000 shares; 15,882,403 shares issued as of November 2, 2019 and 15,827,713 shares issued as of February 2, 2019; 11,650,114 shares outstanding as of November 2, 2019 and 12,158,237 shares outstanding as of February 2, 2019	157	157
Paid in capital	92,512	91,794
Retained earnings	178,265	176,094
Treasury stock, at cost; 4,232,289 shares held as of November 2, 2019 and 3,669,476 shares held as of February 2, 2019	(90,287)	(80,620)
Total stockholders’ equity	180,647	187,425
Commitments and contingencies (note 10)		
Total liabilities and stockholders’ equity	$ 442,250	$ 297,989

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

Citi Trends, Inc.
Condensed Consolidated Statements of Operations
Thirty-Nine Weeks Ended November 2, 2019 and November 3, 2018
(Unaudited)
(in thousands, except per share data)

	Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018
Net sales	$ 570,912	$ 568,395
Cost of sales (exclusive of depreciation shown separately below)	(357,429)	(350,231)
Selling, general and administrative expenses	(191,975)	(186,478)
Depreciation	(13,741)	(14,250)
Asset impairment	(472)	(1,122)
Income from operations	7,295	16,314
Interest income	1,214	979
Interest expense	(117)	(114)
Income before income taxes	8,392	17,179
Income tax expense	(1,311)	(3,152)
Net income	$ 7,081	$ 14,027
Basic net income per common share	$ 0.60	$ 1.06
Diluted net income per common share	$ 0.60	$ 1.06
Weighted average number of shares outstanding		
Basic	11,831	13,224
Diluted	11,842	13,269

Citi Trends, Inc.
Condensed Consolidated Statements of Operations
Thirteen Weeks Ended November 2, 2019 and November 3, 2018
(Unaudited)
(in thousands, except per share data)

	Thirteen Weeks Ended	
	November 2, 2019	November 3, 2018
Net sales	$ 183,050	$ 175,364
Cost of sales (exclusive of depreciation shown separately below)	(114,579)	(110,420)
Selling, general and administrative expenses	(65,539)	(61,189)
Depreciation	(4,520)	(4,600)
Asset impairment	—	(180)
Loss from operations	(1,588)	(1,025)
Interest income	421	321
Interest expense	(39)	(39)
Loss before income taxes	(1,206)	(743)
Income tax benefit	122	237
Net loss	$ (1,084)	$ (506)
Basic net loss per common share	$ (0.09)	$ (0.04)
Diluted net loss per common share	$ (0.09)	$ (0.04)
Weighted average number of shares outstanding		
Basic	11,636	12,780
Diluted	11,636	12,780

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

Citi Trends, Inc.
Condensed Consolidated Statements of Cash Flows
Thirty-Nine Weeks Ended November 2, 2019 and November 3, 2018
(Unaudited)
(in thousands)

	Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018
Operating activities:		
Net income	$ 7,081	$ 14,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,741	14,250
Non-cash operating lease costs	33,920	—
Asset impairment	472	1,122
Loss on disposal of property and equipment	23	76
Deferred income taxes	194	(1,445)
Insurance proceeds related to operating activities	1,012	475
Non-cash stock-based compensation expense	1,446	1,686
Changes in assets and liabilities:		
Inventory	4,079	(2,188)
Prepaid and other current assets	(1,064)	127
Other assets	(12)	(5)
Accounts payable	(1,803)	(7,632)
Accrued expenses and other long-term liabilities	(33,142)	77
Accrued compensation	(3,175)	(5,921)
Income tax payable/receivable	(3,343)	(1,897)
Layaway deposits	1,682	1,555
Net cash provided by operating activities	21,111	14,307
Investing activities:		
Sales/redemptions of investment securities	44,615	17,310
Purchases of investment securities	(33,959)	(13,618)
Purchases of property and equipment	(13,227)	(9,009)
Insurance proceeds related to investing activities	573	195
Net cash used in investing activities	(1,998)	(5,122)
Financing activities:		
Cash used to settle withholding taxes on the vesting of nonvested restricted stock	(728)	(1,042)
Dividends paid to stockholders	(2,850)	(3,189)
Repurchase of common stock	(9,667)	(25,027)
Net cash used in financing activities	(13,245)	(29,258)
Net increase (decrease) in cash and cash equivalents	5,868	(20,073)
Cash and cash equivalents:		
Beginning of period	17,863	48,451
End of period	$ 23,731	$ 28,378
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 95	$ 95
Cash payments of income taxes	$ 4,460	$ 6,494
Supplemental disclosures of non-cash investing activities:		
Accrual for purchases of property and equipment	$ 873	$ 500

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

Citi Trends, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Thirty-Nine and Thirteen Weeks Ended November 2, 2019 and November 3, 2018
(Unaudited)
(in thousands, except share amounts)

	Thirty-Nine Weeks Ended November 2, 2019						
	Common Stock		Paid in	Retained	Treasury Stock		
	Shares	Amount	Capital	Earnings	Shares	Amount	Total
Balances —February 2, 2019	15,827,713	$ 157	$ 91,794	$ 176,094	3,669,476	$ (80,620)	$ 187,425
Adoption of lease accounting standard (see Note 12)	—	—	—	(2,060)	—	—	(2,060)
Vesting of nonvested restricted stock units	—	1	—	—	—	—	1
Issuance of nonvested shares under incentive plan	57,133	—	—	—	—	—	—
Stock-based compensation expense	—	—	706	—	—	—	706
Net share settlement of nonvested shares and restricted stock units	(36,237)	(1)	(712)	—	—	—	(713)
Repurchase of common stock	—	—	—	—	82,312	(1,640)	(1,640)
Dividends paid to stockholders ($0.08 per common share)	—	—	—	(958)	—	—	(958)
Net income	—	—	—	7,788	—	—	7,788
Balances —May 4, 2019	15,848,609	157	91,788	180,864	3,751,788	(82,260)	190,549
Issuance of nonvested shares under incentive plan	27,478	—	—	—	—	—	—
Forfeiture of nonvested shares by employees and directors	(19,969)	—	—	—	—	—	—
Stock-based compensation expense	—	—	348	—	—	—	348
Net share settlement of nonvested shares and restricted stock units	(837)	—	(16)	—	—	—	(16)
Repurchase of common stock	—	—	—	—	190,288	(2,904)	(2,904)
Dividends paid to stockholders ($0.08 per common share)	—	—	—	(954)	—	—	(954)
Net income	—	—	—	377	—	—	377
Balances —August 3, 2019	15,855,281	157	92,120	180,287	3,942,076	(85,164)	187,400
Issuance of nonvested shares under incentive plan	27,122	—	—	—	—	—	—
Stock-based compensation expense	—	—	392	—	—	—	392
Repurchase of common stock	—	—	—	—	290,213	(5,123)	(5,123)
Dividends paid to stockholders ($0.08 per common share)	—	—	—	(938)	—	—	(938)
Net loss	—	—	—	(1,084)	—	—	(1,084)
Balances—November 2, 2019	15,882,403	$ 157	$ 92,512	$ 178,265	4,232,289	$ (90,287)	$ 180,647

	Thirty-Nine Weeks Ended November 3, 2018						
	Common Stock		Paid in	Retained	Treasury Stock		
	Shares	Amount	Capital	Earnings	Shares	Amount	Total
Balances —February 3, 2018	15,777,946	$ 156	$ 90,605	$ 158,927	2,034,170	$ (40,220)	$ 209,468
Vesting of nonvested restricted stock units	10,663	1	—	—	—	—	1
Issuance of nonvested shares under incentive plan	65,663	—	—	—	—	—	—
Stock-based compensation expense	—	—	584	—	—	—	584
Net share settlement of nonvested shares and restricted stock units	(38,421)	—	(982)	—	—	—	(982)
Repurchase of common stock	—	—	—	—	85,537	(2,672)	(2,672)
Dividends paid to stockholders ($0.08 per common share)	—	—	—	(1,085)	—	—	(1,085)
Net income	—	—	—	11,297	—	—	11,297
Balances—May 5, 2018	15,815,851	157	90,207	169,139	2,119,707	(42,892)	216,611
Issuance of nonvested shares under incentive plan	14,382	—	—	—	—	—	—
Stock-based compensation expense	—	—	546	—	—	—	546
Net share settlement of nonvested shares and restricted stock units	(853)	—	(24)	—	—	—	(24)
Repurchase of common stock	—	—	—	—	645,275	(18,302)	(18,302)
Dividends paid to stockholders ($0.08 per common share)	—	—	—	(1,081)	—	—	(1,081)
Net income	—	—	—	3,235	—	—	3,235
Balances—August 4, 2018	15,829,380	157	90,729	171,293	2,764,982	(61,194)	200,985
Stock-based compensation expense	—	—	556	—	—	—	556
Net share settlement of nonvested shares and restricted stock units	(1,210)	—	(37)	—	—	—	(37)
Repurchase of common stock	—	—	—	—	135,936	(4,053)	(4,053)
Dividends paid to stockholders ($0.08 per common share)	—	—	—	(1,022)	—	—	(1,022)
Net loss	—	—	—	(506)	—	—	(506)
Balances—November 3, 2018	15,828,170	$ 157	$ 91,248	$ 169,765	2,900,918	$ (65,247)	$ 195,923

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

Citi Trends, Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)
November 2, 2019

1. Basis of Presentation

Citi Trends, Inc. and its subsidiary (the "Company") operate as a value-priced retailer of urban fashion apparel and accessories for the entire family. As of November 2, 2019, the Company operated 566 stores in 33 states.

The condensed consolidated financial statements and notes thereto have been prepared by the Company without audit. The condensed consolidated balance sheet as of February 2, 2019 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 for fair financial statement presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended February 2, 2019.

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by U.S. GAAP for complete financial statements. Operating results for the thirty-nine weeks ended November 2, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending February 1, 2020.

The following contains references to fiscal years 2019 and 2018, which represent fiscal years ending or ended on February 1, 2020 and February 2, 2019, respectively. Fiscal 2019 and 2018 both have 52-week accounting periods.

2. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

3. Cash and Cash Equivalents/Concentration of Credit Risk

For purposes of the condensed consolidated balance sheets and condensed consolidated statements of cash flows, the Company considers all highly liquid investments with maturities at date of purchase of three months or less to be cash equivalents. Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents. The Company places its cash and cash equivalents in what it believes to be high credit quality banks and institutional money market funds. The Company maintains cash accounts that exceed federally insured limits.

4. Earnings per Share

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

The dilutive effect of stock-based compensation arrangements is accounted for using the treasury stock method. The Company includes as assumed proceeds the amount of compensation cost attributed to future services and not yet recognized. For the thirty-nine weeks ended November 2, 2019 and November 3, 2018, there were 139,000 and 119,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution. For the thirteen weeks ended November 2, 2019 and November 3, 2018, there were 147,000 and 166,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution.

The following table provides a reconciliation of the weighted average number of common shares outstanding used to calculate basic earnings per share to the weighted average number of common shares and common stock equivalents outstanding used in calculating diluted earnings per share for the thirty-nine and thirteen week periods ended November 2, 2019 and November 3, 2018:

	Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018
Weighted average number of common shares outstanding	11,831,248	13,224,347
Incremental shares from assumed vesting of nonvested restricted stock	10,497	45,058
Weighted average number of common shares and common stock equivalents outstanding	11,841,745	13,269,405

	Thirteen Weeks Ended	
	November 2, 2019	November 3, 2018
Weighted average number of common shares outstanding	11,635,707	12,780,472
Incremental shares from assumed vesting of nonvested restricted stock	—	—
Weighted average number of common shares and common stock equivalents outstanding	11,635,707	12,780,472

5. Fair Value Measurement

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

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

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

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

As of November 2, 2019, the Company's investment securities are classified as held-to-maturity since the Company has the intent and ability to hold the investments to maturity. Such securities are carried at amortized cost plus accrued interest and consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Obligations of the U.S. Treasury and U.S. government agencies (Level 1)	$ 24,109	$ 23	$ —	$ 24,132
Bank certificates of deposit (Level 2)	8,196	—	—	8,196
	$ 32,305	$ 23	$ —	$ 32,328
Long-term:				
Obligations of the U.S. Treasury (Level 1)	$ 1,908	$ —	$ (5)	$ 1,903
Bank certificates of deposit (Level 2)	14,364	—	—	14,364
	$ 16,272	$ —	$ (5)	$ 16,267

The amortized cost and fair market value of investment securities as of November 2, 2019 by contractual maturity are as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	$ 32,305	$ 32,328
Mature after one year through five years	16,272	16,267
	$ 48,577	$ 48,595

As of February 2, 2019, the Company's investment securities were classified as held-to-maturity and consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Obligations of the U.S. Treasury and U.S. government agencies (Level 1)	$ 38,706	$ 4	$ (37)	$ 38,673
Obligations of states and municipalities (Level 2)	95	—	—	95
Bank certificates of deposit (Level 2)	11,549	—	—	11,549
	$ 50,350	$ 4	$ (37)	$ 50,317
Long-term:				
Obligations of the U.S. Treasury (Level 1)	$ 4,956	$ —	$ (16)	$ 4,940
Bank certificates of deposit (Level 2)	3,927	—	—	3,927
	$ 8,883	$ —	$ (16)	$ 8,867

The amortized cost and fair market value of investment securities as of February 2, 2019 by contractual maturity were as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	$ 50,350	$ 50,317
Mature after one year through five years	8,883	8,867
	$ 59,233	$ 59,184

There were no changes among the levels in the thirty-nine weeks ended November 2, 2019.

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

6. Impairment of Assets

If facts and circumstances indicate that a long-lived asset or operating lease right-of-use asset may be impaired, the carrying value is reviewed. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. In the thirty-nine weeks ended November 2, 2019, non-cash impairment expense related to an underperforming store totaled $0.5 million, comprised of $0.3 million for leasehold improvements and fixtures and equipment, and $0.2 million for an operating lease right-of-use asset. There was no impairment expense recorded in the thirteen weeks ended November 2, 2019. In the thirty-nine and thirteen weeks ended November 3, 2018, non-cash impairment expense related to underperforming stores totaled $1.1 million and $0.2 million, respectively, comprised entirely of leasehold improvements and fixtures and equipment.

7. Revolving Line of Credit

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

8. Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

U.S. GAAP requires companies to calculate income taxes by applying their estimated full-year tax rate in each interim period unless the estimated full-year tax rate is not reliably predictable. For the thirty-nine weeks ended November 2, 2019 and November 3, 2018, the Company utilized this annual effective tax rate method to calculate income taxes.

For the thirty-nine weeks ended November 2, 2019, the effective income tax rate was 15.6%. This compares with a rate of 18.4% for the thirty-nine weeks ended November 3, 2018. The decrease in the effective income tax rate was due primarily to the combination of lower pretax income and higher federal and state tax credits this year.

9. Other Long-Term Liabilities

The components of other long-term liabilities as of November 2, 2019 and February 2, 2019 are as follows (in thousands):

	November 2, 2019	February 2, 2019
Deferred rent	$ — (1)	$ 2,344
Tenant improvement allowances	— (1)	4,037
Other	1,921	1,814
	$ 1,921	$ 8,195

(1) Commencing February 3, 2019, deferred rent and tenant improvement allowances are included as part of the Company's operating lease right of use assets (see Note 12 regarding the Company's adoption of the lease accounting standard).

10. 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. Once it becomes probable that the Company will incur costs in connection with a legal proceeding and such costs can be reasonably estimated, it establishes appropriate reserves. While legal proceedings are subject to uncertainties and the outcome of any such matter is not predictable, the Company is not aware of any 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.

11. Stock Repurchase Program and Cash Dividends

Repurchases of Common Stock
On November 28, 2018, the Company's Board of Directors approved a program that authorized the purchase of up to $25.0 million in shares of the Company's common stock. During the thirty-nine weeks ended November 2, 2019, the Company repurchased 562,813 shares of its common stock at an aggregate cost of $9.7 million. During the thirteen weeks ended November 2, 2019, the Company repurchased 290,213 shares of its common stock at an aggregate cost of $5.1 million. At November 2, 2019, there were no additional shares which could be repurchased pursuant to this authorization. On November 22, 2019, the Company's Board of Directors approved another program that authorized the repurchase of up to $25.0 million in shares of the Company's common stock.

Dividends
On February 12, 2019, the Company's Board of Directors declared a dividend of $0.08 per common share, which was paid on March 19, 2019 to stockholders of record as of March 5, 2019. On May 21, 2019, the Company's Board of Directors declared a dividend of $0.08 per common share, which was paid on June 18, 2019 to stockholders of record as of June 4, 2019. On August 20, 2019, the Company's Board of Directors declared a dividend of $0.08 per common share, which was paid on September 17, 2019 to stockholders of record as of September 3, 2019. On November 22, 2019, the Company's Board of Directors declared a dividend of $0.08 per common share, payable on December 24, 2019 to stockholders of record as of December 10, 2019. Any determination to declare and pay cash dividends for future quarters will be made by the Company's Board of Directors.

12. Recent Accounting Pronouncements

Recently Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, Leases (Topic 842) ("ASU 2016–02" or "Topic 842") which replaced the existing guidance in ASC Topic 840, Leases. The new standard established a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted ASU 2016-02 on February 3, 2019, the first day of fiscal 2019. As part of the implementation process, the Company assessed its lease arrangements, evaluated practical expedient and accounting policy elections and implemented necessary modifications to its existing lease system. In adopting the new lease standard, the Company elected the optional transition method which applied the standard as of the effective date but did not apply the standard to the comparative periods previously presented in the consolidated financial statements. The new standard also provided optional practical expedients for transition, which the Company elected, which permitted it to not reassess prior conclusions regarding lease classification, identification or initial direct costs. Further, the Company elected a short-term lease exception policy which permitted it to not apply the recognition requirements of the new standard to short-term leases (leases with terms of 12 months or less). The Company also elected an accounting policy to account for lease and non-lease components as a single component for certain classes of assets. The Company did not elect an optional hindsight practical expedient.

The Company leases all of its retail store locations and certain office space and equipment. All leases are classified as operating leases. Under the new guidance, right-of-use assets and lease liabilities are recognized based on the present value of future minimum lease payments over the lease term. The Company uses its incremental borrowing rate as the discount rate which approximates the rate of interest the Company would have to pay on a collateralized basis to borrow an amount equal to the total lease payments under similar terms. The incremental borrowing rate for existing leases as of the opening balance sheet date was based on the remaining terms of the leases. The incremental borrowing rate for all new or amended leases is based upon the lease terms which include the contractual period obligated by the leases plus any additional periods covered by options available to extend the leases if the Company is reasonably certain to exercise such options. Lease expense for fixed lease payments is recognized on a straight-line basis over the lease term and is included in selling, general and administrative expenses. Adoption of the new standard resulted in the recording of operating lease right-of-use assets and operating lease liabilities of approximately $133.6 million and $141.0 million, respectively, as of February 3, 2019. The difference between the lease assets and lease liabilities was primarily due to reclassification of lease incentives, as well as impairment of operating lease right-of-use assets for stores previously impaired as of the effective date. Lease impairment, net of the related deferred taxes, totaled approximately $2.1 million and is reflected as an adjustment to retained earnings at the transition date.

13. Revenue

Revenue Recognition

The Company's primary source of revenue is derived from the sale of clothing and accessories to its customers with the Company's performance obligations satisfied immediately when the customer pays for their purchase and receives the merchandise. Sales taxes collected by the Company from customers are excluded from revenue. Revenue from layaway sales is recognized at the point in time when the merchandise is paid for and control of the goods is transferred to the customer, thereby satisfying the Company's performance obligation. Non-refundable layaway service fees are recognized in revenue when collected by the Company from customers. The Company defers revenue from the sale of gift cards and recognizes the associated revenue upon the redemption of the cards by customers to purchase merchandise.

Sales Returns

The Company allows customers to return merchandise for up to thirty days after the date of sale. Expected refunds to customers are recorded based on estimated margin using historical return information. The refund liability for merchandise returns is included in "Accrued expenses" on the condensed consolidated balance sheet and totaled $0.4 million and $0.3 million as of November 2, 2019 and February 2, 2019, respectively. The corresponding asset for the recoverable cost of expected refunds is included in "Prepaid and other current assets" and totaled $0.3 million and $0.2 million as of November 2, 2019 and February 2, 2019, respectively.

Disaggregation of Revenue

The Company's retail operations represent a single operating segment based on the way the Company manages its business. Operating decisions and resource allocation decisions are made at the Company level in order to maintain a consistent retail store presentation. The Company's retail stores sell similar products, use similar processes to sell those products, and sell their products to similar classes of customers.

In the following table, the Company's revenue from contracts with customers is disaggregated by major product line. The percentage of net sales related to each classification of its merchandise assortment for the thirty-nine and thirteen week periods ended November 2, 2019 and November 3, 2018 was approximately:

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Accessories	33 %	32 %	33 %	33 %
Ladies'	23 %	23 %	21 %	21 %
Children's	22 %	23 %	24 %	24 %
Men's	16 %	17 %	16 %	16 %
Home	6 %	5 %	6 %	6 %

14. Leases

The Company leases its retail store locations and certain office space and equipment. The Company analyzes all leases at inception to determine if a right-of-use asset and lease liability should be recognized. Leases with an initial term of 12 months or less and leases with mutual termination clauses are not included on the condensed consolidated balance sheet. The lease liability is measured at the present value of future lease payments as of the lease commencement date, or as of the date of adoption of ASU 2016-02 for leases existing at the adoption date. The right-of-use asset recognized is based on the lease liability adjusted for prepaid and deferred rent and unamortized lease incentives.

Total lease cost is comprised of operating lease costs, short-term lease costs and variable lease costs, which include rent paid as a percentage of sales, common area maintenance, real estate taxes and insurance for the Company's real estate leases. Lease expense for the thirty-nine and thirteen weeks ended November 2, 2019 is as follows (in thousands):

	Thirty-Nine Weeks Ended November 2, 2019	Thirteen Weeks Ended November 2, 2019
Operating lease cost	$ 36,137	$ 12,278
Variable lease cost	6,164	1,901
Short term lease cost	791	276
Total lease cost	$ 43,092	$ 14,455

Future minimum lease payments as of November 2, 2019 are as follows (in thousands):

Fiscal Year	Lease Costs
Remainder of 2019	$ 9,014
2020	49,955
2021	39,689
2022	28,106
2023	20,406
Thereafter	28,914
Total future minimum lease payments	176,084
Less: imputed interest	(13,940)(1)
Total present value of lease liabilities	$ 162,144 (2)

(1) Calculated using the discount rate for each lease.
(2) Includes short-term and long-term operating leases.

Adoption of the lease accounting standard (Topic 842) using the effective transition method requires the Company to provide relevant disclosures in accordance with ASC Topic 840, Leases for all prior periods presented. Future minimum lease payments as of February 2, 2019 were as follows (in thousands):

Fiscal Year	Lease Costs	
2019	$	47,289
2020		39,294
2021		28,228
2022		16,880
2023		9,440
Thereafter		7,836
Total future minimum lease payments	$	148,967

Certain operating leases provide for fixed monthly rents, while others provide for contingent rents computed as a percentage of net sales and others provide for a combination of both fixed monthly rents and contingent rents computed as a percentage of net sales.

Supplemental cash flow and other information related to operating leases for the thirty-nine weeks ended November 2, 2019 is as follows (in thousands, except for weighted average amounts):

	Thirty-Nine Weeks Ended November 2, 2019	
Cash paid for operating leases	$	37,379
Right of use assets obtained in exchange for new operating lease liabilities	$	55,285
Weighted average remaining lease term (years) - operating leases		4.67
Weighted average discount rate - operating leases		3.59%

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, capital allocation expectations 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," "could," "will likely result," or "will continue" and similar words and expressions generally identify forward-looking statements, although not all forward-looking statements contain such language. The Company believes the assumptions underlying these forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in the forward-looking statements.

The factors that may result in actual results differing from such forward-looking information include, but are not limited to: transportation and distribution delays or interruptions; changes in freight rates; the Company's ability to negotiate effectively the cost and purchase of merchandise; inventory risks due to shifts in market demand; the Company's ability to gauge fashion trends and changing consumer preferences; changes in consumer spending on apparel; changes in product mix; interruptions in suppliers' businesses; a deterioration in general economic conditions caused by acts of war or terrorism or other factors; increased customs restrictions and tariffs or quotas; the results of pending or threatened litigation; temporary changes in demand due to weather patterns; seasonality of the Company's business; delays associated with building, opening and operating new stores; delays associated with building, opening or expanding new or existing distribution centers; and other factors described in the section titled "Item 1A. Risk Factors" and elsewhere in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2019 and in Part II, "Item 1A. Risk Factors" and elsewhere in the Company's Quarterly Reports on Form 10-Q and any amendments thereto and in the other documents the Company files with the SEC, including reports on Form 8-K.

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

Overview

We are a value-priced retailer of urban fashion apparel and accessories for the entire family. Our merchandise offerings are designed to appeal to the fashion preferences of value-conscious consumers, particularly African-Americans. We operated 566 stores in both urban and rural markets in 33 states as of November 2, 2019.

Accounting Periods

The following discussion contains references to fiscal years 2019 and 2018, which represent fiscal years ending or ended on February 1, 2020 and February 2, 2019, respectively. Fiscal 2019 and fiscal 2018 both have 52-week accounting periods. This discussion and analysis should be read with the unaudited condensed consolidated financial statements and the notes thereto contained in Part 1, Item 1 of this report.

Results of Operations

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

Key Operating Statistics

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 2018 and fiscal 2019 are not considered comparable stores in fiscal 2019. Relocated and expanded stores are included in the comparable store sales results. We also use other operating statistics, most notably average sales per store, to measure our performance. As we typically occupy existing space in established shopping centers rather than sites built specifically for our stores, store square footage (and therefore sales per square foot) varies by store. We focus on overall store sales volume as the critical driver of profitability.

In addition to sales, we measure cost of sales as a percentage of sales and store operating expenses, with a particular focus on labor, as a percentage of sales. These results translate into store level contribution, which we use to evaluate overall performance of each individual store. Finally, we monitor corporate expenses against budgeted amounts. All of the statistics discussed above are critical components of earnings before interest, taxes, depreciation and amortization ("EBITDA") and Adjusted EBITDA (comprised of EBITDA, as adjusted for non-cash asset impairment expense and expenses related to our proxy contest), which are considered our most important operating statistics. We believe that excluding non-cash impairment expense and proxy contest expenses from our financial results reflects operating results that are more indicative of our ongoing operating performance while improving comparability to prior and future periods, and as such, provides an enhanced understanding of our past financial performance and prospects for the future.

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

Provided below is a reconciliation of net income to EBITDA and to Adjusted EBITDA for the thirty-nine and thirteen week periods ended November 2, 2019 and November 3, 2018 (in thousands):

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Net income (loss)	$ 7,081	$ 14,027	$ (1,084)	$ (506)
Plus:				
Interest expense	117	114	39	39
Income tax expense	1,311	3,152	—	—
Depreciation	13,741	14,250	4,520	4,600
Less:				
Interest income	(1,214)	(979)	(421)	(321)
Income tax benefit	—	—	(122)	(237)
EBITDA	21,036	30,564	2,932	3,575
Plus:				
Asset impairment	472	1,122	—	180
Proxy contest expenses	1,042	—	—	—
Adjusted EBITDA	$ 22,550	$ 31,686	$ 2,932	$ 3,755

Thirty-Nine Weeks Ended November 2, 2019 and November 3, 2018

Net Sales. Net sales increased $2.5 million, or 0.4%, to $570.9 million in the thirty-nine weeks ended November 2, 2019 from $568.4 million in the thirty-nine weeks ended November 3, 2018. The increase in sales was due to the opening of 18 new stores since the third quarter of last year, partially offset by a 1.2% decrease in comparable store sales and the impact of closing nine stores since the third quarter of last year. The decrease in comparable store sales was reflected in a 1.5% decrease in customer transactions, along with a slight decrease in the average unit sale, partially offset by an increase in the average number of items per transaction of less than 1%. Comparable store sales changes by major merchandise class were as follows in the first thirty-nine weeks of fiscal 2019: Home +7%; Accessories +5%; Men's -4%; Ladies' -5%; and Children's -6%.

Store opening and closing activity resulted in a net sales increase of $9.4 million, while the 1.2% decrease in comparable store sales totaled $6.9 million.

Cost of Sales (exclusive of depreciation). Cost of sales (exclusive of depreciation) increased $7.2 million, or 2.1%, to $357.4 million in the thirty-nine weeks ended November 2, 2019 from $350.2 million in the thirty-nine weeks ended November 3, 2018. Cost of sales as a percentage of sales increased to 62.6% in the first thirty-nine weeks of fiscal 2019 from 61.6% in the same period of fiscal 2018 due primarily to a reduction in the core merchandise margin (initial mark-up, net of markdowns), as more markdowns were taken in response to the challenging sales environment.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $5.5 million, or 2.9%, to $192.0 million in the thirty-nine weeks ended November 2, 2019 from $186.5 million in the thirty-nine weeks ended November 3, 2018 due primarily to $1.2 million in costs associated with the CEO transition and changes to the Company's Board of Directors, together with $1.0 million of expenses incurred in connection with a proxy contest, as well as the impact on expenses of opening 18 new stores since the third quarter of last year and normal inflationary pressure on expenses such as rent and payroll. These increases were partially offset by a $2.2 million decrease in incentive compensation expense resulting from less favorable earnings results in relation to target, as well as a $1.2 million gain on insurance claims received in fiscal 2019. As a percentage of sales, selling, general and administrative expenses increased to 33.6% in the first thirty-nine weeks of fiscal 2019 from 32.8% in the first thirty-nine weeks of fiscal 2018 due primarily to the deleveraging effect resulting from declining comparable store sales.

Depreciation. Depreciation expense decreased $0.6 million, or 3.6%, to $13.7 million in the first thirty-nine weeks of fiscal 2019 from $14.3 million in the first thirty-nine weeks of fiscal 2018.

Asset Impairment. Impairment charges related to an underperforming store totaled $0.5 million in the first thirty-nine weeks of fiscal 2019, comprised of $0.3 million for leasehold improvements and fixtures and equipment, and $0.2 million for an operating lease right-of-use asset. In the first thirty-nine weeks of fiscal 2018, impairment charges related to underperforming stores totaled $1.1 million, comprised entirely of leasehold improvements and fixtures and equipment.

Income Tax Expense. Income tax expense decreased $1.9 million, or 58.4%, to $1.3 million in the first thirty-nine weeks of fiscal 2019 from $3.2 million in the first thirty-nine weeks of fiscal 2018 due to a decrease in pretax income and a decrease in the effective income tax rate to 15.6% from 18.4%.

Net Income. Net income decreased $6.9 million, or 49.5%, to $7.1 million in the first thirty-nine weeks of fiscal 2019 from $14.0 million in the first thirty-nine weeks of fiscal 2018 due to the factors discussed above.

Thirteen Weeks Ended November 2, 2019 and November 3, 2018

Net Sales. Net sales increased $7.7 million, or 4.4%, to $183.1 million in the thirteen weeks ended November 2, 2019 from $175.4 million in the thirteen weeks ended November 3, 2018. The increase in sales was due to a 2.6% increase in comparable store sales and the opening of 18 stores since the third quarter of last year, partially offset by the impact of closing nine stores since the third quarter of last year. The increase in comparable store sales was reflected in an increase of more than 2% in the average number of items per transaction and an increase of less than 2% in the number of customer transactions, partially offset by a 1% decrease in the average unit sale. Comparable store sales changes by major merchandise class were as follows in the third quarter of 2019: Home +11%; Accessories +9%; Ladies' +1%; Men's 0%; and Children's -2%.

The 2.6% increase in comparable store sales resulted in an increase of $4.4 million in sales, while store opening and closing activity resulted in a net increase of $3.3 million.

Cost of sales (exclusive of depreciation). Cost of sales (exclusive of depreciation) increased $4.2 million, or 3.8%, to $114.6 million in the third quarter of 2019 from $110.4 million in last year's third quarter. Cost of sales as a percentage of sales decreased to 62.6% in the third quarter of 2019 from 63.0% in the third quarter of 2018 due primarily to an improvement in the core merchandise margin (initial mark-up, net of markdowns).

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $4.3 million, or 7.0%, to $65.5 million in the third quarter of 2019 from $61.2 million in last year's third quarter. The increase was due primarily to the impact on expenses of opening 18 new stores since the third quarter of last year, together with normal inflationary pressure on expenses such as rent and payroll, as well as an increase of $0.7 million in costs associated with the CEO transition and changes to the Company's Board of Directors. As a percentage of sales, selling, general and administrative expenses increased to 35.8% in the third quarter of 2019 from 34.9% in the third quarter of 2018.

Depreciation. Depreciation expense decreased $0.1 million, or 1.7%, to $4.5 million in the third quarter of 2019 from $4.6 million in the third quarter of 2018.

Asset Impairment. There were no impairment charges related to underperforming stores in the third quarter of 2019. In the third quarter of 2018, impairment charges related to property and equipment at underperforming stores totaled $0.2 million.

Income Tax Benefit. Income tax benefit was $0.1 million in the third quarter of 2019 compared to $0.2 million in the third quarter of 2018.

Net Loss. Net loss increased $0.6 million to a loss of $1.1 million in the third quarter of 2019 compared to a loss of $0.5 million in the third quarter of 2018 due to the factors discussed above.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital and capital expenditures for new and existing stores, distribution infrastructure and information systems. In addition, in November 2018, we initiated a share repurchase program of up to $25.0 million and, in the first thirty-nine weeks of fiscal 2019, we repurchased shares of our common stock at an aggregate cost of $9.7 million. Also, during the first thirty-nine weeks of fiscal 2019, we paid dividends of $2.9 million. In recent years, we have met our cash requirements using cash flow from operations and short-term trade credit. We expect to be able to meet future cash requirements with cash flow from operations, short-term trade credit, existing balances of cash and investment securities and, if necessary, borrowings under our revolving credit facility described in Note 7 to the condensed consolidated financial statements included in Part I, Item 1 of this report.

Current Financial Condition. As of November 2, 2019, we had total cash and cash equivalents of $23.7 million compared to $17.9 million as of February 2, 2019. Additionally, we had $32.3 million and $16.3 million of short-term and long-term investment securities, respectively, as of November 2, 2019, compared with $50.4 million and $8.9 million, respectively, as of February 2, 2019. These securities are comprised of bank certificates of deposit and obligations of the U.S. Treasury, states and municipalities. Inventory represented 30.6% of our total assets as of November 2, 2019, compared to 46.9% as of February 2, 2019. Management's ability to manage our inventory can have a significant impact on our cash flows from operations during a given interim period or fiscal year. In addition, inventory purchases can be seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise.

Cash Flows From Operating Activities. Net cash provided by operating activities was $21.1 million in the thirty-nine weeks ended November 2, 2019 compared to $14.3 million in the thirty-nine weeks ended November 3, 2018. Sources of cash provided during the first thirty-nine weeks of 2019 included net income adjusted for non-cash expenses such as depreciation, non-cash operating lease costs, asset impairment, loss on disposal of property and equipment, insurance proceeds from operating activities, deferred income taxes and stock-based compensation expense, totaling $57.9 million (compared to $30.2 million in the first thirty-nine weeks of 2018). Other significant sources of cash in the first thirty-nine weeks of 2019 included (1) a $4.1 million decrease in inventory (compared with a $2.2 million increase in the first thirty-nine weeks of 2018) due to efforts to improve inventory turns and maintain as much inventory liquidity as possible in order to take advantage of opportunistic deals and trend changes; and (2) a $1.7 million increase in layaway deposits (compared to a $1.6 million increase in the first thirty-nine weeks of 2018) due to the seasonality of layaway transactions, as the layaway deposits are low at the end of the fourth quarter after merchandise put on layaway for Christmas has been picked up.

Significant uses of cash from operating activities in the first thirty-nine weeks of 2019 were (1) a $33.1 million decrease in accrued expenses and other long-term liabilities (compared to a $0.1 million increase in the first thirty-nine weeks of 2018) due primarily to payments of operating lease liabilities recorded due to the adoption of ASU 2016-02; (2) a $3.3 million change in the income tax payable/receivable (compared to a $1.9 million change in the first thirty-nine weeks of 2018) due to estimated tax payments made during the year; (3) a $3.2 million decrease in accrued compensation (compared to a $5.9 million decrease in the first thirty-nine weeks of 2018) due to the payment in the first thirty-nine weeks of 2019 of incentive compensation accrued in fiscal 2018; and (4) a $1.8 million decrease in accounts payable (compared to a $7.6 million decrease in the first thirty-nine weeks of 2018) due to the decrease in inventory discussed above.

Cash Flows From Investing Activities. Cash used in investing activities was $2.0 million in the thirty-nine weeks ended November 2, 2019 compared to cash used of $5.1 million in the thirty-nine weeks ended November 3, 2018. Cash used for purchases of property and equipment totaled $13.2 million and $9.0 million in the first thirty-nine weeks of 2019 and 2018, respectively. Sales/redemptions of investment securities, net of purchases, provided cash of $10.7 million and $3.7 million in the first thirty-nine weeks of 2019 and 2018, respectively.

Cash Flows From Financing Activities. Cash used in financing activities was $13.2 million in the thirty-nine weeks ended November 2, 2019 compared to $29.3 million in the thirty-nine weeks ended November 3, 2018. Cash used for the repurchase of common stock totaled $9.7 million and $25.0 million in the first thirty-nine weeks of 2019 and 2018, respectively. Dividends paid to stockholders used cash of $2.9 million and $3.2 million in the first thirty-nine weeks of 2019 and 2018, respectively.

Cash Requirements

Our principal sources of liquidity consist of: (i) cash and cash equivalents (which equaled $23.7 million as of November 2, 2019); (ii) short-term and long-term investment securities (which equaled $32.3 million and $16.3 million, respectively, as of November 2, 2019); (iii) short-term trade credit; (iv) cash generated from operations on an ongoing basis as we sell our merchandise inventory; and (v) a $50.0 million revolving credit facility (under which we have no borrowings outstanding). Trade credit represents a significant source of financing for inventory purchases and arises from customary payment terms and trade practices with our vendors. Historically, our principal liquidity requirements have been for working capital and capital expenditure needs.

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

Recent Accounting Pronouncements

See the discussion of Recent Accounting Pronouncements in Note 12 to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this report.

Critical Accounting Policies

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

On February 3, 2019, we adopted ASU No. 2016-02, Leases (Topic 842). For additional information, see Note 12 and Note 14 to the unaudited condensed consolidated financial statements included in Part 1, Item 1 of this report.

There have been no other material changes to the Critical Accounting Policies outlined in the Company's Annual Report on Form 10-K for the year ended February 2, 2019.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our market risk during the thirty-nine weeks ended November 2, 2019 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended February 2, 2019.

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 November 2, 2019 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 concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information has been accumulated and communicated to our management, including the officers who certify our financial reports, as appropriate, to allow timely decisions regarding the required disclosures.

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

During the thirty-nine weeks ended November 2, 2019, we implemented ASU No. 2016-02, Leases (Topic 842). In connection with its adoption, we implemented changes to our accounting policies, operational processes and internal controls to ensure compliance with the new standard.

There were no other changes in our internal control over financial reporting that occurred during the fiscal quarter ended November 2, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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. Once it becomes probable that we will incur costs in connection with a legal proceeding and such costs can be reasonably estimated, we establish appropriate reserves. While legal proceedings are subject to uncertainties and the outcome of any such matter is not predictable, we are not aware of any 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 have been no material changes to the Risk Factors described under the section titled “ITEM 1A. RISK FACTORS” in the Company’s Annual Report on Form 10-K for the fiscal year ended February 2, 2019.

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

Information on Share Repurchases

The number of shares of common stock repurchased by the Company during the third quarter of fiscal 2019 and the average price paid per share are as follows:

Period	Total number of shares purchased	Average price paid per share (1)	Total number of shares purchased as part of publicly announced plans or programs (2)	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (2)
August (8/4/19 - 8/31/19)	59,770	$ 15.88	59,770	$ 4,166,613
September (9/1/19 - 10/5/19)	146,696	$ 18.11	146,696	$ 1,513,704
October (10/6/19 - 11/2/19)	83,747	$ 18.10	83,747	$ 9
Total	290,213		290,213	

(1) Includes commissions for the shares repurchased under the stock repurchase program.

(2) On November 28, 2018 we announced a $25.0 million stock repurchase program, under which no additional shares remain available as of November 2, 2019. Repurchases under the stock repurchase program could be made at management’s discretion from time to time on the open market, in privately negotiated transactions or otherwise, and may be made in part under one or more Rule 10b5-1 plans.

Following the end of the period covered by this report, on November 22, 2019, the Company’s Board of Directors approved another program that authorized the repurchase of up to $25.0 million in shares of the Company’s common stock.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

31.1	Certification of Bruce D. Smith, 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 Stuart C. Clifford, 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	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* †
101	The following financial information from Citi Trends, Inc.'s Quarterly Report on Form 10-Q for the quarter ended November 2, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets as of November 2, 2019 and February 2, 2019, (ii) the Condensed Consolidated Statements of Operations for the thirty-nine and thirteen week periods ended November 2, 2019 and November 3, 2018, (iii) the Condensed Consolidated Statements of Cash Flows for the thirty-nine week periods ended November 2, 2019 and November 3, 2018, and (iv) Notes to the Condensed Consolidated Financial Statements (unaudited).*

* Included herewith.

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

SIGNATURES

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

CITI TRENDS, INC.

Date: December 6, 2019

By:	/s/ Stuart C. Clifford
Name:	Stuart C. Clifford
Title:	Senior Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Bruce D. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended November 2, 2019 of Citi Trends, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2019

/s/ Bruce D. Smith
Bruce D. Smith
President and Chief Executive Officer,

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Stuart C. Clifford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended November 2, 2019 of Citi Trends, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2019

/s/ Stuart C. Clifford
Stuart C. Clifford
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

I, Bruce D. Smith, President and Chief Executive Officer of Citi Trends, Inc.,

and

I, Stuart C. Clifford, Senior Vice President and 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 November 2, 2019;

2. Based on our knowledge, this quarterly report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

3. Based on our knowledge, the financial statements, and other information included in this quarterly report, fairly present in all material respects the financial condition and results of operations of the registrant as of, and for, the periods presented in this quarterly report.

Date: December 6, 2019

/s/ Bruce D. Smith
Bruce D. Smith
President and Chief Executive Officer
(Principal Executive Officer)

Date: December 6, 2019

/s/ Stuart C. Clifford
Stuart C. Clifford
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting 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.