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As filed with the Securities and Exchange Commission on February 28, 2005

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

CITI TRENDS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**5600**	**52-2150697**
(State or other jurisdiction of incorporation or organization)	(Primary standard industrial classification code number)	(IRS employer identification number)

102 Fahm Street
Savannah, Georgia 31401
(912) 236-1561
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

R. Edward Anderson
Chief Executive Officer
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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Stock, par value $.01 per share	$57,500,000	$6,767.75

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(2) Includes shares of common stock subject to the underwriters' over-allotment option.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject To Completion, Dated February 28, 2005

Preliminary Prospectus

Shares

Common Stock
$ per share

This is an initial public offering of shares of common stock of Citi Trends, Inc. Citi Trends is offering shares of common stock and the selling stockholders identified in this prospectus are offering shares of common stock.

We anticipate that the initial public offering price will be between $ and $ per share. The market price of the shares after the offering may be higher or lower than the offering price.

We intend to list our common stock on the Nasdaq National Market under the symbol "CTRN."

Investing in the common stock involves risks. See "Risk Factors" beginning on page 6.

	Per Share	Total
Price to the public	$	$
Underwriting discount	$	$
Proceeds to Citi Trends, Inc.	$	$
Proceeds to the selling stockholders	$	$

We and the selling stockholders have granted an option to the underwriters to purchase up to a maximum of additional shares of our common stock within 30 days following the date of this prospectus to cover over-allotments, if any. The underwriters may purchase up to of the additional shares from us and up to of the additional shares from the selling stockholders.

The underwriters expect to deliver the shares of common stock to purchasers on or about , 2005.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

CIBC World Markets

Piper Jaffray **SG Cowen & Co.** **Wachovia Securities**

The date of this prospectus is , 2005

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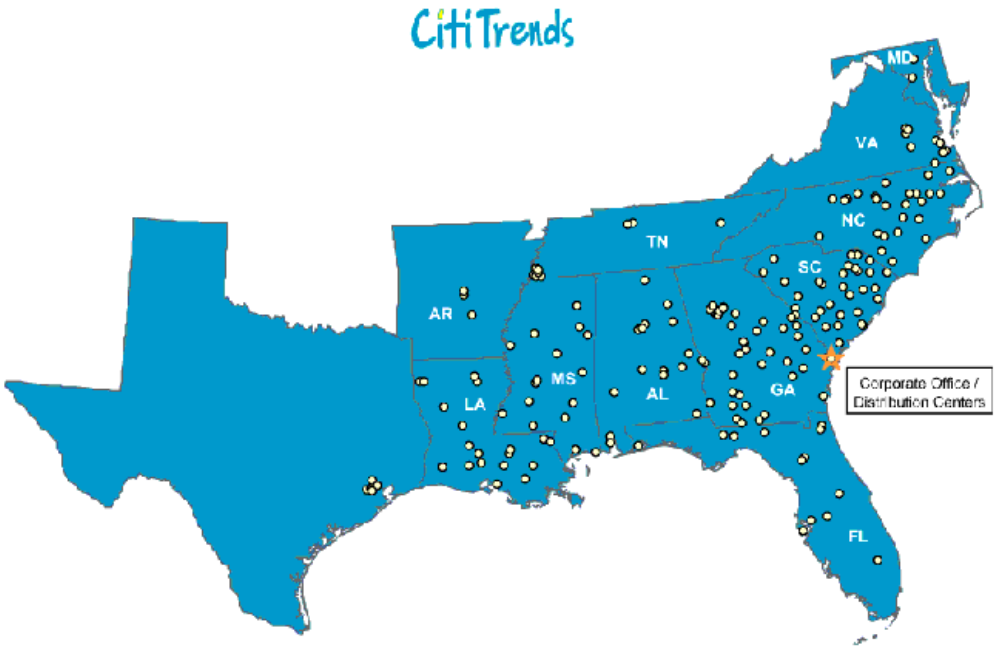

200 store locations as of January 29, 2005

[Pictures of the outside and inside of various stores]

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You should rely only on the information contained in this prospectus. Neither we, the selling stockholders nor the underwriters have authorized anyone to provide you with information different from, or in addition to, that contained in this prospectus. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

"Citi Trends," "Citi Club," "Citi Knights," "Citi Nite," "Citi Steps," "Citi Trends Fashion for Less," "Citi Women," "CT Sport," "Vintage Harlem" and "Univer Soul" are registered trademarks of Citi Trends, Inc. We also have applications pending with the U.S. Patent and Trademark Office for additional trademarks. All rights are reserved. All other trademarks, service marks or trade names referred to in this prospectus are the property of their respective owners.

Prospectus Summary

This summary highlights information contained in other parts of this prospectus, and because it is only a summary, it does not contain all of the information that you should consider before buying shares. You should read the entire prospectus carefully. All share numbers in this prospectus reflect a -for-one stock split of our common stock, which will occur simultaneously with the closing of this offering. Our fiscal year ends on the Saturday closest to January 31, and, except as otherwise provided, references in this prospectus to a fiscal year mean the 52- or 53-week period ended on the Saturday closest to January 31 of the succeeding year. Fiscal 2004, for example, refers to the fiscal year ending January 29, 2005.

Citi Trends, Inc.

We are a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. We offer quality, branded merchandise for men, women and children, including products from nationally recognized brands, as well as private label products and a limited assortment of home décor items. Our merchandise offerings are designed to appeal to the preferences of fashion conscious consumers, particularly African-Americans. Through strong relationships with our suppliers, we are able to offer our products at compelling values, with nationally recognized branded merchandise offered at 20% to 60% discounts to department and specialty stores' regular prices.

We currently operate 200 stores in both urban and rural markets in 12 states. Originally our stores were located in the Southeast, and we have recently expanded into the Mid-Atlantic region and Texas. Our stores average approximately 8,500 square feet of selling space, and our stores opened since the beginning of fiscal 2003 average approximately 10,300 square feet of selling space. Our stores are typically located in neighborhood strip shopping centers that are convenient to low and moderate income consumers. These store locations typically have attractive lease terms, and along with our differentiated merchandise assortment, compelling value proposition and efficient operating model, generate strong returns on store investments. Our new stores typically pay back our unit investment within 12 to 14 months.

Our predecessor was founded in 1946 and grew to become a chain of family apparel stores operating in the Southeast under the Allied Department Stores name. In 1999, our chain of stores was acquired by Hampshire Equity Partners II, L.P., or Hampshire Equity Partners, a private equity firm. Our management team has implemented several strategies designed to differentiate our stores, improve our operating and financial performance and position us for growth, including:

- focusing our merchandise offerings on more urban fashion apparel for the entire family, with a greater emphasis on nationally recognized brands;
- accelerating and completing the remodeling of virtually all of the 85 stores acquired in 1999;
- refining our new store model and implementing a real estate approach focused on locating stores in low to moderate income neighborhoods close to our core customers;
- rebranding our stores and our company to Citi Trends;
- investing in infrastructure to support growth; and
- implementing an aggressive growth strategy, including entering several new markets such as Houston, Norfolk and, most recently, Baltimore and Washington, D.C.

These strategies have enabled us to grow from 85 stores at the time of the acquisition to 200 stores as of January 29, 2005 and generate comparable store sales increases in each of the past four fiscal years. Our net sales increased from $80.9 million in fiscal 2000 to $157.2 million in fiscal 2003, representing a compound annual growth rate of approximately 25%, and from $108.0 million in the 39-week period ended November 1, 2003 to $137.1 million in the 39-week period ended October 30, 2004. Net income has increased from $1.2 million in fiscal 2000 to $5.9 million in fiscal 2003.

Our goal is to be the leading value-priced retailer of urban fashion apparel and accessories. We believe the following business strengths differentiate us from our competitors and are important to our success:

- focus on providing a timely and fashionable assortment of urban apparel and accessories;
- superior value proposition, with nationally recognized brands offered at 20% to 60% discounts to department and specialty stores' regular prices;
- merchandise mix that appeals to the entire family, distinguishing our stores from many competitors that focus only on women and reducing our exposure to fashion trends and demand cycles in any single category;
- strong and flexible sourcing relationships managed by our 20-member buying team, staffed by individuals with an average of more than 20 years of retail experience;
- attractive fashion presentation and store environment similar to a specialty apparel retailer, rather than a typical off-price store; and
- highly profitable store model.

Our growth strategy is to open stores in new and existing markets, as well as to increase sales in existing stores. Adding stores in the markets we currently serve enables us to benefit from enhanced name recognition and achieve advertising and operating synergies, and entering new markets opens additional growth opportunities. We believe that we benefit from attractive store level economics. Our new stores opened in fiscal 2002 and fiscal 2003 generated average first full year cash return on investment of approximately 100%, and we expect for stores opened in fiscal 2004 to produce similar results. In each of fiscal 2005 and fiscal 2006, we intend to open an additional 40 stores, approximately 70% of which will be located in states we currently serve. We intend to increase comparable store sales primarily through merchandising enhancements and the expansion of product categories such as home décor and intimate apparel.

Industry

We seek to serve low to moderate income consumers generally and, particularly, to appeal to the preferences of those African-American and other consumers who want a differentiated, urban merchandise mix. We believe this market is underserved by existing retailers and benefits from several favorable characteristics including:

- a growing market with favorable demographics;
- our core consumers' significant spending on apparel; and
- the expanding appeal of urban apparel brands.

As a result of these characteristics, we believe there is significant consumer demand for a value-priced retailer that combines the operating efficiencies of a large retail chain with fashion and sourcing expertise and is focused on meeting the needs of low to moderate income consumers generally and African-American consumers specifically.

Corporate Information

We are incorporated in Delaware, and our principal executive offices are located at 102 Fahm Street, Savannah, Georgia 31401, and our telephone number is (912) 236-1561. Our website address is www.cititrends.com. Information contained in, or accessible through, our website does not constitute part of this prospectus.

The Offering

Common stock offered by Citi Trends, Inc.	shares
Common stock offered by the selling stockholders	shares
Common stock to be outstanding after the offering	shares
Use of proceeds	We estimate that the net proceeds to be received by us from this offering will be approximately $ million, after deducting underwriting discounts and commissions and offering expenses payable by us. Approximately $ million of these net proceeds will be used to redeem all of our outstanding Series A preferred stock, $.01 par value per share, or Series A Preferred Stock, and to pay all accrued and unpaid dividends thereon, and $ million will be used to repay outstanding indebtedness. We expect that the remainder of our net proceeds will be used for new store openings, the acquisition or design and construction of a new distribution center in fiscal 2006 and general corporate purposes. We will not receive any of the proceeds from the sale of shares of common stock offered by the selling stockholders.
Proposed Nasdaq National Market Symbol	“CTRN”

Unless otherwise stated, information in this prospectus assumes:

- a for-one stock split of our common stock, which will occur simultaneously with the completion of this offering;
- no exercise of outstanding options to purchase shares of common stock outstanding as of , 2005; and
- no exercise of the underwriters’ over-allotment option.

Summary Financial and Operating Data

The following table provides summary financial and operating data for each of the fiscal years in the five-year period ended January 31, 2004 and for each of the 39-week periods ended November 1, 2003 and October 30, 2004, including: (a) our statement of operations data for each such period, (b) additional operating data for each such period and (c) our balance shee data as of October 30, 2004, on an actual basis and as adjusted to give effect to the receipt and application of the net proceeds from this offering. The statement of operations data for fiscal 2002 and fiscal 2003 are derived from financial statements included elsewhere in this prospectus that have been audited by KPMG LLP, independent registered public accountants The statement of operations data for fiscal 2001 are derived from our audited financial statements included elsewhere in this prospectus. The statement of operations data for fiscal 1999 and fiscal 2000 are derived from our audited financial statements that are not included in this prospectus. The statement of operations data for the 39-week periods ended November 1, 2003 and October 30, 2004 and the balance sheet data as of October 30, 2004 are derived from our unaudited condensed interim financial statements included elsewhere in this prospectus. In the opinion of management, these unaudited condensed interim financial statements have been prepared on the same basis as the audited financial statements and reflect all adjustments (consisting only of normal recurring adjustments) and fairly present the financial information for these periods. The summary financial and operating data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the sections of this prospectus entitled “Selected Financial and Operating Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes included elsewhere in this prospectus. Historical results are not necessarily indicative of results to be expected for any future period.

	Fiscal Year Ended[1]					39 Weeks Ended	
	January 29, 2000[2]	February 3, 2001	February 2, 2002	February 1, 2003	January 31, 2004	November 1, 2003	October 30, 2004
	(dollars in thousands, except per share data amounts and additional operating data)						
Statement of Operations Data:							
Net sales	$42,220	$80,939	$97,933	$124,951	$157,198	$107,952	$137,129
Cost of sales	27,717	51,762	62,050	77,807	98,145	67,466	86,288
Gross profit	14,503	29,177	35,883	47,144	59,053	40,486	50,841
Selling, general and administrative expenses	14,976	26,834	31,405	38,760	48,845	35,932	46,014
Income (loss) from operations	(472)	2,343	4,478	8,385	10,208	4,554	4,827
Interest expense[3]	172	787	455	256	563	315	558
Income (loss) before income taxes	(645)	1,556	4,023	8,129	9,645	4,239	4,269
Income tax expense	19	358	1,566	3,101	3,727	1,638	1,644
Net income (loss)	$ (664)	$ 1,198	$ 2,457	$ 5,028	$ 5,918	$ 2,601	$ 2,625
Net income per common share:							
Basic	$	$	$	$	$	$	$
Diluted	$	$	$	$	$	$	$
Weighted average shares used to compute net income per share:							
Basic							
Diluted							
Additional Operating Data:							
Number of stores:							
Opened during period	-	23	12	16	25	23	35
Closed during period	-	0	4	2	1	1	1
Open at end of period	92	115	123	137	161	159	195
Comparable store sales increase[4]	-	17.6%	6.5%	14.6%	5.5%	5.9%	2.3%

(footnotes on following page

	As of October 30, 2004	
	Actual	As Adjusted
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 2,156	$
Total assets	60,908	
Total liabilities	41,787	
Total stockholders' equity	19,121	

(1) Our fiscal year ends on the Saturday closest to January 31 of each year. Fiscal years 2001, 2002 and 2003 comprise 52 weeks. Fiscal year 2000 comprises 53 weeks.

(2) The fiscal year ended January 29, 2000 consists only of the period from April 13, 1999 (the date we were acquired by Hampshire Equity Partners) to January 29, 2000. The period contained 41 weeks and five days.

(3) Our Series A Preferred Stock, which will be redeemed using a portion of the net proceeds from this offering, was reclassified as debt as of the second quarter of fiscal 2003, in accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The amount of dividends treated as interest expense in fiscal 2003 was $189,000 and none in fiscal 2002. For the 39-week periods ended October 30, 2004 and November 1, 2003, the amount of dividends treated as interest expense was $243,000 and $108,000, respectively.

(4) Stores included in the comparable store sales calculation for any period are those stores that were opened prior to the beginning of the preceding fiscal year and were still open at the end of such period. Relocated stores and expanded stores are included in the comparable store sales results.

Risk Factors

An investment in shares of our common stock involves a high degree of risk. You should consider carefully the following information about these risks, together with the other information contained in this prospectus, before you decide whether to buy our common stock. The occurrence of any of the following risks could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Citi Trends, Inc.

Our success depends on our ability to anticipate, identify and respond rapidly to changes in consumers' fashion tastes, and our failure to evaluate adequately fashion trends could have a material adverse effect on our business, financial condition and results of operations.

The apparel industry in general and our core customer market in particular are subject to rapidly evolving fashion trends and shifting consumer demands. Accordingly, our success is heavily dependent on our ability to anticipate, identify and capitalize on emerging fashion trends, including products, styles and materials that will appeal to our target consumers. Our failure to anticipate, identify or react appropriately to changes in styles, trends, brand preferences or desired image preferences is likely to lead to lower demand for our merchandise, which could cause, among other things, sales declines, excess inventories and higher markdowns. The inaccuracy of our forecasts regarding fashion trends could have a material adverse effect on our business, financial condition and results of operations.

The success of our growth strategy depends on our ability to add a significant number of new stores, and we may be unable to do so. Also, the addition of a significant number of stores could strain our resources and cause the performance of our existing stores to suffer.

Our ability to continue to increase our net sales and earnings depends, in large part, on opening new stores and operating our new and existing stores profitably. We opened 40 new stores in fiscal 2004 and 25 new stores in fiscal 2003, and we intend to open 40 new stores in each of fiscal 2005 and fiscal 2006. If we are unable to open all of these stores or operate them profitability, we may not achieve our forecasted sales and earnings growth targets. This could have a material adverse effect on our financial condition and results of operation as well as cause a significant decline in the market price of our common stock.

The success of our growth strategy is dependent upon, among other things:

- identifying suitable markets and sites within those markets for new store locations;
- negotiating acceptable lease terms for new store locations;
- hiring, training and retaining competent sales and store management personnel;
- obtaining adequate capital;
- effectively managing higher levels of inventory to meet the needs of new and existing stores on a timely basis;
- maintaining the appropriate proportion of new stores to existing stores in a particular market so that sales at existing stores do not decline due to a lack of new customers and a dispersion of existing customers;
- fostering existing and new relationships with suppliers capable of providing us with a sufficient amount of merchandise to meet our growing needs as we increase the number of our stores;
- successfully integrating the new stores into our existing operations and expanding our infrastructure to accommodate our growing number of stores; and
- developing and operating additional distribution capacity as we increase the number of stores.

Growth of our store base will place increased demands on our operating, managerial and administrative resources and may lead to management and operating inefficiencies. These demands and inefficiencies may cause deterioration in the financial performance of our individual stores and, therefore, our entire business.

Expansion into new markets may present risks different from our existing markets, and we may have difficulty overcoming them.

Our growth strategy includes entry into new geographic markets, which may:

- present competitive and distribution challenges that are different from those we currently face;
- require us to alter our merchandise to appeal to fashion preferences in new markets that are different from those in our existing markets;
- require us to alter our merchandise selection to meet cultural and/or climate differences, such as colder winter weather than in the southeastern United States where most of our current stores are located;
- result in higher costs, such as rent, distribution, labor and advertising; and
- cause the stores we open in new markets to achieve lower sales because consumers are not familiar with the Citi Trends name and concept in new markets.

The opening of stores in new markets could have a material adverse effect on our business, financial condition and results of operations if the new stores do not perform at comparable levels to our current stores or if we are unable to open new stores on a timely basis.

Our net sales, inventory levels and earnings fluctuate on a seasonal basis, which makes our business more susceptible to adverse events that occur during those seasons.

Our net sales and earnings are disproportionately higher during the first and fourth quarters each year due to the importance of the spring selling season, which includes Easter, and the fall selling season, which includes Christmas. Factors negatively affecting us during the first and fourth quarters, including adverse weather and unfavorable economic conditions, will have a greater adverse effect on our financial condition than if our business were less seasonal.

In order to prepare for the spring and fall selling seasons, we must order and keep in stock significantly more merchandise than during other parts of the year. This seasonality makes our business more susceptible to the risk that our inventory will not satisfy actual consumer demand. Any unanticipated demand imbalances during these peak shopping seasons could require us either to sell excess inventory at a substantial markdown or fail to satisfy our consumers. In either event, our net sales and gross margins may be lower than historical levels, which could have a material adverse effect on our business, financial condition and results of operations.

Our business and growth strategies depend on our ability to obtain a sufficient amount of merchandise, and our failure to meet current and increased merchandising needs could have a material adverse effect on our business, financial condition and results of operations.

Our relationships with our suppliers generally are not on a contractual basis and do not guarantee us adequate supplies, quality or acceptable pricing on a long-term basis. Most of our suppliers could discontinue selling to us at any time. In addition, our growth strategy presents potential supply problems if our existing suppliers are unable to meet our increased needs and we cannot locate alternative sources of supply. If we lose the services of one or more of our significant suppliers or one or more of them fail to meet our needs, we may be unable to obtain replacement merchandise in a timely manner. Any such unforeseen supply problems could have a material adverse effect on our business, financial condition and results of operations. It is important that we establish relationships with reputable vendors to prevent the possibility that we inadvertently receive counterfeit brands or unlicensed goods. Although we have a quality assurance team to check merchandise in an effort to assure that we purchase only authentic brands and licensed goods and are careful in selecting our vendors, we may receive products that we are prohibited from selling or incur liability for selling counterfeit brands or unlicensed goods, which could have a material adverse effect on our business, financial condition and results of operations.

Additionally, some of our suppliers sell us products under license agreements with other manufacturers or other owners of the brand or trademark. If any of these licenses is terminated, we may be unable to obtain replacement merchandise of comparable fashion appeal or quality, in the same quantities or at the same prices. This could have a material adverse effect on our business, financial condition and results of operations.

We rely on only two distribution centers, one of which also serves as our corporate headquarters, and our stores are concentrated in the southeastern United States. Therefore, any significant disruption to our distribution process or southeastern retail locations could have a material adverse effect on our business, financial condition and results of operations.

Our ability to distribute merchandise to our store locations in a timely manner is essential to the efficient and profitable operation of our business. At the center of our distribution process are our two distribution centers located in Savannah, Georgia, one of which also serves as our corporate headquarters. Any natural disaster or other disruption to the operation of either of these facilities due to fire, hurricane, other natural disaster or any other cause could damage a significant portion of our inventory or impair our ability to stock adequately our stores and process product returns to suppliers.

In addition, Savannah, Georgia and the southeastern United States are vulnerable to significant damage or destruction from hurricanes and tropical storms. Although we maintain insurance on our stores and other facilities, the economic effects of a natural disaster that affects our distribution centers and/or a significant number of our stores could have a material adverse effect on our business, financial condition and results of operations.

We will need additional distribution capacity in the next two to three years to support our anticipated growth. Although we currently intend to acquire or design and construct a new distribution center in southeastern Georgia during this time period, there is no assurance that we will be able to acquire or design and construct such a center in a cost efficient manner. In order to maintain the efficient operation of our business, additional centers may need to be located in closer proximity to the new markets that we enter. In addition, we may have difficulty finding suitable locations for new distribution centers, and, if we do, they may be more expensive to operate than our existing facilities. Our failure to expand our distribution capacity on a timely basis to keep pace with our anticipated growth in stores could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in our comparable store sales and quarterly results of operations could cause the market price of our common stock to decline substantially.

Our comparable store sales and quarterly results have fluctuated significantly in the past, and we expect them to continue to fluctuate in the future. Our comparable store sales and quarterly results of operations are affected by a variety of factors, including:

- fashion trends, including consumer response to new and existing styles;
- seasonal demand for apparel;
- calendar shifts of holidays;
- our merchandise mix and the gross margins we achieve on the various merchandise we sell;
- our ability to source, manage and distribute merchandise effectively;
- changes in general economic conditions, the retail sales environment and consumer spending patterns;
- weather conditions, natural disasters, acts of war or terrorism and other events outside of our control;
- actions of our competitors or anchor tenants in the strip shopping centers where our stores are located;
- the timing and effectiveness of our advertising and other marketing campaigns;
- the level of pre-opening expenses associated with new stores; and
- the timing of new store openings and the relative proportion of new stores to existing stores.

Since the beginning of fiscal 2003, our quarter-to-quarter comparable store sales have ranged from an increase of 0.3% to an increase of 9.6%. In addition, our comparable store sales in the 39-week period ended October 30, 2004 were lower than our historical average. We cannot assure you that we will be able to maintain historical levels of comparable store sales as we execute our growth strategy and expand our business.

If our comparable store sales and quarterly results fail to meet the expectations of the market generally, the market price of our common stock could decline substantially.

We depend on the experience and expertise of our senior management team, and the departure of one or more members of that team could have a material adverse effect on our business, financial condition and results of operations.

The success of our business is dependent upon the close supervision of all aspects of our business by our senior management, particularly the operation of our stores, the selection of our merchandise and the site selection for new stores. If we lose the services of R. Edward Anderson, our Chief Executive Officer, or George Bellino, our President and Chief Merchandising Officer, or another member of our senior management team, our business could be adversely affected.

We experience significant employee turnover rates, particularly among store sales associates and managers, and we may be unable to hire and retain enough trained employees to support our existing operations or our planned growth.

Like most retailers, we experience significant employee turnover rates, particularly among store sales associates and managers, and our continued growth will require us to hire and train even more new personnel. We therefore must continually hire and train new personnel to meet our staffing needs. We constantly compete for qualified personnel with companies in our industry and in other industries. A significant increase in the turnover rate among our store sales associates and managers would increase our recruiting and training costs and could decrease our operating efficiency and productivity. If this were to occur, we may not be able to service our customers as effectively, thus reducing our ability to continue our growth and to operate our existing stores as profitably as we have in the past. It is possible that we will be unable to continue to recruit, hire, train and retain a sufficient number of qualified store sales associates and managers to execute our growth strategy or meet the needs of our current business. Our continued success is dependent on our ability to attract, retain and motivate quality employees, including managers, and our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Increases in the minimum wage could have a material adverse effect on our business, financial condition and results of operations.

From time to time, legislative proposals are made to increase the minimum wage in the United States, as well as certain individual states. Wage rates for many of our employees are at or slightly above the minimum wage. As federal and/or state minimum wage rates increase, we may need to increase not only the wage rates of our minimum wage employees but the wages paid to our other hourly employees as well. Any increase in the cost of our labor could have a material adverse effect on our business, financial condition and results of operations.

Our failure to protect our trademarks could have a negative effect on our brand image and limit our ability to penetrate new markets.

We believe that our “Citi Trends” trademark is integral to our store design and our success in building consumer loyalty to our brand. We have registered this trademark with the U.S. Patent and Trademark Office. We have also registered, or applied for registration of, additional trademarks with the U.S. Patent and Trademark Office that we believe are important to our business. We cannot assure you that these registrations will prevent imitation of our name, merchandising concept, store design or private label merchandise or the infringement of our other intellectual property rights by others. Imitation of our name, concept, store design or merchandise in a manner that projects lesser quality or carries a negative connotation of our brand image could have a material adverse effect on our business, financial condition and results of operations.

In addition, we cannot assure you that others will not try to block the manufacture or sale of our private label merchandise by claiming that our merchandise violates their trademarks or other proprietary rights. Other entities may have rights to trademarks that contain the word “Citi” or may have rights in similar or competing marks for apparel and/or accessories. If these entities were to claim that we have infringed on their rights, we may be unable to reach licensing arrangements with these parties or otherwise reach agreements for the continued manufacture and sale of our merchandise. This could have a material adverse effect on our business, financial condition and results of operations.

We are subject to various legal proceedings, which could have a material adverse effect on our business, financial condition and results of operations, if the outcome of such proceedings are adverse to us.

We are from time to time involved in various legal proceedings incidental to the conduct of our business. Such claims may be made by our customers, employees or former employees. We are currently the defendant in two putative collective action lawsuits commenced by former employees under the Fair Labor Standards Act. The plaintiff in each of the lawsuits is represented by the same law firm, and both suits are pending in District Court of the United States for the Middle District of Alabama, Northern Division. Each of the cases is in its early stages, and we are in the process of evaluating the claims made. Our review of the allegations is preliminary, and we plan to defend these suits vigorously. No assurance can be given about the outcome of these cases, and if they are adversely decided they could have a material adverse effect on our business, financial condition and results of operations.

Our ability to attract consumers to our stores depends on the success of the strip shopping centers and downtown business districts where our stores are located.

We locate our stores in strip shopping centers, street front locations and downtown business districts where we believe our consumers and potential consumers shop. The success of an individual store can depend on favorable placement within a given strip shopping center or business district. We cannot control the development of alternative shopping destinations near our existing stores or the availability or cost of real estate within existing or new shopping destinations. If our store locations fail to attract sufficient consumer traffic or we are unable to locate replacement locations on terms acceptable to us, our business, results of operations, and financial condition could suffer. If one or more of the anchor tenants located in the strip shopping centers or business districts where our stores are located close or leave, or if there is significant deterioration of the surrounding areas in which our stores are located, our business, results of operations and financial condition may be adversely affected.

A key part of our operating policy is to offer merchandise from nationally recognized brands, and our inability to obtain this branded merchandise could have a material adverse effect on our business, financial condition and results of operations.

Approximately 30% of our net sales consist of merchandise of nationally recognized brands. These brands are also offered by a number of the major department stores, specialty retailers and other off-price apparel chains such as The TJX Companies, Inc., or TJX Companies, Burlington Coat Factory Warehouse Corp., or Burlington Coat Factory and Ross Stores, Inc., or Ross Stores. Many of these retailers have better name recognition among consumers than we have and purchase significantly more merchandise from vendors. As a result, these retailers may be able to purchase branded merchandise that we cannot purchase because of their name recognition and relationships with suppliers, or they may be able to purchase branded merchandise with better pricing concessions than we receive. As a result, we cannot be certain that we can continue to obtain sufficient quantities of the most popular items of the nationally recognized brands at attractive prices. If we cannot, our business, financial condition and results of operations may be adversely affected.

The retail apparel market is highly competitive, and our failure to meet the challenges of our competitors could have a material adverse effect on our business, financial condition and results of operations.

The retail apparel market is highly competitive, with few barriers to entry. We compete against a diverse group of retailers, including national and local off-price and specialty retail stores, regional retail chains, traditional department stores, Internet and other direct retailers, and, to a lesser extent, mass merchandisers. Our competitors include national off-price apparel chains such as TJX Companies, Burlington Coat Factory and Ross Stores. We also compete with mass merchants such as Wal-Mart and Kmart, general merchandise discount stores and dollar stores, which offer a variety of products, including apparel, for the value-conscious consumer. Finally, we compete with a variety of smaller discount retail chains that only sell women’s products, such as Rainbow, Dots, Fashion Cents, and Simply Fashions. The level of competition we face from these retailers varies depending on the product segment, as many of our competitors do not offer apparel for the entire family. Our greatest competition is generally in women’s apparel. Many of our competitors are larger than we are and have substantially greater resources than we do and, as a result, may be able to adapt better to changing market conditions, exploit new

opportunities, exert greater pricing pressures on suppliers and open new stores more quickly and effectively than we can. Our local and regional competitors have extensive knowledge of the consumer base and may be able to garner more loyalty from the consumer than we can. If the consumer base we serve is satisfied with the selection, quality and price of our competitors' products, consumers may decide not to shop in our stores. Additionally, if our existing competitors or other retailers decide to focus more on our core customers, particularly African-Americans consumers, we may have greater difficulty in competing effectively and our business, financial condition and results of operations could be adversely affected.

The retail industry periodically has experienced consolidation and other ownership changes. In the future, other United States or foreign retailers may consolidate, undergo restructurings or reorganizations, or realign their affiliations. Any of these developments could result in our competitors increasing their buying power or market visibility. These developments may cause us to lose market share and could have a material adverse effect on our business, financial condition and results of operations.

We are in the process of upgrading our website to enable Internet sales of selected urban branded apparel provided by third parties. While we are performing our upgrade, the loss of consumers to online competitors could have a material adverse effect on our business, financial condition and results of operations.

Changes in the regulatory environment governing our business could have a material adverse effect on our business, financial condition and results of operations.

We are subject to a wide range of laws and regulations related to the operation of our business. These include truth-in-advertising, customs, consumer protection, zoning, occupancy and other laws that regulate retailers generally and/or govern the importation, promotion and sale of merchandise, and the operation of retail stores and warehouse facilities. Although we monitor changes in these laws, violations by our employees, importers, buying agents, manufacturers or distributors could result in delays in shipments and receipt of goods and could subject us to fines or other penalties, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our business is sensitive to general economic conditions and consumer spending patterns, and adverse changes in these conditions or spending patterns could have a material adverse effect on our business, financial condition and results of operations.

Downturns, or the expectation of a downturn, in general economic conditions could adversely affect consumer spending patterns and our sales and results of operations. Because apparel generally is a discretionary purchase, declines in consumer spending patterns may have a more negative effect on apparel retailers than some other retailers. Therefore, we may not be able to maintain our historical rate of growth in revenues and earnings, or remain as profitable, if there is a decline in consumer spending patterns. In addition, since the majority of our stores are located in the southeastern United States, our operations are more susceptible to regional factors than the operations of our more geographically diversified competitors. Therefore, any adverse economic conditions that have a disproportionate effect on the southeastern United States could have a greater negative effect on our business, financial condition and results of operations than on retailers with a more geographically diversified store base.

We depend on our management information systems to operate our business efficiently, and we rely on third parties for upgrading and maintaining these systems. Any failure of these systems or the inability of third parties to continue to upgrade and maintain the systems could have a material adverse effect on our business, financial condition and results of operations.

We depend on the accuracy, reliability and proper functioning of our management information systems, including systems used to track our sales and facilitate inventory management. We also rely on our management information systems for merchandise planning, replenishment and markdowns, and other key business functions. These functions enhance our ability to optimize sales while limiting markdowns and reducing inventory risk through properly marking down slow-selling styles, reordering existing styles and effectively distributing new inventory to our stores. We do not currently have redundant systems for all functions performed by our management information systems. Any interruption in these systems could impair our ability to manage our inventory

effectively, which could have a material adverse effect on our business, financial condition and results of operations. To support our growth, we will need to expand our management information systems, and our failure to link and maintain these systems adequately could have a material adverse effect on our business, financial condition and results of operations.

We depend on third-party suppliers to maintain and periodically upgrade our management information systems, including the software programs supporting our inventory management functions. This software is licensed to us by third-party suppliers. If any of these suppliers is unable to continue to maintain and upgrade these software programs and if we are unable to convert to alternate systems in an efficient and timely manner, it could result in a material adverse effect on our business, financial condition and results of operations.

Our failure to implement and maintain effective internal controls in our business could have a material adverse effect on our business, financial condition, results of operations and stock price.

We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. We will be required to comply with Section 404 no later than the time we file our annual report for fiscal 2005 with the Securities and Exchange Commission, or the Commission. During the course of our testing, we may identify deficiencies in our internal controls, which we may be unable to correct in time to meet the deadline imposed by the Sarbanes-Oxley Act of 2002. If we fail to achieve and maintain the adequacy of our internal controls in accordance with applicable standards as then in effect supplemented or amended from time to time, we may be unable to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important in our effort to prevent financial fraud. If we cannot produce reliable financial reports or prevent fraud, our business, financial condition and results of operations could be harmed, investors could lose confidence in our reported financial information, the market price of our stock could decline significantly and we may be unable to obtain additional financing to operate and expand our business.

We may need additional capital to fund future growth and may not be able to obtain it on acceptable terms or at all.

We may need to raise additional debt or equity capital in the future to open new stores, to respond to competitive pressures or to respond to unforeseen financial requirements. We may not be able to obtain additional capital on commercially reasonable terms or at all. If this were to occur, we could be forced to incur indebtedness with above-market interest rates or with substantial restrictive covenants, issue equity securities that dilute the ownership interests of existing stockholders or scale back our operations and/or store growth strategy. If we cannot find adequate capital on acceptable terms, we could be forced to curtail our growth plans and/ or our existing operations, which could have a material adverse effect on our business, financial condition and our results of operations.

Adverse trade restrictions may disrupt our supply of merchandise. We also face various risks because much of our merchandise is imported from abroad.

We cannot predict whether any of the countries in which our merchandise currently is manufactured or may be manufactured in the future will be subject to new trade restrictions imposed by the United States or other foreign governments, including the likelihood, type or effect of any such restrictions. Trade restrictions, including increased tariffs or quotas, embargoes, and customs restrictions, against apparel items, as well as United States or foreign labor strikes, work stoppages or boycotts, could increase the cost or reduce the supply of apparel available to us and have a material adverse effect on our business, financial condition and results of operations.

We purchase the products we sell directly from over 1,000 vendors, and a substantial portion of this merchandise is manufactured outside of the United States and imported by our vendors. Our vendors' imports may be subject to existing or future duties and quotas, and they may face competition from other companies for production facilities, import quota capacity and shipping capacity. We also face a variety of other risks generally associated

with relying on vendors that do business in foreign markets and import merchandise from abroad, such as: (i) political instability; (ii) enhanced security measures at United States ports, which could delay delivery of imports; (iii) imposition of new or supplemental duties, taxes, and other charges on imports; (iv) delayed receipt or non-delivery of goods due to the failure of foreign-source suppliers to comply with applicable import regulations; (v) delayed receipt or non-delivery of goods due to organized labor strikes or unexpected or significant port congestion at United States ports; and (vi) local business practice and political issues, including issues relating to compliance with domestic or international labor standards which may result in adverse publicity. The United States may impose new initiatives that adversely affect the trading status of countries where apparel is manufactured. These initiatives may include retaliatory duties or other trade sanctions that, if enacted, would increase the cost of products imported from countries where our vendors acquire merchandise. Any of these factors could have a material adverse effect on our business, financial condition and result of operations.

The removal of import quotas may adversely affect our business.

On January 1, 2005, in accordance with the World Trade Organization, or the WTO, Agreement on Textiles and Clothing, the import quotas on textiles and clothing manufactured by countries that are members of the WTO were eliminated. While the exact impact of this quota removal is uncertain, the increased access to foreign textile markets could result in a surge of imported goods from countries that benefit from the removal of the quotas which, in turn, could create logistical delays in our ability to maintain required inventory levels. In addition, the quota removal may alter the cost differential between vendors that source domestically and vendors that source more extensively from overseas. We believe this could lower the cost of apparel products and thereby reduce our average dollar amount of sales per customer in our stores. Further, a number of actions have been taken or threatened by parties affected by the removal of the quotas, including domestic producers and foreign countries that allege they will be unfairly competitively harmed by the removal of the quotas on goods manufactured in larger countries. These may include legal actions challenging the removal of the quotas as well as retaliatory actions, which may disrupt the supply chain of products from foreign markets or make it difficult to predict accurately the prices of merchandise to be imported from a particular country. The outcome of these actions or other trade disruptions may have an adverse effect on our business, financial condition or results of operations.

Risks Relating to this Offering of Common Stock

Our stock price may be volatile, and you may lose all or a part of your investment.

Prior to this offering, there has been no public market for our common stock, and an active market for our shares may not develop or be sustained after this offering. The initial public offering price for our common stock will be determined by negotiations between us and the underwriters and may not be representative of the price that will prevail in the open market. The market price of our common stock may be subject to significant fluctuations after our initial public offering. It is possible that in some future periods, our results of operations may be below the expectations of investors and any securities analysts that choose to follow our common stock. If this occurs, our stock price may decline. Factors that could affect our stock price include the following:

- actual or anticipated fluctuations in our operating results;
- changes in securities analysts' recommendations or estimates of our financial performance;
- publication of research reports by analysts;
- changes in market valuations of companies similar to ours;
- announcements by us, our competitors or other retailers;
- the trading volume of our common stock in the public market;
- changes in economic conditions;
- financial market conditions; and
- the realization of some or all of the risks described in this section entitled "Risk Factors."

In addition, the stock markets have experienced significant price and trading volume fluctuations from time to time, and the market prices of the equity securities of retailers have been extremely volatile and have recently experienced sharp price and trading volume changes. These broad market fluctuations may adversely affect the market price of our common stock.

We will have broad discretion in how we use the proceeds of this offering, and we may not use these proceeds effectively.

We will have considerable discretion in how we use the net proceeds from this offering. We currently intend to use the net proceeds to redeem all of our Series A Preferred Stock and to pay all accrued and unpaid dividends thereon, to repay all indebtedness under the mortgage on our Fahm Street facility and under our existing revolving lines of credit, for new store openings, for the acquisition or design and construction of a new distribution center and for general corporate purposes. See the information in the section entitled "Use of Proceeds." We have not yet finalized the amount of net proceeds that we will use specifically for each of these purposes, other than the redemption of our Series A Preferred Stock. We may use the net proceeds for purposes that do not yield a significant return for our stockholders.

As a new investor, you will incur substantial dilution as a result of this offering.

The initial public offering price will be substantially higher than the pro forma net tangible book value per share of our outstanding common stock. As a result, investors purchasing common stock in this offering will incur immediate dilution of $ per share in pro forma net tangible book value. See the information in the section entitled "Dilution." This dilution is due primarily to earlier investors in our company having paid substantially less than the initial public offering price when they purchased their shares and to the deduction of the $ in underwriting discounts and commissions and estimated offering expenses payable by us.

Securities analysts may not initiate coverage of our common stock, or, if they do, they may issue negative reports that adversely affect the price of our common stock.

The trading market for our common stock will depend in part on the research and reports that industry or financial analysts publish about us or our industry. In the event that our common stock receives research coverage, public statements by these securities analysts may affect our stock price. If any of the analysts who cover our company downgrades the rating of our common stock, our common stock price would likely decline. If any of these analysts ceases coverage of our company, we could lose visibility in the market, which in turn could cause our common stock price to decline. Further, if no analysts choose to cover our company, the lack of research coverage may depress the market price of our common stock.

In addition, recently-adopted rules mandated by the Sarbanes-Oxley Act of 2002 and a global settlement with the Commission have caused a number of fundamental changes in how securities analysts are reviewed and compensated. In particular, many investment banking firms are now required to contract with independent financial analysts for their stock research. In this environment, it may be difficult for companies with smaller market capitalizations, such as our company, to attract independent financial analysts to cover them, which could have a negative effect on the market price of our common stock.

After this offering, a significant amount of our common stock will be concentrated in the hands of one of our existing stockholders whose interests may not coincide with yours.

Upon the completion of this offering, Hampshire Equity Partners will own approximately % of our common stock, or approximately % if the over-allotment option is exercised in full. As a result, Hampshire Equity Partners will continue to have an ability to exercise control over matters requiring stockholder approval. These matters include the election of directors and the approval of significant corporate transactions, including potential mergers, consolidations or sales of all or substantially all of our assets. Immediately following the consummation of this offering, Hampshire Equity Partners will have one representative, our current Chairman of the Board, on our five member board of directors. In connection with this offering, we will enter into a nominating agreement with Hampshire Equity Partners pursuant to which we, acting through our nominating and corporate governance committee, will agree, subject to the requirements of our directors' fiduciary duties, that (i) Hampshire Equity Partners will be entitled to designate two directors to be nominated for election to our board of directors as long as Hampshire Equity Partners owns in the aggregate at least 40% of the shares of our common stock which it owned immediately prior to the consummation of this offering or (ii) Hampshire Equity Partners will be entitled to designate one director to be nominated for election to our board of directors as long as Hampshire Equity Partners owns in the aggregate less than 40% and at least 15% of the shares of our common stock which it owned

immediately prior to the consummation of this offering. If at any time Hampshire Equity Partners owns less than 15% of the shares of our common stock which it owned immediately prior to the consummation of this offering, it will not have the right to nominate any directors for election to our board of directors. Your interests as a holder of the common stock may differ from the interests of Hampshire Equity Partners.

There may be sales of substantial amounts of our common stock after this offering, which could cause our stock price to fall.

Our current stockholders hold a substantial number of shares that they will be able to sell in the public market in the near future. Upon the consummation of this offering, shares of our common stock will be outstanding. As of , 2005, additional shares of our common stock were subject to outstanding stock options. All of the shares sold in this offering will be freely tradable, except for any shares acquired by holders who are subject to market stand-off provisions or lock-up agreements entered into in connection with this offering, or by any of our "affiliates," as that term is defined in Rule 144 promulgated under the Securities Act of 1933, as amended, which generally includes officers, directors and 10% or greater stockholders. Sales of a significant portion of the shares of our common stock outstanding after this offering will continue to be restricted as a result of securities laws or contractual arrangements, including lock-up agreements entered into between our directors and officers and the representatives of the underwriters in this offering. These lock-up agreements restrict holders' ability to transfer their stock for 180 days after the date of this prospectus. Of the outstanding restricted shares, will be available for sale in the public market beginning 90 days after the consummation of this offering, and will be available for sale in the public market 180 days after the date of this prospectus. The managing underwriter may, however, waive the lock-up period at any time for any stockholder who is party to a lockup agreement. In addition, following consummation of this offering, Hampshire Equity Partners will have certain registration rights related to shares of our common stock held by it. Sales of a substantial number of shares of our common stock after this offering, or after the expiration of applicable lock-up periods, could cause our stock price to fall and/or impair our ability to raise capital through the sale of additional stock.

Provisions in our certificate of incorporation and by-laws and Delaware law may delay or prevent our acquisition by a third party.

Our second amended and restated certificate of incorporation and amended and restated by-laws contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions include, among other things, a classified board of directors, advance notice for raising business or making nominations at stockholder meetings and "blank check" preferred stock. Blank check preferred stock enables our board of directors, without stockholder approval, to designate and issue additional series of preferred stock with such dividend, liquidation, conversion, voting or other rights, including convertible securities with no limitations on conversion, as our board of directors may determine, including rights to dividends and proceeds in a liquidation that are senior to the common stock.

We are also subject to several provisions of the Delaware General Corporation Law that could delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their common stock or may otherwise be in the best interests of our stockholders. You should refer to the section entitled "Description of Capital Stock" for more information.

We do not currently intend to pay dividends on our common stock.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future.

Special Note Regarding Forward-Looking Statements

We have made forward-looking statements in this prospectus, including in the sections entitled “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and “Business.” All statements other than historical facts contained in this prospectus, including statements regarding our future financial position, business policy and plans and objectives of management for future operations, are forward-looking statements. The words “believe,” “may,” “could,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar expressions, as they relate to us, are intended to identify forward-looking statements. For example, our statements to the effect that we intend to open a specified number of new stores, that we intend to increase comparable store sales, and that we intend to achieve a specified return on invested capital constitute forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events, including, among other things:

- implementation of our growth strategy;
- our ability to anticipate and respond to fashion trends;
- competition in our markets;
- consumer spending patterns;
- actions of our competitors or anchor tenants in the strip shopping centers where our stores are located;
- anticipated fluctuations in our operating results; and
- economic conditions in general.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in the section entitled “Risk Factors” and elsewhere in this prospectus.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Commission, we do not plan to publicly update or revise any forward-looking statements contained herein after we distribute this prospectus, whether as a result of any new information, future events or otherwise.

Use of Proceeds

We estimate that we will receive net proceeds from this offering of approximately $ million, at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we estimate that we will receive additional net proceeds of approximately $ million. We will not receive any of the proceeds from the sale of shares of common stock offered by the selling stockholders.

We intend to use the net proceeds from this offering as follows:

- $ million to redeem all of our outstanding Series A Preferred Stock and to pay all accrued and unpaid dividends thereon;
- $ million to repay outstanding indebtedness under the loan from National Bank of Commerce to us, that is secured by our Savannah, Georgia headquarters, and bears interest at a fixed rate of 6.80% and matures on July 12, 2007;
- to repay outstanding indebtedness under our $3.0 million revolving line of credit with Bank of America that, as of October 30, 2004, bears interest at a rate of 3.96% per annum;
- to repay outstanding indebtedness under our $25.0 million revolving line of credit with Congress Financial that, as of October 31, 2004, bears interest at a rate of 4.75% per annum; and
- any remaining net proceeds for new store openings, including the acquisition or design and construction of a new distribution center in fiscal 2006 and general corporate purposes.

Dividend Policy

We have never declared or paid any dividends on our common stock and do not intend to pay any dividends on our common stock in the foreseeable future. We currently intend to retain any future earnings to finance the expansion of our business and for general corporate purposes. Our board of directors has the authority to declare and pay dividends on our common stock, in its discretion, so long as there are funds legally available to do so.

Capitalization

The table below sets forth the following information as of October 30, 2004:

- on an actual basis; and
- as adjusted to give effect to (a) the sale by us of shares of common stock in this offering, (b) the receipt and application of net proceeds of $ million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and the repayment of indebtedness described under the section entitled "Use of Proceeds" and (c) the filing of our second amended and restated certificate of incorporation upon consummation of this offering.

	As of October 30, 2004	
	Actual	As Adjusted
	(in thousands, except share and per share amounts)	
Cash and cash equivalents	$ 2,156	$
Long-term debt (including current portion)	$ 1,521	$ -
Capital lease obligations (including current portion)	$ 1,261	$
Preferred shares subject to mandatory redemption:		
Series A preferred stock, $.01 par value per share, 3,500 shares authorized, issued and outstanding, actual; none authorized, issued or outstanding, as adjusted(1)	4,404	-
Stockholders' equity:		
Common stock, $.01 par value per share, shares authorized, issued and outstanding, actual; issued or outstanding, as adjusted	4	
Preferred stock, $.01 par value per share, none authorized, issued or outstanding, actual; authorized, none issued or outstanding, as adjusted	-	-
Additional paid-in capital	4,110	
Subscription receivable	(25)	-
Retained earnings	15,197	
Treasury stock	(165)	
Total stockholders' equity	19,121	
Total capitalization	$26,307	$

(1) Our Series A Preferred Stock, which will be redeemed using a portion of the net proceeds from this offering, was reclassified as debt as of the second quarter of fiscal 2003, in accordance with SFAS No. 150.

Dilution

Our net tangible book value as of October 30, 2004 was $ million, or $ per share of common stock. "Net tangible book value" is our total assets minus the sum of our liabilities and intangible assets. "Net tangible book value per share of common stock" is our net tangible book value divided by the total number of our shares of common stock outstanding.

After giving effect to adjustments related to this offering, our pro forma net tangible book value on October 30, 2004 would have been $ million, or $ per share of common stock. Adjustments to net tangible book value to arrive at pro forma net tangible book value per share include:

- an increase in our total assets to reflect the net proceeds from this offering (assuming an initial public offering price of $ per share); and
- the issuance of an additional shares of common stock in this offering.

The following table illustrates the pro forma increase in our net tangible book value of $ per share of common stock and the dilution of $ per share of common stock (the difference between the offering price per share and the net tangible book value per share after giving effect to this offering) to new investors:

Assumed initial public offering price per share of common stock	$
Pro forma net tangible book value per share of common stock as of October 30, 2004	$
Increase in net tangible book value per share of common stock attributable to this offering	$
Pro forma net tangible book value per share of common stock as of October 30, 2004 after giving effect to adjustments related to this offering	$
Dilution per share of common stock to new investors in this offering	$ (1)

(1) Assuming exercise of all exercisable options to purchase common stock outstanding as of , 2005, the dilution per share of common stock to new investors in this offering would be $.

The following table summarizes, on a pro forma basis as of October 30, 2004, the differences between the existing stockholders and new investors with respect to the number of shares of common stock sold by us, the total consideration paid to us and the average price paid per share. The table assumes that the initial public offering price will be $ per share of common stock.

	Share Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Average Price Per Share
Existing stockholders(1)		%	$	%	$
New investors		%	$	%	$
Totals		%	$	%	$

(1) Does not give effect to sales of shares by the selling stockholders in this offering.

Selected Financial and Operating Data

The following table provides selected financial and operating data for each of the fiscal years in the five-year period ended January 31, 2004 and for each of the 39-week periods ended November 1, 2003 and October 30, 2004, including: (a) our statement of operations data for each such period, (b) additional operating data for each such period and (c) our balance sheet data as of the end of each such period. The statement of operations data for fiscal 2002 and fiscal 2003, and the balance sheet data as of February 1, 2003 and January 31, 2004 are derived from financial statements included elsewhere in this prospectus that have been audited by KPMG LLP, independent registered public accountants. The statement of operations data for fiscal 2001 and the balance sheet data as of February 2, 2002 are derived from our audited financial statements included elsewhere in this prospectus. The statement of operations data for fiscal 1999 and fiscal 2000 and the balance sheet data as of January 29, 2000 and February 3, 2001 are derived from our audited financial statements that are not included in this prospectus. The statement of operations data for the 39-week periods ended November 1, 2003 and October 30, 2004 and the balance sheet data as of November 1, 2003 and October 30, 2004 are derived from our unaudited condensed interim financial statements included elsewhere in this prospectus. In the opinion of management, these unaudited condensed interim financial statements have been prepared on the same basis as the audited financial statements and reflect all adjustments (consisting only of normal recurring adjustments) and fairly present the financial information for these periods. The selected financial and operating data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the section of this prospectus entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes included elsewhere in this prospectus. Historical results are not necessarily indicative of results to be expected for any future period.

	Fiscal Year Ended(1)					39 Weeks Ended	
	January 29, 2000(2)	February 3, 2001	February 2, 2002	February 1, 2003	January 31, 2004	November 1, 2003	October 30, 2004
	(dollars in thousands, except per share data amounts)						
Statement of Operations Data:							
Net sales	$42,220	$80,939	$97,933	$124,951	$157,198	$107,952	$137,129
Cost of sales	27,717	51,762	62,050	77,807	98,145	67,466	86,288
Gross profit	14,503	29,177	35,883	47,144	59,053	40,486	50,841
Selling, general and administrative expenses	14,976	26,834	31,405	38,760	48,845	35,932	46,014
Income (loss) from operations	(472)	2,343	4,478	8,385	10,208	4,554	4,827
Interest expense (3)	172	787	455	256	563	315	558
Income (loss) before income taxes	(645)	1,556	4,023	8,129	9,645	4,239	4,269
Income tax expense	19	358	1,566	3,101	3,727	1,638	1,644
Net income (loss)	$ (664)	$ 1,198	$ 2,457	$ 5,028	$ 5,918	$ 2,601	$ 2,625
Net income per common share:							
Basic	$	$	$	$	$	$	$
Diluted	$	$	$	$	$	$	$
Weighted average shares used to compute net income per share:							
Basic							
Diluted							

(footnotes on following page)

	Fiscal Year Ended(1)					39 Weeks Ended	
	January 29, 2000(2)	February 3, 2001	February 2, 2002	February 1, 2003	January 31, 2004	November 1, 2003	October 30, 2004
	(dollars in thousands, except per share data amounts)						
Additional Operating Data:							
Number of stores:							
Opened during period	–	23	12	16	25	23	35
Closed during period	–	0	4	2	1	1	1
Open at end of period	92	115	123	137	161	159	195
Comparable store sales increase(4)	–	17.6%	6.5%	14.6%	5.5%	5.9%	2.3%
Balance Sheet Data:							
Cash and cash equivalents	$ 1,857	$ 1,496	$ 4,098	$ 5,825	$ 9,954	$ 2,910	$ 2,156
Total assets	17,442	25,023	29,733	36,127	49,213	46,862	60,908
Total liabilities	11,001	17,404	19,489	20,693	32,709	33,696	41,787
Total stockholders' equity	2,614	3,471	5,736	10,598	16,504	13,166	19,121

(1) Our fiscal year ends on the Saturday closest to January 31 of each year. Fiscal years 2001, 2002 and 2003 comprise 52 weeks. Fiscal year 2000 comprises 53 weeks.

(2) The fiscal year ended January 29, 2000 consists only of the period from April 13, 1999 (the date we were acquired by Hampshire Equity Partners) to January 29, 2000. The period contained 41 weeks and five days.

(3) Our Series A Preferred Stock, which will be redeemed using a portion of the net proceeds from this offering, was reclassified as debt as of the second quarter of fiscal 2003, in accordance with SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The amount of dividends treated as interest expense in fiscal 2003 was $189,000 and none in fiscal 2002. For the 39-week periods ended October 30, 2004 and November 1, 2003, the amount of dividends treated as interest expense was $243,000 and $108,000, respectively.

(4) Stores included in the comparable store sales calculation for any period are those stores that were opened prior to the beginning of the preceding fiscal year and were still open at the end of such period. Relocated stores and expanded stores are included in the comparable store sales results.

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled "Selected Financial and Operating Data" and our financial statements and related notes included elsewhere in this prospectus. This discussion may contain forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under the sections entitled "Risk Factors" and "Special Note Regarding Forward-Looking Statements" and elsewhere in this prospectus, our actual results may differ materially from those anticipated in these forward-looking statements.

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 we have recently expanded into the Mid-Atlantic region and Texas. We currently operate 200 stores in both urban and rural markets in 12 states.

Our predecessor was founded in 1946 and grew to become a chain of family apparel stores operating in the Southeast under the Allied Department Stores name. In 1999, our chain of stores was acquired by Hampshire Equity Partners, a private equity firm. Since the acquisition, our management team has implemented a focused merchandising and operating model to differentiate our stores and serve our core customers more effectively. Specifically, we concentrated the merchandise offerings on more urban fashion apparel for the entire family and increased the offering of nationally recognized brands. We also accelerated a remodeling campaign to upgrade the acquired store base and create a more appealing shopping environment in our stores. By the end of fiscal 2003, virtually all of the acquired stores had been remodeled and, in some cases, expanded. These initiatives resulted in gains in comparable store sales. More recently, the pace of our comparable store sales gains has moderated as the revamping of our existing store base has been substantially completed. We expect that the impact of our remodel, relocate and expansion initiatives will be far less significant in the future and that the primary causes of any increased comparable store sales will result from merchandising enhancements or the expansion of certain product categories.

We have implemented an aggressive store growth strategy and believe that the addition of new stores will be the primary source of future growth. In fiscal 2003 and 2004, we opened 25 and 40 stores, respectively. During this period, we entered Houston, Norfolk and, most recently, the Baltimore and Washington, D.C. markets, where we opened a total of 15 new stores. In each of fiscal 2005 and 2006, we intend to open 40 new stores, approximately 70% of which are expected to be located in states that we currently serve.

Our new store expansion is fueled by store economics that we believe to be very attractive. From an investment perspective, our stores are designed to be inviting and easy to shop, but we do not spend large sums of money to outfit and open new stores. We have relatively low store operating costs. Our real estate approach is focused on strip shopping center sites within low to moderate income neighborhoods, and we generally utilize previously occupied store sites rather than newly constructed sites. As a result, we are usually able to secure sites with substantial customer traffic at attractive lease terms. Our ongoing advertising expenses are also low, with a significant amount of advertising focused on new store openings.

Our stores generate rapid payback of investment. The average investment for the 41 stores opened in fiscal 2002 and fiscal 2003, including leasehold improvements, equipment, fixturing, cost of inventory to stock the store (net of accounts payables), and pre-opening store expenses, was approximately $240,000. These 41 stores generated average sales of $1.2 million and average store level cash flow (defined as store operating profit before pre-opening expenses, depreciation and amortization and allocated corporate overhead and interest expense) of approximately $240,000 during their first 12 months of operation. Our average investment for the 40 stores opened in fiscal 2004 was approximately $280,000. This investment represents an increase over prior years as the size of our stores has increased and we have assumed a larger portion of the costs associated with leasehold improvements in our stores, which we expect to recover over time. We expect that the stores opened in fiscal 2004 will achieve similar levels of return on investment.

We measure our performance using key operating statistics. One of our main performance measures is comparable store sales growth. We define a comparable store as a store that has been open 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 its 24th month at the latest. As an example, all stores opened in fiscal 2002 and fiscal 2003 were not considered comparable stores in fiscal 2003. Relocated and expanded stores are included in the comparable store sales results. We also use other operating statistics including customer counts, items purchased per customer and average item price. Beyond sales, we measure gross margin percentage and store operating expenses, with a particular focus on labor as a percentage of sales. These results translate into store contribution, which we use to evaluate overall performance of each individual store. Finally, we monitor corporate expenses in absolute amounts. We measure the performance of our distribution centers based on employee cost per item shipped and items shipped per employee hour.

The new distribution center we opened in November 2004 increased our receiving and shipping capabilities in order to support the growth of our store base. The new center is located in the greater Savannah area and increases our total distribution space by approximately 60,000 square feet and our office space by approximately 10,000 square feet. We are leasing the center through September 2006 with options to renew for up to four additional years. We currently intend to acquire or design and construct a new distribution center in southeastern Georgia in fiscal 2006.

Our cash requirements are primarily for working capital, construction of new stores, remodeling of existing stores and improvements to our information systems. Historically we have met these cash requirements from cash flow from operations, short-term trade credit and borrowings under our revolving lines of credit, long-term debt and capital leases.

We may be affected by the phase out of quotas on textiles and clothing under the WTO Agreement on Textiles and Clothing as implemented on January 1, 1995. Under this agreement, the import quotas on textiles and clothing manufactured by countries that are members of the WTO were eliminated. While the impact of the quota removal is uncertain, the increased access to foreign textile markets could create logistical delays arising from a surge of imported goods from countries that benefit from the removal of the quotas. In addition, the quota removal may alter the cost differential between vendors that source primarily domestically and vendors that source more extensively from overseas. We believe this could significantly reduce the cost of apparel products and thereby reduce the average dollar amount of sales per customer spent in our stores. Various actions have been taken or threatened by parties affected by the removal of the quotas. However, the effect of these actions, and the removal of the quotas, cannot be accurately assessed at this time.

Basis of Presentation

Net sales consists of store sales, net of returns by customers, and layaway fees. Cost of sales consist of the cost of the products we sell and associated freight costs. Selling, general and administrative expense is comprised of store costs, including salaries and store occupancy costs, handling costs, corporate and distribution center costs and advertising costs. We operate on a 52- or 53-week fiscal year, which ends on the Saturday closest to January 31. Each of our fiscal quarters consists of four 13-week periods, with an extra week added on to the fourth quarter every five or six years. Our last three fiscal years ended on February 2, 2002, February 1, 2003 and January 31, 2004 and each included 52 weeks.

Results of Operations

Net Sales and Additional Operating Data. The following table sets forth, for the periods indicated, selected statement of income data expressed both in dollars and as a percent of net sales:

	Fiscal Year Ended						39 Weeks Ended			
	February 2, 2002		February 1, 2003		January 31, 2004		November 1, 2003		October 30, 2004	
					(dollars in thousands)					
Statements of Income Data										
Net sales	$97,933	100.0%	$124,951	100.0%	$157,198	100.0%	$107,952	100.0%	$137,129	100.0%
Cost of sales	62,050	63.4	77,807	62.3	98,145	62.4	67,466	62.5	86,288	62.9
Gross profit	35,883	36.6	47,144	37.7	59,053	37.6	40,486	37.5	50,841	37.1
Selling, general and administrative expenses	31,405	32.1	38,760	31.0	48,845	31.1	35,932	33.3	46,014	33.6
Income from operations	4,478	4.6	8,385	6.7	10,208	6.5	4,554	4.2	4,827	3.5
Interest expense	455	0.5	256	0.2	563	0.4	315	0.3	558	0.4
Income before income taxes	4,023	4.1	8,129	6.5	9,645	6.1	4,239	3.9	4,269	3.1
Income tax expense	1,566	1.6	3,101	2.5	3,727	2.4	1,638	1.5	1,644	1.2
Net income	$ 2,457	2.5%	$ 5,028	4.0%	$ 5,918	3.8%	$ 2,601	2.4%	$ 2,625	1.9%

The following table provides information, for the periods indicated, about the number of total stores open at the beginning of the period, stores opened and closed during each period and the total stores open at the end of each period and comparable store sales for the periods:

	Fiscal Year Ended			39 Weeks Ended	
	February 2, 2002	February 1, 2003	January 31, 2004	November 1, 2003	October 30, 2004
Total stores open, beginning of period	115	123	137	137	161
New stores	12	16	25	23	35
Closed stores	4	2	1	1	1
Total stores open, end of period	123	137	161	159	195
Comparable store sales increase	6.5%	14.6%	5.5%	5.9%	2.3%

39 Weeks Ended October 30, 2004 Compared to 39 Weeks Ended November 1, 2003

Net Sales. Net sales increased $29.2 million, or 27.0%, to $137.1 million for the 39-week period ended October 30, 2004 from $108.0 million for the 39-week period ended November 1, 2003. The increase resulted primarily from net sales of $39.5 million during the 39-week period ended October 30, 2004 from stores opened in the 39-week period ended October 30, 2004 and stores opened in fiscal 2003 as compared to net sales of $11.4 million during the 39-week period ended November 1, 2003 from stores opened in the 39-week period ended November 1, 2003. In addition, the increase was due to a comparable store sales increase of $2.2 million, or 2.3%. The increase in comparable store sales was caused primarily by an increase in the number of customer transactions and items sold per customer, partially offset by a decrease in the average price of an item sold.

Gross Profit. Gross profit increased $10.4 million, or 25.6%, to $50.8 million for the 39-week period ended October 30, 2004 from $40.5 million for the 39-week period ended November 1, 2003. The increase resulted primarily from the operation of new stores opened in the 39-week period ended October 30, 2004 and the full period impact of new stores opened during fiscal 2003, partially offset by a decrease in gross profit margin. Gross profit as a percentage of net sales was 37.1% for the 39-week period ended October 30, 2004, compared to 37.5% for the 39-week period ended November 1, 2003. Gross profit margin decreased primarily as a result of a shift in sales mix towards more nationally recognized branded merchandise that carries lower profit margins than non-branded merchandise. Gross margins also decreased as a result of higher freight costs to ship products to stores primarily due to fuel surcharges.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $10.1 million, or 28.1%, to $46.0 million for the 39-week period ended October 30, 2004 from $35.9 million for the 39-week period ended November 1, 2003. This increase was caused primarily by store level, distribution and corporate costs associated with the growing store base and the full period impact of new stores opened during the 39-week period ended November 1, 2003. As a percentage of net sales, selling, general and administrative expenses increased to 33.6% for the 39-week period ended October 30, 2004 from 33.3% for the 39-week period ended November 1, 2003.

Interest Expense. Interest expense increased approximately $243,000 for the 39-week period ended October 30, 2004 to $558,000 compared to approximately $315,000 for the 39-week period ended November 1, 2003. The increase was primarily the result of the adoption of SFAS No. 150, which increased interest expense by the inclusion of dividends on mandatory redeemable obligations that were previously deducted from equity as dividends, and increased borrowings related to the cost of new stores during the period, inclusive of inventory. We adopted SFAS No. 150 on July 6, 2003 and dividends treated as interest expense in the 39-week period ended October 30, 2004 and November 1, 2003 were approximately $243,000 and approximately $108,000, respectively.

Income Tax Expense. Income tax expense was $1.6 million for both the 39-week period ended October 30, 2004 and 39-week period ended November 1, 2003. Our effective tax rate was 38.5% and 38.6% for the 39-week period ended October 30, 2004 and November 1, 2003, respectively.

Net Income. Net income was $2.6 million for both the 39-week period ended October 30, 2004 and the 39-week period ended November 1, 2003.

Fiscal 2003 Compared to Fiscal 2002

Net Sales. Net sales increased $32.2 million, or 25.8%, to $157.2 million for fiscal 2003 from $125.0 million for fiscal 2002. The increase resulted primarily from net sales of $38.6 million in fiscal 2003 from stores opened during fiscal 2003 and fiscal 2002 as compared to net sales of $10.8 million in fiscal 2002 from stores opened in fiscal 2002. In addition, the increase was due to a comparable store sales increase of $6.1 million, or 5.5%. The increase in comparable store sales resulted, in part, from an increase in the number of customer transactions and average items per sale and the full period impact of new stores opened during the fiscal year, partially offset by a decrease in the average price of an item sold. In addition, in fiscal 2002, we took over shoe operations in our stores from a third party licensee that had previously managed the shoe merchandise and paid us a commission on sales. As a result of this purchase, we recognized shoe sales as part of net sales (amounting to $3.8 million in fiscal 2003) instead of recognizing only the commissions as an increase to operating income. The increase in comparable store sales in fiscal 2003 benefited from the full year impact of this change. The increase was also caused by the impact of increased sales from stores that were relocated, remodeled or expanded during the two year period, with these stores accounting for approximately one-third of the 5.5% comparable store sales increase.

Gross Profit. Gross profit increased $11.9 million, or 25.3%, to $59.1 million for fiscal 2003 from $47.1 million for fiscal 2002. The increase resulted primarily from the operation of 25 new stores opened in fiscal 2003 and the full year impact of 16 new stores opened during fiscal 2002. Gross margin was 37.6% for fiscal 2003 compared to 37.7% for fiscal 2002. The decrease resulted from higher freight costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $10.1 million, or 26.0%, to $48.8 million for fiscal 2003 from $38.8 million for fiscal 2002. As a percentage of net sales, selling, general and administrative expenses increased slightly to 31.1% for fiscal 2003 from 31.0% for fiscal 2002. The dollar increase was caused primarily by increases in store level expenses, distribution costs and corporate costs associated with the growing store base and the full period impact of new stores opened during fiscal 2002.

Interest Expense. Interest expense increased approximately $307,000 for fiscal 2003 to approximately $563,000, compared to approximately $256,000 for fiscal 2002. The increase was primarily the result of our adoption of SFAS No. 150, which increased interest expense by the inclusion of dividends on mandatory redeemable obligations that were previously deducted from equity as dividends, increased borrowings related to the costs of opening new stores during the year, and the full year impact of the purchase of, and mortgage on, the office and

distribution facility in Savannah, Georgia. The amount of dividends treated as interest expense in fiscal 2003 was approximately $189,000 and none in fiscal 2002.

Income Tax Expense. Income tax expense increased approximately $626,000 for fiscal 2003 to $3.7 million compared to $3.1 million for fiscal 2002. Our effective tax rate was 38.6% and 38.1% for fiscal 2003 and fiscal 2002 respectively. The rate increased in fiscal 2003 due to reclassifying nondeductible preferred stock dividends as interest expense with the adoption of SFAS No. 150 in July 2003.

Net Income. Net income increased to $5.9 million for fiscal 2003 from $5.0 million in fiscal 2002 as a result of the factors discussed above.

Fiscal 2002 Compared to Fiscal 2001

Net Sales. Net sales increased $27.1 million, or 27.6%, to $125.0 million for fiscal 2002 from $97.9 million for fiscal 2001. The increase resulted primarily from net sales of $24.8 million during fiscal 2002 from stores opened during fiscal 2002 and fiscal 2001 as compared to net sales of $9.1 million from stores opened in fiscal 2001. In addition, the increase was due to a comparable store sales increase of $13.0 million, or 14.6%. The increase in comparable store sales was caused in part by an increase in the number of customer transactions and average items per sale and to a lesser extent the relocating and remodeling of a number of stores.

Gross Profit. Gross profit increased $11.3 million, or 31.4%, to $47.1 million for fiscal 2002 from $35.9 million for fiscal 2001. The increase resulted primarily from the operation of 16 new stores opened in fiscal 2002 and the full year impact of 12 new stores opened during fiscal 2001. Gross margin was 37.7% for fiscal 2002 compared to 36.6% for fiscal 2001. The increase resulted from lower markdowns and inventory shrinkage.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $7.4 million, or 23.4%, to $38.8 million for fiscal 2002 from $31.4 million for fiscal 2001. As a percentage of net sales, selling, general and administrative expenses decreased to 31.0% for fiscal 2002 from 32.1% for fiscal 2001. This decrease as a percentage of sales was caused primarily by benefits realized from higher comparable stores sales which provided greater operating efficiencies at store level.

Interest Expense. Interest expense decreased approximately $199,000 for fiscal 2002 to approximately $256,000, compared to approximately $455,000 for fiscal 2001. The decrease was primarily the result of improved results from operations and cash flow resulting in significantly lower monthly average line of credit balances.

Income Tax Expense. Income tax expense increased $1.5 million for fiscal 2002 to $3.1 million, compared to $1.6 million for fiscal 2001, as a result of improved profitability. Our effective tax rate was 38.1% and 38.9% for fiscal 2002 and fiscal 2001, respectively. The rate decreased in fiscal 2002 due to larger state and local tax credits.

Net Income. Net income increased to $5.0 million in fiscal 2002 from $2.5 million in fiscal 2001 as a result of the factors discussed above.

Quarterly Results of Operations

The following table sets forth our unaudited quarterly results of operations for fiscal 2003 and 2004. Each quarterly period presented below consists of 13 weeks and the information includes our statement of operations data for each such period and additional operating data for each such period. In the opinion of management, this unaudited interim financial data has been prepared on the same basis as the audited financial statements and reflect all adjustments (consisting only of normal recurring adjustments) and fairly present the financial information disclosed for these periods. The interim financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the audited financial statements and related notes included elsewhere in this prospectus. The results of operations for historical periods are not necessarily indicative of results for any future period.

Due to the importance of the spring selling season, which includes Easter, and the fall selling season, which includes Christmas, the first and fourth fiscal quarters have historically contributed, and we expect they will continue to contribute, disproportionately to our profitability for our entire fiscal year. As a result, any factors negatively affecting us in any year during the first and fourth fiscal quarters, including adverse weather and unfavorable economic conditions, could have a material adverse effect on our financial condition and results of operations for the entire year.

Our quarterly results of operations also may fluctuate based upon such factors as the timing of holiday seasons, the number and timing of new store openings, the amount of associated store preopening expenses, the amount of net sales contributed by new and existing stores, the mix of products sold, the timing and level of markdowns, store closings, remodels and relocations, competitive factors, weather and general economic conditions.

	Quarter Ended										
	May 4, 2002	Aug. 3, 2002	Nov. 2, 2002	Feb. 1, 2003	May 3, 2003	Aug. 2, 2003	Nov. 1, 2003	Jan. 31, 2004	May 1, 2004	July 31, 2004	Oct. 30, 2004
	(dollars in thousands)										
Statement of Operations Data:											
Net sales	$31,024	$28,434	$27,895	$37,598	$37,575	$34,209	$36,168	$49,246	$48,069	$43,011	$46,049
Cost of sales	18,706	17,935	17,687	23,479	22,023	22,452	22,991	30,679	29,034	28,095	29,159
Gross profit	12,318	10,499	10,208	14,119	15,552	11,757	13,177	18,567	19,035	14,916	16,890
Selling, general and administrative expenses	8,969	9,355	9,793	10,642	11,719	11,655	12,558	12,913	15,014	14,745	16,255
Income from operations	3,349	1,144	415	3,477	3,833	102	619	5,654	4,021	171	635
Interest expense	36	60	89	70	57	98	160	248	174	176	208
Earnings (loss) before income taxes	3,313	1,084	326	3,407	3,776	4	459	5,406	3,847	(5)	427
Income tax expense (benefit)	1,264	413	124	1,300	1,459	2	177	2,089	1,481	(2)	165
Net income (loss)	$ 2,049	$ 671	$ 202	$ 2,107	$ 2,317	$ 2	$ 282	$ 3,317	$ 2,366	$ (3)	$ 262
Additional Operating Data:											
Number of Stores:											
Open, beginning of quarter	123	126	129	132	137	147	154	159	161	178	182
Opened during quarter	3	5	3	5	10	7	6	2	17	5	13
Closed during quarter	-	2	-	-	-	-	1	-	-	1	-
Total open at end of period	126	129	132	137	147	154	159	161	178	182	195
Comparable store sales increase	14.3%	18.6%	13.7%	12.6%	3.2%	5.6%	9.6%	4.3%	3.5%	0.3%	3.0%

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, construction of new stores, remodeling of existing stores and improvements to our information systems. Historically, we have met these cash requirements from cash flow from operations, short-term trade credit and borrowings under our revolving lines of credit, long-term debt and capital leases.

Discussion of Cash Flows

For the 39-week period ended October 30, 2004, cash and cash equivalents decreased by $7.8 million to $2.2 million from $10.0 million at the end of fiscal 2003. The primary contributor to the decrease in cash and cash equivalents was $6.2 million of cash used in investing activities, primarily for new stores, and $5.3 million of cash used in operating activities, primarily an increase in inventory levels, partially offset by $3.8 million of cash from financing activities, primarily borrowings under our revolving lines of credit.

For fiscal 2003, cash and cash equivalents increased by $4.2 million to $10.0 million from $5.8 million at the end of fiscal 2002. The primary contributor to the increase in cash and cash equivalents was $11.3 million of cash provided by operations, partially offset by $6.2 million used in investing activities, primarily to construct new stores. For fiscal 2002, cash and cash equivalents increased by $1.7 million to $5.8 million from $4.1 million at the end of fiscal 2001. The primary contributor to the increase in cash and cash equivalents was $10.5 million of cash provided by operations, partially offset by $5.9 million used in investing activities, primarily to construct new stores and $2.8 million from cash used in financing activities, primarily to pay down our revolving lines of credit.

Net cash provided by operating activities decreased in the 39-week period ended October 30, 2004 compared to the 39-week period ended November 1, 2003 primarily because of increased investments in inventory totaling $14.7 million compared to $10.8 million in the prior 39-week period. This change related to the timing of the flow of goods for the Christmas season and the funding of 35 new store inventories in the fiscal 2004 period

compared to 22 in the prior period. Net cash provided by operating activities was $11.3 million for fiscal 2003 and $10.5 million for fiscal 2002. Net cash provided by operating activities increased in fiscal 2003 compared to fiscal 2002 primarily because net income increased. Net cash provided by (used in) operating activities was $(5.3) million for the 39-week period ended October 30, 2004 and approximately $(84,000) for the 39-week period ended November 1, 2003.

Net cash used in investing activities was $6.2 million for the 39-week period ended October 30, 2004 and $5.1 million for the 39-week period ended November 1, 2003. Net cash used in investing activities increased in the 39-week period ended October 30, 2004 compared to the 39-week period ended November 1, 2003 because we purchased additional property and equipment to open 35 new stores compared to 22 new stores in the prior period. Net cash used in investing activities was $6.2 million for fiscal 2003 and $5.9 million for fiscal 2002. Net cash used in investing activities increased in fiscal 2003 compared to fiscal 2002 because we purchased additional property and equipment to open 25 new stores compared to 16 new stores in the prior year.

We anticipate that our capital expenditures will increase to approximately $10 million in fiscal 2005 and $26 million in fiscal 2006. Fiscal 2005 spending relates to the purchase of property and equipment for the 40 stores we plan to open in 2005. The increase in fiscal 2006 relates to the planned purchase or construction of a new distribution center and the purchase of property and equipment for the 40 stores we plan to open in fiscal 2006. We plan to finance these capital expenditures over the next two fiscal years with cash flow from operations and a portion of the net proceeds from this offering.

Net cash provided by financing activities was $3.8 million for the 39-week period ended October 30, 2004 and $2.3 million for the 39-week period ended November 1, 2003. Net cash provided by financing activities for the 39-week period ended October 30, 2004 was primarily attributable to borrowings of $5.4 million on our secured line of credit, partially offset by $1.0 million in preferred stock dividend payments and approximately $623,000 in capital lease and mortgage payments. Net cash provided by financing activities for the 39-week period ended November 1, 2003 was primarily attributable to borrowings on our secured line of credit. Net cash used in financing activities was approximately $942,000 for fiscal 2003 and $2.8 million for fiscal 2002. Net cash used in financing activities for fiscal 2003 was attributable to payments on capital lease obligations and mortgage payments on our Fahm Street facility. Net cash used in financing activities for fiscal 2002 was primarily attributable to $3.7 million in repayments of our secured line of credit and approximately $742,000 in payments on capital lease obligations, partially offset by $1.7 million in proceeds from the mortgage on our Fahm Street facility. Until required for other purposes, we maintain our cash and cash equivalents in deposit accounts or highly liquid investments with remaining maturities of 90 days or less at the time of purchase.

Liquidity Sources, Requirements and Contractual Cash Requirements and Commitments

Our principal sources of liquidity will consist of: (i) cash and cash equivalents (which equaled $2.2 million as of October 30, 2004); (ii) a secured line of credit with a maximum available borrowing of $25.0 million subject to our inventory levels (with availability of $21.0 million and $4.0 million drawn down as of October 30, 2004); (iii) an unsecured line of credit with a maximum available borrowing of $3.0 million subject to our inventory levels (with availability of $1.6 million and $1.4 million drawn down as of October 30, 2004); (iv) cash generated from operations on an ongoing basis as we sell our merchandise inventory; (v) trade credit; and (vi) the remainder of the net proceeds from this offering after the redemption of our Series A Preferred Stock and the repayment of outstanding indebtedness. Short-term trade credit represents a significant source of financing for our inventory purchases. Trade credit arises from customary payment terms and trade practices with our vendors. Our management regularly reviews the adequacy of credit available to us from our vendors. Historically, our principal liquidity requirements have been to meet our working capital and capital expenditure needs.

We believe that our sources of liquidity will be sufficient to fund our operations and anticipated capital expenditures for at least the next 24 months. Our ability to fund these requirements and comply with the financial covenants under our secured lines of credit will depend on our cash flow, which in turn is subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control. In addition, as part of our strategy, we intend to continue to open new stores, which will require additional capital. We cannot assure you that additional capital or other sources of liquidity will be available on terms acceptable to us, or at all.

The following table discloses aggregate information about our contractual obligations as of October 30, 2004 and the periods in which payments are due:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(in thousands)		
Contractual obligations:					
Series A Preferred Stock(1)	$ 5,864	$ -	$ -	$ 5,864	$ -
Debt maturing within one year(2)	5,388	5,388	-	-	-
Long-term debt(3)	1,758	179	1,579	-	-
Capital leases	1,372	736	636	-	-
Operating leases(4)	31,459	7,898	13,588	8,105	1,868
Purchase obligations	31,461	31,461	-	-	-
Consulting fee(5)	780	240	480	60	-
Total contractual cash obligations	$78,082	$45,902	$16,284	$14,029	$1,868

(1) Includes Series A Preferred Stock of $3.6 million, accrued dividends of approximately $799,000 as of October 30, 2004 and dividends of $1.5 million accruing through maturity in April 2009. The board of directors approved a resolution whereby we began making payments of approximately $500,000 per quarter beginning in the second quarter of fiscal 2004. Our Series A Preferred Stock will be redeemed using a portion of the net proceeds from this offering.

(2) Does not include interest on our revolving lines of credit, which is variable. Upon consummation of this offering, we intend to repay any outstanding balance.

(3) Our outstanding long-term debt will be repaid using a portion of the net proceeds from this offering.

(4) Represents fixed minimum rentals in stores and does not include rentals which are computed as a percentage of net sales.

(5) Represents minimum payments for the four year term of a management consulting agreement that is subject to automatic annual renewals unless terminated with 60 days notice by either party. Upon consummation of this offering, the parties shall terminate the consulting agreement and we will pay the consultant a termination fee of $1.2 million.

Indebtedness. We have a revolving line of credit secured by substantially all of our assets pursuant to which we pay customary fees. This secured line of credit expires in April 2007. This secured line of credit provides for aggregate cash borrowings and the issuance of letters of credit up to the lesser of $25.0 million or our borrowing base (which was approximately $24.0 million at October 30, 2004), with a letter of credit sub-limit of $2.0 million. Borrowings under this secured line of credit bear interest at the prime rate plus a spread or LIBOR plus a spread, at our election, based on conditions in the credit agreement. As of October 30, 2004, outstanding borrowings on the line of credit totaled $4.0 million at an interest rate of 4.75%, and there were no outstanding letters of credit as of that date. Under the terms of the credit agreement, we are required to maintain a minimum tangible net worth of $3.9 million.

In September 2003, we entered into an annual unsecured revolving line of credit with Bank of America that was renewed in June 2004. The line of credit provides for aggregate cash borrowings up to $3.0 million to be used for general operating purposes. Borrowings under the credit agreement bear interest at LIBOR plus a spread, and the interest rate was 3.96% as of October 30, 2004. At October 30, 2004, $1.4 million was outstanding under this revolving line of credit. We intend to pay down any outstanding balance on this unsecured line of credit with a portion of the net proceeds from this offering.

We borrow funds under these revolving lines of credit from time to time and subsequently repay such borrowings with available cash generated from operations.

Capital Leases. We have capital lease obligations that financed the purchase of our computer equipment. At October 30, 2004, our capital lease obligations were $1.3 million. These obligations have maturity dates ranging from May 2004 to October 2007. The interest rates on these obligations range from 0.6% to 11.5%. All of these obligations are secured by the computer equipment.

Operating Leases. We lease our stores under operating leases, which generally have an initial term of five years with one five-year renewal option. Some operating leases provide for fixed monthly rentals while others provide for rentals computed as a percentage of net sales. Some operating leases provide for a combination of both fixed monthly rental and rentals computed as a percentage of net sales. Rental expense was $6.4 million for fiscal 2003 and $4.8 million for fiscal 2002.

Purchase Obligations. As of October 30, 2004, we had purchase obligations of $31.5 million, all of which were for less than one year. These purchase obligations primarily consist of outstanding merchandise orders.

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States 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. We believe the following critical accounting policies describe the more significant judgments and estimates used in the preparation of our financial statements:

Revenue Recognition

Revenue from retail sales is recognized at the time of the sale, net of an allowance for estimated returns. Revenue from layaway sales is recognized when the customer has paid for and received the merchandise. If the merchandise is not fully paid for within 60 days, the customer is given a refund or store credit for merchandise payments made, less a re-stocking fee and a program service charge. Program service charges, which are non-refundable, are recognized in revenue when collected. All sales are from cash, check or major credit card company transactions. We do not offer company-sponsored customer credit accounts.

Inventory

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

Property and Equipment, net

Property and equipment are stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation and amortization are computed using the straight-line method over the lesser of the estimated useful lives (primarily three to five years for computer equipment and furniture, fixtures and equipment, five years for leasehold improvements, and 15 years for buildings) of the related assets or the relevant lease term, whichever is shorter.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired. We adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, as of February 3, 2002. Pursuant to SFAS No. 142, goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but instead tested for impairment at least annually. We performed this analysis at the end of fiscal 2003 and no impairment was indicated.

Impairment of Long-Lived Assets

If facts and circumstances indicate that a long-lived asset, including property and equipment, may be impaired, the carrying value is reviewed. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. Impairment losses in the future are dependent on a number of factors such as site selection and general economic trends, and thus could be significantly different from historical results. To the extent our estimates for net sales, gross profit and store expenses are not realized, future assessments of recoverability could result in impairment charges.

Stock-Based Compensation

We apply the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB interpretation (FIN) No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25*, to account for our fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. We recognize the fair value of stock rights granted to non-employees in the accompanying financial statements. SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123*, establishes accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing accounting standards, we have elected to continue to apply the intrinsic-value-based method of accounting described above, and we have adopted only the disclosure requirements of SFAS No. 123, as amended. Pro forma information regarding net income and net income per share is required in order to show our net income as if we had accounted for employee stock options under the fair value method of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation— Transition Disclosure*. This information is contained in notes 2 and 8 to our financial statements. The fair values of options and shares issued pursuant to our option plan at each grant date were estimated using the Black-Scholes option pricing model.

Store Opening and Closing Costs

New and relocated store opening costs are charged directly to expense when incurred. When we decide to close or relocate a store, we record an expense for the present value of expected future rent payments net of sublease income in the period that a store closes or relocates.

Accounting for 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.

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

Quantitative and Qualitative Disclosure about Market Risk

We are exposed to financial market risks related to changes in interest rates connected with our revolving lines of credit which bear 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, cash flows for fiscal 2004. We do not engage in financial transactions for trading or speculative purposes, and we have not entered into any interest rate hedging contracts.

We source all of our product from apparel markets in the United States and, therefore, are not subject to fluctuations in foreign currency exchange rates. We have not entered into forward contracts to hedge against fluctuations in foreign currency prices.

If we were to begin sourcing product directly from overseas, our risk management policy would allow us to utilize foreign currency forward and option contracts to manage currency exposures. If we were to enter into hedging contracts, we anticipate that the contracts would have maturities of less than three months and would settle before

the end of each quarterly period. Additionally, we do not expect to enter into any hedging contracts for trading or speculative purposes.

We had cash and cash equivalents totaling $2.2 million at October 30, 2004. These amounts were maintained in deposit accounts or highly liquid investments with remaining maturities of 90 days or less at the time of purchase. Due to the short-term nature of these investments, we believe that we do not have material exposure to changes in the fair value of our investments as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. We do not enter into investments for trading or speculative purposes.

Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*. SFAS No. 153 amends APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, which requires that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged, but which includes certain exceptions to that principle. SFAS No. 153 eliminates the exception from APB Opinion No. 29 for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have a commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on our consolidated financial position or results of operations.

In December 2004, the FASB issued a revision to SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123R replaces SFAS No. 123 and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions and is effective as of the beginning of the first reporting period that begins after June 15, 2005 for public entities that do not file as small business issuers. We have illustrated the effect on our earnings as if we had adopted the fair value method of accounting for stock-based compensation under SFAS No. 123. This information is contained in notes 2 and 8 to our financial statements. The fair values of options and shares issued pursuant to our option plan at each grant date were estimated using the Black-Scholes option pricing model. The fair value-based method of SFAS No. 123 is similar in most respects to the fair value-based method under SFAS No. 123R, although the election of certain methods within the applicable transition rules of SFAS No. 123R may affect the impact on our consolidated financial position or results of operations. Such impact, if any, on our consolidated financial position or results of operations has not been determined.

In December 2003, the FASB issued FIN 46R, *Consolidation of Variable Interest Entities*, which is an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. FIN 46R requires that if an entity has a controlling interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. FIN 46R is effective immediately for all new variable interest entities created or acquired after December 31, 2003. The adoption of FIN 46R is not expected to have an impact on our consolidated financial position or results of operations.

Business

We are a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. We offer quality, branded products from nationally recognized brands, as well as private label products and a limited assortment of home décor items. Our merchandise offerings are designed to appeal to the preferences of fashion conscious consumers, particularly African-Americans. We provide this offering at compelling values with nationally recognized branded merchandise offered at 20% to 60% discounts to department and specialty stores' regular prices. Our stores average approximately 8,500 square feet of selling space and are typically located in neighborhood shopping centers that are convenient to low to moderate income customers. Originally our stores were located in the Southeast, and we have recently expanded into the Mid-Atlantic region and Texas. We currently operate 200 stores in both urban and rural markets in twelve states. In each of fiscal 2005 and fiscal 2006, we intend to open 40 new stores, approximately 70% of which are expected to be located in states that we currently serve.

Our predecessor was founded in 1946 and grew to become a chain of family apparel stores operating in the Southeast under the Allied Department Stores name. In 1999, our chain of stores was acquired by Hampshire Equity Partners, a private equity firm. Our management team has implemented several strategies designed to differentiate our stores, improve our operating and financial performance and position us for growth, including:

- focusing our merchandise offerings on more urban fashion apparel for the entire family, with greater emphasis on nationally recognized brands;
- accelerating and completing the remodeling of virtually all of the 85 stores acquired in 1999 to create a more appealing shopping environment;
- refining our new store model and implementing a real estate approach focused on locating stores in low to moderate income neighborhoods close to our core customers;
- rebranding our stores and our company to Citi Trends in order to convey more effectively our positioning to consumers;
- investing in infrastructure to support growth, including opening an additional distribution center and installing new point of sale systems in all of our stores; and
- implementing an aggressive growth strategy, including entering several new markets such as Houston, Norfolk and, most recently, Baltimore and Washington, D.C.

Industry

According to a nationally recognized firm that specializes in apparel research, retail sales of off-price apparel totaled $16.5 billion in the U.S. in 2004, up more than 15% from 2003. The popularity of this segment continues to grow, with off-price retailers accounting for 9.5% of overall retail apparel sales in the U.S. in 2004, versus 8.6% in 2003 and 8.2% in 2002.

The off-price apparel market is dominated by large format, national apparel companies, such as The TJX Companies, Burlington Coat Factory and Ross Stores. These retailers generally target more affluent consumers and seek to achieve high volumes by serving the fashion needs of a broad segment of the population. Mass merchants and general merchandise discount retailers, such as Wal-Mart Stores, Inc. and Kmart Corp., also offer apparel at reduced prices, but generally focus on basic apparel and are less fashion oriented. As a result, we believe there is significant demand for a value retailer that addresses the market of low to moderate income consumers generally and, particularly, African-American and other minority consumers who seek value-priced, urban fashion apparel and accessories. We believe this market benefits from several favorable characteristics, including:

Growing Market with Favorable Demographics. Based on U.S. Census Bureau data, approximately 31% of the U.S. population was non-white in 2000 versus approximately 20% in 1980. This percentage is estimated to increase to approximately 35% by 2010. Within this market, African-Americans represented 12.7% of the population as of 2000, which is expected to increase to 13.1% in 2010.

Significant Spending on Apparel. Minority consumers possess significant spending power. According to the Selig Center for Economic Growth at The University of Georgia, or the Selig Center, the combined U.S. buying power

of non-whites grew from $540.8 billion in 1990 to approximately $1.2 trillion in 2000. During that period, buying power for African-Americans grew from $318.3 billion to $584.9 billion and is estimated by the Selig Center to grow approximately 65% to $964.6 billion in 2009.

We believe our core customers are more fashion oriented, which results in a greater propensity to purchase apparel. According to the U.S. Department of Labor, African-Americans spend 4.7% of their annual income on apparel and related products and services, compared to 3.5% for the U.S. population as a whole.

Expansion of Urban Apparel Brands. In recent years, a series of nationally recognized urban brands, often associated with hip-hop and rap musicians, has emerged and gained significant popularity. These brands offer distinctive, urban apparel designed to appeal to African-American consumers, as well as to the broader population. Sales from 13 national urban apparel brands tracked by a nationally recognized firm that specializes in apparel research totaled approximately $1.9 billion in 2004, an increase of approximately 46% from 2003.

Business Strengths

Our goal is to be the leading value-priced retailer of urban fashion apparel and accessories. We believe the following business strengths differentiate us from our competitors and are important to our success:

Focus on Urban Fashion Mix. We focus our merchandise on urban fashions, which we believe appeals to our core customers. We do not attempt to dictate trends, but rather devote considerable effort to identifying emerging trends and ensuring that our apparel assortment is considered timely and fashionable in the urban market. Our merchandising staff tests new merchandise before reordering and actively manages the mix of brands and products in our stores to keep our offering fresh and minimize markdowns.

Superior Value Proposition. As a value-priced retailer, we seek to offer first quality, fashionable merchandise at compelling prices. Our assortment includes nationally recognized brands offered at 20% to 60% discounts to department and specialty stores' regular prices. We also offer products under our proprietary brands such as Citi Steps, Diva Blue and Urban Sophistication. These private labels enable us to expand product selection, offer fashion merchandise at lower prices and enhances our product offerings.

Merchandise Mix that Appeals to the Entire Family. We merchandise our stores to create a destination environment capable of meeting the fashion needs of the entire value-conscious family. Each store offers a wide variety of products for men and women, as well as infants, toddlers, boys and girls. Our stores feature sportswear, dresses, plus-sized apparel, outerwear, footwear and accessories, as well as a limited assortment of home décor items. We believe that the breadth of our merchandise distinguishes our stores from many competitors that offer urban apparel primarily for women, and reduces our exposure to fashion trends and demand cycles in any single category.

Strong and Flexible Sourcing Relationships. We maintain strong sourcing relationships with a large group of suppliers. We have purchased merchandise from more than 1,000 vendors in the past twelve months. Purchasing is controlled by our 20-member buying team located at our Savannah, Georgia headquarters and in New York, New York, and our buyers have an average of more than 20 years of retail experience. We purchase merchandise through planned programs with vendors at reduced prices and opportunistically through close-outs, with the majority of our merchandise purchased for the current season and a limited quantity held for sale in future seasons. To foster our vendor relationships, we pay vendors promptly and do not ask for typical retail concessions such as promotional and markdown allowances or delivery concessions such as drop shipments to stores.

Attractive Fashion Presentation and Store Environment. We seek to provide a fashion-focused shopping environment that is similar to a specialty apparel retailer, rather than a typical off-price store. Products from nationally recognized brands are prominently displayed by brand, rather than by size, on dedicated, four-way fixtures featuring multiple sizes and styles. The remaining merchandise is arranged on hanging racks. All stores are carpeted and well-lit, with most featuring a sound system that plays urban adult and urban contemporary music throughout the store. Nearly all of our stores have either been opened or remodeled in the past six years.

Highly Profitable Store Model. We operate a proven and efficient store model that delivers strong cash flow and store level return on investment. We locate stores in high traffic strip shopping centers that are convenient to low and moderate income neighborhoods. We generally utilize previously occupied store sites. This approach enables

us to generate substantial traffic at attractive rents. Similarly, our advertising expenses are low as we do not rely on promotion-driven sales but rather seek to build our reputation for value through everyday low prices. At the same time, our unit investment is limited, as we do not spend large sums on fixturing, leasehold improvements, equipment or other startup costs. As a result, our stores generate rapid payback of investments, typically within 12 to 14 months.

Growth Strategy

Our growth strategy is to open stores in new and existing markets, as well as to increase sales in existing stores. Adding stores in the markets we currently serve often enables us to benefit from enhanced name recognition and achieve advertising and operating synergies. In fiscal 2003 and fiscal 2004, we opened 25 and 40 stores, respectively, and entered the Houston, Norfolk, Baltimore and Washington, D.C. markets. Of the 25 stores opened in fiscal 2003, the average sales of the 23 stores open for the twelve months ended October 31, 2004 was $1.2 million.

In each of fiscal 2005 and fiscal 2006, we intend to open 40 new stores, approximately 70% of which we expect to locate in states we currently serve.

We intend to increase comparable store sales through merchandising enhancements and the expansion of adjacent product categories. We have recently added a dedicated buyer in home décor and upgraded our buying capabilities and focus within the intimate apparel category.

Store Operations

Store Format. Our existing 200 stores' average selling space is approximately 8,500 square feet, which allows us space and flexibility to departmentalize our stores and provide directed traffic patterns. New stores added in fiscal 2004 averaged approximately 10,700 square feet, which is larger than the stores added in fiscal 2003 and significantly larger than our historical store base. As a result of these new stores, as well as due to the remodeling and expansion of existing stores in fiscal 2003, our average square footage of selling space per store has increased from approximately 7,500 at the end of fiscal 2002 to its current level.

We arrange our stores in a racetrack format with women's sportswear, our most attractive and fashion current merchandise, in the center of each store, and complementary categories adjacent to those items. Men's and boy's apparel is displayed on one side of the store while dresses, footwear and accessories are displayed on the other side. Merchandise for infants, toddlers and girls is displayed along the back of the store. Impulse items, such as jewelry and sunglasses, are featured near the checkout area. Products from nationally recognized brands are prominently displayed on four way racks at the front of each department. The remaining merchandise is displayed on hanging racks and occasionally on table displays. Large hanging signs identify each category location. The unobstructed floor plan allows the customer to see virtually all of the different product areas from the store entrance and provides us the flexibility easily to expand and contract departments in response to consumer demand, seasonality and merchandise availability.

Virtually all of our inventory is displayed on the selling floor. Our prices are clearly marked and often have the comparative retail-selling price noted on the price tag.

Store Management. Store operations are managed by our Vice President of Store Operations, three regional managers and 21 district managers, each of whom typically manages eight to ten stores. Our typical store is staffed with a store manager, two or three assistant managers and seven to eight part time sales associates, all of whom rotate work days on a shift basis. District managers and store managers participate in a bonus program based on achieving predetermined levels of sales and profits. The district managers also participate in bonus programs based on achieving targeted payroll costs. Our regional managers participate in a bonus program based on a rollup of the district managers' bonuses. The assistant managers and sales associates are compensated on an hourly basis with incentives. Moreover, we recognize individual performance through internal promotions and provide extensive opportunities for advancement, particularly given our rapid growth.

We place significant emphasis on loss prevention in order to control inventory shrinkage. Our initiatives include electronic tags on all of our products, training and education of store personnel on loss prevention issues, digital video camera systems, alarm systems and motion detectors in the stores. We also capture extensive point-of-sale

data and maintain systems that monitor returns, voids and employee sales, and produce trend and exception reports to assist us in identifying shrinkage issues. We have a centralized loss prevention team that focuses exclusively on implementation of our initiatives and specifically on stores that have experienced above average levels of shrinkage.

Employee Training. Our employees are critical to achieving our goals, and we strive to hire employees with high energy levels and motivation. We have well-established store operating policies and procedures and an extensive 90-day in-store training program for new store managers and assistant managers. Our sales associates also participate in a 30-day customer service and store procedures training program, which is designed to enable them to assist customers in a friendly, helpful manner.

Layaway Program. We offer a layaway program that allows customers to purchase merchandise by initially paying a 20% deposit together with a $2.00 service charge. The customer then makes additional payments every two weeks and has 60 days within which to complete the purchase. If the purchase is not completed, the customer receives a merchandise credit for amounts paid less a re-stocking fee and the service charge. Sales under our layaway program accounted for approximately 13% of our total sales in fiscal 2003.

Store Economics. We believe we benefit from attractive store-level economics. The average investment for the 41 stores we opened in fiscal 2002 and fiscal 2003, including leasehold improvements, equipment, cost of inventory to stock the store (net of accounts payable) and preopening store expenses, was approximately $240,000. These 41 stores generated average sales of $1.2 million and average store level cash flow (exclusive of pre-opening expense) of $240,000 during their first twelve months of operation. Our average investment for the 40 stores opened in fiscal 2004 was approximately $280,000. This investment represents an increase over prior years as the size of our stores has increased and, in some instances, we have paid for leasehold improvements that we expect to recover over time. We expect these stores to generate similar levels of return on investment.

Store Locations

As of January 29, 2005, we operated 200 stores located in twelve states. Our stores are primarily located in strip shopping centers and downtown business districts. We have no franchising relationships as all of our stores are company-operated. The table below sets forth the number of stores in each of these twelve states and the specific markets within each such state in which we operated at least two stores as of January 29, 2005:

Alabama—17	**Louisiana—23**	**South Carolina—32**
Birmingham—4	Shreveport—3	Charleston—2
Montgomery—2	Baton Rouge—2	Columbia—2
Mobile—2	Monroe—2	Orangeburg—2
Single store locations—9	New Orleans—2	Single store locations—26
Arkansas—4	Single store locations—14	**Tennessee—9**
Little Rock—3	**Maryland—3**	Memphis—6
Single store locations—1	Baltimore—2	Nashville—2
Florida—13	Single store locations—1	Single store locations—1
Jacksonville—3	**Mississippi—15**	**Texas—6**
Tampa—2	Jackson—2	Houston—6
Single store locations—8	Single store locations—13	**Virginia—11**
Georgia—41	**North Carolina—26**	Norfolk—6
Atlanta—9	Durham—2	Richmond—4
Albany—2	Fayetteville—2	Single store locations—1
Augusta—2	Greensboro—2	
Macon—2	Single store locations—20	
Savannah—2		
Single store locations—24		

Site Selection. Cost-effective store locations are an important part of our profitability model. Accordingly, we look for second and third use store locations that offer attractive rents, but also meet our demographic and economic criteria.

In selecting a location, we target both urban and rural markets. Demographic criteria used in site selection include concentrations of our core consumers. In addition, we require convenient site accessibility, as well as strong co-tenants, such as food stores, dollar stores, rent-to-own stores and other apparel stores. We prepare detailed demographic studies and pro forma financial statements for each prospective store location. Our economic criteria for a site include specific store-level profitability and return on capital invested.

We have a dedicated real estate management team responsible for new store site selection. Our group has identified a significant number of target sites in existing strip shopping centers and off-mall locations with appropriate market characteristics in both new and existing markets. We opened a total of 65 new stores in fiscal 2003 and fiscal 2004. In each of fiscal 2005 and fiscal 2006, we intend to open an additional 40 stores. We expect to fund our store openings with a portion of the net proceeds from this offering and cash flow from operations.

Shortly after we sign a new store lease, our store construction department prepares the store by installing fixtures, signs, dressing rooms, checkout counters, cash register systems and other items. Once we take possession of a store site, we can open the store within approximately three to four weeks.

Product Merchandising and Pricing

Merchandising. Our merchandising policy is to offer high quality, branded products at attractive prices for the entire value-conscious family. We seek to maintain a diverse assortment of first quality, in-season merchandise that appeals to the distinctive tastes and preferences of our core customers. Approximately 30% of our sales are typically represented by nationally recognized brands. We also offer a wide variety of products from less recognized brands that represent approximately 60% of sales. The remaining 10% of sales represent private label products under our proprietary brands such as Citi Steps, Diva Blue and Urban Sophistication. Our private label products enable us to expand product selection, offer merchandise at lower prices and enhances our product offerings.

Our merchandise includes apparel, accessories and home décor. Within apparel, we offer men’s, women’s, which includes dresses, sportswear and plus size offerings, and children’s, which includes offerings for infants, toddlers, boys and girls. We also offer accessories, which includes intimate apparel, handbags, hats, jewelry, footwear, toys, belts and sleepwear, as well as a limited assortment of home décor, which includes giftware, lamps, pictures, mirrors and figurines.

The following table sets forth our merchandise assortment by classification as a percentage of net sales for fiscal 2003.

	Percentage of Net Sales
Women’s	38%
Children’s	27%
Men’s	21%
Accessories	13%
Home décor	1%

Pricing. We purchase our merchandise at low prices and mark prices up less than department or specialty stores. Our nationally recognized brands are offered at prices 20% to 60% below regular retail prices available in department stores and specialty stores, and that product offering validates both our value and fashion positioning to our consumers. We also consider the price-to-value relationships of our non-branded products to be strong. Our basic pricing strategy is everyday low prices. Our discount from the suggested retail price is usually reflected on the price tag. We review each department in our stores at least monthly for possible markdowns based on sales rates and fashion seasons to promote faster turnover of inventory and to accelerate the flow of current merchandise.

Sourcing and Allocation

Our merchandising department oversees the sourcing and allocation of merchandise to our stores, which allows us to utilize volume purchase discounts and maintain control over our inventory. We source our merchandise from over 1,000 vendors, consisting of domestic manufacturers and importers. For fiscal 2004, no vendor represented over 6% of our net sales. Our President and Chief Merchandising Officer supervises our 13 member planning and allocation team, as well as our buying team which is comprised of five merchandise managers and 14 buyers. Consistent with our plan to grow the intimate apparel and home décor categories, we recently added a dedicated buyer in home décor and upgraded our buying capabilities and focus in intimate apparel.

Our buyers have an average of 20 years of experience in the retail business and have developed long-standing relationships with many of our vendors, including those controlling the distribution of branded apparel. These buyers are responsible for maintaining vendor relationships, securing high quality, fashionable merchandise that meets our margin requirements and identifying and responding to emerging fashion trends. Our buyers, who are based in Savannah and New York, accomplish this by traveling to the major United States apparel markets regularly, visiting our major manufacturers and attending national and regional apparel trade shows, including urban-focused trade shows. We also retain the services of two independent fashion consulting firms that monitor market trends.

Our buyers purchase merchandise in styles, sizes and quantities to meet inventory levels developed by our planning staff. We work closely with our suppliers and are able to differentiate ourselves by our willingness to purchase less than a full assortment of styles, colors and sizes and by our policy of paying promptly and not asking for typical retail concessions such as promotional and markdown allowances. Our purchasing department utilizes several buying techniques that enable us to offer to consumers branded and other merchandise at everyday low prices. The majority of the nationally recognized branded products we sell are purchased in-season and represent our vendors' excess inventories resulting from production or retailer order cancellations. We generally purchase later in the merchandising buying cycle than department and specialty stores. This allows us to take advantage of imbalances between retailers' demands for specific merchandise and manufacturers' supply of that merchandise. We also purchase merchandise from some vendors in advance of the selling season at reduced prices. Occasionally, we purchase merchandise on an opportunistic basis, which we then "pack and hold" for sale three to nine months later. Where possible, we seek to purchase items based on style or color in limited quantities on a test basis with the right to reorder as needed. Finally, we purchase private label merchandise that we source to our specifications.

As is customary in the industry, we do not enter into long-term contracts with any of our suppliers. While we believe we may encounter delays if we change suppliers, we believe alternate sources of merchandise for all product categories are available at comparable prices.

We allocate merchandise across our store base according to store-level demand. Our merchandising staff utilizes a centralized management system to monitor merchandise purchasing, allocation and sales in order to maximize inventory turnover, identify and respond to changing product demands and determine the timing of mark-downs to our merchandise. Our buyers also regularly review the age and condition of our merchandise and manage both the reordering and clearance processes. In addition, our merchandising team communicates with our regional, district and store managers to ascertain regional and store-level conditions and to better ensure that our product mix meets our consumers' demands in terms of quality, fashion, price and availability.

Advertising and Marketing

Our advertising goal is to build the "Citi Trends" brand and promote consumers' association of our brand with value, quality, fashion and everyday low prices. We generally focus our advertising efforts during the Easter, back-to-school and Christmas seasons. This advertising consists of radio commercials on local hip-hop radio stations that highlight our brands, our value and our everyday low prices. We also do in-store advertising that includes window signs designated for special purposes, such as seasonal events and clearance periods, and taped audio advertisements co-mingled with our in-store music programs. Signs change in color, quantity and theme every three to six weeks. For store grand openings, we typically seek to create community awareness and consumer excitement through radio advertising preceding and during the grand opening and by creating an on-site

event with local radio personalities broadcasting from the new location. We also distribute promotional items such as gift certificates and shopping sprees in connection with our grand openings.

Our marketing efforts center on promoting our everyday low prices and on demonstrating the strong price-to-value relationship of our products to our consumers. We do not utilize promotional advertising. Our merchandise is priced so that our competition rarely has lower prices. In the limited situations where our competition offers the same merchandise at a lower price, we will match the price.

Distribution

All merchandise sold in our stores is shipped directly from our distribution centers in Savannah, Georgia. In November 2004, we opened our second distribution center located on Coleman Boulevard, approximately 10 miles from our primary distribution center, the Fahm Street facility. The Coleman facility is used to process all receipts, as well as to warehouse "pack and hold" merchandise and merchandise held for new store openings. After merchandise is received and quality control functions are performed, the merchandise is moved to the Fahm Street facility for processing and shipping to the stores.

All work necessary to prepare the merchandise to be sales-floor ready is performed in our distribution centers. Some of our merchandise comes from vendors pre-ticketed and pre-packed and can be shipped directly from the distribution centers to our stores without repacking. However, most merchandise has to be price ticketed and repacked in store shipping units before being shipped to the stores.

We generally ship merchandise from Savannah to stores daily, but approximately 40 of our smaller volume stores receive merchandise every other day. Savannah is centrally located to our store base, and most of our stores are within a two-day drive from our distribution centers. We use United Parcel Service, Inc. and FedEx Corporation to ship merchandise to our stores. Our distribution centers have a combined 240,000 square feet, including approximately 20,000 square feet of office space. We expect these facilities to support our distribution and office capacity needs for at least the next two years. We intend to use a portion of the net proceeds from this offering to acquire or construct and design a new distribution center in fiscal 2006.

Quality control reviews of every merchandise receipt are performed by a dedicated team at the Coleman facility. This team is also responsible for working with our vendors and manufacturers to ensure consistent and superior quality across our private label merchandise, which accounts for approximately 10% of our net sales. Nearly all of our merchandise is purchased from recognized domestic manufacturers and importers, which reduces our risk of inadvertently handling counterfeit items.

Information Technology and Systems

We have information systems in place to support each of our business functions. We purchased our enterprise software from Island Pacific, a primary software provider to the retail industry. Our computer platform is an IBM AS400. The Island Pacific software supports the following business functions: purchasing, purchase order management, price and markdown management, distribution, merchandise allocation, general ledger, accounts payable and sales audit.

The Island Pacific merchandise system captures and reports sales and inventory by item, by store and by day. This information allows our merchandising team to evaluate merchandise performance in considerable detail with high levels of precision. Over the last four years we have enhanced the Island Pacific software, particularly to enhance merchandise allocation and distribution functions. In 2004, we purchased and installed Buyers Toolbox software to aid our merchandise planning and allocation functions.

Our stores use point-of-sale software from DataVantage, a division of MICROS Systems, Inc., to run our store cash registers. The system uses bar code scanners at checkout to capture item sales. It also supports end-of-day processing and automatically transmits sales and transaction data to Savannah each night. Additionally, the software supports store time clock and payroll functions. To facilitate marking down and re-ticketing merchandise, employees in our stores use hand-held scanners that read the correct item price and prepare new price tickets for merchandise. Our DataVantage software also enables us to sort and review transaction data, generate exception and other database reporting to assist in loss prevention.

In 2005, we plan to complete installation of the latest upgrade to the DataVantage software. The new software will enable improved and less costly telecommunications between stores and our Fahm Street facility. The upgrade will also provide improved credit and debit card processing, gift card capability, store e-mail and more reliable data transmissions to our home office systems.

We believe that our information systems, with upgrades and updates over time, are adequate to support our operations for the foreseeable future. Additionally, we are upgrading our website to enable Internet sales of selected urban branded apparel provided by third parties. We will earn commissions on these sales.

Competition

The markets we serve are highly competitive. We compete against a diverse group of retailers including national off-price retailers, mass merchants, smaller specialty retailers and dollar stores. The off-price retail companies that we compete with include The TJX Companies, Burlington Coat Factory and Ross Stores. In particular, TJX's A.J. Wright stores target moderate income consumers. Ross Stores, Inc. has recently launched a similar concept targeting lower income consumers, called dd's DISCOUNTS. We believe our strategy of appealing to African-American consumers and offering urban apparel products allows us to compete successfully with these retailers. We also believe we offer a more inviting store format than the off-price retailers with carpeted floors and more prominently displayed brands. We also compete with a group of smaller specialty retailers that only sell women's products, such as Rainbow, Dots, Fashion Cents, It's Fashions and Simply Fashions. Our mass merchant competitors include Wal-Mart and Kmart. These chains do not focus on fashion apparel and, within their apparel offering, lack the urban focus that we believe differentiates our offering and appeals to our core customers. Similarly, while some of the dollar store chains offer apparel, they typically offer a more limited selection focused on basic apparel needs.

Intellectual Property

We regard our trademarks and service marks as having significant value and as being important to our marketing efforts. We have registered the "Citi Trends" trademark with the U.S. Patent and Trademark Office on the Principal Register as both a trademark for retail department store services and as a trademark for clothing. We have also registered the following trademarks with the U.S. Patent and Trademark Office on the Principal Register: "Citi Club," "Citi Knights," "Citi Nite," "Citi Steps," "Citi Trends Fashion for Less," "Citi Women," "CT Sport," "Univer Soul" and "Vintage Harlem." We also have applications pending with the U.S. Patent and Trademark Office on the Principal Register for the following trademarks: "Citi Express," "Diva Blue," "Lil Citi Man," "Lil Ms Hollywood" and "Urban Sophistication." Our policy is to pursue registration of our marks and to oppose vigorously infringement of our marks.

Properties

All our existing 200 stores, totaling approximately 2.1 million gross square feet, are leased under operating leases. Additionally, as of February 10, 2005, we have signed leases for eleven new stores to be opened during fiscal 2005 aggregating approximately 148,320 total gross square feet. Our typical store lease is for five years with an option to extend our lease term for an additional five-year period, and requires us to pay percentage rent and increases in specified site-related charges. Nearly all of our store leases provide us the right to cancel following an initial three-year period in the event the store does not meet pre-determined sales levels.

We own an approximately 170,000 square foot facility located on Fahm Street in Savannah, Georgia, that serves as our headquarters and one of our two distribution centers. This facility is financed under a mortgage with a remaining principal balance of $1.5 million that is due in July 2007. We intend to repay this mortgage with a portion of the proceeds from this offering. We currently lease the land and building for our other distribution center located on Coleman Boulevard. The lease for this distribution center expires in September 2006, with options to renew for up to three more years. In addition, we currently lease 1,200 square feet in New York City, which is used for buyer operations and meetings with vendors.

Employees

As of January 29, 2005, we had approximately 800 full-time and approximately 1,000 part-time employees. Of these employees, approximately 1,500 are employed in our stores and the remainder are employed in our distribution centers and corporate offices. We are not a party to any collective bargaining agreements, and none of our employees is represented by a labor union.

Legal Proceedings

We are from time to time involved in various legal proceedings incidental to the conduct of our business, including claims by our customers, employees or former employees. We are currently the defendant in two putative collective action lawsuits commenced by former employees under the Fair Labor Standards Act. The plaintiff in each of the lawsuits is represented by the same law firm, and both suits are pending in District Court of the United States for the Middle District of Alabama, Northern Division. Each of the cases is in its early stages, and we are in the process of evaluating the claims made. While our review of the allegations is preliminary, we believe that our business practices are, and were during the relevant periods, in compliance with the law. We plan to defend these suits vigorously.

Management

Executive Officers and Directors

The following table sets forth information regarding our executive officers and directors, as well as our nominees for our board of directors pending the closing of this offering, and their ages:

Name	Age	Position
R. Edward Anderson	55	Chief Executive Officer and Director
George A. Bellino*	57	President, Chief Merchandising Officer and Director
Thomas W. Stoltz	44	Chief Financial Officer
James A. Dunn	48	Vice President of Store Operations
Gregory P. Flynn	48	Chairman of the Board of Directors
Laurens M. Goff*	32	Director
John S. Lupo	58	Director
Tracy L. Noll	56	Director
**		Director Nominee

* Will resign from our board of directors upon the consummation of this offering.

** Will join our board of directors upon the consummation of this offering.

Upon the consummation of this offering, our board of directors will consist of five members. After this offering we expect to restructure our board of directors and appoint as an independent director. In connection with this restructuring, we expect that two of our current directors, Messrs. Bellino and Goff, will resign upon the consummation of this offering.

R. Edward Anderson. Mr. Anderson has served as our Chief Executive Officer and as a director since December 2001. Prior to his current responsibilities, Mr. Anderson served as Executive Vice President and Chief Financial Officer of Variety Wholesalers, our previous owner, from December 1997 to December 2001. From 1978 to 1994, Mr. Anderson served as Chief Financial Officer of Rose's Stores, Inc., a discount retailer. In August 1994, Mr. Anderson was promoted to Chief Executive Officer and served in this position until December 1997. Mr. Anderson also served as the Chairman of the Board of Directors of Rose's Stores, Inc. from August 1994 to December 1997.

George A. Bellino. Mr. Bellino has served as our President and Chief Merchandising Officer since January 1997 and has served as a director since April 1999. From June 1992 to December 1996, Mr. Bellino served as the Vice President of Merchandising at Pennsylvania Fashions, a privately held off-price apparel chain. From June 1990 to October 1991, Mr. Bellino served as President of General Textiles/ Family Bargain Center, a retail apparel chain.

Thomas W. Stoltz. Mr. Stoltz has served as our Chief Financial Officer since September 2000. From January 1999 to August 2000, Mr. Stoltz served as Chief Financial Officer of Sharon Luggage and Gifts, a privately held retailer. From August 1996 to December 1998, Mr. Stoltz served as the Chief Financial Officer and Vice President of Finance of Factory Card Outlet, a greeting card retailer. Mr. Stoltz is a certified public accountant licensed in North Carolina and a member of the American Institute of Certified Public Accountants.

James A. Dunn. Mr. Dunn has served as our Vice President of Store Operations since April 2001. From January to April 2001, Mr. Dunn was our Director of Training and Development and from January 2000 to January 2001 was one of our Regional Managers. Prior to joining us, Mr. Dunn was a Store Manager at Staples from January 1999 to December 2000. Prior to that Mr. Dunn was a Regional Manager at Dress Barn where he supervised 77 stores and 10 district sales managers with an annualized sales volume of $63.0 million.

Gregory P. Flynn. Mr. Flynn has served as our Chairman of the board of directors since 2001 and as a member of the compensation committee since 2001. Mr. Flynn is currently a Managing Partner of Hampshire Equity Partners II, L.P. and Hampshire Equity Partners III, L.P. and has been associated with Hampshire since 1996.

Hampshire Equity Partners and certain of its affiliates are selling stockholders in this offering. From 1994 to 1996, Mr. Flynn served as a Managing Partner of ING Equity Partners, L.P.

Laurens M. Goff. Mr. Goff has served as a director since September 2003 and as a member of the audit committee. Mr. Goff is currently a Principal of Hampshire Equity Partners II, L.P. and Hampshire Equity Partners III, L.P. and has been associated with Hampshire since August 1998. From 1996 to 1998, Mr. Goff served as an analyst of Furman Selz LLC.

John S. Lupo. Mr. Lupo has served as a director since May 2003, and is the Chairman of the compensation committee. Mr. Lupo is a principal in the consulting firm Renaissance Partners, LLC, which he joined in February 2000. From November 1998 until December 1999, Mr. Lupo served as Executive Vice President of Basset Furniture. From October 1996 until October 1998, Mr. Lupo served as the Chief Operating Officer of the International Division of Wal-Mart Stores Inc., and from September 1990 until September 1996, Mr. Lupo served as Senior Vice President and General Merchandise Manager of Wal-Mart Stores Inc. Mr. Lupo is a director for Rayovac Corp, a public reporting company, and serves on their Compensation and Corporate Governance and Nominating Committees.

Tracy L. Noll. Mr. Noll has served as a director since July 2000 and is the current Chairman of the audit committee. Mr. Noll is currently a private investor based in Dallas, Texas. He served as President and Chief Operating Officer of National Dairy Holdings, L.P. from April 2001 to September 2003. He served as Executive Vice President of Suiza Foods Corporation, a public reporting company, from September 1994 until March 2001, including serving as Chief Financial Officer from September 1994 until July 1997. He served as Vice President and Chief Financial Officer of Morningstar Foods Inc., a public reporting company, from April 1988 until June 1994. Mr. Noll currently serves as a Director and is Chairman of the Audit Committee of Reddy Ice Group, Inc., a public reporting company. Mr. Noll also serves as a Director of Lakeview Farms Inc., a privately held company.

Each of our executive officers serves at the discretion of the board of directors and holds office until his successor is elected and qualified or until his earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

Board of Directors Composition After the Offering

Our board of directors currently consists of six directors. Following this offering, our board of directors will be divided into three classes and will consist of five directors, three of which will be “independent” under the rules of the Nasdaq National Market. We intend to avail ourselves of the transition periods provided for under the applicable rules of the Nasdaq National Market for issuers listing in conjunction with their initial public offering. Additionally, we intend to avail ourselves of the Nasdaq rule 4350(c) “controlled company” exception that applies to companies where more than 50% of the stockholder voting power is held by an individual, a group or another company, thereby eliminating the requirements that we have a majority of independent directors on our board of directors and that our compensation and nominating and corporate governance committees be entirely comprised of independent directors.

Our second amended and restated certificate of incorporation will divide our board into three classes having staggered terms, with one of such classes being elected each year for a new three-year term. Class I directors will have an initial term expiring in 2006, Class II directors will have an initial term expiring in 2007 and Class III directors will have an initial term expiring in 2008. Class I will be comprised of Messrs. _____. Class II will be comprised of Messrs. Noll and Lupo. Class III will be comprised of Messrs. Flynn and Anderson.

In connection with this offering, we will enter into a nominating agreement with Hampshire Equity Partners pursuant to which we, acting through our nominating and corporate governance committee, will agree, subject to the requirements of our directors’ fiduciary duties, that (i) Hampshire Equity Partners will be entitled to designate two directors to be nominated for election to our board of directors as long as Hampshire Equity Partners owns in the aggregate at least 40% of the shares of our common stock which it owned immediately prior to the consummation of this offering or (ii) Hampshire Equity Partners will be entitled to designate one director to be nominated for election to our board of directors as long as Hampshire Equity Partners owns in the aggregate less than 40% and at least 15% of the shares of our common stock which it owned immediately prior to the

consummation of this offering. If at any time Hampshire Equity Partners owns less than 15% of the shares of our common stock which it owned immediately prior to the consummation of this offering, it will not have the right to nominate any directors for election to our board of directors.

Board of Director Committees

Our board of directors has established an audit committee and a compensation committee. Upon completion of this offering, we will create a nominating and corporate governance committee.

Audit Committee

The audit committee, currently consisting of Messrs. Noll and Goff, reviews our internal accounting procedures and consults with and reviews the services provided by our independent registered public accountants. Mr. Noll is the current Chairman of the audit committee and qualifies as an "audit committee financial expert" for purposes of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Upon the consummation of this offering and after Mr. Goff's anticipated resignation, we anticipate that our audit committee will consist of two independent directors, with Mr. Noll as the chairman. Following this offering, the principal duties and responsibilities of our audit committee will be to:

- have direct responsibility for the selection, compensation, retention, replacement and oversight of the work of our independent auditors, including prescribing what services are allowable and approve in advance all services provided by the auditors;
- set clear hiring policies for employees or former employees of the independent auditors;
- review all proposed company hires formerly employed by the independent auditors;
- have direct responsibility for ensuring its receipt from the independent auditors at least annually of a formal written statement delineating all relationships between the auditor and us, consistent with Independence Standards Board Standard No. 1;
- discuss with the independent directors any disclosed relationships or services that may impact the objectivity and independence of the auditor and for taking, or recommending that the full board of directors take, appropriate action to oversee the independence of the independent auditor;
- discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits including the adequacy of staffing, compensation and resources;
- review, at least annually, the results and scope of the audit and other services provided by our independent auditors and discuss any audit problems or difficulties and management's response;
- review our annual audited financial statement and quarterly financial statements and discuss the statements with management and the independent auditors (including disclosures in our Exchange Act reports in response to Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Regulation S-K);
- review and discuss with management, the internal auditors and the independent auditors the adequacy and effectiveness of our internal controls, including our ability to monitor and manage business risk, legal and ethical compliance programs and financial reporting;
- review and discuss separately with the internal auditors and the independent auditors, with and without management present, the results of their examinations;
- review our compliance with legal and regulatory independence;
- review and discuss our interim financial statements and the earnings press releases prior to the filing of our quarterly reports on Form 10-Q, as well as financial information and earnings guidance provided to analysts and rating agencies;
- review and discuss our risk assessment and risk management policies;
- prepare an audit committee report required by the Securities and Exchange Commission to be included in our annual proxy statement;
- engage independent counsel and other advisors to assist the audit committee in carrying out its duties;

- review and approve all related party transactions consistent with the rules applied to companies listed on the Nasdaq National Market; and
- establish procedures regarding complaints received by us or our employees regarding accounting, accounting controls or accounting matters.

The audit committee will be required to report regularly to our board of directors to discuss any issues that arise with respect to the quality or integrity of our financial statements, our compliance with legal or regulatory requirements, the performance and independence of our independent auditors, or the performance of the internal audit function.

Compensation Committee

The compensation committee, consisting of Messrs. Lupo and Flynn, reviews and determines the compensation and benefits of all of our officers, establishes and reviews general policies relating to the compensation and benefits of all of our employees, and administers our long-term incentive plan. Upon the consummation of this offering, we anticipate that our compensation committee will consist of two independent directors, with Mr. Lupo as the chairman. Following this offering the principal duties and responsibilities of our compensation committee will be to:

- review and approve corporate goals and objectives relevant to our Chief Executive Officer's and other named executive officers' compensation;
- evaluate the Chief Executive Officer's performance in light of these goals and objectives;
- either as a committee, or together with the other independent directors, determine and approve the Chief Executive Officer's compensation;
- make recommendations to our board of directors regarding the salaries, incentive compensation plans and equity-based plans for our employees; and
- produce a compensation committee report on executive compensation as required by the Commission to be included in our annual proxy statements or annual reports on Form 10-K filed with the Commission.

Compensation Committee Interlocks and Insider Participation

Prior to establishing the compensation committee, the board of directors as a whole performed the functions delegated to the compensation committee. No member of our current compensation committee serves or has ever served as one of our officers or employees. None of our executive officers serves or has ever served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Nominating and Corporate Governance Committee

Upon the consummation of this offering, we will create a nominating and corporate governance committee. We anticipate that our nominating and corporate governance committee will consist of two independent directors. After this offering, the principal duties and responsibilities of our nominating and corporate governance committee will be to:

- identify individuals qualified to become board members, consistent with criteria approved by the board of directors;
- recommend the individuals identified be selected as nominees at annual meetings of our stockholders;
- develop and recommend to the board of directors a set of corporate governance principles applicable to us; and
- oversee the evaluation of the board of directors and management.

Code of Ethics

Upon the consummation of this offering, we will adopt a written code of ethics applicable to our directors, officers and employees in accordance with the rules of the Nasdaq National Market and the Commission. Our code of ethics will be designed to deter wrongdoing and to promote:

- honest and ethical conduct;
- full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the Commission and in our other public communications;
- compliance with applicable laws, rules and regulations, including insider trading compliance; and
- accountability for adherence to the code and prompt internal reporting of violations of the code, including illegal or unethical behavior regarding accounting or auditing practices.

After this offering, we will make our code available on our website at www.cititrends.com.

Director Compensation

Our independent directors currently receive a $20,000 annual retainer and an annual award of options as compensation from us for their services as members of the board of directors. We reimburse all of our directors for out-of-pocket expenses in connection with attendance at board of directors and committee meetings. After this offering, we expect that our independent directors will receive an annual fee of $ for serving as directors.

Executive Compensation

The following table sets forth a summary of the compensation paid during fiscal 2003 to our Chief Executive Officer and our four most highly compensated executive officers, together referred to as our named executive officers:

Summary Compensation Table

		Annual Compensation(1)		Long-Term Compensation Securities Underlying Options
Name and Principal Position	Fiscal Year	Salary	Bonus	
R. Edward Anderson Chief Executive Officer	2003	$300,000	$78,000	
George A. Bellino President and Chief Merchandising Officer	2003	$231,923	$90,476	
Thomas W. Stoltz Chief Financial Officer	2003	$165,000	$21,780	
James A. Dunn Vice President of Store Operations	2003	$116,923	$24,968	

(1) Excludes perquisites and other benefits, which for each named individual are less than 10% of the sum of such individual's annual salary and bonus.

Stock Option Grants

The following table contains summary information regarding stock option grants made during fiscal 2003 by us to the named executive officers. We also granted stock options to purchase shares of common stock to certain of our employees and to our current stockholders, including Hampshire Equity Partners. All options were granted at fair market value of our common stock, as determine by our board of directors, on the grant date.

Option Grants In Last Fiscal Year

Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term(1)	
					5%	10%
R. Edward Anderson		0.3%		10/30/14		
George A. Bellino		0.7%		10/30/14		
Thomas W. Stoltz		–				
James A. Dunn		–				

(1) Potential realizable value is based upon the assumed initial public offering price of our common stock of $. Potential realizable values are net of exercise price, but before taxes associated with exercise. Amounts representing hypothetical gains are those that could be achieved if options are exercised at the end of the option term. The assumed 5% and 10% rates of stock price appreciation are provided in accordance with rules of the Commission, based on the assumed initial public offering price of $ per share and do not represent our estimate or projection of the future stock price.

Year-End Option Values

The following table provides information about the number and value of unexercised options to purchase common stock held on January 31, 2004 by the named executive officers. There was no public market for our common stock on January 31, 2004. Accordingly, we have calculated the values of the unexercised options on the basis of an assumed initial public offering price of $ per share, less the applicable exercise price, multiplied by the number of shares acquired upon exercise. None of the named executive officers exercised any stock options in 2004.

Fiscal Year End Option Values

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
R. Edward Anderson			$2,017,140	$672,000
George A. Bellino			2,217,792	—
Thomas W. Stoltz			480,000	—
James A. Dunn			316,000	84,000

(1) The options were granted under our Amended and Restated 1999 Stock Option Plan. These options generally vest in equal installments over four years from the date of grant and are generally exercisable up to ten years from the date of grant. The fair value of the options granted during the year ended January 31, 2004 was $34.18 using the Black-Scholes option-pricing model, with weighted average assumptions: no dividend yield; 50% expected volatility; 2.50% risk-free interest rate; ten year expected life and a 10% forfeiture rate.

2005 Long-Term Incentive Plan

Prior to the consummation of the offering, we anticipate that our board of directors and stockholders will adopt the 2005 Long-Term Incentive Plan to replace our Amended and Restated 1999 Stock Option Plan. The 2005 Long-Term Incentive Plan will enable our key employees and directors to acquire and maintain stock ownership, thereby strengthening their commitment to our success and their desire to remain with us, focusing their attention on managing as an equity owner and aligning their interests with those of our stockholders. In addition, the plan

is intended to attract and retain key employees, which, together with the key directors, we refer to collectively as eligible persons, and to provide incentives and rewards for superior performance that will ultimately lead to our profitable growth. The plan will be approved by our stockholders prior to the completion of this offering. As of , 2005, options to purchase up to shares of our common stock remain outstanding under the option plan. Upon adoption of the new plan, the Amended and Restated 1999 Stock Option Plan will be terminated and no additional options will be granted under that plan.

The principal features of our incentive plan are described in summary form below.

Shares Subject to the Plan

The incentive plan provides that no more than shares of our common stock may be issued pursuant to awards under the incentive plan; provided that, in the aggregate, no more than 50% of the total shares of our common stock can be made the subject of an award other than as options under the incentive plan. These shares of our common stock will be authorized but unissued shares in such amounts as determined by the board of directors. However, the amount of shares of our common stock granted to an individual in any calendar year period can not exceed 5% of the total number of reserved shares of common stock. Also, in any calendar year period, the maximum dollar amount of cash or the fair market value of common stock that any individual can receive in connection with performance units can not exceed $2.5 million. The number of shares of our common stock available for awards, as well as the terms of outstanding awards, are subject to adjustment as provided in the incentive plan for stock splits, stock dividends, recapitalizations, mergers, consolidations, liquidations, changes in corporate structure and other similar events. Awards that may be granted under the incentive plan include stock options, stock appreciation rights (SARs), restricted shares, performance units, performance shares and director's shares. Upon the granting of an award to an individual, the number of shares of common stock available shall be reduced depending on the type of award granted, as provided in the incentive plan.

The shares of our common stock subject to any award that expires, terminates or is cancelled, is settled in cash, or is forfeited or becomes unexercisable, will again be available for subsequent awards, except as prohibited by law.

Administration

Either our board of directors or a committee appointed by our board directors may administer the incentive plan. We refer to our board of directors and any committee exercising discretion under the incentive plan from time to time as the committee. With respect to decisions involving an award to a reporting person within the meaning of Rule 16a-2 under the Exchange Act, the committee is to consist of two or more directors who are disinterested within the meaning of Rule 16b-3 under the Exchange Act. With respect to decisions involving an award intended to satisfy the requirements of section 162(m) of the Internal Revenue Code, the committee is to consist solely of two or more directors who are "outside directors" for purposes of that code section. We currently expect that our compensation committee will administer the incentive plan.

Subject to the terms of the incentive plan, the committee has express authority to determine the eligible persons who will receive awards, when such awards will be granted, the number of shares of our common stock, units, or SARs to be covered by each award, the relationship between awards and the terms and conditions of awards. The committee has broad discretion to prescribe, amend, and rescind rules relating to the incentive plan and its administration, to interpret and construe the incentive plan and the terms of all award agreements, and to take all actions necessary or advisable to administer the incentive plan. Within the limits of the incentive plan, the committee may accelerate the vesting of any awards, allow the exercise of unvested awards, and may modify, replace, cancel, or renew them.

The incentive plan provides that the determination of the committee on all matters relating to awards and the incentive plan are final. The incentive plan also releases members of the committee from liability for good faith actions associated with the administration of the incentive plan.

Eligibility

The committee may grant options that are intended to qualify as incentive stock options, which we refer to as ISOs, only to employees, and may grant all other awards to employees or any nonemployee director. The incentive plan and the discussion below use the term "grantee" to refer to an eligible person who has received an award under the incentive plan. Although the incentive plan provides the general provisions of our available awards, upon the determination by the committee of the type and amount of award to be granted to a grantee, the eligible grantee will enter into an agreement with us specifying the specific terms of the award to be granted. Each type of award (i.e., stock option, restricted share, performance units and performance shares) is governed by a separate agreement that describes the respective terms governing such award, such as the exercise date, term and expiration, restrictions, value, form and timing of payment.

Stock Options

Stock options granted under the incentive plan provide grantees with the right to purchase shares of our common stock at a predetermined exercise price. The committee may grant stock options that are intended to qualify as ISOs, or stock options that are not intended to so qualify, which we refer to as non-ISOs. The incentive plan also provides that ISO treatment may not be available for stock options that become first exercisable in any calendar year to the extent the value of the underlying shares that are the subject of the stock option exceed $100,000, based upon the fair market value of the shares of our common stock on the stock option grant date. Any ISO shall be granted within ten years from the earlier of the date the incentive plan is adopted by our board of directors or the date the incentive plan is approved by our stockholders.

Stock Appreciation Rights (SARs)

A SAR generally permits a grantee to receive, upon exercise, shares of our common stock equal in value to the excess of (i) the fair market value, on the date of exercise, of the shares of our common stock with respect to which the SAR is being exercised, over (ii) the exercise price of the SAR for such shares. The committee may grant SARs in tandem with stock options, or independently of them. The committee has the discretion to grant SARs to any eligible employee or nonemployee director.

Exercise Price for Stock Options and SARs

The exercise price of non-ISOs and SARs may not be less than 100% of the fair market value of our common stock on the grant date of the award. The exercise price of ISOs may not be less than 110% of the fair market value of our common stock on the grant date of the award for owners who own more than 10% of our shares of common stock on the grant date. For ISOs granted to other participants and for options intended to be exempt from Internal Revenue Code Section 162(m) limitations, the exercise price may not be less than 100% of the fair market value of our common stock on the grant date. With respect to stock options and SARs, payment of the exercise price may be made in any of the following forms, or combination of them: shares of unrestricted stock held by the grantee for at least six months (or a lesser period as determined by the committee) prior to the exercise of the option or SAR, based upon its fair market value on the day preceding the date of exercise, or through simultaneous sale through a broker of unrestricted stock acquired on exercise. The exercise price of any option and SAR must be determined by the committee no later than the date of grant of such option or SAR and the exercise price shall be paid in full at the time of the exercise.

Exercise and Term of Options and SARs

The committee will determine the times, circumstances and conditions under which a stock option or SAR may be exercisable. Unless provided otherwise in the applicable award agreement, each option or SAR shall be exercisable in one or more installments commencing on or after the first anniversary of the grant date; provided, however, that all options or SARs shall become fully vested and exercisable upon a change of control, as defined in the incentive plan. To the extent exercisable in accordance with the agreement granting them, a stock option or SAR may be exercised in whole or in part, and from time to time during its term, subject to earlier termination relating to a holder's termination of employment or service as may be determined by the committee at the time of the grant. The term during which grantees may exercise stock options and SARs may not exceed ten years from the date of grant or five years in the case of ISOs granted to employees who, at the time of grant, own more than 10% of our outstanding shares of common stock; provided that, an option (excluding ISOs) may, upon the death

of the holder of such option, be exercised for up to one year following the date of the holder's death, even if the period extends beyond the ten year limit.

Options and SARs granted to nonemployee directors will be exercisable with respect to one-third of the underlying shares on each of the first, second and third anniversaries of the grant date and will have a term of not more than ten years. If a nonemployee director ceases to serve as a director, any option or SAR granted to such director shall be exercisable during its remaining term, to the extent that the option or SAR was exercisable on the date the nonemployee director ceased to be a director.

Restricted Shares

Under the incentive plan, the committee may grant restricted shares that are forfeitable until certain vesting requirements are met. For restricted shares, the incentive plan provides the committee with discretion to determine the per share purchase price of such shares, which can not be less than the minimum consideration (as defined in the incentive plan generally as the par value of a share of common stock), and the terms and conditions under which a grantee's interests in such awards become vested. The incentive plan also provides the committee with discretion to determine whether the payment of dividends declared on the shares should be deferred and held by us until restrictions on the shares lapse, whether dividends should be reinveseted in additional shares of restricted shares subject to certain restrictions and terms, whether interest will be credited to the account of such holder for dividends not reinvested and whether dividends issued on the restricted shares should be treated as additional restricted shares. Payment of the purchase price 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. This payment may be made in cash or, with prior approval of the committee and subject to certain conditions, shares of restricted or unrestricted stock owned by the grantee. Under the incentive plan, the committee has discretion to provide in the award agreement that all or any portion of a grantee's award of restricted shares shall be forfeited (a) upon the grantee's termination of employment within a specified time period, (b) if specified performance goals are not satisfied by us or the grantee within a specified time period or (c) if any other listed restriction in the governing award agreement is not satisfied. If a share of restricted stock is forfeited, then the grantee shall be deemed to have resold such share to us at a specified price, we shall pay the grantee the amount due as soon as possible, but no later than 90 days after forfeiture, and the share of restricted stock shall cease to be outstanding.

Performance Awards

The incentive plan authorizes the committee to grant performance-based awards in the form of performance units and performance shares that are "performance compensation awards" that are intended to be exempt from Internal Revenue Code Section 162(m) limitations unless otherwise designated in the applicable award agreement. In either case, unless otherwise specified in the award agreement, upon the achievement, within the specified period of time, of the performance objectives, a performance unit shall be deemed exercised on the date on which it first becomes exercisable. Performance units are payable in cash or restricted stock, except that the committee may decide to pay benefits wholly or partly in stock delivered to the grantee or credited to a specified brokerage account. For performance shares, unless otherwise specified in the award agreement or by the committee, upon the achievement within the specified period of time of the performance objectives, grantees shall be awarded shares of restricted stock or common stock, unless the committee decides to pay cash in lieu of stock, based upon the number of percentage shares specified in the award agreement multiplied by the performance percentage achieved. The committee decides the length of performance periods, but the periods may not be less than one year nor more than 5 years. Any performance shares with respect to which the performance goals have not been achieved at the end of the performance period shall expire.

With respect to performance compensation awards, the incentive plan requires that the committee specify in writing the performance period to which the award relates, and an objective formula by which to measure whether and the extent to which the award is earned on the basis of the level of performance achieved with respect to one or more performance measures. Once established for a performance period, the performance measures and performance formula applicable to the award may not be amended or modified in a manner that would cause the compensation payable under the award to fail to constitute performance-based compensation under Internal Revenue Code Section 162(m).

Under the incentive plan, the possible performance measures to be used by the committee for performance compensation awards include stock price, basic, earnings per share, operating income, return on equity or assets, cash flow, earnings before interest, taxes, depreciation and amortization, revenues, overall revenues or sales growth, expense reduction or management, market position, total income, return on net assets, economic value added, stockholder value added, cash flow return on investment, net operating profit, net operating profit after tax, return on capital and return on invested capital. Each measure will be, to the extent applicable, determined in accordance with generally accepted accounting principles as consistently applied by us, or such other standard applied by the committee and, if so determined by the committee, and in the case of a performance compensation award, to the extent permitted under Internal Revenue Code Section 162(m), adjusted to reflect the impact of specified corporate transactions, special charges, foreign currency effects, accounting or tax law changes and other extraordinary or nonrecurring events. Performance measures may vary from performance period to performance period, and from grantee to grantee, and may be established on a stand-alone basis, in tandem or in the alternative.

Tandem Awards

The committee may grant and identify any award with another award granted under the incentive plan, on terms and conditions set forth by the committee.

Income Tax Withholding

As a condition for the issuance of shares of our common stock pursuant to awards, the incentive plan requires satisfaction of any applicable federal, state, local, or foreign withholding tax obligations that may arise in connection with the award or the issuance of shares of our common stock.

Transferability

Unless set forth in the agreement evidencing the award, awards (other than an award of restricted stock) may not be assigned or transferred except by will or the laws of descent and distribution or, in the case of an option other than an ISO, pursuant to a domestic relations order as defined under Rule 16a-12 under the Exchange Act. An option may be exercised during the lifetime of the grantee only by that grantee or his or her guardian, legal representatives or, except as would cause an ISO to lose such status, by a bankruptcy trustee. Notwithstanding the foregoing, the committee may set forth in the agreement evidencing the award (other than an ISO) that the award may be transferred to an immediate family member, or related trust or related partnership. 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 non-forfeitable.

Certain Corporate Transactions

With respect to any award which relates to stock, in the event of our liquidation or dissolution or merger or consolidation with another entity, the incentive plan and awards issued thereunder shall continue in effect in accordance with their terms, except that following any of these events either (a) each outstanding award shall be treated as provided for in the agreement entered into in connection with the event or (b) if not so provided in the agreement entered into in connection with the event, a grantee shall be entitled to receive with respect to each share of stock subject to the outstanding award, upon the vesting, payment or exercise of the award 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 connection with that certain event.

The applicable award agreement pertaining to each award shall set forth the terms and conditions applicable to such award upon a termination of employment of any grantee by us, which, except for awards granted to nonemployee directors, shall be as the committee may, in its discretion, determine at the time the award is granted or thereafter.

Term of Plan; Amendments and Termination

The term of the incentive plan is ten years from , 2005, the date it was approved by our board of directors and stockholders, or at such earlier time as our board of directors may determine. Our board of directors may from time to time, amend or modify the incentive plan without the approval of our stockholders, unless stockholder approval is required (a) to retain ISO treatment under the Internal Revenue Code, (b) to permit

transactions in stock under the incentive plan to be exempt from liability under Section 16(b) of the Exchange Act or (c) under the listing requirements of any securities exchange on which any of our equity securities are listed.

Governing Law

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

Employment Agreements

Set forth below are summaries of all of our employment agreements and arrangements with our named executive officers. The following summaries does not contain all of the terms of the agreements they summarize, and we refer you to the agreements, which are included as exhibits to the registration statement of which this prospectus forms a part, for a complete understanding of the terms thereof. See "Where You Can Find More Information."

Letter Agreement with R. Edward Anderson

In November 2001, we entered into a letter agreement with Mr. Anderson, pursuant to which Mr. Anderson was appointed our Chief Executive Officer and member of our board of directors.

Compensation

The letter agreement provides that Mr. Anderson will receive an annual base salary of $300,000 (not including perquisites) and will be eligible to earn a bonus of up to 50% of his base salary. Mr. Anderson's bonus is contingent upon our obtaining certain financial goals.

At the time he was hired, we granted Mr. Anderson options to purchase shares of our common stock. These options vest in equal amounts over four years, subject to accelerated vesting in the event that we reach targeted financial goals. In the event that Mr. Anderson is terminated for a reason other than "cause" (which term is not defined in the agreement), we may repurchase any or all of his vested options at "fair market value" as determined by our board of directors. In the event that Mr. Anderson is terminated for "cause", any and all of his vested options will be cancelled. The agreement does not have a definite term, does not contain a noncompetition provision and does not provide for the treatment of unvested options held by Mr. Anderson at the time of his termination. The agreement provides that all of Mr. Anderson's unvested options will vest upon a "change of control" (which term is not defined in the agreement).

Severance

The letter agreement provides that in the event that Mr. Anderson is terminated for any reason other than for "cause," he is entitled to severance pay of $150,000 to be paid in arrears over a period of six months.

Amended Employment and Non-Interference Agreement with George A. Bellino

Term and Termination

In April 1999, we entered into an employment and non-interference agreement with Mr. Bellino, pursuant to which Mr. Bellino was appointed our Chief Executive Officer and President for a period of two years. In December 2001, we amended certain terms of this employment and non-interference agreement, one of which was to change Mr. Bellino's position to Chief Merchandising Officer and President. Mr. Bellino's amended agreement has a one year term and is automatically renewed for subsequent twelve-month periods subject to 90 days prior notice by either party. Mr. Bellino's amended agreement provides that his employment may be terminated: (a) upon his death or disability, (b) by us for "cause" (described below), (d) by us for any reason other than those set forth in (a) or (b) or no reason, which the agreement defines as "no reason", (e) by Mr. Bellino at will or (f) by Mr. Bellino if we do not satisfy our obligations under the agreement or materially reduce Mr. Bellino's duties or change his title without consent, which the agreement defines as "reason."

"Cause," as defined in the agreement includes:

- conviction or guilty plea to a serious felony, a crime of moral turpitude or other specified financial offenses,
- a board determination that Mr. Bellino has committed a crime of moral turpitude,

- a board determination that Mr. Bellino knowingly breach his fiduciary obligations to us, subject to notice and a cure period,
- Mr. Bellino's failure to discharge his duties under the agreement or substance abuse which materially interferes with the discharge of his duties, subject to notice and a cure period,
- Mr. Bellino's material violation of any non-competition or confidentiality agreement with us,
- Mr. Bellino's material violation of any other personal obligations under his agreement, subject to notice and a cure period, and
- any other violation of law by Mr. Bellino that could have a material adverse effect on us, subject to notice and a cure period.

Mr. Bellino's agreement provides that if he is terminated for any reason, he is entitled to receive all accrued and unpaid salary and benefits, reimbursement of expenses and continued medical coverage as legally required. In addition, in the event that Mr. Bellino is terminated (a) upon his death or disability, (b) by us for "no reason" or (c) by him with "reason," then Mr. Bellino is entitled to receive payments, payable over a twelve-month period, equal to twelve months of his base salary on his termination date, subject to reduction for any compensation from other employment during such twelve-month period.

Compensation

Under the agreement, Mr. Bellino receives an annual base salary of $215,000 (excluding perquisites), subject to review by the board, and is eligible for a bonus based on our performance. As provided in the agreement, Mr. Bellino's bonus may be an amount equal to 35% of his base salary if we reach targeted financial goals. The agreement also provides for reimbursement of Mr. Bellino's employment related expenses by us.

Non-Interference and Non-Solicitation

During the term of his agreement and for a twelve-month period after his termination date, Mr. Bellino has agreed not to, without our consent:

- own, manage, operate, control, invest or acquire an interest in, or otherwise engage or participate in, whether as a proprietor, partner, stockholder, lender, director, officer, employee, joint venturer, investor, lessor, agent, representative or other participant, in any business which competes with us in any state where we operate.
- Recruit, solicit or otherwise induce or influence any proprietor, partner, stockholder, lender, director, officer, employee, sales agent, joint venturer, investor, lessor, customer, agent, representative or any other person with a business relationship with us to discontinue, reduce or modify their relationship with us.

Limitation of Liability and Indemnification of Officers and Directors

As permitted by the Delaware General Corporation Law, we have adopted provisions in our second amended and restated certificate of incorporation and our amended and restated bylaws that limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any act related to unlawful stock repurchases, redemptions or other distributions or payment of dividends; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not affect the availability of equitable remedies such as injunctive relief or rescission. Our second amended and restated certificate of incorporation also authorizes us to indemnify our officers, directors and other agents to the full extent permitted under Delaware law.

As permitted by the Delaware General Corporation Law, our amended and restated bylaws provide that:

- we may indemnify our directors, officers and employees to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions;
- we may advance expenses to our directors, officers and employees in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; and
- the rights provided in our bylaws are not exclusive.

At present, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents in which indemnification by us is sought, nor are we aware of any threatened litigation or proceeding that may result in a claim for indemnification.

Related Party Transactions

Management Consulting Agreement

We are a party to an Amended and Restated Management Consulting Agreement, or the consulting agreement, effective as of February 1, 2004 with Hampshire Management Company LLC, or the consultant, which is an affiliate of the selling stockholders, pursuant to which it provides us with certain consulting services related to, but not limited to, our financial affairs, relationships with our lenders, stockholders and other third-party associates or affiliates, and the expansion of our business.

Term and Termination

The consulting agreement has a four year term and is subject to automatic one year renewals each February 1, subject to 60 days prior notice of termination by either party. In addition, either party has the right to terminate the consulting agreement upon 90 days prior notice in the event of (a) a sale of all or substantially all of our common stock or assets, (b) a merger or consolidation in which we are not the surviving corporation or (c) a registered public offering of our common stock, which includes this offering. It is expected that both parties to the consulting agreement will waive any notice requirement for termination upon consummation of this offering.

Compensation

Under the consulting agreement, we pay the consultant an annual management fee of $240,000, payable in monthly installments. We have also agreed to indemnify the consultant, its affiliates and associates, and each of the respective owners, partners, officers, directors, members, employees and agents of each, from and against any loss, liability, damage, claim or expenses (including the fees and expenses of counsel) relating to their performance under the consulting agreement.

Upon the consummation of this offering, the parties shall terminate the consulting agreement and we will pay the consultant a termination fee of $1.2 million.

Stockholders Agreement

We are party to a Stockholders Agreement, dated as of April 13, 1999, or the stockholders agreement, with Hampshire Equity Partners II, L.P., George Bellino and certain management stockholders. Pursuant to the stockholders agreement:

- four members of our board of directors may be designated by the owners of the majority of the voting stock beneficially owned by Hampshire Equity Partners and its affiliates,
- our stockholders have agreed generally not to transfer their shares,
- our management stockholders have been granted tag-along rights in the event of the sale of more than 50% of our common stock,
- our management stockholders have agreed to cooperate in any sale of the company by Hampshire Equity Partners, and
- we have agreed to register shares of our common stock held by the stockholder parties in the event that we register additional shares of our common stock under the Securities Act, other than on a registration statement on Form S-4 or S-8, or in connection with an exchange offer, merger, acquisition, dividend reinvestment plan, stock option or other employee benefit plan.

Pursuant to these rights under the stockholders agreement, Hampshire Equity Partners is entitled to include its shares of common stock in this registration statement, subject to the ability of the underwriters to limit the number of shares included in this offering. We expect to terminate the stockholders agreement upon consummation of this offering.

Registration Rights Agreement

We expect to enter into a new registration rights agreement with Hampshire Equity Partners, who will hold shares of our common stock, or approximately % of our shares of common stock on a fully diluted basis following the consummation of this offering. Pursuant to the terms and provisions of the new registration rights agreement, Hampshire Equity Partners will have the right from time to time, subject to certain

restrictions, to cause us to register its shares of common stock for sale under the Securities Act on Form S-1 or, if available, on Form S-2, Form S-3 or any similar short-form registration statement. In addition, if at any time we register additional shares of common stock, Hampshire Equity Partners will be entitled to include its shares of common stock in the registration statement relating to that offering. If our subsequent registration is made pursuant to an underwritten offering, Hampshire Equity Partners must sell its registrable securities to the underwriters selected by us if they choose to participate in that registration.

Nominating Agreement

In connection with this offering, we will enter into a nominating agreement with Hampshire Equity Partners pursuant to which we, acting through our nominating and corporate governance committee, will agree, subject to the requirements of our directors' fiduciary duties, that (i) Hampshire Equity Partners will be entitled to designate two directors to be nominated for election to our board of directors as long as Hampshire Equity Partners owns in the aggregate at least 40% of the shares of our common stock which it owned immediately prior to the consummation of this offering or (ii) Hampshire Equity Partners will be entitled to designate one director to be nominated for election to our board of directors as long as Hampshire Equity Partners owns in the aggregate less than 40% and at least 15% of the shares of our common stock which it owned immediately prior to the consummation of this offering. If at any time Hampshire Equity Partners owns less than 15%, it will not have the right to nominate any directors for election to our board of directors.

Principal and Selling Stockholders

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of October 30, 2004, and as adjusted to reflect the sale of shares of common stock by selling stockholders, by the following persons:

- each stockholder known by us to own beneficially more than 5% of our common stock;
- each of our directors and named executive officers;
- all directors and executive officers as a group; and
- each of the selling stockholders.

This table lists applicable percentage ownership based on shares of common stock outstanding as of October 30, 2004 (including options exercisable within 60 days of October 30, 2004), and also lists applicable percentage ownership based on shares of common stock outstanding after completion of this offering. The information in the table is not adjusted for the -for-one stock split of our common stock, which will occur simultaneously with the completion of this offering.

We have determined beneficial ownership in the table in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have deemed shares of common stock subject to options held by that person that are currently exercisable or will become exercisable within 60 days of October 30, 2004 to be outstanding, but we have not deemed these shares to be outstanding for computing the percentage ownership of any other person. To our knowledge, except as set forth in the footnotes below, each stockholder identified in the table possesses sole voting and investment power with respect to all shares of common stock shown as beneficially owned by that stockholder. Unless otherwise indicated, the address of all listed stockholders is c/o Citi Trends, Inc., 102 Fahm Street, Savannah, Georgia 31401.

Name of Beneficial Owner	Number of Shares Beneficially Owned Prior to the Offering	Number of Shares Being Offered	Number of Shares Beneficially Owned After the Offering	Percentage of Shares Outstanding Before the Offering	Percentage of Shares Outstanding After the Offering
Directors and Named Executive Officers:					
R. Edward Anderson					
George A. Bellino					
Thomas W. Stoltz					
James A. Dunn					
Tracy L. Noll					
John S. Lupo					
Gregory P. Flynn					
Laurens Goff					
Directors and executive officers as a group (eight persons)					
5% Stockholder:					
Hampshire Equity Partners II, L.P.					

Description of Capital Stock

General

Upon the completion of this offering, we will be authorized to issue shares of common stock, $0.01 par value per share, and shares of undesignated preferred stock, $0.01 par value per share. The following description of our capital stock does not purport to be complete and is subject to, and qualified in its entirety by, our second amended and restated certificate of incorporation and amended and restated by-laws, which we have included as exhibits to the registration statement of which this prospectus forms a part.

Common Stock

Dividend Rights. Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available at the time and in the amounts as our board of directors may from time to time determine.

Voting Rights. Each common stockholder is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Cumulative voting for the election of directors is not provided for in our certificate of incorporation, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election.

No Preemptive or Similar Rights. No holder of our common stock is entitled to preemptive rights to subscribe for any shares of capital stock and our common stock is not subject to conversion or redemption.

Right to Receive Liquidation Distributions. Upon our liquidation, dissolution or winding-up, the assets legally available for distribution to our stockholders are distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time, after payment of liquidation preferences, if any, on any outstanding preferred stock and payment of other claims of creditors. Each outstanding share of common stock is, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

Preferred Stock

Upon the closing of this offering, no shares of, and no securities convertible into, our preferred stock will be outstanding.

Upon the closing of this offering, under our second amended and restated certificate of incorporation our board of directors will be authorized, subject to the limits imposed by the Delaware General Corporation Law, but without further action by our stockholders to issue shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in each series, to fix the rights, preferences and privileges of the shares of each wholly unissued series and any of its qualifications, limitations and restrictions. Our board of directors can also increase or decrease the number of any series, but not below the number of shares of that series then outstanding, without any further vote or action by our stockholders.

Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that adversely affect the voting power or other rights of our common stockholders. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions, financings and other corporate purposes, could have the effect of delaying, deferring or preventing our change in control and may cause the market price of our common stock to decline or impair the voting and other rights of the holders of our common stock. We have no current plans to issue any shares of preferred stock.

Anti-Takeover Effects of Various Provisions of the Delaware General Corporation Law and Our Second Amended and Restated Certificate of Incorporation and Our Amended and Restated By-laws

Provisions of the Delaware General Corporation Law, our second amended and restated certificate of incorporation and our amended and restated by-laws contain provisions that may have some anti-takeover effects and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

Delaware Anti-Takeover Statute

We are subject to Section 203 of the Delaware General Corporation Law. Subject to specific exceptions, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the time the person became an interested stockholder, unless:

- the business combination, or the transaction in which the stockholder became an interested stockholder, is approved by our board of directors prior to the time the interested stockholder attained that status;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or after the time a person became an interested stockholder, the business combination is approved by our board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

"Business combinations" include mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to various exceptions, in general an "interested stockholder" is a person who, together with his or her affiliates and associates, owns, or within three years did own, 15% or more of the shares of the corporation's outstanding voting stock. These restrictions could prohibit or delay the accomplishment of mergers or other takeover or change in control attempts with respect to us and, therefore, may discourage attempts to acquire us.

In addition, provisions of our second amended and restated certificate of incorporation and amended and restated by-laws, which are summarized in the following paragraphs, may have an anti-takeover effect.

Classified Board of Directors. Our amended and restated charter will divide our board into three classes having staggered terms, with one of such classes being elected each year for a new three-year term. Class I directors will have an initial term expiring in 2006, Class II directors will have an initial term expiring in 2007 and Class III directors will have an initial term expiring in 2008. Class I will be comprised of Mr. _____. Class II will be comprised of Messrs. Noll and Lupo. Class III will be comprised of Messrs. Flynn and Anderson.

Quorum Requirements; Removal of Directors. Our second amended and restated certificate of incorporation provides for a minimum quorum of one-third in voting power of the outstanding shares of our capital stock entitled to vote, except that a minimum quorum of a majority in voting power of the outstanding shares of our capital stock entitled to vote is necessary to hold a vote for any director in a contested election, the removal of a director or the filling of a vacancy on our board of directors. Directors may be removed only for cause by the affirmative vote of at least a majority in voting power of the outstanding shares of our capital stock entitled to vote generally in the election of directors.

No Cumulative Voting. The Delaware General Corporation Law provides that stockholders are not entitled to cumulate votes in the election of directors unless provided for otherwise in a company's certificate of incorporation. Our second amended and restated certificate of incorporation does not grant our stockholder cumulative voting rights.

No Stockholder Action by Written Consent; Calling of Special Meeting of Stockholders. Our second amended and restated certificate of incorporation generally prohibits stockholder action by written consent. It and our amended and restated by-laws also provide that special meetings of our stockholders may be called only by (1) the chairman of our board of directors or (2) our board of directors pursuant to a resolution approved by our board of directors or (3) our board of directors upon a request by holders of at least 50% in voting power of all the outstanding shares entitled to vote at that meeting.

Advance Notice Requirements for Stockholder Proposals and Director Nominations. Our amended and restated by-laws provide that stockholders seeking to bring business before or to nominate candidates for election as directors at an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate

secretary. To be timely, a stockholder's notice must be delivered or mailed and received at our principal executive offices not less than 90 nor more than 120 days in advance of the anniversary date of the immediately preceding annual meeting of stockholders. Our amended and restated by-laws also specify requirements as to the form and content of a stockholder's notice. These provisions may impede stockholders' ability to bring matters before an annual meeting of stockholders or make nominations for directors at an annual meeting of stockholders. Stockholder nominations for the election of directors at a special meeting must be received by our corporate secretary by the later of ten days following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made or 90 days prior to the date that meeting is proposed to be held and not more than 120 days prior to such meeting.

Limitations on Liability and Indemnification of Officers and Directors. The Delaware General Corporation Law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors. Our second amended and restated certificate of incorporation includes a provision that eliminates the personal liability of directors for monetary damages for actions taken as a director, except for liability:

- for breach of duty of loyalty;
- for acts or omissions not in good faith or involving intentional misconduct or knowing violation of law;
- under Section 174 of the Delaware General Corporation Law (unlawful dividends or stock repurchases); or
- for transactions from which the director derived improper personal benefit.

Our amended and restated by-laws provide that we must indemnify and advance expenses to our directors and officers to the fullest extent authorized by the Delaware General Corporation Law. We are also expressly authorized to, and do, carry directors' and officers' insurance for our directors, officers and certain employees for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and executive officers.

The limitation of liability and indemnification provisions in our amended and restated by-laws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent that, in a class action or direct suit, we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

Authorized but Unissued Shares. Our authorized but unissued shares of common stock and preferred stock will be available for future issuance without your approval. We may use additional shares for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Supermajority Provisions. The Delaware General Corporation Law provides generally that the affirmative vote of a majority in voting power of the outstanding shares entitled to vote is required to amend a corporation's certificate of incorporation, unless the certificate of incorporation requires a greater percentage. Our second amended and restated certificate of incorporation provides that the following provisions in the second amended and restated certificate of incorporation may be amended only by a vote of two-thirds or more in voting power of all the outstanding shares of our capital stock entitled to vote:

- the prohibition on stockholder action by written consent;
- the ability to call a special meeting of stockholders being vested solely in (1) the chairman of our board of directors, (2) our board of directors pursuant to a resolution adopted by our board of directors and (3) our board of directors upon a request by holders of at least 50% in voting power of all the outstanding shares entitled to vote at that meeting;

- the provisions relating to the classification of our board of directors;
- the provisions relating to the size of our board of directors;
- the provisions relating to the quorum requirements for stockholder action and the removal of directors;
- the limitation on the liability of our directors to us and our stockholders;
- the provisions granting authority to our board of directors to amend or repeal our by-laws without a stockholder vote, as described in more detail in the next succeeding paragraph; and
- the supermajority voting requirements listed above.

Our second amended and restated certificate of incorporation grants our board of directors the authority to amend and repeal our by-laws without a stockholder vote in any manner not inconsistent with the laws of the State of Delaware or our second amended and restated certificate of incorporation.

In addition, our second amended and restated certificate of incorporation and our amended and restated by-laws provide that the same provisions listed above and found in our amended and restated by-laws may be amended by stockholders representing no less than two-thirds of the voting power of all the outstanding shares of our capital stock entitled to vote.

Listing

We intend to list our common stock on the Nasdaq National Market under the trading symbol “CTRN.”

Transfer Agent and Registrar

Upon consummation of this offering, the transfer agent and registrar for the common stock will be American Stock Transfer and Trust Company. The transfer agent’s address is 59 Maiden Lane, New York, New York 10038.

Shares Eligible for Future Sale

Immediately prior to this offering, there has been no public market for our common stock. Future sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices. Furthermore, since only a limited number of shares will be available for sale shortly after the offering because of contractual and legal restrictions on resale described below, sales of substantial amounts of common stock in the public market after the restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, shares of common stock will be outstanding, assuming no exercise of currently outstanding and exercisable options. Of these shares, the shares sold in this offering, plus any additional shares sold upon exercise of the underwriters' over-allotment option, will be freely transferable without restriction under the Securities Act of 1933, as amended, unless they are held by our "affiliates" as that term is used under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. The remaining shares of common stock held by existing stockholders are restricted shares. Restricted shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 or 701 promulgated under the Securities Act of 1933, as amended, which rules are summarized below.

In general, under Rule 144 as in effect on the date of this prospectus, beginning 90 days after the effective date of this offering, our affiliates, or a person (or persons whose shares are aggregated) who has beneficially owned restricted shares (as defined under Rule 144) for at least one year, are entitled to sell within any three-month period a number of shares that does not exceed the greater of one percent of the then outstanding shares of common stock or the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks immediately preceding the date on which notice of the sale is filed with the Commission.

Sales under Rule 144 are subject to requirements relating to the manner of sale, notice and the availability of current public information about us. A person (or persons whose shares are aggregated) who was not our affiliate at any time during the 90 days immediately preceding the sale and who has beneficially owned restricted shares for at least two years is entitled to sell such shares under Rule 144(k) without regard to the limitations described above.

Our employees, officers, directors or consultants who purchased or were awarded shares or options to purchase shares under a written compensatory plan or contract are entitled to rely on the resale provisions of Rule 701 under the Securities Act of 1933, as amended, which permits affiliates and non-affiliates to sell their Rule 701 shares without having to comply with the Rule 144 holding period restrictions, in each case commencing 90 days after the effective date of this offering. In addition, non-affiliates may sell Rule 701 shares without complying with the public information, volume and notice provisions of Rule 144.

In addition, we expect to file a registration statement on Form S-8 registering shares of common stock subject to outstanding stock options or reserved for issuance under our Amended and Restated 1999 Stock Option Plan and 2005 Long-Term Incentive Plan. We expect to file this registration statement as soon as practicable after the consummation of this offering. Shares registered under this registration statement will, subject to Rule 144 volume limitations applicable to affiliates, be available for sale in the open market, unless such shares are subject to vesting restrictions with us or the lock-up agreements described below.

Lock-Up Agreements

Each of our officers and directors and substantially all other stockholders have agreed to a 180-day "lock up" with respect to shares of common stock and other of our securities that they beneficially own, including securities that are convertible into shares of common stock and securities that are exchangeable or exercisable for shares of common stock. We have also agreed to such a restriction. This means that, for a period of 180 days following the date of this prospectus (the "lock-up period"), subject to specified exceptions, we and such persons may not, directly or indirectly, offer, sell, pledge or otherwise dispose of these securities without the prior written consent of CIBC World Markets Corp. In addition, the lock-up period may be extended in the event that we release earnings or announce certain material news within specified time periods prior to the termination of the lock-up period. The restrictions in the lock-up agreements will not prevent such persons from transferring their

shares or other securities as gifts, to members of their immediate family or to a trust for the benefit of themselves of member of their family or by will or intestacy, provided, in each case, that the transferee of such shares of other securities agrees to be locked-up to the same extent as the person from whom they received the shares.

Registration Rights

Pursuant to the registration rights agreement to be executed upon consummation of this offering, Hampshire Equity Partners has the right to demand registration of its shares and to include its shares in registration statements that we file after the consummation of this offering, subject to certain exceptions. See “Related Party Transactions—Registration Rights Agreement.”

Underwriting

We and the selling stockholders will enter into an underwriting agreement with the underwriters named below. CIBC World Markets Corp., Wachovia Capital Markets, LLC, SG Cowen & Co., LLC and Piper Jaffray & Co. are acting as the representatives of the underwriters.

The underwriting agreement provides for the purchase of a specific number of shares of common stock by each of the underwriters. The underwriters' obligations are several, which means that each underwriter is required to purchase a specified number of shares, but is not responsible for the commitment of any other underwriter to purchase shares. Subject to the terms and conditions of the underwriting agreement, each underwriter has severally agreed to purchase the number of shares of common stock set forth opposite its name below:

Underwriters	Number of Shares
CIBC World Markets Corp.	
Piper Jaffray & Co.	
SG Cowen & Co.	
Wachovia Capital Markets, LLC	
Total	

The underwriters have agreed to purchase all of the shares offered by this prospectus (other than those covered by the over-allotment option described below) if any are purchased. Under the underwriting agreement, if an underwriter defaults in its commitment to purchase shares, the commitments of non-defaulting underwriters may be increased or the underwriting agreement may be terminated, depending on the circumstances.

The shares should be ready for delivery on or about , 2005 against payment in immediately available funds. The underwriters are offering the shares subject to various conditions and may reject all or part of any order. The representatives have advised us and the selling stockholders that the underwriters propose to offer the shares directly to the public at the initial public offering price that appears on the cover page of this prospectus. In addition, the representatives may offer some of the shares to other securities dealers at such price less a concession of $ per share. The underwriters may also allow, and such dealers may reallow, a concession not in excess of $ per share to other dealers. After the shares are released for sale to the public, the representatives may change the offering price and other selling terms at various times.

We and the selling stockholders have granted the underwriters an over-allotment option. The underwriters may purchase up to of these additional shares from us and up to of these additional shares from the selling stockholders. This option, which is exercisable for up to 30 days after the date of this prospectus, permits the underwriters to purchase a maximum of additional shares to cover over-allotments. If the underwriters exercise all or part of this option, they will purchase shares covered by the option at the initial public offering price that appears on the cover page of this prospectus, less the underwriting discount. If this option is exercised in full, the total price to the public will be $, the total proceeds to us will be $ and the total proceeds to the selling stockholders will be $. The underwriters have severally agreed that, to the extent the over-allotment option is exercised, they will each purchase a number of additional shares proportionate to the underwriter's initial amount reflected in the foregoing table.

The following table provides information regarding the amount of the discount to be paid to the underwriters by us and the selling stockholders:

	Per Share	Total Without Exercise of Over-Allotment Option	Total With Full Exercise of Over-Allotment Option
Citi Trends, Inc.		$	$
Selling Stockholders			

We estimate that the total expenses of the offering for us and the selling stockholders, excluding the underwriting discount, will be approximately $. We have agreed to bear the expenses (other than underwriting discounts and commissions) of the selling stockholders in connection with this offering.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

Each of our officers and directors and substantially all other stockholders have agreed to a 180-day "lock up" with respect to shares of common stock and other of our securities that they beneficially own, including securities that are convertible into shares of common stock and securities that are exchangeable or exercisable for shares of common stock. We have also agreed to such a restriction. This means that for a period of 180 days following the date of this prospectus, (the "lock-up period") subject to specified exceptions, we and such persons may not, directly or indirectly, offer, sell, pledge or otherwise dispose of these securities without the prior written consent of CIBC World Markets Corp. In addition, the lock-up period may be extended in the event that we release earnings or announce certain material news within specified time periods prior to the termination of the lock-up period. The restrictions in the lock-up agreements will not prevent such persons from transferring their shares or other securities as gifts, to members of their immediate family or to a trust for the benefit of themselves of member of their family or by will or intestacy, provided in each case, that the transferee of such shares of other securities agree to be locked-up to the same extent as the person from whom they received the shares.

We have agreed not to issue, sell or register (other than pursuant to a registration statement on Form S-8), or otherwise dispose of, directly or indirectly, any of our equity securities (or any securities convertible into, exercisable for or exchangeable for our equity securities), except for this offering and the issuance of equity securities pursuant to our Amended and Restated 1999 Stock Option Plan or our 2005 Long-Term Incentive Plan, during the lock-up period without the consent of CIBC World Markets Corp. In the event that during the lock-up period, (A) any shares are issued pursuant to our Amended and Restated 1999 Stock Option Plan or our 2005 Long Term Incentive Plan that are exercisable during the lock-up period or (B) any registration is effected pursuant to a registration statement on Form S-8 relating to shares that are exercisable during the lock-up period, we have agreed to obtain the written agreement of such grantee or purchaser or holder of such registered securities that, during the lock-up period, such person will not, without the prior written consent of CIBC World Markets Corp., offer for sale, sell, distribute, grant any option for the sale of, or otherwise dispose of, directly or indirectly, or exercise any registration rights with respect to, any shares of our common stock (or any securities convertible into, exercisable for, or exchangeable for any shares of our common stock) owned by such person.

The representatives have informed us that it does not expect discretionary sales by the underwriters to exceed five percent of the shares offered by this prospectus.

There is no established trading market for the shares. The offering price for the shares has been determined by us, the selling stockholders and the representative, based on the following factors:

- the history and prospects for the industry in which we compete;
- our past and present operations;
- our historical results of operations;
- our prospects for future business and earning potential;
- our management;
- the general condition of the securities markets at the time of this offering;
- the recent market prices of securities of generally comparable companies; and
- the market capitalization and stages of development of other companies which we and the representative believe to be comparable to us.

Rules of the Commission may limit the ability of the underwriters to bid for or purchase shares before the distribution of the shares is completed. However, the underwriters may engage in the following activities in accordance with the rules:

- Stabilizing transactions—The representative may make bids or purchases for the purpose of pegging, fixing or maintaining the price of the shares, so long as stabilizing bids do not exceed a specified maximum.
- Over-allotments and syndicate covering transactions—The underwriters may sell more shares of our common stock in connection with this offering than the number of shares than they have committed to purchase. This over-allotment creates a short position for the underwriters. This short sales position may involve either

"covered" short sales or "naked" short sales. Covered short sales are short sales made in an amount not greater than the underwriters' over-allotment option to purchase additional shares in this offering described above. The underwriters may close out any covered short position either by exercising their over-allotment option or by purchasing shares in the open market. To determine how they will close the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market, as compared to the price at which they may purchase shares through the over-allotment option. Naked short sales are short sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that, in the open market after pricing, there may be downward pressure on the price of the shares that could adversely affect investors who purchase shares in this offering.

- Penalty bids—If the representative purchases shares in the open market in a stabilizing transaction or syndicate covering transaction, they may reclaim a selling concession from the underwriters and selling group members who sold those shares as part of this offering.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales or to stabilize the market price of our common stock may have the effect of raising or maintaining the market price of our common stock or preventing or mitigating a decline in the market price of our common stock. As a result, the price of the shares of our common stock may be higher than the price that might otherwise exist in the open market. The imposition of a penalty bid might also have an effect on the price of the shares if it discourages resales of the shares.

Neither we nor the underwriters makes any representation or prediction as to the effect that the transactions described above may have on the price of the shares. These transactions may occur on the Nasdaq National Market or otherwise. If such transactions are commenced, they may be discontinued without notice at any time.

Congress Financial Corporation (Southwest), an affiliate of Wachovia Capital Markets, LLC, is the lender under our credit agreement and Wachovia Capital Markets, LLC is acting as an underwriter in this offering. As such, Congress Financial Corporation (Southwest) has received and will continue to receive customary fees in connection with the credit agreement. In addition, in the future, certain of the underwriters or their affiliates, may provide us, from time to time, with other financial advisory or commercial or investment banking services, for which we expect they will receive customary fees and commissions.

In addition, an affiliate of CIBC World Markets Corp. has an indirect interest in our Series A Preferred Stock and our common stock, through ownership of a limited partnership interest in Hampshire Equity Partners II, L.P. This affiliate may be deemed to have received a portion of the net proceeds of this offering upon the redemption of our Series A Preferred Stock held by Hampshire Equity Partners II, L.P. with a portion of the net proceeds of this offering and its sale of common stock in this offering and receipt of the net proceeds therefrom. We do not expect these proceeds to exceed $ in the aggregate.

Legal Matters

The validity of the common stock offered hereby will be passed upon for us by Paul, Hastings, Janofsky & Walker LLP, New York, New York. DLA Piper Rudnick Gray Cary US LLP, Baltimore, Maryland, has represented the underwriters in this offering.

Experts

The financial statements of Citi Trends, Inc. as of January 31, 2004 and February 1, 2003 and for the years then ended have been included herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering the January 31, 2004 financial statements refers to the adoption of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."

Where You Can Find More Information

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act of 1933, as amended, for the common stock offered in this offering. In addition, upon completion of this offering, we will be required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy our registration statement and the attached exhibits and schedules without charge at the public reference room maintained by the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1 (800) SEC-0330 for further information on the public reference room. You may also inspect reports, proxy and information statements and other information that we file electronically with the Securities and Exchange Commission without charge at its Internet site, http://www.sec.gov.

This prospectus constitutes part of the registration and does not contain all of the information set forth in the registration statement. Whenever a reference is made in this prospectus to any of our contracts or other documents, the reference may not be complete and, for a copy of the contract or document, you should refer to the exhibits that are part of the registration statement.

After the offering, we intend to furnish our stockholders with annual reports containing financial statements audited by our independent registered public accountants.

Citi Trends, Inc.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Citi Trends, Inc.:

We have audited the accompanying balance sheets of Citi Trends, Inc. (the "Company") as of January 31, 2004 and February 1, 2003, and the related statements of income, stockholders' equity, and cash flows for the fiscal years ended January 31, 2004 and February 1, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citi Trends, Inc. as of January 31, 2004 and February 1, 2003, and the results of its operations and its cash flows for the fiscal years ended January 1, 2004 and February 1, 2003 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the financial statements, effective July 6, 2003 the Company adopted the provisions of the Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity".

KPMG LLP

Jacksonville, Florida
April 15, 2004

Citi Trends, Inc.

Balance Sheets
January 31, 2004 and February 1, 2003

	January 31, 2004	February 1, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 9,954,232	5,824,847
Inventory	22,712,369	17,042,512
Prepaid and other current assets	1,770,998	1,193,007
Income tax receivable	—	195,068
Deferred tax asset	530,604	374,604
Total current assets	34,968,203	24,630,038
Property and equipment, net	12,749,601	9,995,996
Goodwill	1,371,404	1,371,404
Other assets	123,992	129,118
Total assets	$49,213,200	36,126,556
Liabilities and Stockholders' Equity		
Current liabilities:		
Borrowings under revolving lines of credit	$ —	—
Accounts payable	19,577,370	13,469,260
Accrued expenses	2,121,520	1,642,493
Accrued compensation	1,669,462	1,917,368
Current portion of long-term debt	74,762	71,440
Current portion of capital lease obligations	566,667	774,052
Income tax payable	331,342	—
Layaway deposits	133,028	161,789
Total current liabilities	24,474,151	18,036,402
Long-term debt , less current portion	1,494,302	1,566,129
Capital lease obligations, less current portion	494,547	490,208
Preferred shares subject to mandatory redemption	5,160,313	—
Deferred tax liability	333,445	15,562
Other long-term liabilities	752,574	584,556
Total liabilities	32,709,332	20,692,857
Series A preferred stock, $0.01 par value. Liquidation preference of $1,000 per share. Authorized 5,000 shares; issued and outstanding 3,605 shares in 2003 and 2002	—	4,835,863
Stockholders' equity:		
Common stock, $0.01 par value. Authorized 500,000 shares; 363,275 shares issued in 2004 and 2003	3,633	3,633
Paid-in-capital	4,011,601	3,888,328
Retained earnings	12,571,384	6,788,625
Treasury stock, at cost; 5,775 shares	(57,750)	(57,750)
Subscription receivable	(25,000)	(25,000)
Total stockholders' equity	16,503,868	10,597,836
Commitments and contingencies (note 9)		
Total liabilities and stockholders' equity	$49,213,200	36,126,556

See accompanying notes to financial statements.

Citi Trends, Inc.

Statements of Income
Years Ended January 31, 2004 and February 1, 2003

	Fiscal 2003	Fiscal 2002
Net sales	$157,198,306	$124,950,935
Cost of sales	98,145,216	77,806,541
Gross profit	59,053,090	47,144,394
Selling, general and administrative expenses	48,844,888	38,759,624
Income from operations	10,208,202	8,384,770
Interest expense, including redeemable preferred stock dividend	563,342	255,708
Income before provision for income taxes	9,644,860	8,129,062
Provision for income taxes	3,726,914	3,101,237
Net income	$ 5,917,946	$ 5,027,825
Basic income per common share	$ 15.92	$ 12.95
Diluted income per common share	$ 13.77	$ 11.21
Average number of shares outstanding		
Basic	363,275	363,275
Diluted	420,060	419,510

See accompanying notes to financial statements.

Citi Trends, Inc.

Statements of Cash Flows
Years Ended January 31, 2004 and February 1, 2003

	Fiscal 2003	Fiscal 2002
Operating activities:		
Net income	$ 5,917,946	5,027,825
Adjustment to reconcile net income to net cash provided by operating activities:		
Dividends on preferred shares subject to mandatory redemption	189,263	—
Depreciation and amortization	4,032,602	3,014,549
Deferred income taxes	161,883	541,742
Loss on disposal of fixed assets	23,396	93,189
Noncash compensation expense	123,273	161,882
Changes in assets and liabilities:		
Inventory	(5,669,857)	(2,110,472)
Prepaid and other current assets	(577,991)	374,919
Income tax receivable	195,068	60,795
Other assets	(16,020)	(39,294)
Accounts payable	6,108,110	1,956,945
Accrued expenses and other long-term liabilities	647,045	576,631
Accrued compensation	(247,906)	880,225
Income tax payable	331,342	—
Layaway deposits	(28,761)	(82,278)
Net cash provided by operating activities	11,189,393	10,456,658
Investing activities:		
Purchase of property and equipment	(6,117,954)	(5,926,622)
Financing activities:		
Fee paid for continuance of revolving line of credit	—	(50,000)
Net repayments under revolving line of credit	—	(3,689,938)
Repayments on long-term debt and capital lease obligations	(942,054)	(742,969)
Proceeds from issuance of long-term debt	—	1,680,000
Purchase of treasury stock	—	—
Proceeds from sale of stock	—	—
Net cash used in financing activities	(942,054)	(2,802,907)
Net increase (decrease) in cash and cash equivalents	4,129,385	1,727,129
Cash and cash equivalents:		
Beginning of period	5,824,847	4,097,718
End of period	$ 9,954,232	5,824,847
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 352,933	255,708
Cash paid for income taxes	$ 3,036,620	2,498,700
Supplemental disclosures of noncash activities:		
Dividends accrued on redeemable preferred stock	$ 135,187	327,713
Purchases of property and equipment financed by entering into capital leases	$ 670,503	660,012
Insurance settlement not yet received related to loss of fixed assets and inventory related to store fire	$ 192,384	—

See accompanying notes to financial statements.

Citi Trends, Inc.

Statements of Stockholders' Equity
Years Ended January 31, 2004 and February 1, 2003

	Common Stock		Paid-in Capital	Retained Earnings	Treasury Stock		Subscription Receivable	Total
	Shares	Amount			Shares	Amount		
Balance— February 2, 2002	363,275	3,633	3,726,446	2,088,513	5,775	(57,750)	(25,000)	5,735,842
Expense recorded in connection with issuance of stock options			161,882					161,882
Accrued preferred stock dividends				(327,713)				(327,713)
Net income				5,027,825				5,027,825
Balance— February 1, 2003	363,275	3,633	3,888,328	6,788,625	5,775	(57,750)	(25,000)	10,597,836
Expense recorded in connection with issuance of stock options			123,273					123,273
Accrued preferred stock dividends				(135,187)				(135,187)
Net income				5,917,946				5,917,946
Balance— January 31, 2004	363,275	3,633	4,011,601	12,571,384	5,775	(57,750)	(25,000)	16,503,868

See accompanying notes to financial statements.

Citi Trends, Inc.

Notes to Financial Statements
January 31, 2004 and February 1, 2003

(1) Organization and Business

Citi Trends, Inc. (the "Company") is a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. As of January 31, 2004, the Company operated 161 stores in Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Texas, and Virginia.

(2) Summary of Significant Accounting Policies

(a) Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31 of each year. Fiscal years 2003 and 2002 comprise 52 weeks. The years ended January 31, 2004 and February 1, 2003 are referred to as fiscal 2003 and 2002, respectively, in the accompanying financial statements.

(b) Cash and Cash Equivalents

For purposes of the balance sheets and statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(c) Inventory

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

(d) Property and Equipment, net

Property and equipment are stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation and amortization are computed using the straight-line method over the lesser of the estimated useful lives (principally three to five years for computer equipment and furniture, fixtures and equipment, five years for leasehold improvements, and 15 years for buildings) of the related assets or the relevant lease term, whichever is shorter.

(e) Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired. The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, as of February 3, 2002. Pursuant to SFAS No. 142, goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but instead tested for impairment at least annually. The Company performed this analysis at the end of fiscal 2003 and no impairment was indicated.

(f) Impairment of Long-Lived Assets

If facts and circumstances indicate that a long-lived asset, including property and equipment, may be impaired, the carrying value of long-lived assets is reviewed. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. Impairment losses in the future are dependent on a number of factors such as site selection and general economic trends, and thus could be significantly different from historical results. To the extent the Company's estimates for net sales, gross profit and store expenses are not realized, future assessments of recoverability could result in impairment charges.

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 31, 2004 and February 1, 2003

(g) Stock-Based Compensation

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including Financial Accounting Standards Board ("FASB") interpretation (FIN) No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25*, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. The Company recognizes the fair value of stock rights granted to non-employees in the accompanying financial statements. SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation— Transition and Disclosure, an amendment of FASB Statement No. 123*, establishes accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing accounting standards, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and the Company has adopted only the disclosure requirements of SFAS No. 123, as amended. The following table illustrates the effect on net income for fiscal 2003 and 2002 if the fair-value-based method had been applied to all outstanding and unvested awards in the period. Pro forma information regarding net income and net income per share is required in order to show our net income as if we had accounted for employee stock options under the fair value method of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation— Transition Disclosure*. The fair values of options and shares issued pursuant to our option plan at each grant date were estimated using the Black-Scholes option pricing model.

	2003	2002
Net income, as reported	$5,917,946	5,027,825
Add stock-based employee compensation expense included in reported net income, net of tax of $45,855 and $62,729, respectively	77,415	99,153
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax of $68,120 and $47,157, respectively	(114,997)	(74,538)
Pro forma net income	$5,880,364	5,052,440
Pro forma Basic Income per common share	15.81	13.01
Pro forma Diluted Income per common share	13.68	11.27

(h) Revenue Recognition

Revenue from retail sales is recognized at the time of the sale, net of an allowance for estimated returns. Revenue from layaway sales is recognized when the customer has paid for and received the merchandise. If the merchandise is not fully paid for within 60 days, the customer is given a refund or store credit for merchandise payments made, less a re-stocking fee and a program service charge. Program service charges, which are non-refundable, are recognized in revenue when collected. All sales are from cash, check or major credit card company transactions. The Company does not offer company-sponsored customer credit accounts.

(i) Certain Financial Instruments with Characteristics of Liabilities and Equity

The Company prospectively adopted SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 also includes required disclosures for financial instruments within its scope. For the Company, SFAS No. 150 was

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 31, 2004 and February 1, 2003

effective for instruments entered into or modified after May 1, 2003 and otherwise effective as of February 1, 2004, except for mandatorily redeemable financial instruments. As such, the Company adopted the provisions of SFAS No. 150 for our Series A Preferred Stock on July 6, 2003 which required the Company to classify the Series A Preferred Stock as a liability on our balance sheet. The effective date of SFAS No. 150 has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. To illustrate the effect of SFAS No. 150 the following table shows net income if SFAS No. 150 had not been adopted for fiscal 2003 and 2002.

	2003	2002
Net income, as reported	$5,917,946	5,027,825
Add dividends on preferred shares subject to mandatory redemption	189,263	—
Pro forma net income	$6,107,209	5,027,825

(j) Earnings per Share

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

The following table provides a reconciliation of the earnings figures used to calculate earning per share and used in calculating diluted earnings per share for fiscal 2003 and 2002:

	2003	2002
Net income, as reported	$5,917,946	5,027,825
Subtract dividends on preferred shares subject to mandatory redemption	135,188	324,450
Numerator for EPS Calculation	$5,782,758	4,703,375

The following table provides a reconciliation of the number of average common shares outstanding used to calculate earning per share to the number of common shares and common share equivalents outstanding used in calculating diluted earnings per share for fiscal 2003 and 2002:

	2003	2002
Average number of common shares outstanding	363,275	363,275
Incremental shares from assumed exercises of stock options	56,785	56,235
Average number of common shares and common stock equivalents outstanding	420,060	419,510

For fiscal 2003, there was an immaterial number of options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution. For fiscal 2002 there were no options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution.

(k) Advertising

The Company expenses all advertising expenditures as incurred. Advertising expense for fiscal 2003 and 2002 was $905,872 and $618,051, respectively.

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 31, 2004 and February 1, 2003

(l) Store Opening and Closing Costs

New and relocated store opening costs are charged directly to expense when incurred. When the Company decides to close or relocate a store, the Company records an expense for the present value of expected future rent payments, net of sublease income, in the period that a store closes or relocates.

(m) 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.

(n) 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 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.

(o) Business Reporting Segments

The Company is a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family and has determined that its operations are within one reportable segment. Accordingly, financial information on industry segments is omitted. All sales are to customers and assets are located within the United States.

(p) Other Comprehensive Income

The Company did not have any components of other comprehensive income for fiscal 2003 and 2002.

(3) Property and Equipment, Net

The components of property and equipment at January 31, 2004 and February 1, 2003 are as follows:

	2004	2003
Land	$ 810,000	810,000
Building	1,340,000	1,340,000
Leasehold improvements	8,885,163	6,134,865
Furniture, fixtures, and equipment	9,000,105	5,779,811
Computer equipment	4,823,922	4,126,003
	24,859,190	18,190,679
Accumulated depreciation and amortization	12,109,589	8,194,683
	$12,749,601	9,995,996

Depreciation expense for fiscal 2003 and 2002 was $4,011,456 and $2,999,666, respectively. Computer equipment held under capital leases and related accumulated depreciation was $3,373,409 and $2,448,245, respectively, at January 31, 2004, and $2,780,098 and $1,681,477, respectively, at February 1, 2003.

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 31, 2004 and February 1, 2003

(4) Revolving Lines of Credit

The Company has a revolving line of credit secured by substantially all of the Company's assets pursuant to which the Company pays customary fees. This secured line of credit expires in April 2005. At January 31, 2004, the line of credit provided for aggregate cash borrowings and the issuance of letters of credit up to the lesser of $20,000,000 or the Company's borrowing base ($14,569,838 at January 31, 2004), as defined in the credit agreement. The maximum credit available under the credit agreement increased to $25,000,000 effective April 13, 2004. Borrowings under this secured line of credit bear interest at either the prime rate plus 0.25% or the Eurodollar rate plus 2.75%, at the Company's election, based on conditions in the credit agreement. Additionally, there is a letter of credit fee of 1.25% per annum on the outstanding balance of letters of credit. The interest rate on borrowings at January 31, 2004 was 4.00%. At January 31, 2004, there were no outstanding borrowings on the revolving line of credit, nor were there any outstanding letters of credit. Under the terms of the credit agreement, the Company is required to maintain a minimum tangible net worth. The Company was in compliance with this requirement at January 31, 2004.

In September 2003, the Company entered into an annual unsecured revolving line of credit with Bank of America that expires in June 2005. At January 31, 2004, the line of credit provided for aggregate cash borrowings up to $3,000,000. Borrowings under the credit agreement bear interest at the London Interbank Offered Rate ("LIBOR") plus 2.00%. The interest rate on borrowings at January 31, 2004 was 3.10%. At January 31, 2004, there were no outstanding borrowings on the unsecured revolving line of credit.

The Company borrows funds under these revolving lines of credit from time to time and subsequently repays such borrowings with available cash generated from operations.

(5) Long-term Debt and Capital Lease Obligations

Capital Leases. The Company has capital lease obligations that finance the purchase of its computer equipment. These obligations have maturity dates ranging from May 2004 to October 2007. The interest rates on these obligations range from 0.6% to 11.5%. All of these obligations are secured by the computer equipment.

As of January 31, 2004 and February 1, 2003, long-term debt and capital lease obligations consist of the following:

	2004	2003
Mortgage payable issued to finance purchase of land and building; payable in monthly installments of $14,913, including interest, through April 2007 with a balloon payment of $1,303,412 due May 2007; interest at a fixed rate of 6.80%; secured by land and building	$1,569,064	1,637,569
Capital lease obligations issued to finance purchase of computer equipment; payable in monthly installments averaging approximately $53,123, $32,101 and $11,106 in 2004, 2005 and 2006, with maturity dates ranging from August 2003 to October 2006; interest at rates ranging from 0.6% to 11.5%; secured by computer equipment	1,061,214	1,264,260
	2,630,278	2,901,829
Less current portion of long-term debt and capital lease obligations	641,429	845,492
	$1,988,849	2,056,337

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 31, 2004 and February 1, 2003

As of January 31, 2004, annual long-term debt and capital lease obligation maturities are as follows:

Fiscal Year	Long-term Debt	Capital Lease Obligations
2004	$ 74,762	637,482
2005	80,007	385,217
2006	85,620	133,277
2007	1,328,675	—
	1,569,064	1,155,976
Less portion attributable to future interest payments (at rates ranging from 0.6% to 11.5%)	—	94,762
	$1,569,064	1,061,214

(6) Income Taxes

The provision for income taxes for fiscal 2003 and 2002 consists of the following:

	2003	2002
Current:		
Federal	$2,987,496	2,136,445
State	577,535	423,050
	3,565,031	2,559,495
Deferred:		
Federal	135,658	465,423
State	26,225	76,319
	161,883	541,742
	$3,726,914	3,101,237

Income tax expense computed using the federal statutory rate is reconciled to the reported income tax expense as follows for fiscal 2003 and 2002:

	2003	2002
Statutory rate applied to income before income taxes	$3,279,252	2,763,881
State income taxes, net of federal benefit	385,794	329,584
General business credits	(161,023)	(117,004)
Dividends on preferred stock	66,240	—
Other	156,651	124,776
Provision for income taxes	$3,726,914	3,101,237

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 31, 2004 and February 1, 2003

The components of deferred tax assets and liabilities at January 31, 2004 and February 1, 2003 are as follows:

	2004	2003
Deferred tax assets:		
Book and tax depreciation differences	$ —	73,522
Deferred rent amortization	189,682	151,456
Inventory capitalization	572,515	361,057
Vacation liability	61,750	47,500
Stock compensation	129,071	80,848
Other	16,000	100,884
	969,018	815,267
Deferred tax liabilities:		
Book and tax depreciation differences	(188,881)	—
Prepaid expenses	(309,464)	(286,292)
Goodwill	(129,612)	(88,572)
Other	(143,902)	(81,361)
	(771,859)	(456,225)
Net deferred tax asset	$ 197,159	359,042

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. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. As such, a valuation allowance for deferred tax assets was not considered necessary at January 31, 2004 and February 1, 2003.

(7) Preferred Shares Subject to Mandatory Redemption

The Company's Series A Preferred Stock is nonvoting and has liquidation and dividend preferences over the common stock. All outstanding shares of Series A Preferred Stock can be redeemed by the Company with board of director approval, and must be redeemed by April 2009 or earlier in the event of a change in control or the liquidation of the Company, at a price of $1,000 per share, plus accrued dividends. Dividends on Series A Preferred Stock are cumulative at the rate of 9% of the amount of capital contributed for such shares and are payable upon the earlier of a declaration by the board of directors or a change in control or liquidation of the Company. At January 31, 2004 and February 1, 2003 the Company had accrued dividends payable of $1,555,313 and $1,230,863, respectively. During fiscal 2003, the Company's board of directors adopted a resolution whereby the Company intends to begin repaying its Series A Preferred Stock and all dividends accrued thereon at a rate of $500,000 per quarter, beginning in the second quarter of fiscal 2004.

(8) Stockholders' Equity

(a) Stockholders Agreement

The Company is party to a Stockholders Agreement dated April 13, 1999 (the "Stockholders Agreement") with Hampshire Equity Partners II, L.P., George Bellino and certain management stockholders. Pursuant to the stockholders agreement, four members of the Company's board of directors may be designated by the owners of the majority of the voting stock beneficially owned by Hampshire Equity Partners and its affiliates; the Company's

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 31, 2004 and February 1, 2003

stockholders have agreed generally not to transfer their shares; the Company's management stockholders have been granted tag-along rights in the event of the sale of more than 50% of our common stock; the Company's management stockholders have agreed to cooperate in any sale of the company by Hampshire Equity Partners and the Company has agreed to register shares of the Company's common stock held by the stockholder parties in the event that the Company registers additional shares of the Company's common stock under the Securities Act, other than on a registration statement on Form S-4 or S-8, or in connection with an exchange offer, merger, acquisition, dividend reinvestment plan, stock option or other employee benefit plan.

(b) Equity Transactions with Officer

In December 2001, the Company issued options to an officer for 16,800 shares of common stock. Since the estimated fair market value of the Company's common stock issued exceeded the exercise price of these options on the date of grant, the Company recognized charges to earnings during fiscal 2003 and 2002 of $84,441 and $161,882, respectively. The Company will recognize additional charges related to these options of $44,627 and $17,721 in fiscal 2004 and 2005, respectively.

(c) Equity Transactions with Majority Stockholder

In August 2003, the Company's board of directors adopted a plan whereby stock options are to be issued to the Company's majority stockholder, as well as certain defined members of management, in amounts necessary to prevent the dilution of their ownership percentage as a result of the issuance of stock options to other employees of the Company. Options granted under this anti-dilution plan are to be issued at the estimated fair market value of the Company's common stock on the date of grant and vest immediately. During fiscal 2003, the Company issued stock options for 1,503 shares of common stock under this anti-dilution plan, 1,425 of which were issued to its majority stockholder. Because the majority stockholder does not qualify as an employee, FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," required the Company to recognize a charge to earnings during the year ended January 31, 2004 of $38,832. The fair value of the vested options was determined using the Black-Scholes option-pricing model.

(d) Stock Options

In 1999, the Company established the 1999 Citi Trends, Inc. Stock Option Plan (the "Plan"). The Plan provides for the grant of incentive and nonqualified options to key employees and directors. The board of directors determines the exercise price of option grants. Option grants generally vest in equal installments over four years from the date of grant and are generally exercisable up to ten years from the date of grant. The Company has authorized up to 75,000 shares of common stock for issuance under the Plan.

A summary of option activity in the Plan for fiscal 2003 and 2002 is as follows:

	2003		2002	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at beginning of period	66,496	11	66,096	$ 10
Granted	7,403	99	1,800	54
Exercised	—	—	—	—
Forfeited	(5,000)	18	(1,400)	10
Outstanding end of period	68,899	20	66,496	11
Options exercisable end of period	53,196	11	37,035	$ 10

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 31, 2004 and February 1, 2003

At January 31, 2004 the range of exercise prices and weighted-average remaining contractual life of outstanding options was $10 to $116 and 7.7 years, respectively.

The following table summarizes the status of Company options exercisable at January 31, 2004 by exercise price:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable
$ 10	60,496	6.0	52,696
$ 50	800	8.0	200
$ 70	400	8.5	100
$ 94	4,603	8.9	200
$ 99	1,400	9.6	—
$116	1,200	9.8	—
	68,899		53,196

The fair value of options granted during the years ended January 31, 2004 and February 1, 2003 was $34.18 and $20.85, respectively, using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	2004	2003
Dividend yield	0.00%	0.00%
Expected volatility	50.00%	50.00%
Risk-free interest rate	2.50%	3.60%
Expected life, in years	10 years	10 years
Forfeiture rate	10.00%	10.00%

(9) Commitments and Contingencies

The Company leases its stores under operating leases, which generally have an initial term of five years with a five-year renewal option. Future minimum rental payments under operating leases having noncancelable lease terms at January 31, 2004 are as follows:

Fiscal Year Ending:	
2004	$ 5,919,819
2005	4,903,143
2006	4,025,774
2007	3,073,088
2008	1,942,456
Thereafter	2,109,233
Total future minimum lease payments	$21,973,513

Certain operating leases provide for fixed monthly rentals while others provide for rentals computed as a percentage of net sales. Certain operating leases provide for a combination of both fixed monthly rental and rentals computed as a percentage of net sales. Rental expense was $6,363,257 and $4,787,768 for the fiscal 2003 and 2002 (including $794,444 and $539,090 of percentage rent), respectively.

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 31, 2004 and February 1, 2003

The Company is involved in certain legal matters arising in the normal course of business. In the opinion of management, the outcome of these matters will not materially affect its financial condition, results of operations, or liquidity.

(10) Related Party Transactions

The Company is a party to a consulting agreement with an affiliate of its majority stockholder for management consulting services. Included in operating expenses are management fees of $240,000 and $190,000 for fiscal 2003 and 2002, respectively.

The consulting agreement has a four year term and is subject to automatic one year renewals each February 1, subject to 60 days prior notice of termination by either party. In addition, either party has the right to terminate the consulting agreement upon 90 days prior notice in the event of (a) a sale of all or substantially all of our common stock or assets, (b) a merger or consolidation in which we are the surviving corporation or (c) a registered public offering of our common stock.

Citi Trends, Inc.

Balance Sheet
February 2, 2002

Assets	
Current assets:	
Cash and cash equivalents	$ 4,097,717
Inventory	14,932,040
Prepaid and other assets	1,525,868
Income tax receivable	255,863
Deferred tax asset	352,146
Total current assets	21,163,634
Property and equipment	6,544,275
Goodwill, net of accumulated amortization of $197,196	1,371,404
Deferred tax asset	548,638
Other assets	104,707
Total assets	$29,732,658
Liabilities and Stockholders' Equity	
Current liabilities:	
Borrowing under revolving line of credit	$ 3,689,938
Accounts payable	11,512,314
Accrued expenses	1,198,143
Accrued compensation	932,272
Current portion of capital lease obligation	814,053
Layaway deposits	244,067
Total current liabilities	18,390,787
Long-term capital lease obligation	490,733
Other long-term liabilities	607,146
Total liabilities	19,488,666
Series A preferred stock, $0.01 par value. Liquidation preference of $1,000 per share. Authorized 5,000 shares; issued and outstanding 3,605 shares in 2001	4,508,150
Stockholders' equity:	
Common stock, $0.01 par value. Authorized 500,000 shares; 363,275 shares issued in 2001	3,633
Paid-in-capital	3,726,446
Subscription receivable	(25,000)
Retained earnings	2,088,513
Treasury stock, at cost; 5,775 shares	(57,750)
Total stockholders' equity	5,735,842
Commitments and contingencies (note 8)	
Total liabilities and stockholders' equity	$29,732,658

See accompanying notes to financial statements.

Citi Trends, Inc.

Statement of Income
Year Ended February 2, 2002

Net sales	$97,933,306
Cost of sales	62,050,323
Gross profit	35,882,983
Selling, general and administrative expenses	31,405,480
Income from operations	4,477,503
Interest expense	454,597
Income before provision for income taxes	4,022,906
Provision for income taxes	1,565,566
Net income	$ 2,457,340
Basic income per common share	$ 5.93
Diluted income per common share	$ 5.59
Average number of shares outstanding	
Basic	360,158
Diluted	382,190

See accompanying notes to financial statements.

Citi Trends, Inc.

Statement of Cash Flows
Year Ended February 2, 2002

Operating activities:	
Net income	$ 2,457,340
Adjustment to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	2,737,797
Deferred tax asset	(442,228)
Loss on disposal of fixed assets	96,430
Noncash compensation expense	97,329
Changes in assets and liabilities:	
Inventory	(1,928,967)
Prepaid and other assets	(633,385)
Tax receivable	206,351
Accounts payable	86,450
Accrued expenses and other liabilities	157,048
Layaway deposits	49,000
Net cash provided by operating activities	2,883,165
Investing activities:	
Purchase of property and equipment	(2,124,820)
Financing activities:	
Net repayment under revolving line of credit	(1,223,850)
Repayments under capital lease	(769,163)
Purchase of treasury stock	(12,000)
Proceeds from sale of stock	82,000
Net cash used in financing activities	(1,923,013)
Net decrease in cash	(1,164,668)
Cash:	
Beginning of period	5,262,386
End of period	$ 4,097,718
Supplemental disclosures of cash flow information:	
Cash paid for interest	$ 454,597
Cash paid for income taxes	1,801,443
Supplemental disclosures of noncash activities:	
Dividends accrued on redeemable preferred stock	$ 324,450
Purchases of property and equipment financed by entering into capital leases	$ 18,200

See accompanying notes to financial statements.

Citi Trends, Inc.

Statements of Stockholders' Equity
Year ended February 2, 2002

	Common Stock		Paid-in capital	Subscription receivable	Retained earnings (accumulated deficit)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance — February 3, 2001	358,575	$3,586	3,582,164	(25,000)	(44,377)	4,575	$(45,750)	$3,470,623
Exercise of stock options	1,200	12	11,988					12,000
Purchase of 1,200 shares of common stock for cash						1,200	(12,000)	(12,000)
Issuance of 3,500 and 35 shares of preferred and common stock, respectively, for cash	3,500	35	104,965					105,000
Expense recorded in connection with issuance of stock options			27,329					27,329
Accrued preferred stock dividends					(324,450)			(324,450)
Net income					2,457,340			2,457,340
Balance — February 2, 2002	363,275	3,633	3,726,446	(25,000)	2,088,513	5,775	(57,750)	5,735,842

See accompanying notes to financial statements.

Citi Trends, Inc.

Notes to Financial Statements
February 2, 2002

(1) Organization and Business

Citi Trends, Inc. (the "Company") is a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. As of February 2, 2002, the Company operated 123 stores in Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee.

(2) Summary of Significant Accounting Policies

(a) Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31 of each year. Fiscal year 2001 comprises 52 weeks. The year ended February 2, 2002 is referred to as fiscal 2001 in the accompanying financial statements.

(b) Cash and Cash Equivalents

For purposes of the balance sheet and statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(c) Inventory

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

(d) Property and Equipment, net

Property and equipment are stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation and amortization are computed using the straight-line method over the lesser of the estimated useful lives (principally three to five years for computer equipment and furniture, fixtures and equipment, five years for leasehold improvements and 15 years for buildings) of the related assets or the relevant lease term, whichever is shorter.

(e) Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired and, until February 3, 2002, was being amortized over a 20-year period. During the year ended February 2, 2002 the Company recorded $76,950 for goodwill amortization.

(f) Impairment of Long-Lived Assets

If facts and circumstances indicate that a long-lived asset, including property and equipment, may be impaired, the carrying value of long-lived assets is reviewed. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. Impairment losses in the future are dependent on a number of factors such as site selection and general economic trends, and thus could be significantly different from historical results. To the extent the Company's estimates for nets sales, gross profit and store expenses are not realized, future assessments of recoverability could result in impairment charges.

Citi Trends, Inc.

Notes to Financial Statements— (Continued)
February 2, 2002

(g) Stock-Based Compensation

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including Financial Accounting Standards Board ("FASB") interpretation (FIN) No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25*, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. The Company recognizes the fair value of stock rights granted to nonemployees in the accompanying financial statements. SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation— Transition and Disclosure, an amendment of FASB Statement No. 123*, establishes accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing accounting standards, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and the Company has adopted only the disclosure requirements of SFAS No. 123, as amended. The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards in the period. Pro forma information regarding net income and net income per share is required in order to show our net income as if we had accounted for employee stock options under the fair value method of SFAS No. 123, as amended. The fair values of options and shares issued pursuant to our option plan at each grant date were estimated using the Black-Scholes option pricing model.

Net income, as reported	$2,457,340
Add stock-based employee compensation expense included in reported net income, net of tax of $37,877	59,452
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax of $47,359	(74,336)
Pro forma net income	$2,442,456
Pro forma Basic Income per common share	5.89
Pro forma Diluted Income per common share	5.55

(h) Revenue Recognition

Revenue from retail sales is recognized at the time of the sale, net of an allowance for estimated returns. Revenue from layaway sales is recognized when the customer has paid for and received the merchandise. If the merchandise is not fully paid for within 60 days, the customer is given a refund or store credit for merchandise payments made, less a re-stocking fee and a program service charge. Program services charges are recognized in revenue when collected. All sales are from cash, check or major credit card company transactions. The Company does not offer company-sponsored customer credit accounts. Net sales also include $726,823 of rental income from a leased department for fiscal 2001.

(i) Earnings Per Share

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

Citi Trends, Inc.

Notes to Financial Statements— (Continued)
February 2, 2002

The following table provides a reconciliation of the earnings figure used to calculate earnings per share and used in calculating diluted earnings per share for fiscal 2001:

Net income, as reported	$2,457,340
Subtract dividends on preferred shares subject to mandatory redemption	321,563
Numerator for EPS Calculation	$2,135,777

The following table provides a reconciliation of the number of average common shares outstanding used to calculate earning per share to the number of common shares and common share equivalents outstanding used in calculating diluted earnings per share for fiscal 2001:

Average number of common shares outstanding	360,158
Incremental shares from assumed exercises of stock options	22,032
Average number of common shares and common stock equivalents outstanding	382,190

For the fiscal year ended 2001 there were no options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution.

(j) Advertising

The Company expenses all advertising expenditures as incurred. Advertising expense for fiscal 2001 was $680,675.

(k) Store Opening and Closing Costs

New and relocated store opening costs are charged directly to expense when incurred. When the Company decides to close or relocate a store, the Company records an expense for the present value of expected future rent payments net of sublease income in the period that a store closes or relocates.

(l) 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.

(m) 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 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.

(n) Business Reporting Segments

The Company is a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family and has determined that its operations are within one reportable segment. Accordingly, financial information on industry segments is omitted. All sales are to customers and assets are located within the United States.

Citi Trends, Inc.

Notes to Financial Statements— (Continued)
February 2, 2002

(o) Derivative Financial Instruments and Hedging Activities

The FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This statement, as amended, established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activity. The Company adopted SFAS No. 133, as amended, on February 4, 2001. The adoption of SFAS No. 133 had no effect on the Company's financial statements as the Company does not use derivatives.

(3) Property and Equipment

The components of property and equipment at February 2, 2002 are as follows:

Land	$
Leasehold improvements	7,277,129
Furniture, fixtures, and equipment	1,421,121
Computer equipment	3,063,516
	11,761,766
Accumulated depreciation	5,217,491
	$ 6,544,275

Property and equipment held under capital leases and related accumulated depreciation is $2,109,576 and $850,019, respectively, at February 2, 2002.

(4) Revolving Line of Credit

The Company has a revolving line of credit secured by substantially all of the Company's assets pursuant to which the Company pays customary fees. This secured line of credit expires in April 2003. At February 2, 2002, the line of credit provides for aggregate cash borrowings and the issuance of letters of credit up to the lesser of $15,000,000 or the Company's borrowing base, as defined in the credit agreement. Borrowings under this secured line of credit bear interest at either the prime rate plus 0.25% or the Eurodollar rate plus 2.75%, at the Company's election, based on conditions in the credit agreement. Additionally, there is a letter of credit fee of 1.25% per annum on the outstanding balance of letters of credit. The interest rate on borrowings at February 2, 2002 was 5.00%. There were no letters of credit outstanding at February 2, 2002. Under the terms of the credit agreement, the Company is required to maintain a minimum tangible net worth. The Company was in compliance with this requirement at February 2, 2002.

(5) Long-term Debt and Capital Lease Obligations

As of February 2, 2002, long-term debt and capital lease obligations consist of the following:

Capital lease obligations issued to finance purchase of computer equipment; payable in monthly installments averaging approximately $73,718, and $41,579 in 2002, and 2003, with maturity dates ranging from August 2003 to December 2003; interest at rates ranging from 2.5% to 13.1%; secured by computer equipment	1,304,786
	1,304,786
Less current portion of long-term debt and capital lease obligations	(814,053)
	$ 490,733

Citi Trends, Inc.

Notes to Financial Statements— (Continued)
February 2, 2002

As of February 2, 2002, capital lease obligation maturities are as follows:

Fiscal Year	
2004	$ 884,621
2005	498,953
2006	—
2007	—
2008	—
	1,383,574
Less portion attributable to future interest payments (at rates ranging from 2.5% to 13.1%)	(78,788)
	$1,304,786

During the year ended February 3, 2001, the Company entered into a sale and leaseback agreement for certain store equipment. The transaction resulted in a $163,236 gain on sale of the assets which has been deferred and is being amortized over the life of the lease (36 months).

(6) Income Taxes

The provision for income taxes for fiscal 2001 consists of the following:

Current:	
Federal	$1,694,322
State	313,472
	2,007,794
Deferred:	
Federal	(372,329)
State	(69,899)
	(442,228)
	$1,565,566

Income tax expense computed using the federal statutory rate is reconciled to the reported income tax expense as follows for fiscal 2001:

Statutory rate applied to income before income taxes	$1,367,547
State income taxes, net of federal benefit	160,578
Other	37,441
Income tax expense	$1,565,566

Citi Trends, Inc.

Notes to Financial Statements— (Continued)
February 2, 2002

The components of deferred tax assets and liabilities at February 2, 2002 are as follows:

Deferred tax assets:	
Book and tax depreciation differences	$ 621,354
Deferred rent amortization	136,234
Inventory capitalization	427,852
Vacation liability	33,600
Other	53,200
	1,272,240
Deferred tax liabilities:	
Prepaid expenses	(293,540)
Other	(77,916)
	(371,456)
Net deferred tax asset	$ 900,784

As of February 2, 2002, a valuation allowance for deferred tax assets is not considered necessary because it is more likely than not the deferred tax asset will be fully realized.

(7) Stockholders' Equity

(a) Preferred Shares Subject to Mandatory Redemption

The Company's Series A Preferred Stock is nonvoting and has liquidation and dividend preferences over the common stock. All outstanding shares of Series A Preferred Stock can be redeemed by the Company with board of director approval, and must be redeemed by April 2009 or earlier in the event of a change in control or liquidation of the Company, at a price of $1,000 per share, plus accrued dividends. Dividends on Series A Preferred Stock are cumulative at the rate of 9% of the amount of capital contributed for such shares and are payable upon the earlier of a declaration by the board of directors, a change in control or liquidation of the Company. At February 2, 2002 the Company had accrued dividends payable of $903,150.

(b) Stockholders Agreement

The Company is party to a Stockholders Agreement dated April 13, 1999 (the "Stockholders Agreement") with Hampshire Equity Partners II, L.P., George Bellino and certain management stockholders. Pursuant to the stockholders agreement, four members of the Company's board of directors may be designated by the owners of the majority of the voting stock beneficially owned by Hampshire Equity Partners and its affiliates; the Company's stockholders have agreed generally not to transfer their shares; the Company's management stockholders have been granted tag-along rights in the event of the sale of more than 50% of the Company's common stock; the Company's management stockholders have agreed to cooperate in any sale of the Company by Hampshire Equity Partners and the Company has agreed to register shares of the Company's common stock held by the stockholder parties in the event that the Company registers additional shares of the Company's common stock under the Securities Act, other than on a registration statement on Form S-4 or S-8, or in connection with an exchange offer, merger, acquisition, dividend reinvestment plan, stock option or other employee benefit plan.

(c) Equity Transactions with New Officer

In December 2001, the Company issued options to an officer for 16,800 shares of common stock. Since the estimated fair market value of the Company's common stock issued exceeded the exercise price of these options on the date of grant, the Company recognized a charge to earnings during fiscal 2001 of $27,329. The Company will recognize additional charges related to these options totaling $308,671 through December 2005.

Citi Trends, Inc.

Notes to Financial Statements— (Continued)
February 2, 2002

(d) Stock Options

In 1999, the Company established the 1999 Citi Trends, Inc. Stock Option Plan (the "Plan"). The Plan provides for the grant of incentive and nonqualified options to key employees and directors. The board of directors determines the exercise price of option grants. Options grants generally vest in equal installments over four years from the date of grant and are generally exercisable up to 10 years from the date of grant. The Company has authorized up to 75,000 shares of common stock for issuance under the Plan. During the year ended February 2, 2002, the Company granted options to employees and outside directors to acquire shares of its common stock at an exercise price of $10 per share. Since the estimated fair market value of the Company's common stock issued exceeded the exercise price of certain of these options on the date of grant, the Company recognized a charge to earnings during the year ended February 2, 2002 of $27,329. The Company will recognize additional charges to earnings totaling $308,671 through December 2005 relating to these options.

A summary of option activity in the Plan for fiscal 2001 is as follows (all options outstanding have an exercise price of $10 per share):

Outstanding at beginning of period	46,646
Granted	23,850
Exercised	(1,200)
Forfeited	(3,200)
Outstanding at end of period	66,096
Options exercisable at end of period	22,023

The fair value of options granted during fiscal 2001 was $24.18, using the Black-Scholes option-pricing model, with the following weighted average assumptions.

Dividend yield	0.00%
Expected volatility	0.00%
Risk-free interest rate	5.35%
Expected life, in years	10 years

(8) Commitments

The Company leases its stores under operating leases, the majority of which expire at various times during the next five years. Future minimum rental payments under capital and operating leases having noncancelable lease terms at February 2, 2002 as follows:

Fiscal year ending:	
2002	$ 3,756,180
2003	3,524,248
2004	2,710,859
2005	1,428,603
2006	654,805
Thereafter	1,465,129
Total future minimum lease payments	13,539,824

Certain leases contain renewal options. Certain leases provide for fixed monthly rentals and others provide that rent is computed as a percentage of net sales in addition to fixed rentals. Rental expense was $4,065,638 for fiscal 2001 (including $273,727 of percentage rent).

Citi Trends, Inc.

Notes to Financial Statements— (Continued)
February 2, 2002

The Company is involved in certain legal matters arising in the normal course of business. In the opinion of management, the outcome of these matters will not materially affect its financial condition, results of operations, or liquidity.

(9) Related Party Transactions

The Company is a party to a consulting agreement with an affiliate of its majority stockholder for management consulting services. Included in operating expenses are management fees of $120,000 for fiscal 2001.

The consulting agreement has a four year term and is subject to automatic one year renewals each February 1, subject to 60 days prior notice of termination by either party. In addition, either party has the right to terminate the consulting agreement upon 90 days prior notice in the event of (a) a sale of all or substantially all of our common stock or assets, (b) a merger or consolidation in which we are the surviving corporation or (c) a registered public offering of our common stock.

Citi Trends, Inc.

Condensed Balance Sheets
October 30, 2004 and January 31, 2004
(Unaudited)

	10/30/04	1/31/04
Assets		
Current assets:		
Cash and cash equivalents	$ 2,156,019	9,954,232
Inventory	37,439,758	22,712,369
Prepaid and other current assets	2,494,550	1,770,998
Income tax receivable	579,386	—
Deferred tax asset	668,604	530,604
Total current assets	43,338,317	34,968,203
Property and equipment, net	16,078,755	12,749,601
Goodwill	1,371,404	1,371,404
Other assets	119,704	123,992
Total assets	$60,908,180	49,213,200
Liabilities and Stockholders' Equity		
Current liabilities:		
Borrowings under revolving lines of credit	$ 5,388,067	—
Accounts payable	20,615,716	19,577,370
Accrued expenses	2,923,041	2,121,520
Accrued compensation	2,655,387	1,669,462
Current portion of long-term debt	77,949	74,762
Current portion of capital lease obligations	614,373	566,667
Income tax payable	—	331,342
Layaway deposits	1,141,656	133,028
Total current liabilities	33,416,189	24,474,151
Long-term debt, less current portion	1,442,757	1,494,302
Capital lease obligations, less current portion	646,425	494,547
Preferred shares subject to mandatory redemption	4,403,651	5,160,313
Deferred tax liability	471,445	333,445
Other long-term liabilities	1,406,482	752,574
Total liabilities	41,786,949	32,709,332
Stockholders' equity:		
Common stock, $0.01 par value. Authorized 500,000 shares; 363,875 and 363,275 shares issued in 2004 and 2003	3,639	3,633
Paid-in-capital	4,109,737	4,011,601
Retained earnings	15,196,868	12,571,384
Treasury stock, at cost; 6,375 and 5,775 shares in 2004 and 2003	(164,550)	(57,750)
Subscription receivable	(24,463)	(25,000)
Total stockholders' equity	19,121,231	16,503,868
Commitments and contingencies (note 10)		
Total liabilities and stockholders' equity	$60,908,180	49,213,200

See accompanying notes to financial statements.

Citi Trends, Inc.

Condensed Statements of Income
39 Weeks Ended October 30, 2004 and November 1, 2003
(Unaudited)

	2004	2003
Net sales	$137,128,892	$107,952,093
Cost of sales	86,288,239	67,466,353
Gross profit	50,840,653	40,485,740
Selling, general and administrative expenses	46,013,981	35,931,919
Income from operations	4,826,672	4,553,821
Interest expense, including redeemable preferred stock dividend	557,590	315,048
Income before provision for income taxes	4,269,082	4,238,773
Provision for income taxes	1,643,596	1,637,924
Net income	$ 2,625,486	$ 2,600,849
Basic income per common share	$ 7.22	$ 6.79
Diluted income per common share	$ 6.20	$ 5.89
Average number of shares outstanding		
Basic	363,808	363,275
Diluted	423,701	418,532

See accompanying notes to financial statements.

Citi Trends, Inc.

Condensed Statements of Cash Flows
39 Weeks Ended October 30, 2004 and November 1, 2003
(Unaudited)

	2004	2003
Operating activities:		
Net income	$ 2,625,486	2,600,849
Adjustment to reconcile net income to net cash provided by operating activities:		
Dividends on preferred shares subject to mandatory redemption	243,338	108,150
Depreciation and amortization	3,569,848	3,004,906
Noncash compensation expense	92,142	102,163
Changes in assets and liabilities:		
Inventory	(14,727,389)	(10,835,495)
Prepaid and other current assets	(723,552)	(65,577)
Income tax receivable	(910,729)	(27,780)
Other assets	4,288	5,555
Accounts payable	1,038,347	3,939,674
Accrued expenses and other long-term liabilities	1,455,430	215,119
Accrued compensation	985,925	(70,322)
Layaway deposits	1,008,627	938,281
Net cash used in operating activities	(5,338,239)	(84,477)
Investing activities:		
Purchase of property and equipment	(6,230,583)	(5,094,521)
Financing activities:		
Net Borrowing (repayments) under revolving line of credit	5,388,067	3,043,894
Repayments on long-term debt and capital lease obligations	(623,458)	(780,013)
Payment of dividends on preferred shares subject to mandatory redemption	(1,000,000)	—
Proceeds from issuance of Capital Stock	6,000	—
Net cash provided by financing activities	3,770,609	2,263,881
Net decrease in cash and cash equivalents	(7,798,213)	(2,915,117)
Cash and cash equivalents:		
Beginning of period	9,954,232	5,824,847
End of period	$ 2,156,019	2,909,730
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 296,900	189,546
Cash paid for income taxes	$ 2,559,729	1,663,704
Supplemental disclosures of noncash activities:		
Dividends accrued on redeemable preferred stock	$ 243,338	243,338
Purchases of property and equipment financed by entering into capital leases	$ 670,503	660,012

See accompanying notes to financial statements.

Citi Trends, Inc.

Notes to Condensed Financial Statements
39 Weeks Ended October 30, 2004 and November 1, 2003

(1) Basis of Presentation

The consolidated financial statements included herein have been prepared by management without audit and should be read in conjunction with the consolidated financial statements and notes thereto for fiscal 2003 included in this document. Due to the seasonality of the Company's business, the results for the interim periods are not necessarily indicative of the results for the year. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted, although management believes that the disclosures are adequate to fairly present the information. The accompanying consolidated financial statements reflect, in the opinion of management, all such adjustments necessary for a fair presentation of the interim financial statements. In the opinion of management, all such adjustments are of a normal recurring nature, except for the adjustments resulting from the adoption of FAS No. 150. See Note (7).

(2) Organization and Business

Citi Trends, Inc. (the "Company") is a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. As of October 30, 2004, the Company operated 195 stores in Alabama, Arkansas, Florida, Georgia, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Texas, and Virginia.

(3) 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 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.

(4) Recently Adopted Accounting Standards

In December 2003, the FASB issued FIN 46R, *Consolidation of Variable Interest Entities*, which is an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. FIN 46R requires that if an entity has a controlling interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. FIN 46R is effective immediately for all new variable interest entities created or acquired after December 31, 2003. The adoption of FIN 46R did not have an impact on the Company's consolidated financial position or results of operations.

(5) Revolving Lines of Credit

The Company has a revolving line of credit secured by substantially all of the Company's assets pursuant to which the Company pays customary fees. This secured line of credit expires in April 2007. At October 30, 2004, the line of credit provides for aggregate cash borrowings and the issuance of letters of credit up to the lesser of $25,000,000 or the Company's borrowing base, as defined in the credit agreement. Borrowings under this secured line of credit bear interest at either the prime rate plus 0.25% or the Eurodollar rate plus 2.75%, at the Company's election, based on conditions in the credit agreement. Additionally, there is a letter of credit fee of 1.25% per annum on the outstanding balance of letters of credit. The interest rate on borrowings at October 30, 2004 was 4.75%. At October 30, 2004, there was $4.0 million in outstanding borrowings on the revolving line of credit, there were no outstanding letters of credit. Under the terms of the

Citi Trends, Inc.

Condensed Notes to Financial Statements—(Continued)
39 Weeks Ended October 30, 2004 and November 1, 2003

credit agreement the Company is required to maintain a minimum tangible net worth of $3.9 million. The Company was in compliance with this requirement at October 30, 2004.

In September 2003, the Company entered into an annual unsecured revolving line of credit with Bank of America that was renewed in June 2004. The line of credit provides for aggregate cash borrowings up to $3,000,000 to be used for general operating purposes. Borrowings under the credit agreement bear interest at LIBOR plus 2.00% and the interest rate was 3.96% as of October 30, 2004. At October 30, 2004, there was $1.4 million in outstanding borrowings on the unsecured revolving line of credit.

(6) Preferred Shares Subject to Mandatory Redemption

The Company's Series A Preferred Stock is nonvoting and has liquidation and dividend preferences over the common stock. All outstanding shares of Series A Preferred Stock can be redeemed by the Company with board of director approval, and must be redeemed by April 2009 or earlier in the event of a change in control or the liquidation of the Company, at a price of $1,000 per share, plus accrued dividends. Dividends on Series A Preferred Stock are cumulative at the rate of 9% of the amount of capital contributed for such shares and are payable upon the earlier of a declaration by the board of directors or a change in control or liquidation of the Company. At October 30, 2004 and November 1, 2003 the Company had accrued dividends payable of $798,651 and $1,474,201, respectively. During fiscal 2003, the Company's board of directors adopted a resolution whereby the Company has begun repaying its Series A Preferred Stock and all dividends accrued thereon at a rate of $500,000 per quarter beginning in the second quarter of fiscal 2004.

(7) Certain Financial Instruments with Characteristics of Liabilities and Equity

The Company prospectively adopted SFAS No. 150, which establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 also includes required disclosures for financial instruments within its scope. For the Company, SFAS No. 150 was effective for instruments entered into or modified after May 1, 2003 and otherwise effective as of February 1, 2004, except for mandatorily redeemable financial instruments. As such, the Company adopted the provisions of SFAS No. 150 for our Series A Preferred Stock on July 6, 2003 which required the Company to classify the Series A Preferred Stock as a liability on our balance sheet. The effective date of SFAS No. 150 has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. To illustrate the effect of SFAS 150 the following table shows net income if SFAS No. 150 had not been adopted in the two 39-week periods ending October 30, 2004 and November 1, 2003.

	2004	2003
Net income, as reported	$2,625,486	2,600,848
Add dividends on preferred shares subject to mandatory redemption	243,338	108,150
Pro forma net income	$2,868,824	2,708,998

(8) Stock-Based Compensation

The Company applies the intrinsic-value-based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB interpretation (FIN) No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25*, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. The Company recognizes the fair value of stock rights granted to non-employees in the accompanying financial statements. SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148,

Citi Trends, Inc.

Condensed Notes to Financial Statements—(Continued)
39 Weeks Ended October 30, 2004 and November 1, 2003

Accounting for Stock-Based Compensation— Transition and Disclosure, an amendment of FASB Statement No. 123, establishes accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing accounting standards, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and the Company has adopted only the disclosure requirements of SFAS No. 123, as amended. The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards in the period. Pro forma information regarding net income and net income per share is required in order to show our net income as if we had accounted for employee stock options under the fair value method of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation— Transition Disclosure*. The fair values of options and shares issued pursuant to our option plan at each grant date were estimated using the Black-Scholes option pricing model.

	2004	2003
Net income, as reported	$2,625,486	2,600,849
Add stock-based employee compensation expense included in reported net income, net of tax of $48,224 and $60,220, respectively	75,049	101,662
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax of 73,626 and $50,492, respectively	(114,580)	(85,239)
Pro forma net income	$2,585,955	2,617,272
Pro forma Basic Income per common share	7.11	6.83
Pro forma Diluted Income per common share	6.10	5.93

(9) Related Party Transactions

The Company is a party to a consulting agreement with an affiliate of its majority stockholder for management consulting services. Included in operating expenses are management fees of $180,000 and $180,000 for the 39 weeks ended October 30, 2004 and November 1, 2003, respectively.

The consulting agreement has a four year term and is subject to automatic one year renewals each February 1, subject to 60 days prior notice of termination by either party. In addition, either party has the right to terminate the consulting agreement upon 90 days prior notice in the event of (a) a sale of all or substantially all of our common stock or assets, (b) a merger or consolidation in which we are not the surviving corporation or (c) a registered public offering of our common stock, which includes this offering. It is expected that both parties to the consulting agreement will waive any notice requirement for termination upon consummation of this offering.

(10) Contingencies

The Company is from time to time involved in various legal proceedings incidental to the conduct of its business, including claims by its customers, employees or former employees. The Company is currently the defendant in two putative collective action lawsuits commenced after August, 2004 by former employees under the Fair Labor Standards Act. The plaintiff in each of the lawsuits is represented by the same law firm, and both suits are pending in District Court of the United States for the Middle District of Alabama, Northern Division. Each of the cases is in its early stages, and the Company is in the process of evaluating the claims made. While its review of the allegations is preliminary, the Company believes that its business practices are, and were during the relevant periods, in compliance with the law. While the Company is unable to predict the outcome of these matters, it plans to defend these suits vigorously.

Citi Trends, Inc.

Condensed Notes to Financial Statements—(Continued)
39 Weeks Ended October 30, 2004 and November 1, 2003

(11) Recently Issued Accounting Standards Not Currently Effective

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. Under SFAS No. 123R, the Company, beginning in the third quarter of 2005, will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). The cost will be recognized over the period during which an employee is required to provide services in exchange for the award.

Currently, the Company discloses the estimated effect on net income of these share-based payments in the footnotes to the financial statements. The estimated fair value (cost) of the share-based payments has historically been determined using the Black-Scholes pricing model. As of the date of this report, the Company had not calculated the cost of share-based payments using the various other methods allowed by SFAS No. 123R and has not yet decided on the method to be used upon implementation of this standard. The actual compensation cost resulting from share-based payments to be included in the Company's future results of operations may vary significantly from the amounts currently disclosed in the footnotes to the financial statements.

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[Pictures of the outside and inside of various stores]

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Shares

Common Stock

PROSPECTUS

, 2005

CIBC World Markets

Piper Jaffray

SG Cowen & Co.

Wachovia Securities

You should rely only on information contained in this prospectus. No dealer, salesperson or other person is authorized to give information that is not contained in this prospectus. This prospectus is not an offer to sell nor is it seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is correct only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of these securities.

Until , 2005 (25 days after the commencement of the offering), all dealers that buy, sell or trade the common stock may be required to deliver a prospectus, regardless of whether they are participating in the offering. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Part II

Information Not Required in Prospectus

Item 13. ***Other Expenses of Issuance and Distribution.***

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by the registrant in connection with the sale of the securities being registered. All amounts are estimates except the SEC registration fee, the NASD fee and the Nasdaq National Market listing fee.

SEC Registration fee	$6,767.75
NASD filing fee	6,250.00
Nasdaq national market listing fee	5,000.00
Printing	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees	*
Miscellaneous	*
Total	$ *

* To be provided by amendment

Item 14. ***Indemnification of Directors and Officers.***

As permitted by Section 102(b)(7) of the Delaware General Corporation Law, we have adopted provisions in our second amended and restated certificate of incorporation and amended and restated by-laws that limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonable available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director except for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any act related to unlawful stock repurchases, redemptions or other distributions or payment of dividends; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not affect the availability of equitable remedies such as injunctive relief or rescission. Our second amended and restated certificate of incorporation also authorizes us to indemnify our officers, directors and other agents to the fullest extent permitted under Delaware law.

As permitted by Section 145 of the Delaware General Corporation Law, our amended and restated by-laws provide that:

- we may indemnify our directors, officers and employees to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions;
- we may advance expenses to our directors, officers and employees in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; and
- the rights provided in our amended and restated by-laws are not exclusive.

Our second amended and restated certificate of incorporation, attached as Exhibit 3.1 hereto, and our amended and restated by-laws, attached as Exhibit 3.2 hereto, provide for the indemnification provisions described above and elsewhere herein. In addition, we have purchased a policy of directors' and officers'

liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment in some circumstances. These indemnification provisions may be sufficiently broad to permit indemnification of our officers and directors for liabilities, including reimbursement of expenses incurred, arising under the Securities Act of 1933, as amended.

The form of Underwriting Agreement, attached as Exhibit 1.1 hereto, provides for indemnification by the underwriters of us and our officers and directors for specified liabilities, including matters arising under the Securities Act of 1933, as amended.

Item 15. ***Recent Sales of Unregistered Securities.***

Set forth below in reverse chronological order is information regarding the number of shares of capital stock and options issued by us since , 2002. Also included is the consideration if any received by us for the securities.

There was no public offering in any such transaction and we believe that each transaction was exempt from the registration requirements of the Securities Act of 1933, as amended, by reason of Regulation D and Section 4(2) of the 1933 Act, based on the private nature of the transactions and the financial sophistication of the purchasers, all of whom had access to complete information concerning us and acquired the securities for investment and not with a view to the distribution thereof. In addition, we believe that the transactions described below with respect to the issuance of option grants and warrants to our employees and directors were exempt from registration requirements of the 1933 Act by reason of Rule 701 promulgated thereunder.

Common Stock

In January 2004, a former employee of ours, resigned with 600 shares of vested stock options. The employee exercised his options in March 2004 pursuant to the provisions of our Amended and Restated 1999 Stock Option Plan and we issued to him shares of our common stock. In September 2004, pursuant to the terms and conditions of our Amended and Restated 1999 Stock Option Plan, we repurchased the 600 shares of common stock from him for the then fair market value of the common stock. As consideration we issued him a non-negotiable three year junior subordinated note in the amount of $106,800. The common shares we repurchased are currently held by us in treasury stock.

Options

In August 2003, our board of directors adopted a plan whereby stock options are to be issued to Hampshire Equity Partners, as well as other common stockholders, in amounts necessary to prevent the dilution of their ownership percentage as a result of the issuance of stock options to our other employees. Options granted under this anti-dilution plan are to be issued at the estimated fair market value of our common stock on the date of grant and vest immediately. During fiscal 2003, we issued stock options for 1,503 shares of common stock under this anti-dilution plan, 1,425 of which were issued to Hampshire Equity Partners. Because Hampshire Equity Partners does not qualify as an employee, FIN No. 44 required us to recognize a charge to earnings during fiscal 2004 of $38,832. The fair value of the vested options was determined using the Black-Scholes option-pricing model.

Item 16. ***Exhibits and Financial Statement Schedules***

(a) *Exhibits.* The following exhibits are filed as part of this registration statement:

Exhibit No.	Description
1.1	Form of Underwriting Agreement
3.1	Form of Second Amended and Restated Certificate of Incorporation
3.2	Form of Amended and Restated By-laws
4.1	Specimen certificate for shares of common stock, $.01 par value*
5.1	Opinion of Paul, Hastings, Janofsky & Walker LLP*
10.1	Letter Agreement by and between R. Edward Anderson and Citi Trends, Inc., dated November 16, 2001
10.2	Employment and Non-Interference Agreement by and between George Bellino and Citi Trends, Inc., dated as of April 13, 1999
10.3	Amendment No. 1 to the Employment and Non-Interference Agreement by and between George Bellino and Citi Trends, Inc., dated as of December 2001
10.4	The Loan and Security Agreement, dated as of April 2, 1999, by and between Congress Financial Corporation (Southwest) and Allied Fashion, Inc.
10.5	First Amendment to Loan and Security Agreement, dated as of June 28, 2000, by and between Congress Financial Corporation (Southwest) and Allied Fashion, Inc.
10.6	Second Amendment to Loan and Security Agreement, dated as of November 30, 2000, by and between Congress Financial Corporation (Southwest) and Allied Fashion, Inc.
10.7	Third Amendment to Loan and Security Agreement, dated as of January 2003, by and between Congress Financial Corporation (Southwest) and Citi Trends, Inc.
10.8	Fourth Amendment to Loan and Security Agreement, dated as of February 9, 2005, by and between Congress Financial Corporation (Southwest) and Citi Trends, Inc.
10.9	Lease Agreement, dated as of September 30, 2004, by and between Meyer Warehouse, LLC, as landlord, and Citi Trends, Inc., as tenant
10.10	$3.0 Million Promissory Note of Citi Trends, Inc. payable to Bank of America issued on June 21, 2004
10.11	Form of 2005 Long Term Incentive Plan
10.12	Nominating Agreement, dated as of , 2005, by and between Citi Trends, Inc. and Hampshire Equity Partners II, L.P.*
10.13	Registration Rights Agreement, dated as of , 2005, by and between Citi Trends, Inc. and Hampshire Equity Partners II, L.P.*

Exhibit No.	Description
10.14	Termination Agreement, dated as of , 2005, by and between Citi Trends, Inc. and Hampshire Management Company LLC*
14.1	Citi Trends, Inc. Code of Business Conduct and Ethics*
23.1	Consent of KPMG LLP
23.2	Consent of Paul Hastings, Janofsky & Walker LLP (included in Exhibit 5.1)*
24.1	Power of Attorney (included on the signature page hereto)

* To be filed by amendment.

Item 17. ***Undertakings.***

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 28th of February, 2005.

CITI TRENDS, INC.

By: /s/ R. EDWARD ANDERSON
R. Edward Anderson
Chief Executive Officer

Power of Attorney

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated. Each person whose signature appears below in so signing also makes, constitutes and appoints R. Edward Anderson and Thomas W. Stoltz, and each of them, his or her true and lawful attorney-in-fact, with full power of substitution, for him or her in any and all capacities, to execute and cause to be filed with the Securities and Exchange Commission any and all amendments and post-effective amendments to this Registration Statement, with exhibits thereto and other documents in connection therewith, and ratifies and confirms all that said attorney-in-fact or his substitute or substitutes may do or cause to be done.

Signature	Title	Date
/s/ R. EDWARD ANDERSON R. Edward Anderson	Chief Executive Officer (Principal Executive Officer)	February 28, 2005
/s/ THOMAS W. STOLTZ Thomas W. Stoltz	Chief Financial Officer (Principal Financial Officer)	February 28, 2005
/s/ GEORGE A. BELLINO George A. Bellino	Director	February 28, 2005
/s/ GREGORY P. FLYNN Gregory P. Flynn	Director	February 28, 2005
/s/ LAURENS M. GOFF Laurens M. Goff	Director	February 28, 2005
/s/ JOHN S. LUPO John S. Lupo	Director	February 28, 2005
/s/ TRACY L. NOLL Tracy L. Noll	Director	February 28, 2005

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23.2	Consent of Paul Hastings, Janofsky & Walker LLP (included in Exhibit 5.1)*
24.1	Power of Attorney (included on the signature page hereto)

* To be filed by amendment.

Exhibit 1.1

_____ Shares

CITI TRENDS, INC.

Common Stock

UNDERWRITING AGREEMENT

_____, 2005

CIBC World Markets Corp.
Wachovia Capital Markets, LLC
SG Cowen & Co., LLC
Piper Jaffray & Co.
as Representatives of the several
Underwriters named in Schedule I hereto
c/o CIBC World Markets Corp.
300 Madison Avenue
New York, New York 10017

Ladies and Gentlemen:

Citi Trends, Inc., a Delaware corporation (the "Company") and the persons listed on Schedule II hereto (each, a "Selling Stockholder," and together, the "Selling Stockholders"), propose, subject to the terms and conditions contained herein, to sell to you and the other underwriters named on Schedule I to this Agreement (the "Underwriters"), for whom you are acting as Representatives (the "Representatives"), an aggregate of _____ shares (the "Firm Shares") of the Company's common stock, $0.01 par value per share (the "Common Stock"). Of the _____ Firm Shares, _____ are to be issued and sold by the Company and _____ are to be sold by the Selling Stockholders. The respective amounts of the Firm Shares to be purchased by each of the several Underwriters are set forth opposite their names on Schedule I hereto. In addition, [the Company proposes to grant to the Underwriters an option to purchase up to an additional _____ shares (the "Company Option Shares") of Common Stock from the Company] [the Selling Stockholders propose to grant to the Underwriters an option to purchase up to an additional _____ shares (the "Selling Stockholder Option Shares," and together with the Company Option Shares, the "Option Shares") of Common Stock from the Selling Stockholders] for the purpose of covering over-allotments, if any, in connection with the sale of the Firm Shares. The Firm Shares and the Option Shares are collectively called the "Shares."

[As part of the offering contemplated by this Agreement, the Company, the Selling Stockholders and the Underwriters agree that up to _____ shares (the "Directed Shares") of the Shares to be purchased by the Underwriters shall be reserved for sale by the

Underwriters to certain of the Company's directors, officers, employees and other parties associated with the Company (each, individually a "Participant" and collectively, the "Participants"), as part of the distribution of the Shares by the Underwriters, under the terms of the friends and family directed sales program (the "Friends and Family Program"), and subject to the terms of this Agreement, the applicable rules, regulations and interpretations of the National Association of Securities Dealers, Inc. and all other applicable laws, rules and regulations. Shares to be sold pursuant to the Friends and Family Program shall be sold pursuant to this Agreement at the public offering price. To the extent that any such Directed Shares are not orally confirmed for purchase by a Participant by the end of the first business day after the date of this Agreement, such Directed Shares may be offered to the public as part of the public offering contemplated hereby.]

The Company has prepared and filed in conformity with the requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the published rules and regulations thereunder (the "Rules") adopted by the Securities and Exchange Commission (the "Commission") a Registration Statement (as hereinafter defined) on Form S-1 (No. 333-_____), including a preliminary prospectus relating to the Shares, and such amendments thereof as may have been required to the date of this Agreement. Copies of such Registration Statement (including all amendments thereof) and of the related Preliminary Prospectus (as hereinafter defined) have heretofore been delivered by the Company to you. The term "Preliminary Prospectus" means any preliminary prospectus included at any time as a part of the Registration Statement or filed with the Commission by the Company pursuant to Rule 424(a) of the Rules. The term "Registration Statement" as used in this Agreement means the initial registration statement (including all exhibits, financial schedules), as amended at the time and on the date it becomes effective (the "Effective Date"), including the information (if any) contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) of the Rules and deemed to be part thereof at the time of effectiveness pursuant to Rule 430A of the Rules. If the Company has filed an abbreviated registration statement to register additional Shares pursuant to Rule 462(b) under the Rules (the "462(b) Registration Statement"), then any reference herein to the Registration Statement shall also be deemed to include such 462(b) Registration Statement. The term "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement at the time of effectiveness or, if Rule 430A of the Rules is relied on, the term Prospectus shall also include the final prospectus filed with the Commission pursuant to Rule 424(b) of the Rules. The term "Prospectus" shall also include any related preliminary prospectus as first filed with the Commission (whether filed as part of the Registration Statement or any amendment thereto or pursuant to Rule 424(a) of the Rules) and any amendment thereof or supplement thereto.

The Company and the Selling Stockholders understand that the Underwriters propose to make a public offering of the Shares, as set forth in and pursuant to the Prospectus, as soon after the Effective Date and the date of this Agreement as the Representatives deem advisable. The Company and the Selling Stockholders hereby confirm that the Underwriters and dealers have been authorized to distribute or cause to be distributed each Preliminary Prospectus and are authorized to distribute the Prospectus (as from time to time amended or supplemented if the Company furnishes amendments or supplements thereto to the Underwriters).

1. Sale, Purchase, Delivery and Payment for the Shares. On the basis of the representations, warranties and agreements contained in, and subject to the terms and conditions of, this Agreement:

(a) The Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at a purchase price of $_____ per share (the "Initial Price"), the number of Firm Shares set forth opposite the name of such Underwriter under the column "Number of Firm Shares to be Purchased from the Company" on Schedule I to this Agreement, subject to adjustment in accordance with Section 9 hereof. The Selling Stockholders agree to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Selling Stockholders, at the Initial Price, the number of Firm Shares set forth opposite the name of such Underwriter under the column "Number of Firm Shares to be Purchased from the Selling Stockholders" on Schedule I to this Agreement, subject to adjustment in accordance with Section 9 hereof.

(b) [The Company] [The Selling Stockholders] [The Company and the Selling Stockholders] hereby grants to the several Underwriters an option to purchase, severally and not jointly, all or any part of the Option Shares at the Initial Price. The number of Option Shares to be purchased by each Underwriter shall be the same percentage (adjusted by the Representatives to eliminate fractions) of the total number of Option Shares to be purchased by the Underwriters as such Underwriter is purchasing of the Firm Shares. Such option may be exercised only to cover over-allotments in the sales of the Firm Shares by the Underwriters and may be exercised in whole or in part at any time on or before 12:00 noon, New York City time, on the business day before the Firm Shares Closing Date (as defined below), and from time to time thereafter within 30 days after the date of this Agreement, in each case upon written, facsimile or telegraphic notice, or verbal or telephonic notice confirmed by written, facsimile or telegraphic notice, by the Representatives to the Company no later than 12:00 noon, New York City time, on the business day before the Firm Shares Closing Date or at least two business days before the Option Shares Closing Date (as defined below), as the case may be, setting forth the number of Option Shares to be purchased and the time and date (if other than the Firm Shares Closing Date) of such purchase.

(c) Payment of the purchase price for, and delivery of certificates for, the Firm Shares shall be made at the offices of DLA Piper Rudnick Gray Cary US LLP, 6225 Smith Avenue, Baltimore, MD 21209, at 10:00 a.m., local time, on the third business day following the date of this Agreement or at such time on such other date, not later than ten (10) business days after the date of this Agreement, as shall be agreed upon by the Company and the Representatives (such time and date of delivery and payment are called the "Firm Shares Closing Date"). In addition, in the event that any or all of the Option Shares are purchased by the Underwriters, payment of the purchase price, and delivery of the certificates, for such Option Shares shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Representatives and the Company, on each date of delivery as specified in the notice from the Representatives to the Company (such time and date of delivery and payment are called the "Option Shares Closing

Date"). The Firm Shares Closing Date and any Option Shares Closing Date are called, individually, a "Closing Date" and, together, the "Closing Dates."

(d) Payment shall be made to the Company and the Selling Stockholders by wire transfer of immediately available funds or by certified or official bank check or checks payable in New York Clearing House (same day) funds drawn to the order of the Company and to the Selling Stockholders for the shares purchased from the Selling Stockholders, against delivery of the respective certificates to the Representatives for the respective accounts of the Underwriters of certificates for the Shares to be purchased by them.

(e) Certificates evidencing the Shares shall be registered in such names and shall be in such denominations as the Representatives shall request at least two full business days before the Firm Shares Closing Date or, in the case of Option Shares, on the day of notice of exercise of the option as described in Section 1(b) and shall be delivered by or on behalf of the Company to the Representatives through the facilities of the Depository Trust Company ("DTC") for the account of such Underwriter. The Company will cause the certificates representing the Shares to be made available for checking and packaging, at such place as is designated by the Representatives, on the full business day before the Firm Shares Closing Date (or the Option Shares Closing Date in the case of the Option Shares).

2. Representations and Warranties of the Company. The Company represents and warrants to each Underwriter as of the date hereof, as of the Firm Shares Closing Date and as of each Option Shares Closing Date (if any), as follows:

(a) On the Effective Date, the Registration Statement complied, and on the date of the Prospectus, the date any post-effective amendment to the Registration Statement becomes effective, the date any supplement or amendment to the Prospectus is filed with the Commission and each Closing Date, the Registration Statement and the Prospectus (and any amendment thereof or supplement thereto) will comply, in all material respects, with the requirements of the Securities Act and the Rules and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the published rules and regulations of the Commission thereunder. The Registration Statement did not, as of the Effective Date, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and on the Effective Date and the other dates referred to above neither the Registration Statement nor the Prospectus, nor any amendment thereof or supplement thereto, will contain any untrue statement of a material fact or will omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading. When any related preliminary prospectus was first filed with the Commission (whether filed as part of the Registration Statement or any amendment thereto or pursuant to Rule 424(a) of the Rules) and when any amendment thereof or supplement thereto was first filed with the Commission, such preliminary prospectus as amended or supplemented complied in all material respects with the applicable provisions of the Securities Act and the Rules and did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein

or necessary in order to make the statements therein not misleading. If applicable, each Preliminary Prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T. If Rule 434 is used, the Company will comply with the requirements of Rule 434 and the Prospectus shall not be "materially different," as such term is used in Rule 434, from the Prospectus included in the Registration Statement at the time it became effective. Notwithstanding the foregoing, none of the representations and warranties in this Section 2(a) shall apply to statements in, or omissions from, the Registration Statement or the Prospectus made in reliance upon, and in conformity with, information furnished in writing by the Representatives on behalf of the several Underwriters for use in the Registration Statement or the Prospectus. With respect to the preceding sentence, the Company acknowledges that the only information furnished in writing by the Representatives on behalf of the several Underwriters for use in the Registration Statement or the Prospectus is the statements contained in the [third, fourth, fifth and sixth sentences of the fifth paragraph, the tenth paragraph and thirteenth and fourteenth paragraphs under the caption "Underwriting" in the Prospectus.][Verify once the prospectus is finalized].

(b) The Registration Statement is effective under the Securities Act and no stop order preventing or suspending the effectiveness of the Registration Statement or suspending or preventing the use of the Prospectus has been issued by the Commission and no proceedings for that purpose have been instituted or are threatened under the Securities Act. Any required filing of the Prospectus and any supplement thereto pursuant to Rule 424(b) of the Rules has been or will be made in the manner and within the time period required by such Rule 424(b).

(c) The financial statements of the Company (including all notes and schedules thereto) included in the Registration Statement and Prospectus present fairly the financial position of the Company at the dates indicated and the statement of operations, stockholders' equity and cash flows of the Company for the periods specified; and such financial statements and related schedules and notes thereto, and the unaudited financial information included as part of the Registration Statement, have been prepared in conformity with generally accepted accounting principles, consistently applied throughout the periods involved. The summary and selected financial data included in the Registration Statement and the Prospectus present fairly the information shown therein as at the respective dates and for the respective periods specified and have been presented on a basis consistent with the consolidated financial statements set forth in the Registration Statement and the Prospectus and other financial information.

(d) (i) KPMG LLP, whose reports are filed with the Commission as a part of the Registration Statement, are and, during the periods covered by their reports, are an independent registered public accounting firm as required by the Securities Act and the Rules.

(ii) The Company has not had any disagreements with its current or former independent auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure and none of the events listed in Item 304(a)(1)(v)(A) through (D) of Regulation S-K promulgated under the Securities Act have occurred during the immediately preceding five fiscal years.

(e) The Company is duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has no subsidiary or subsidiaries and does not control, directly or indirectly, any corporation, partnership, joint venture, association or other business organization. The Company is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which the nature of the business conducted by it or location of the assets or properties owned, leased or licensed by it requires such qualification, except for such jurisdictions where the failure to so qualify individually or in the aggregate would not have a material adverse effect on the assets, properties, condition, financial or otherwise, or in the results of operations, business affairs or business prospects of the Company (a "Material Adverse Effect"); and to the Company's knowledge, no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification. The Company does not own, lease or license any asset or property or conduct any business outside the United States of America.

(f) The Company has all requisite corporate power and authority, and all necessary authorizations, approvals, consents, orders, licenses, certificates and permits of and from all governmental or regulatory bodies or any other person or entity (collectively, the "Permits"), to own, lease and license its assets and properties and conduct its business, all of which are valid and in full force and effect, except where the lack of such Permits, individually or in the aggregate, could not have a Material Adverse Effect. The Company has fulfilled and performed in all material respects all of its obligations with respect to such Permits and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other material impairment of the rights of the Company thereunder. Except as may be required under the Securities Act and state and foreign blue sky laws, no other Permits are required to enter into, deliver and perform this Agreement and to issue and sell the Shares.

(g) (i) To the best of the Company's knowledge, the Company owns or possesses legally enforceable rights to use all patents, patent rights, inventions, trademarks, trademark applications, trade names, service marks, copyrights, copyright applications, licenses, know-how and other similar rights and proprietary knowledge (collectively, "Intangibles") currently used in or necessary for the conduct of its business, and (ii) to the best of the Company's knowledge, the Company has not knowingly infringed upon or misappropriated the intellectual property rights of any third-parties, and (iii) no claims in connection with any of the items in clause (ii) are pending or, to the Company's knowledge, threatened, and to the Company's knowledge there are no bases for such claims. To the best of Company's knowledge, none of the Intangibles currently used in connection with its business is currently being infringed by a third-party and the Company has not made any claims that a third-party has violated or infringed any of the Company's rights in such Intangibles.

(h) The Company has good and marketable title in fee simple to all real property, and good and marketable title to all other property owned by it, in each case free and clear of all liens, encumbrances, claims, security interests and defects, except such as do not materially affect the value of such property and do not materially interfere with the use made or proposed to be made of such property by the Company. All property held under lease by the Company is held by it under valid, existing and enforceable leases, free and clear of all liens, encumbrances, claims, security interests and defects, except such as are not material and do not materially interfere with the use made or proposed to be made of such property by the Company. Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, (i) there has not been any Material Adverse Effect; (ii) the Company has not sustained any loss or interference with its assets, businesses or properties (whether owned or leased) from fire, explosion, earthquake, flood or other calamity, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree which could have a Material Adverse Effect; and (iii) since the date of the latest balance sheet included in the Registration Statement and the Prospectus, the Company has not (A) issued any securities or incurred any liability or obligation, direct or contingent, for borrowed money, except such liabilities or obligations incurred in the ordinary course of business, (B) entered into any transaction not in the ordinary course of business or (C) declared or paid any dividend or made any distribution on any shares of its stock or redeemed, purchased or otherwise acquired or agreed to redeem, purchase or otherwise acquire any shares of its capital stock.

(i) There is no document, contract or other agreement required to be described in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement which is not described or filed, as applicable, as required by the Securities Act or Rules. Each description of a contract, document, agreement or instrument in the Registration Statement and the Prospectus accurately reflects in all respects the terms of the underlying contract, document, agreement or instrument. Each contract, document or other agreement described in the Registration Statement and Prospectus or listed in the Exhibits to the Registration Statement is in full force and effect and is valid and enforceable by and against the Company, as the case may be, in accordance with its terms. Neither the Company nor, to the Company's knowledge, any other party is in default in the observance or performance of any term or obligation to be performed by it under any such contract, document, agreement or instrument, and no event has occurred which with notice or lapse of time or both would constitute such a default. No default exists, and no event has occurred which with notice or lapse of time or both would constitute a default, in the due performance and observance of any term, covenant or condition, by the Company of any other contract, document, agreement or instrument to which the Company is a party or by which Company or its properties or business may be bound or affected which default or event, individually or in the aggregate, could have a Material Adverse Effect.

(j) The statistical and market related data included in the Registration Statement are based on or derived from sources that the Company believes to be reliable and accurate.

(k) The Company is not in violation of any term or provision of its certificate of incorporation or by-laws, each as amended through the date hereof and each Closing Date (respectively, the "Charter" and "Bylaws"), or of any franchise, license, permit, judgment, decree, order, statute, rule or regulation, where the consequences of such violation, individually or in the aggregate, could have a Material Adverse Effect.

(l) Neither the execution, delivery and performance of this Agreement by the Company nor the consummation of any of the transactions contemplated hereby (including, without limitation, the issuance and sale by the Company of the Shares) will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or require any consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of the Company pursuant to the terms of, any indenture, mortgage, deed of trust or other contract, document, agreement or instrument to which the Company is a party or by which the Company or any of its properties or businesses is bound, or any franchise, license, permit, judgment, decree, order, statute, rule or regulation applicable to the Company or violate any provision of the Charter or Bylaws, except for such consents or waivers which have already been obtained and are in full force and effect.

(m) The Company has authorized and outstanding capital stock as set forth under the caption "Capitalization" in the Prospectus. The certificates evidencing the Shares are in due and proper legal form and have been duly authorized for issuance by the Company. All of the issued and outstanding shares of Common Stock have been duly and validly issued and are fully paid and nonassessable. There are no preemptive or other similar rights to subscribe for or to purchase or acquire any shares of Common Stock or any such rights pursuant to the Charter or Bylaws or any contract, document, agreement or instrument to or by which the Company is a party or bound. The Shares, when issued and sold pursuant to this Agreement, will be duly and validly issued, fully paid and nonassessable and none of them will be issued in violation of any preemptive or other similar right. Except as disclosed in the Registration Statement and the Prospectus, there is no outstanding option, warrant or other right calling for the issuance of, and there is no commitment, plan or arrangement to issue, any share of capital stock of the Company or any security convertible into, or exercisable or exchangeable for, such capital stock. The Common Stock and the Shares conform in all material respects to all statements in relation thereto contained in the Registration Statement and the Prospectus.

(n) No holder of any security of the Company has any right, which has not been waived in writing, to have any security owned by such holder included in the Registration Statement or to demand registration of any security owned by such holder for a period of 180 days after the date of this Agreement. Each director and executive officer of the Company and each stockholder of the Company listed on Schedule III has delivered to the Representatives his enforceable written lock-up agreement in the form attached to this Agreement as Exhibit A hereto ("Lock-Up Agreement").

(o) All necessary corporate action has been duly and validly taken by the Company and to authorize the execution, delivery and performance of this Agreement and the issuance and sale of the Shares by the Company. This Agreement has been duly and validly authorized, executed and delivered by the Company and constitute and will constitute legal, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(p) There is not pending or, to the knowledge of the Company, threatened any action, suit, proceeding, inquiry or investigation, governmental or otherwise, to which the Company is a party, or to its which properties or assets are subject, before or brought by any court, arbitrator or governmental agency or body.

(q) The Company is not involved in any labor dispute nor, to the knowledge of the Company, is any such dispute threatened, which dispute could have a Material Adverse Effect. The Company is not aware of any existing or imminent labor disturbance by the employees of any of its principal suppliers or contractors which could have a Material Adverse Effect. The Company is not aware of any threatened or pending litigation between the Company and any of its officers, directors, employees or stockholders which, if adversely determined, could have a Material Adverse Effect and has no reason to believe that such officers will not remain in the employment of the Company.

(r) No transaction has occurred between or among the Company and any of its officers, directors, employees or shareholders or any affiliate or affiliates of any such officer or director or shareholder that is required to be described in and is not described in the Registration Statement and the Prospectus.

(s) The Company has not taken, nor will it take, directly or indirectly, any action designed to or which might reasonably be expected to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the Common Stock or any security of the Company to facilitate the sale or resale of any of the Shares.

(t) The Company has filed all federal, state, local and foreign tax returns which are required to be filed through the date hereof, which returns are true and correct in all material respects or has received timely extensions thereof, and has paid all taxes shown on such returns and all assessments received by it to the extent that the same are material and have become due. There are no tax audits or investigations pending, which if adversely determined could have a Material Adverse Effect; nor are there any material proposed additional tax assessments against the Company.

(u) The Shares have been duly authorized for quotation on the National Association of Securities Dealers Automated Quotation National Market System ("Nasdaq"). The Company has taken all necessary actions to ensure that it will be in

compliance with all applicable corporate governance requirements set forth in the NASDAQ Marketplace Rules that are in effect with respect to it and is actively taking steps to ensure that it will be in compliance with other applicable corporate governance requirements set forth in the NASDAQ Marketplace Rules which will in the future become applicable to it. A registration statement has been filed on Form 8-A pursuant to Section 12 of the Exchange Act, which registration statement complies in all material respects with the Exchange Act.

(v) The Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or the quotation of the Common Stock on the Nasdaq National Market, nor has the Company received any notification that the Commission or the Nasdaq National Market is contemplating terminating such registration or quotation.

(w) The books, records and accounts of the Company accurately and fairly reflect, in reasonable detail, the transactions in, and dispositions of, the assets of, and the results of operations of, the Company. The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; the chief executive officer and the chief financial officer of the Company have made all certifications required by the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and any related rules and regulations promulgated by the Commission, and the statements contained in any such certification are complete and correct; the Company maintains "disclosure controls and procedures" (as defined in Rule 13a-14(c) under the Exchange Act); the Company is otherwise in compliance in all material respects with all applicable effective provisions of the Sarbanes-Oxley Act and is actively taking steps to ensure that it will be in compliance with other applicable provisions of the Sarbanes-Oxley Act upon the effectiveness of such provisions.

(x) Based on the evaluation of its internal control over financial reporting, the Company is not aware of (i) any significant deficiency or material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information or (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

(y) There are no material off-balance sheet arrangements (as defined in Regulation S-K Item 303(a)(4)(ii) promulgated under the Securities Act) that may have a material current or future effect on the assets, properties, condition, financial or otherwise, or in the results of operations, business affairs or business prospects of the Company.

(z) The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are customary in the businesses in which they are engaged or propose to engage after giving effect to the

transactions described in the Prospectus; all policies of insurance and fidelity or surety bonds insuring the Company or the Company's businesses, assets, employees, officers and directors are in full force and effect; the Company is in compliance with the terms of such policies and instruments in all material respects; and the Company has no reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that is not materially greater than the current cost. The Company has not been denied any insurance coverage which it has sought or for which it has applied.

(aa) Each approval, consent, order, authorization, designation, declaration or filing of, by or with any regulatory, administrative or other governmental body necessary in connection with the execution and delivery by the Company of this Agreement and the consummation of the transactions herein contemplated required to be obtained or performed by the Company (except such additional steps as may be required by the National Association of Securities Dealers, Inc. (the "NASD") or may be necessary to qualify the Shares for public offering by the Underwriters under the state securities or blue sky laws) has been obtained or made and is in full force and effect.

(bb) There are no affiliations with the NASD among the Company's officers, directors or, to the knowledge of the Company, any stockholder of the Company, except as set forth in the Registration Statement.

(cc) (i) The Company is in compliance in all material respects with all rules, laws and regulation relating to the use, treatment, storage and disposal of toxic substances and protection of health or the environment ("Environmental Laws") which are applicable to its business; (ii) the Company has not received any notice from any governmental authority or third party of an asserted claim under Environmental Laws; (iii) the Company has received all permits, licenses or other approvals required of it under applicable Environmental Laws to conduct its business and is in compliance with all terms and conditions of any such permit, license or approval; (iv) to the Company's knowledge, no facts currently exist that will require the Company to make future material capital expenditures to comply with Environmental Laws; and (v) no property which is or has been owned, leased or occupied by the Company has been designated as a Superfund site pursuant to the Comprehensive Environmental Response, Compensation of Liability Act of 1980, as amended (42 U.S.C. Section 9601, et. seq.) or otherwise designated as a contaminated site under applicable state or local law. The Company has not been named as a "potentially responsible party" under the CER, CLA 1980.

(dd) In the ordinary course of its business, the Company periodically reviews the effect of Environmental Laws on the business, operations and properties of the Company, in the course of which the Company identifies and evaluates associated costs and liabilities (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws, or

any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties). On the basis of such review, the Company has reasonably concluded that such associated costs and liabilities would not, singly or in the aggregate, have a Material Adverse Effect.

(ee) The Company is not and, after giving effect to the offering and sale of the Shares and before or after the application of proceeds thereof as described in the Prospectus, will not be an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "Investment Company Act").

(ff) Neither the Company nor any other person associated with or acting on behalf of the Company including, without limitation, any director, officer, agent or employee of the Company, has, directly or indirectly, while acting on behalf of the Company (i) used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity; (ii) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from corporate funds; (iii) violated any provision of the Foreign Corrupt Practices Act of 1977, as amended; or (iv) made any other unlawful payment.

(gg) The operations of the Company are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company with respect to the Money Laundering Laws is pending, or to the best knowledge of the Company, threatened.

(hh) Neither the Company nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and the Company will not directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(ii) [Neither the Company, the Selling Stockholders nor any other person associated with or acting on behalf of the Company or the Selling Stockholders, including, without limitation, any director, officer, agent or employee of the Company or the Selling Stockholders has offered or caused the Underwriters to offer any of the Shares to any person pursuant to the Friends and Family Program with the specific intent to unlawfully influence (i) a customer or supplier of the Company to alter the customer's or supplier's level or type of business with the Company or (ii) a trade journalist or publication to write or publish favorable information about the Company or its products.]

(jj) Except as described in the Prospectus, the Company has not offered, sold or issued any shares of Common Stock during the six-month period preceding the date of the Prospectus, including any sales pursuant to Rule 144A under, or Regulations D or S

of, the Securities Act, other than shares issued pursuant to employee benefit plans, qualified stock options plans or other employee compensation plans or pursuant to outstanding options, rights or warrants.

(kk) The Company has fulfilled its obligations, if any, under the minimum funding standards of Section 302 of the U.S. Employee Retirement Income Security Act of 1974 ("ERISA") and the regulations and published interpretations thereunder with respect to each "plan" as defined in Section 3(3) of ERISA and such regulations and published interpretations in which its employees are eligible to participate and each such plan is in compliance in all material respects with the presently applicable provisions of ERISA and such regulations and published interpretations. No "Reportable Event" (as defined in 12 ERISA) has occurred with respect to any "Pension Plan" (as defined in ERISA) for which the Company could have any liability.

(ll) Each of the Company, its directors and officers has not distributed and will not distribute prior to the later of (i) the Firm Shares Closing Date, or the Option Shares Closing Date, and (ii) completion of the distribution of the Shares, any offering material in connection with the offering and sale of the Shares other than any Prospectus, the Registration Statement and other materials, if any, permitted by the Securities Act.

(mm) No forward looking statement (within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act) contained in the Prospectus has been made or reaffirmed without a reasonable basis or has been disclosed other than in good faith.

3. Representations and Warranties of the Selling Stockholders. Each of the Selling Stockholders hereby represents and warrants to each Underwriter as of the date hereof, as of the Firm Shares Closing Date [and, if the Selling Stockholders is selling Option Shares, as of each such Option Shares Closing Date (if any),] as follows:

(a) Each Selling Stockholder has caused certificates for the number of Shares to be sold by such Selling Stockholder hereunder to be delivered to Citi Trends, Inc. (the "Custodian"), endorsed in blank or with blank stock powers duly executed, with a signature appropriately guaranteed, such certificates to be held in custody by the Custodian for delivery, pursuant to the provisions of this Agreement and an agreement dated _____ among the Custodian and the Selling Stockholders substantially in the form attached hereto as Exhibit B (the "Custody Agreement").

(b) Each Selling Stockholder has granted an irrevocable power of attorney substantially in the form attached hereto as Exhibit C (the "Power of Attorney") to the person named therein, on behalf of each such Selling Stockholder, to execute and deliver this Agreement and any other document necessary or desirable in connection with the transactions contemplated hereby and to deliver the shares to be sold by each the Selling Stockholder pursuant hereto.

(c) This Agreement, the Custody Agreement, the Power of Attorney and the Lock-Up Agreement have each been duly authorized, executed and delivered by or on behalf of each Selling Stockholder and, assuming due authorization, execution and delivery by the other parties thereto, constitutes the valid and legally binding agreement of each Selling Stockholder, enforceable against each such Selling Stockholder in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(d) The execution and delivery by each Selling Stockholder of this Agreement and the performance by each Selling Stockholder of its obligations under this Agreement, including the sale and delivery of the Shares to be sold by each such Selling Stockholder and the consummation of the transactions contemplated herein and compliance by each Selling Stockholder with its obligations hereunder, do not and will not, whether with our without the giving of notice or the passage of time or both, (i) violate or contravene any provision of the charter or bylaws or other organizational instrument of any Selling Stockholder, if applicable, or any applicable law, statute, regulation, or filing or any agreement or other instrument binding upon any Selling Stockholder or any judgment, order or decree of any governmental body, agency or court having jurisdiction over any Selling Stockholder, (ii) conflict with or constitute a breach of, or default under, or result in the creation or imposition of any tax, lien, charge or encumbrance upon the shares to be sold by any Selling Stockholder or any property or assets of any Selling Stockholder pursuant to the terms of any agreement or instrument to which any Selling Stockholder is a party or by which any Selling Stockholder may be bound or to which any of the property or assets of any Selling Stockholder is subject or (iii) require any consent, approval, authorization or order of or registration or filing with any court or governmental agency or body having jurisdiction over it, except such as may be required by the blue sky laws of the various states in connection with the offer and sale of the Shares which have been or will be effected in accordance with this Agreement.

(e) Each Selling Stockholder has, and on the Firm Shares Closing Date and the Option Share Closing Date, if applicable, will have, valid and marketable title to the Shares to be sold by such Selling Stockholder free and clear of any lien, claim, security interest or other encumbrance, including, without limitation, any restriction on transfer, except as otherwise described in the Registration Statement and Prospectus.

(f) Each Selling Stockholder has, and on the Firm Shares Closing Date and the Option Share Closing Date, if applicable, will have, full legal right, power and authority, and any approval required by law, to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder in the manner provided by this Agreement.

(g) Upon delivery of and payment for the Shares to be sold by each Selling Stockholder pursuant to this Agreement, assuming each Underwriter has no notice of any adverse claim, the several Underwriters will receive valid and marketable title to such Shares free and clear of any lien, claim, mortgage, pledge, security interest or other encumbrance.

(h) All information relating to each Selling Stockholder furnished in writing by such Selling Stockholder expressly for use in the Registration Statement and Prospectus is, and on each Closing Date will be, true, correct, and complete, and does not, and on each Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make such information not misleading.

(i) Each Selling Stockholder has reviewed the Registration Statement and Prospectus and, although such Selling Stockholder has not independently verified the accuracy or completeness of all the information contained therein, nothing has come to the attention of such Selling Stockholder that would lead such Selling Stockholder to believe that (i) on the Effective Date, the Registration Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements made therein not misleading and (ii) on the Effective Date the Prospectus, any amendment thereof or supplement thereto contained and, on each Closing Date contains, any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) The sale of Shares by each Selling Stockholder pursuant to this Agreement is not prompted by such Selling Stockholder's knowledge of any material information concerning the Company which is not set forth in the Prospectus.

(k) No Selling Stockholder has taken, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares.

(l) No Selling Stockholder has knowledge that any representation or warranty of the Company set forth in Section 2 above is untrue or inaccurate in any material respect.

(m) The representations and warranties of each Selling Stockholder in the Custody Agreement are, and on each Closing Date will be, true and correct.

4. Conditions of the Underwriters' Obligations. The obligations of the Underwriters under this Agreement are several and not joint. The respective obligations of the Underwriters to purchase the Shares are subject to each of the following terms and conditions:

(a) Notification that the Registration Statement has become effective shall have been received by the Representatives and the Prospectus shall have been timely filed with the Commission in accordance with Section 5(a) of this Agreement.

(b) No order preventing or suspending the use of any preliminary prospectus or the Prospectus shall have been or shall be in effect and no order suspending the effectiveness of the Registration Statement shall be in effect and no proceedings for such purpose shall be pending before or threatened by the Commission, and any requests for additional information on the part of the Commission (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the

satisfaction of the Commission and the Representatives. If the Company has elected to rely upon Rule 430A, Rule 430A information previously omitted from the effective Registration Statement pursuant to Rule 430A shall have been transmitted to the Commission for filing pursuant to Rule 424(b) within the prescribed time period and the Company shall have provided evidence satisfactory to the Underwriters of such timely filing, or a post-effective amendment providing such information shall have been promptly filed and declared effective in accordance with the requirements of Rule 430A. If the Company has elected to rely upon Rule 434, a term sheet shall have been transmitted to the Commission for filing pursuant to Rule 424(b) within the prescribed time period.

(c) The representations and warranties of the Company and the Selling Stockholders contained in this Agreement and in the certificates delivered pursuant to Section 4(d) shall be true and correct when made and on and as of each Closing Date as if made on such date. The Company and the Selling Stockholders shall have performed all covenants and agreements and satisfied all the conditions contained in this Agreement required to be performed or satisfied by them at or before such Closing Date.

(d) The Representatives shall have received on each Closing Date a certificate, addressed to the Representatives and dated such Closing Date, of the chief executive or chief operating officer and the chief financial officer or chief accounting officer of the Company to the effect that: (i) the representations, warranties and agreements of the Company in this Agreement were true and correct when made and are true and correct as of such Closing Date; (ii) the Company has performed all covenants and agreements and satisfied all conditions contained herein; (iii) they have carefully examined the Registration Statement and the Prospectus and, in their opinion (A) as of the Effective Date, the Registration Statement and Prospectus did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (B) since the Effective Date no event has occurred which should have been set forth in a supplement or otherwise required an amendment to the Registration Statement or the Prospectus; and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and, to their knowledge, no proceedings for that purpose have been instituted or are pending under the Securities Act.

(e) The Representatives shall have received on each Closing Date a certificate addressed to the Representatives and dated such Closing Date, of each Selling Stockholder, to the effect that:(i) the representations, warranties and agreements of each Selling Stockholder in this Agreement were true and correct when made and are true and correct as of such Closing Date; (ii) each Selling Stockholder has performed all covenants and agreements and satisfied all conditions contained herein; and (iii) each Selling Stockholder has carefully examined the Registration Statement and the Prospectus and, in the opinion of such Selling Stockholder, (A) with respect to the information relating to such Selling Stockholder, as of the Effective Date, the Registration Statement and Prospectus did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to

make the statements therein, in light of the circumstances under which they were made, not misleading, and (B) since the Effective Date no event has occurred with respect to such Selling Stockholder which should have been set forth in a supplement or otherwise required an amendment to the Registration Statement or the Prospectus.

(f) The Representatives shall have received, at the time this Agreement is executed and on each Closing Date a signed letter from KPMG LLP addressed to the Representatives and dated, respectively, the date of this Agreement and each such Closing Date, in form and substance reasonably satisfactory to the Representatives containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus.

(g) The Representatives shall have received on each Closing Date from Paul, Hastings, Janofsky & Walker LLP, counsel for the Company, an opinion, addressed to the Representatives and dated such Closing Date, and stating in effect that:

(i) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware. The Company is duly qualified to transact business and is in good standing as a foreign corporation in each jurisdiction in which the character or location of its assets or properties or the nature of its business makes such qualification necessary, except where the failure to so qualify or to be in good standing, individually or in the aggregate, would not have a Material Adverse Effect.

(ii) The Company has all requisite corporate power and authority to own, lease and operate its properties and to conduct its business as now being conducted and as described in the Registration Statement and the Prospectus and to enter into and perform its obligations under this Agreement and to issue and sell the Shares.

(iii) The authorized, issued and outstanding capital stock of the Company is as set forth in the Registration Statement and the Prospectus under the caption "Capitalization" as of the dates stated therein and, since such dates, there has been no change in the capital stock of the Company except for subsequent issuances, if any, pursuant to this Agreement or pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus or pursuant to the exercise of convertible securities or options referred to in the Prospectus; all of the outstanding shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid and nonassessable and none of them was issued in violation of any preemptive or other similar right. The Shares to be issued and sold by the Company pursuant to this Agreement have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement against payment of the consideration set forth herein, will be validly issued, fully paid and nonassessable, and no holder of the Shares is or will be subject to personal liability by reason of being such a holder. The issuance and

sale of the Shares by the Company is not subject to any preemptive or other similar rights of any securityholder of the Company. To such counsel's knowledge, except as disclosed in the Registration Statement and the Prospectus, there are no preemptive or other rights to subscribe for or to purchase or any restriction upon the voting or transfer of any securities of the Company pursuant to the Charter or Bylaws or any agreements or other instruments to which the Company is a party or by which it is bound. The sale of the shares by the Selling Stockholders is not subject to any preemptive or other similar rights of any security holders of the company. To such counsel's knowledge, except as disclosed in the Registration Statement and the Prospectus, there is no outstanding option, warrant or other right calling for the issuance of, and no commitment, plan or arrangement to issue, any share of stock of the Company or any security convertible into, exercisable for, or exchangeable for stock of the Company. The Common Stock and the Shares conform in all material respects to the descriptions thereof contained in the Registration Statement and the Prospectus. The form of certificate used to evidence the Common Stock complies in all material respects with all applicable statutory requirements, with any applicable requirements of the Charter or Bylaws and the requirements of the Nasdaq National Market. To such counsel's knowledge, there are no persons with registration rights or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the Securities Act.

(iv) All necessary corporate action has been duly and validly taken by the Company and to authorize the execution, delivery and performance of this Agreement and the issuance and sale of the Shares. This Agreement has been duly and validly authorized, executed and delivered by the Company and this Agreement constitutes the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(v) Neither the execution, delivery and performance of this Agreement by the Company nor the consummation of any of the transactions contemplated hereby (including, without limitation, the issuance and sale by the Company of the Shares) nor the execution, delivery or performance of any other agreement or instrument entered into or to be entered into by the Company in connection with the transactions contemplated by the Registration Statement and the Prospectus will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or any event which with notice or lapse of time, or both, would constitute a default) under, or require consent or waiver under, or result in the execution or imposition of any lien, charge, claim, security interest or encumbrance upon any properties or assets of the Company pursuant to the terms of, any indenture, mortgage, deed trust, note or other agreement or instrument of which such counsel is aware and to which the Company is a party or by which it or any of its assets or properties or businesses is bound, or any

franchise, license, permit, judgment, decree, order, statute, rule or regulation, domestic or foreign, of which such counsel is aware or violate any provision of the Charter or Bylaws.

(vi) No consent, approval, authorization, license, registration, qualification or order of any court or governmental agency or regulatory body is required for the due authorization, execution, delivery or performance of this Agreement by the Company or the consummation of the transactions contemplated hereby or thereby, except such as have been obtained under the Securities Act and such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Shares by the several Underwriters.

(vii) To the best of such counsel's knowledge, there is no any action, suit, proceeding or other investigation, before any court or before or by any public body or board pending or threatened against, or involving the assets, properties or businesses of, the Company which is required to be disclosed in the Registration Statement and the Prospectus and is not so disclosed or which could reasonably be expected to have a Material Adverse Effect.

(viii) The statements in the Prospectus under the captions "Description of Capital Stock," "Business -- Litigation," and "Certain Transactions," and in the Registration Statement under Item 15 of Part II, insofar as such statements constitute a summary of documents referred to therein or matters of law, are accurate in all material respects and accurately present the information with respect to such documents and matters. Accurate copies of all contracts and other documents required to be filed as exhibits to, or described in, the Registration Statement have been so filed with the Commission or are fairly described in the Registration Statement, as the case may be.

(ix) (A) The Company is in compliance in all material respects with all applicable Environmental Laws; (B) the Company has not received any notice from any governmental authority or third party of an asserted claim under any Environmental Law; (C) the Company has received all permits, licenses or other approvals required of it under applicable Environmental Laws to conduct its business and is in compliance with all terms and conditions of any such permit, license or approval, except where such failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or other approvals would not, singly or in the aggregate, have a Material Adverse Effect; and (D) no property which is or has been owned, leased or occupied by the Company has been designated as a Superfund site pursuant to the Comprehensive Environmental Response, Compensation of Liability Act of 1980, as amended (42 U.S.C. Section 9601, et seq.), or otherwise designated as a contaminated site under applicable state or local law.

(x) The Registration Statement, all Preliminary Prospectuses and the Prospectus and each amendment or supplement thereto (except for the

financial statements and schedules and other financial data included therein, as to which such counsel expresses no opinion) comply as to form in all material respects with the requirements of the Securities Act and the Rules, all Preliminary Prospectuses and the Prospectuses and any further amendment or supplement to any such incorporated document made by the Company (except for the financial statements and schedules and other financial data included therein, as to which such counsel expresses no opinion) when they became effective or were filed with the Commission, as the case may be, complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, as applicable, and the published rules and regulations of the Commission thereunder.

(xi) The Registration Statement is effective under the Securities Act, and to such counsel's knowledge no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are threatened, pending or contemplated. Any required filing of the Prospectus and any supplement thereto pursuant to Rule 424(b) under the Securities Act has been made in the manner and within the time period required by such Rule 424(b).

(xii) The Shares have been approved for listing on the Nasdaq National Market.

(xiii) The capital stock of the Company conforms in all material respects to the description thereof contained in the Prospectus under the caption "Description of Capital Stock."

(xiv) The Company is not and, before and after giving effect to the offering and sale of the Shares and the application of proceeds thereof as described in the Prospectus, will not be an "investment company" within the meaning of the Investment Company Act.

To the extent deemed advisable by such counsel, such counsel may rely as to matters of fact on certificates of responsible officers of the Company and public officials and on the opinions of other counsel satisfactory to the Representatives as to matters which are governed by laws other than the laws of the State of New York, the General Corporation Law of the State of Delaware and the federal laws of the United States; provided that such counsel shall state that in their opinion the Underwriters and they are justified in relying on such other opinions. Copies of such certificates and other opinions shall be furnished to the Representatives and counsel for the Underwriters.

In addition, such counsel shall state that such counsel has participated in conferences with officers and other representatives of the Company, representatives of the Representatives and representatives of the independent certified public accountants of the Company, at which conferences the contents of the Registration Statement and the Prospectus and related matters were discussed and, although such counsel is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus (except as

specified in the foregoing opinion), on the basis of the foregoing, no facts have come to the attention of such counsel which lead such counsel to believe that the Registration Statement at the time it became effective (except with respect to the financial statements and notes and schedules thereto and other financial data, as to which such counsel need express no belief) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus as amended or supplemented (except with respect to the financial statements, notes and schedules thereto and other financial data, as to which such counsel need make no statement) on the date thereof contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(h) The Representatives shall have received on the Firm Shares Closing Date from _____, counsel for the Selling Stockholders, an opinion, addressed to the Representatives and dated such Closing Date, and stating in effect that:

(i) This Agreement has been duly authorized, executed and delivered by or on behalf of each Selling Stockholder.

(ii) Each of the Custody Agreement, the Power of Attorney and the Lock-up Agreement has been duly authorized, executed and delivered by each Selling Stockholder.

(iii) This Agreement, the Custody Agreement, the Power of Attorney and the Lock-Up Agreement each constitute the legal, valid and binding obligation of each Selling Stockholder enforceable against each Selling Stockholder in accordance with its terms except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(iv) Each Selling Stockholder has the legal right, power and authority to enter into this Agreement and to sell, transfer and deliver in the manner provided in this Agreement, the Shares to be sold by such Selling Stockholder hereunder.

(v) The execution, delivery and performance of this Agreement, the Power of Attorney, the Custody Agreement and the Lock-Up Agreement and the sale and delivery by each Selling Stockholder of the Shares to be sold by such Selling Stockholder as contemplated by this Agreement and the consummation of the transactions contemplated in this Agreement and in the Registration Statement and the Prospectus and compliance by such Selling Stockholder with its obligations hereunder do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default under or result in the creation or imposition of any tax, lien, charge or encumbrance upon the Shares or any property or assets of such Selling

Stockholder pursuant to, any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, license, lease or other instrument or agreement to which such Selling Stockholder is a party or by which such Selling Stockholder may be bound, or to which any of the property or assets of such Selling Stockholder may be subject nor will such action result in any violation of the provisions of the charter or by-laws of such Selling Stockholder, if applicable, or any law, administrative regulation, judgment or order of any governmental agency or body or any administrative or court decree having jurisdiction over such Selling Stockholder or any of its properties.

(vi) To such counsel's knowledge, each Selling Stockholder has valid and marketable title to the Shares to be sold by such Selling Stockholder pursuant to this Agreement, free and clear of any pledge, lien, security interest, charge, claim, equity or encumbrance of any kind, and has full right, power and authority to sell, transfer and deliver such Shares pursuant to this Agreement. By delivery of a certificate or certificates therefor each Selling Stockholder will transfer to the Underwriters who have purchased such Shares pursuant to this Agreement (without notice of any defect in the title of each Selling Stockholder and who is otherwise a bona fide purchaser for purposes of the Uniform Commercial Code) valid and marketable title to such Shares, free and clear of any pledge, lien, security interest, charge, claim, equity or encumbrance of any kind.

(vii) No filing with, consent, approval, authorization, license, certificate, permit or order of any court, governmental or regulatory agency, authority or body or financial institution is required in connection with the performance of this Agreement, the Custody Agreement, the Power of Attorney or the Lock-up Agreement by each Selling Stockholder or the consummation of the transactions contemplated hereby or thereby, including the delivery and sale of the Shares to be delivered and sold by each Selling Stockholder, except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Shares by the several Underwriters.

To the extent deemed advisable by such counsel, such counsel may rely as to matters of fact on certificates of the Selling Stockholders and on the opinions of other counsel satisfactory to the Representatives as to matters which are governed by laws other than the laws of the States of New York and the General Corporate Law of the State of Delaware or the federal laws of the United States; provided that such counsel shall state that in their opinion the Underwriters and they are justified in relying on such other opinions. Copies of such certificates and other opinions shall be furnished to the Representatives and counsel for the Underwriters.

In addition, such counsel shall state that such counsel has participated in conferences with officers and other representatives of the Company, representatives of the Representatives and representatives of the independent public accountants of the Company, at which conferences the contents of the Registration Statement and the Prospectus and related matters were discussed. While such counsel has not undertaken to independently verify and does not assume any responsibility for the accuracy,

completeness or fairness of the statements contained in the Registration Statement and the Prospectus (except as specified in the foregoing opinion), on the basis of the foregoing, no facts have come to the attention of such counsel which lead such counsel to believe that the Registration Statement at the time it became effective (except with respect to the financial statements, notes and schedules thereto and other financial data, as to which such counsel need express no belief) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus as amended or supplemented (except with respect to the financial statements, notes and schedules thereto and other financial data, as to which such counsel need make no statement) on the date thereof and the date of such opinion contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(i) The Representatives shall have received on each Closing Date from DLA Piper Rudnick Gray Cary US LLP, counsel for the Representatives, an opinion, addressed to the Representatives and dated such Closing Date, and stating in effect that:

(i) The issuance and sale of the Shares have been duly authorized by requisite corporate action on the part of the Company and when delivered to and paid for by the Underwriters in accordance with the terms of the Underwriting Agreement, will be validly issued, fully paid and non-assessable, and to our knowledge the issuance of such Shares will not be subject to any preemptive or similar rights: (A) contained in the Company's Charter and Bylaws or (B) under the Delaware General Corporate Law, except such as have been validly waived.

(ii) The Underwriting Agreement has been duly authorized, executed and delivered by the Company.

(iii) As of the date of the Prospectus, the statements in the Prospectus under the captions "Description of Capital Stock" and "Underwriters" insofar as such statements constituted summaries of the legal matters, documents or proceedings referred to therein, fairly presented the information called for with respect to such legal matters, documents and proceedings and fairly summarized the matters referred to therein.

(iv) The Registration Statement, all Preliminary Prospectuses and the Prospectus and each amendment or supplement thereto (except for the financial statements and schedules and other financial data included therein, as to which such counsel expresses no opinion) comply as to form in all material respects with the requirements of the Securities Act and the Rules, all Preliminary Prospectuses and the Prospectuses and any further amendment or supplement to any such incorporated document made by the Company (except for the financial statements and schedules and other financial data included therein, as to which such counsel expresses no opinion) when they became effective or were filed with the Commission, as the case may be, complied as to form in all material respects

with the requirements of the Securities Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder.

(v) The Registration Statement is effective under the Securities Act, and to such counsel's knowledge no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are threatened, pending or contemplated. Any required filing of the Prospectus and any supplement thereto pursuant to Rule 424(b) under the Securities Act has been made in the manner and within the time period required by such Rule 424(b).

To the extent deemed advisable by such counsel, such counsel may rely as to matters of fact on certificates of responsible officers of the Company and public officials and on the opinions of other counsel satisfactory to the Representatives as to matters which are governed by laws other than the laws of the State of New York, the General Corporation Law of the State of Delaware and the federal laws of the United States; provided that such counsel shall state that in their opinion the Underwriters and they are justified in relying on such other opinions. Copies of such certificates and other opinions shall be furnished to the Representatives.

In addition, such counsel shall state that such counsel has participated in conferences with officers and other representatives of the Company, representatives of the Representatives and representatives of the independent certified public accountants of the Company, at which conferences the contents of the Registration Statement and the Prospectus and related matters were discussed and, although such counsel is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus (except as specified in the foregoing opinion), on the basis of the foregoing, no facts have come to the attention of such counsel which lead such counsel to believe that the Registration Statement at the time it became effective (except with respect to the financial statements, supporting schedules and other financial data, as to which such counsel need express no belief) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus as amended or supplemented (except with respect to the financial statements, supporting schedules and other financial data, as to which such counsel need express no belief) on the date thereof contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) The Representatives shall have received copies of the Lock-Up Agreements executed by each entity or person listed on Schedule III hereto.

(k) The Shares shall have been approved for quotation on the Nasdaq National Market, subject only to official notice of issuance.

(l) The Company and each Selling Stockholder shall have furnished or caused to be furnished to the Representatives such further certificates or documents as the Representatives shall have reasonably requested.

5. Covenants of the Company and the Selling Stockholders.

(a) Each of the Company and the Selling Stockholders (to the extent set forth in clause (ix) below) covenants and agrees as follows:

(i) The Company will use its best efforts to cause the Registration Statement, if not effective at the time of execution of this Agreement, and any amendments thereto, to become effective as promptly as possible. The Company shall prepare the Prospectus in a form approved by the Representatives and file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by the Rules.

(ii) The Company shall promptly advise the Representatives in writing (A) when any post-effective amendment to the Registration Statement shall have become effective or any supplement to the Prospectus shall have been filed, (B) of any request by the Commission for any amendment of the Registration Statement or the Prospectus or for any additional information, (C) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any preliminary prospectus or the institution or threatening of any proceeding for that purpose and (D) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company shall not file any amendment of the Registration Statement or supplement to the Prospectus unless the Company has furnished the Representatives a copy for its review prior to filing and shall not file any such proposed amendment or supplement to which the Representatives reasonably object. The Company shall use its best efforts to prevent the issuance of any such stop order and, if issued, to obtain as soon as possible the withdrawal thereof.

(iii) If, at any time when a prospectus relating to the Shares is required to be delivered under the Securities Act and the Rules, any event occurs as a result of which the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or if it shall be necessary to amend or supplement the Prospectus to comply with the Securities Act or the Rules, the Company promptly shall prepare and file with the Commission, subject to the second sentence of paragraph (ii) of this Section 5(a), an amendment or supplement which shall correct such statement or omission or an amendment which shall effect such compliance.

(iv) The Company shall make generally available to its security holders and to the Representatives as soon as practicable, but not later than 45 days after the end of the 12-month period beginning at the end of the fiscal quarter of the Company during which the Effective Date occurs (or 90 days if such 12-month period coincides with the Company's fiscal year), an earning statement (which need not be audited) of the Company, covering such 12-month period, which shall satisfy the provisions of Section 11(a) of the Securities Act or Rule 158 of the Rules.

(v) The Company shall furnish to the Representatives and counsel for the Underwriters, without charge, signed copies of the Registration Statement (including all exhibits thereto and amendments thereof) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and all amendments thereof and, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Securities Act or the Rules, as many copies of any preliminary prospectus and the Prospectus and any amendments thereof and supplements thereto as the Representatives may reasonably request. If applicable, the copies of the Registration Statement and Prospectus and each amendment and supplement thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(vi) The Company shall cooperate with the Representatives and their counsel in endeavoring to qualify the Shares for offer and sale in connection with the offering under the laws of such jurisdictions as the Representatives may designate and shall maintain such qualifications in effect so long as required for the distribution of the Shares; provided, however, that the Company shall not be required in connection therewith, as a condition thereof, to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction or subject itself to taxation as doing business in any jurisdiction.

(vii) The Company, during the period when the Prospectus is required to be delivered under the Securities Act and the Rules or the Exchange Act, will file all reports and other documents required to be filed with the Commission pursuant to Section 13, 14 or 15 of the Exchange Act within the time periods required by the Exchange Act and the regulations promulgated thereunder.

(viii) Without the prior written consent of CIBC World Markets Corp., for a period of 180 days after the date of this Agreement, the Company and each of its individual directors and executive officers shall not issue, sell or register with the Commission (other than on Form S-8 or on any successor form), or otherwise dispose of, directly or indirectly, any equity securities of the Company (or any securities convertible into, exercisable for or exchangeable for equity securities of the Company), except for the issuance of the Shares pursuant to the Registration Statement and the issuance of shares pursuant to the Company's existing stock option plan or bonus plan as described in the

Registration Statement and the Prospectus. In the event that during this period, (A) any shares are issued pursuant to the Company's existing stock option plan or bonus plan that are exercisable during such 180 day period or (B) any registration is effected on Form S-8 or on any successor form relating to shares that are exercisable during such 180 period, the Company shall obtain the written agreement of such grantee or purchaser or holder of such registered securities that, for a period of 180 days after the date of this Agreement, such person will not, without the prior written consent of CIBC World Markets Corp., offer for sale, sell, distribute, grant any option for the sale of, or otherwise dispose of, directly or indirectly, or exercise any registration rights with respect to, any shares of Common Stock (or any securities convertible into, exercisable for, or exchangeable for any shares of Common Stock) owned by such person.

(ix) Neither the Company nor any Selling Stockholder shall take, directly or indirectly, any action designed to or which might reasonably be expected to cause or result in the stabilization or manipulation of the price of the Common Stock or any security of the Company to facilitate the sale or resale of any of the Shares.

(x) On or before completion of this offering, the Company shall make all filings required under applicable securities laws and by the Nasdaq National Market (including any required registration under the Exchange Act).

(xi) Prior to the Closing Date, the Company will issue no press release or other communications directly or indirectly and hold no press conference with respect to the Company, the condition, financial or otherwise, or the earnings, business affairs or business prospects of any of them, or the offering of the Shares without the prior written consent of the Representatives unless in the judgment of the Company and its counsel, and after notification to the Representatives, such press release or communication is required by law.

(xii) [The Company will comply with all applicable securities laws and other applicable laws, rules and regulations in each foreign jurisdiction in which the Directed Shares are offered in connection with the Friends and Family Program.]

(xiii) The Company will apply the net proceeds from the offering of the Shares in the manner set forth under "Use of Proceeds" in the Prospectus, and the Company will at all times prior to the application of the net proceeds from the offering operate its business so as not to become an "investment company" within the meaning of the Investment Company Act.

(xiv) [The Company will ensure that the Directed Shares will be restricted, to the extent required by the NASD or the NASD rules, from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of the effectiveness of the Registration Statement. The Representatives will notify the Company as to which Participants will need to be

so restricted. The Company shall direct the transfer agent to place stop transfer restrictions upon such securities for such period of time.]

(b) The Company agrees to pay, or reimburse if paid by the Representatives, whether or not the transactions contemplated hereby are consummated or this Agreement is terminated, all costs and expenses incident to the public offering of the Shares and the performance of the obligations of the Company under this Agreement including those relating to: (i) the preparation, printing, filing and distribution of the Registration Statement including all exhibits thereto, each preliminary prospectus, the Prospectus, all amendments and supplements to the Registration Statement and the Prospectus, and the printing, filing and distribution of this Agreement; (ii) the preparation and delivery of certificates for the Shares to the Underwriters; (iii) the registration or qualification of the Shares for offer and sale under the securities or blue sky laws of the various jurisdictions referred to in Section 5(a)(vi), including the reasonable fees and disbursements of counsel for the Underwriters in connection with such registration and qualification and the preparation, printing, distribution and shipment of preliminary and supplementary blue sky memoranda, if any; (iv) the furnishing (including costs of shipping and mailing) to the Representatives and to the Underwriters of copies of each preliminary prospectus, the Prospectus and all amendments or supplements to the Prospectus, and of the several documents required by this Section to be so furnished, as may be reasonably requested for use in connection with the offering and sale of the Shares by the Underwriters or by dealers to whom Shares may be sold; (v) the filing fees of the NASD in connection with its review of the terms of the public offering and reasonable fees and disbursements of counsel for the Underwriters in connection with such review; (vi) inclusion of the Shares for quotation on the Nasdaq National Market; and (vii) all transfer taxes, if any, with respect to the sale and delivery of the Shares by the Company to the Underwriters [(viii) payments to counsel for costs incurred by the Underwriters in connection with the Friends and Family Program and payment of any stamp duties, similar taxes or duties or other taxes, if any, incurred by the Underwriters in connection with the Friends and Family Program.] Subject to the provisions of Section 8, the Underwriters agree to pay, whether or not the transactions contemplated hereby are consummated or this Agreement is terminated, all costs and expenses incident to the performance of the obligations of the Underwriters under this Agreement not payable by the Company pursuant to the preceding sentence, including, without limitation, the fees and disbursements of counsel for the Underwriters.

(c) The Selling Stockholders, jointly and severally, will pay all expenses incident to the performance of their respective obligations under, and the consummation of the transactions contemplated by, this Agreement, including (i) any stamp duties, capital duties and stock transfer taxes, if any, payable upon the sale of the Shares to the Underwriters, and their transfer between the Underwriters pursuant to an agreement between such Underwriters, and (ii) the fees and disbursements of their respective counsel and accountants.

6. Indemnification.

(a) The Company and the Selling Stockholders, jointly and severally, agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all losses, claims, damages and liabilities, joint or several (including any reasonable investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted), to which they, or any of them, may become subject under the Securities Act, the Exchange Act or other Federal or state law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, the Registration Statement or the Prospectus or any amendment thereof or supplement thereto, or in any blue sky application or other information or other documents executed by the Company filed in any state or other jurisdiction to qualify any or all of the Shares under the securities laws thereof (any such application, document or information being hereinafter referred to as a "Blue Sky Application") or arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that such indemnity shall not inure to the benefit of any Underwriter (or any person controlling such Underwriter) on account of any losses, claims, damages or liabilities arising from the sale of the Shares to any person by such Underwriter if such untrue statement or omission or alleged untrue statement or omission was made in such preliminary prospectus, the Registration Statement or the Prospectus, or such amendment or supplement thereto, or in any Blue Sky Application in reliance upon and in conformity with information furnished in writing to the Company by the Representatives on behalf of any Underwriter specifically for use therein. Notwithstanding the foregoing, the liability of the Selling Stockholders pursuant to the provisions of this Section 6(a) shall be limited to an amount equal to the aggregate net proceeds received by such Selling Stockholders from the sale of the Shares sold by the Selling Stockholders hereunder. This indemnity agreement will be in addition to any liability which the Company and Selling Stockholders may otherwise have.

[The Company agrees to indemnify and hold harmless the Representatives and each person, if any, who controls any Representative within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all losses, claims, damages, expenses and liabilities (including any reasonable investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted) (i) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any material prepared by or with the consent of the Company for distribution to Participants in connection with the Friends and Family Program or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) arising out of or based upon the failure of any Participant to pay for and accept delivery of Directed Shares otherwise reserved for such Participant pursuant to the Friends and Family Program, and (iii) related to, arising out of, or in connection with the Friends and Family Program,

other than losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted from the bad faith or gross negligence of the Representatives.]

(b) Each Underwriter agrees to indemnify and hold harmless the Company, the Selling Stockholders and each person, if any, who controls the Company or the Selling Stockholders within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, each director of the Company, and each officer of the Company who signs the Registration Statement, against any losses, claims, damages or liabilities to which such party may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any preliminary prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representative expressly for use therein (it being understood that such information is limited to the statements identified in Section 2(a) above); provided, however, that the obligation of each Underwriter to indemnify the Company or the Selling Stockholders (including any controlling person, director or officer thereof) shall be limited to the net proceeds received by the Company from such Underwriter.

(c) Any party that proposes to assert the right to be indemnified under this Section will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim is to be made against an indemnifying party or parties under this Section, notify each such indemnifying party of the commencement of such action, suit or proceeding, enclosing a copy of all papers served. No indemnification provided for in Section 6(a) or 6(b) shall be available to any party who shall fail to give notice as provided in this Section 6(c) if the party to whom notice was not given was unaware of the proceeding to which such notice would have related and was prejudiced by the failure to give such notice but the omission so to notify such indemnifying party of any such action, suit or proceeding shall not relieve it from any liability that it may have to any indemnified party for contribution or otherwise than under this Section. In case any such action, suit or proceeding shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof and the approval by the indemnified party of such counsel, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses, except as provided below and except for the reasonable costs of investigation subsequently incurred by such indemnified party in connection with the defense thereof.

The indemnified party shall have the right to employ its counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of counsel by such indemnified party has been authorized in writing by the indemnifying parties, (ii) the indemnified party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or in addition to those available to the indemnifying party (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party) or (iii) the indemnifying parties shall not have employed counsel to assume the defense of such action within a reasonable time after notice of the commencement thereof, in each of which cases the fees and expenses of counsel shall be at the expense of the indemnifying parties. An indemnifying party shall not be liable for any settlement of any action, suit, and proceeding or claim effected without its written consent, which consent shall not be unreasonably withheld or delayed.

7. Contribution. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in Section 6(a) or 6(b) is due in accordance with its terms but for any reason is unavailable to or insufficient to hold harmless an indemnified party in respect to any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate losses, liabilities, claims, damages and expenses (including any investigation, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting any contribution received by any person entitled hereunder to contribution from any person who may be liable for contribution) incurred by such indemnified party, as incurred, in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other hand from the offering of the Shares pursuant to this Agreement or, if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company and the Selling Stockholders on the one hand and the Underwriters on the other hand in connection with the statements or omissions [,or in connection with any violation of the nature referred to in Section 6(a) hereof with respect to Directed Shares,] which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations. The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission. Notwithstanding the provisions of this Section 7, (i) no Underwriter (except as may be provided in the Agreement Among Underwriters) shall be required to contribute any amount in excess of the amount by which the total price at which the shares underwritten by it and distributed to the public were offered to the public exceeds the amount of damages which such underwriter has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission; and (ii) no Selling Stockholders shall be required to

contribute any amount in excess of the aggregate net proceeds of the sale of Shares received by the Selling Stockholders. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 7, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Underwriter, and each director of the Company including any person who, with his or her consent, is named in the Registration Statement as about to become a director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company or any Selling Stockholders within the meaning of the Section 15 of the Securities Act or Section 20 of the Exchange Act, shall have the same rights to contribution as the Company or any/the Selling Stockholders, as the case may be. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this Section 7, notify such party or parties from whom contribution may be sought, but the omission so to notify such party or parties from whom contribution may be sought shall not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have hereunder or otherwise than under this Section 7. No party shall be liable for contribution with respect to any action, suit, proceeding or claim settled without its written consent. The Underwriter's obligations to contribute pursuant to this Section 7 are several in proportion to their respective underwriting commitments and not joint.

8. Termination.

(a) This Agreement may be terminated with respect to the Shares to be purchased on a Closing Date by the Representatives by notifying the Company and the Selling Stockholders at any time at or before a Closing Date in the absolute discretion of the Representatives if: (i) there has occurred any material adverse change in the securities markets or any event, act or occurrence that has materially disrupted, or in the opinion of the Representatives, will in the future materially disrupt, the securities markets or there shall be such a material adverse change in general financial, political or economic conditions or the effect of international conditions on the financial markets in the United States is such as to make it, in the judgment of the Representatives, inadvisable or impracticable to market the Shares or enforce contracts for the sale of the Shares; (ii) there has occurred any outbreak or material escalation of hostilities or other calamity or crisis the effect of which on the financial markets of the United States is such as to make it, in the judgment of the Representatives, inadvisable or impracticable to market the Shares or enforce contracts for the sale of the Shares; (iii) trading in the Shares or any securities of the Company has been suspended or materially limited by the Commission or trading generally on the New York Stock Exchange, Inc., the American Stock Exchange, Inc. or the Nasdaq National Market has been suspended or materially limited, or minimum or maximum ranges for prices for securities shall have been fixed, or maximum ranges for prices for securities have been required, by any of said exchanges or by such system or by order of the Commission, the National Association of Securities Dealers, Inc., or any other governmental or regulatory authority; or (iv) a banking moratorium has been declared by any state or Federal authority; or (v) in the judgment of the Representatives, there has been, since the time of execution of this Agreement or

since the respective dates as of which information is given in the Prospectus, any material adverse change in the assets, properties, condition, financial or otherwise, or in the results of operations, business affairs or business prospects of the Company, whether or not arising in the ordinary course of business.

(b) If this Agreement is terminated pursuant to any of its provisions, neither the Company nor the Selling Stockholders shall be under any liability to any Underwriter, and no Underwriter shall be under any liability to the Company or a Selling Stockholders, except that (y) if this Agreement is terminated by the Representatives or the Underwriters because of any failure, refusal or inability on the part of the Company or the Selling Stockholders to comply with the terms or to fulfill any of the conditions of this Agreement, the Company will reimburse the Underwriters for all out-of-pocket expenses (including the reasonable fees and disbursements of their counsel) incurred by them in connection with the proposed purchase and sale of the Shares or in contemplation of performing their obligations hereunder and (z) no Underwriter who shall have failed or refused to purchase the Shares agreed to be purchased by it under this Agreement, without some reason sufficient hereunder to justify cancellation or termination of its obligations under this Agreement, shall be relieved of liability to the Company, the Selling Stockholders or to the other Underwriters for damages occasioned by its failure or refusal.

9. Substitution of Underwriters. If any Underwriter shall default in its obligation to purchase on any Closing Date the Shares agreed to be purchased hereunder on such Closing Date, the Representatives shall have the right, within 36 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase such Shares on the terms contained herein. If, however, the Representatives shall not have completed such arrangements within such 36-hour period, then the Company shall be entitled to a further period of thirty-six hours within which to procure another party or other parties satisfactory to the Underwriters to purchase such Shares on such terms. If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by the Representatives and the Company as provided above, the aggregate number of Shares which remains unpurchased on such Closing Date does not exceed one-eleventh of the aggregate number of all the Shares that all the Underwriters are obligated to purchase on such date, then the Company shall have the right to require each non-defaulting Underwriter to purchase the number of Shares which such Underwriter agreed to purchase hereunder at such date and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default. In any such case, either the Representatives or the Company and the Selling Stockholders shall have the right to postpone the applicable Closing Date for a period of not more than seven days in order to effect any necessary changes and arrangements (including any necessary amendments or supplements to the Registration Statement or Prospectus or any other documents), and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in the opinion of the Company and the Underwriters and their counsel may thereby be made necessary.

If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by the Representatives and the Company as provided above, the aggregate number of such Shares which remains unpurchased exceeds 10% of the aggregate number of all the Shares to be purchased at such date, then this Agreement, or, with respect to a Closing Date which occurs after the First Closing Date, the obligations of the Underwriters to purchase and of the Company or the Selling Stockholders, as the case may be, to sell the Option Shares to be purchased and sold on such date, shall terminate, without liability on the part of any non-defaulting Underwriter to the Company or the Selling Stockholders, and without liability on the part of the Company or the Selling Stockholders, except as provided in Sections 5(b), 6, 7 and 8. The provisions of this Section 9 shall not in any way affect the liability of any defaulting Underwriter to the Company or the non-defaulting Underwriters arising out of such default. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section 9 with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

10. Miscellaneous. The respective agreements, representations, warranties, indemnities and other statements of the Company, Selling Stockholders and the several Underwriters, as set forth in this Agreement or made by or on behalf of them pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or the Company or the Selling Stockholders or any of their respective officers, directors or controlling persons referred to in Sections 6 and 7 hereof, and shall survive delivery of and payment for the Shares. In addition, the provisions of Sections 5(b), 6, 7, 8 and this Section 10 shall survive the termination or cancellation of this Agreement.

This Agreement has been and is made for the benefit of the Underwriters, the Company and the Selling Stockholders and their respective successors and assigns, and, to the extent expressed herein, for the benefit of persons controlling any of the Underwriters, or the Company, and directors and officers of the Company, and their respective successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" shall not include any purchaser of Shares from any Underwriter merely because of such purchase.

All notices and communications hereunder shall be in writing and mailed or delivered or by telephone or telegraph if subsequently confirmed in writing, (a) if to the Representatives, c/o CIBC World Markets Corp., 300 Madison Avenue New York, New York 10017 Attention: _____, with a copy to Richard C. Tilghman, Esq., DLA Piper Rudnick Gray Cary US LLP, 6225 Smith Avenue, Baltimore, MD 21209 and (b) if to the Company, to its agent for service as such agent's address appears on the cover page of the Registration Statement with a copy to William F. Schwitter, Esq., Paul, Hastings, Janofsky & Walker LLP, 75 East 55th Street, New York, NY 10022 and (c) if to the Selling Stockholders to _____ with a copy to _____.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

Please confirm that the foregoing correctly sets forth the agreement among us.

Very truly yours,

CITI TRENDS, INC.

By: _____
Name:
Title:

SELLING STOCKHOLDERS

By: _____
Name:
Title: Custodian

Confirmed:

CIBC WORLD MARKETS CORP.
WACHOVIA CAPITAL MARKETS, LLC
SG COWEN & CO., LLC
PIPER JAFFRAY & CO.

_____

Acting severally on behalf of itself
and as representative of the several
Underwriters named in Schedule I annexed
hereto.

CIBC WORLD MARKETS CORP.

By _____
Name:
Title:

WACHOVIA CAPITAL MARKETS, LLC

By _____
Name:
Title:

SG COWEN & CO., LLC

By _____
Name:
Title:

PIPER JAFFRAY & CO.

By _____
Name:
Title:

SCHEDULE I

Name	Number of Firm Shares to Be Purchased
CIBC World Markets Corp.	
Wachovia Capital Markets, LLC	
SG Cowen & Co., LLC	
Piper Jaffray & Co.	
Total	

SCHEDULE II

Name of Selling Stockholders	Number of Firm Shares to Be Sold
Total	---

SCHEDULE III

Lock-up Signatories

Exhibit A

FORM OF LOCK-UP AGREEMENT

_____, 2005

CIBC World Markets Corp.
Wachovia Capital Markets, LLC
SG Cowen & Co., LLC
Piper Jaffray & Co.
as Representatives of the several
Underwriters named in Schedule I to
the Underwriting Agreement
c/o CIBC World Markets Corp.
417 5th Avenue, 2nd Floor
New York, New York 10016

Re: Public Offering of Citi Trends, Inc.

Ladies and Gentlemen:

The undersigned, a holder of common stock, par value $0.01 ("Common Stock"), or rights to acquire Common Stock, of Citi Trends, Inc. (the "Company") understands that you, as Representative of the several Underwriters, propose to enter into an Underwriting Agreement (the "Underwriting Agreement") with the Company, providing for the public offering (the "Public Offering") by the several Underwriters named in Schedule I to the Underwriting Agreement (the "Underwriters"), of shares of Common Stock of the Company (the "Securities"). Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Underwriting Agreement.

In consideration of the Underwriters' agreement to enter into the Underwriting Agreement and to proceed with the Public Offering of the Securities, and for other good and valuable consideration receipt of which is hereby acknowledged, the undersigned hereby agrees for the benefit of the Company, you and the other Underwriters that, without the prior written consent of CIBC World Markets Corp. on behalf of the Underwriters, the undersigned will not, during the period ending 180 days (the "Lock-Up Period") after the date of the prospectus relating to the Public Offering (the "Prospectus"), directly or indirectly (1) offer, pledge, assign, encumber, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock owned either of record or beneficially (as defined in the Securities Exchange Act of 1934, as amended) by the undersigned on the date hereof or hereafter acquired or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any

such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise, or publicly announce an intention to do any of the foregoing. In addition, the undersigned agrees that, without the prior written consent of CIBC World Markets Corp. on behalf of the Underwriters, it will not, during the period ending 180 days after the date of the Prospectus, make any demand for or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock. The foregoing shall not apply to (x) Common Stock to be transferred as a gift or gifts (provided that any donee thereof agrees in writing to be bound by the terms hereof), (y) the sale of the Securities to be sold pursuant to the Prospectus and (y) sales under any 10b-5 plan.

Notwithstanding the foregoing, if (x) during the last 17 days of the Lock-Up Period the Company issues an earnings release or material news or a material event relating to the Company occurs; or (y) prior to the expiration of the Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the 90-day period; the restrictions imposed in this Letter Agreement shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event; provided, however, that this sentence shall not apply if the research published or distributed on the Company is compliant under Rule 139 of the Securities Act and the Company's securities are actively traded as defined in Rule 101(c)(1) of Regulation M of the Exchange Act.

In furtherance of the foregoing, the Company, and any duly appointed transfer agent for the registration or transfer of the securities described herein, are hereby authorized to decline to make any transfer of securities if such transfer would constitute a violation or breach of this Letter Agreement.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this Letter Agreement. All authority herein conferred or agreed to be conferred and any obligations of the undersigned shall be binding upon the successors, assigns, heirs or personal representatives of the undersigned.

The undersigned understands that, if the Underwriting Agreement does not become effective, or if the Underwriting Agreement (other than the provisions thereof which survive termination) shall terminate or be terminated prior to payment for and delivery of the Common Stock to be sold thereunder, the undersigned shall be released form all obligations under this Letter Agreement.

The undersigned, whether or not participating in the Offering, understands that the Underwriters are entering into the Underwriting Agreement and proceeding with the Public Offering in reliance upon this Letter Agreement.

This lock-up agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflict of laws principles thereof.

Very truly yours,

[STOCKHOLDER]

By: _____
Name:
Title:

Exhibit B

FORM OF CUSTODY AGREEMENT
for sale of shares of common stock,
par value $0.01 per share, of Citi Trends, Inc.

Citi Trends, Inc. (the "Custodian")
102 Fahm Street
Savannah, GA 31401

Attention: Mr. Thomas W. Stoltz

Ladies and Gentlemen:

There are delivered to you herewith certificate(s) representing shares of Common Stock, par value $0.01 per share ("Common Stock"), of Citi Trends, Inc., a Delaware corporation (the "Company") as set forth at the end of this letter on the page entitled "CERTIFICATE(S) DEPOSITED." Each of the certificates so delivered is accompanied by an executed assignment form duly endorsed for transfer and is in negotiable form bearing the signature of the undersigned guaranteed by a commercial bank or trust company having an office or a correspondent in New York City, New York or by a member firm of the New York, American or Pacific Stock Exchange. The certificate(s) are to be held by you as Custodian for the account of the undersigned and are to be disposed of by you in accordance with this Custody Agreement (this "Custody Agreement").

If the undersigned is (i) acting as trustee or in any fiduciary or representative capacity, the undersigned has also delivered duly certified copies of each trust agreement, will, letters testamentary or other instrument pursuant to which the undersigned is authorized to act as a Selling Stockholder (as defined herein); (ii) a corporation, the undersigned has also delivered duly certified resolutions of its board of directors authorizing it to enter into this Custody Agreement, the Underwriting Agreement (as defined herein) and the Power of Attorney (as defined herein) and duly certified copies of such corporation's by-laws, certificate of incorporation or other organizational documents; or (iii) a partnership, the undersigned has also delivered extracts of any applicable provisions of its partnership agreement (and applicable provisions of the organizational documents or partnership agreement(s) of the general partner(s) of such partnership) authorizing such partnership to enter into this Custody Agreement, the Underwriting Agreement and the Power of Attorney.

The undersigned agrees to deliver such additional documentation as you, the Attorneys (as defined herein), the Company or the Representatives (as defined herein) or any of their respective counsel may reasonably request to effectuate or confirm compliance with any of the provisions hereof or of the Power of Attorney or the Underwriting Agreement, all of the foregoing to be in form and substance satisfactory in all respects to the party requesting such documentation.

Concurrently with the execution and delivery of this Custody Agreement, the undersigned has executed a power of attorney (the "Power of Attorney") irrevocably appointing R. Edward Anderson and Thomas W. Stoltz, each with full power and authority to act alone in any matter thereunder and with full power of substitution, the true and lawful attorneys-in-fact of the undersigned (individually, an "Attorney," and collectively, the "Attorneys"), with full power and authority in the name of, for and on behalf of, the undersigned with respect to all matters arising in connection with the sale of the Common Stock by the undersigned including, but not limited to entering into and performing an underwriting agreement (the "Underwriting Agreement") among the Company, certain stockholders of the Company including the undersigned (the "Selling Stockholders"), CIBC World Markets Corp., Wachovia Capital Markets, LLC, SG Cowen & Co., LLC and Piper Jaffray & Co., as representatives (the "Representatives") of the several underwriters to be named in Schedule I to the Underwriting Agreement (the "Underwriters"). The total number of shares of Common Stock to be sold by the undersigned to the Underwriters and set forth opposite the name of the undersigned in Schedule II to the Underwriting Agreement is hereinafter referred to as the "Shares."

You are authorized and directed to hold the certificate(s) deposited with you hereunder in your custody and, subject to the instructions of the Attorneys, (i) to take all necessary action to cause the Shares to be transferred on the books of the Company into such names as the Representatives, on behalf of the several Underwriters, shall have instructed, including surrendering the certificate(s) representing the Shares to the transfer agent for the Common Stock for cancellation, in exchange for new certificate(s) for shares of Common Stock registered in such names and in such denominations as the Representatives shall have instructed; (ii) to deliver such new certificate(s) to the Representatives, for the accounts of the several Underwriters, against payment for such Shares at the purchase price per Share specified in the Underwriting Agreement and to give receipt for such payment; (iii) to deposit the same to your account as Custodian and draw upon such account to pay such transfer taxes, if any, payable in connection with the transfer of the Shares to the Underwriters ("Transfer Taxes") as you may be instructed to pay by the Attorneys; (iv) to transmit to the undersigned in the manner set forth under "Manner of Payment" below, within 24 hours of receiving instructions from the Attorneys to do so, the excess, if any (the "Net Proceeds"), of the amount received by you as payment for the Shares over the Transfer Taxes, if any. The amount of such Net Proceeds is to be paid in the manner requested by the undersigned at the end of this Custody Agreement or in such manner as you, in accordance with the terms hereof, shall deem appropriate. Upon receipt of instructions from the Attorneys, you shall also return to the undersigned, new certificate(s) representing the excess, if any, of the number of shares of Common Stock represented by the certificate(s) deposited with you hereunder over the number of Shares sold by the undersigned to the Underwriters.

Under the terms of the Power of Attorney, the authority conferred thereby is granted and conferred subject to and in consideration of the interests of the Attorneys, the several Underwriters, the Company and the other Selling Stockholders (as defined in the Underwriting Agreement) and is irrevocable and not subject to withdrawal or termination by any act of the undersigned or by operation of law, whether by the death or incapacity of the undersigned (or either or any of the undersigned) or by the occurrence of any other event or events (including, without limitation, the termination of any trust or estate for which the undersigned is acting as

fiduciary or fiduciaries, the death or incapacity of one or more trustees, guardians, executors or administrators under such trust or estate or the merger, consolidation, dissolution or liquidation of any corporation or partnership) (any of the foregoing being hereinafter referred to as an "Event"). Accordingly, the certificate(s) deposited with you hereunder and this Custody Agreement and your authority hereunder are subject to and in consideration of the interests of the several Underwriters, the Company, the Attorneys and the other Selling Stockholders, and this Custody Agreement and your authority hereunder, prior to [outside date, 2005] are irrevocable and are not subject to withdrawal or termination by the occurrence of any Event. If an Event shall occur after the execution hereof but before the delivery of the Shares to the Underwriters, then certificate(s) representing such Shares will be delivered by you to the Underwriters on behalf of the undersigned in accordance with the terms and conditions of the Underwriting Agreement and this Custody Agreement and any actions taken by you pursuant to this Custody Agreement shall be as valid as if such Event had not occurred, regardless of whether or not you, the Attorneys, the Underwriters or any one of them, shall have received notice of such Event.

Notwithstanding any of the foregoing provisions, if the Underwriting Agreement shall not have been executed and delivered prior to [outside date, 2005], then, upon the written request of the undersigned to you (accompanied by written notice of termination of the Power of Attorney addressed to each of the Attorneys) on or after that date, you are to return to the undersigned, all certificate(s), together with any stock powers, delivered herewith.

Until payment of the purchase price for the Shares has been made to you by or for the account of the several Underwriters, the undersigned shall remain the owner of all shares of Common Stock represented by the certificate(s) deposited with you hereunder and shall have the right to vote such shares and all other securities, if any, represented by such certificate(s) and to receive all dividends and distributions thereon, except the right to retain custody and dispose of such shares, which is subject to the rights of the Custodian under this Custody Agreement, the Attorneys under the Power of Attorney and the Underwriters under the Underwriting Agreement. The Underwriters shall not acquire the power or the right to direct the investment of the Shares by virtue of this Custody Agreement until the consideration therefor is paid pursuant to the Underwriting Agreement.

You shall be entitled to act and rely upon any statement, request, notice or instruction respecting this Custody Agreement given to you by the Attorneys, or any one of them. Any Attorney has the authority to instruct you on irregularities or discrepancies in the certificates representing shares of Common Stock and any accompanying documents.

In taking any action requested or directed by the Representatives under the terms of this Custody Agreement, you will be entitled to rely upon a writing signed by a Vice President, Senior Vice President, Managing Director, Counsel, Assistant General Counsel or General Counsel of CIBC World Markets Corp.

It is understood that you assume no responsibility or liability to any person other than to deal with the certificate(s) deposited with you hereunder and the proceeds from the sale of all or a portion of the securities represented thereby in accordance with the provisions of this Custody Agreement. The undersigned agrees to indemnify you for and to hold you free from and

harmless against any and all loss, claim, damage, liability or expense incurred by you arising out of or in connection with acting as Custodian hereunder, as well as the cost and expense of defending against any claim of liability hereunder, which is not due to your own gross negligence or willful misconduct.

The representations and warranties of the undersigned set forth in the Underwriting Agreement are hereby incorporated by reference herein and the undersigned represents and warrants that such representations and warranties are true and correct on the date hereof as if made on the date hereof. The representations, warranties and agreements contained herein, as well as those contained in the Underwriting Agreement, are made for the benefit of, and may be relied upon by, you, the other Selling Stockholders, the Attorneys, the Company, [Company counsel], the Underwriters and DLA Piper Rudnick Gray Cary US LLP and their representatives, agents and counsel. These representations, warranties and agreements shall remain operative and in full force and effect, and shall survive delivery of and payment for the Shares, regardless of (i) any investigation, or statement as to the results thereof, made by or on behalf of any of the persons listed in the preceding sentence, (ii) acceptance of the Shares and payment for them under the Underwriting Agreement and (iii) termination of this Custody Agreement.

This Custody Agreement shall be binding upon the undersigned and the heirs, legal representatives, distributees, successors and assigns of the undersigned.

This Custody Agreement may be signed in counterparts which together shall constitute one and the same agreement.

This Custody Agreement shall be governed by the laws of the State of New York.

Please acknowledge your acceptance hereof as Custodian, and receipt of the certificate(s) deposited with you hereunder, by executing and returning the enclosed copy hereof to the undersigned in care of R. Edward Anderson and Thomas W. Stoltz.

Dated:_____, 2005

Very truly yours,

By:_____
Name:
Title:

Print Name(s) and Address of Selling Stockholder(s) and Name and Title of any Person Signing as Agent or Fiduciary:

_____
_____
_____
_____

Taxpayer I.D.: _____
Telephone: _____

Instruction: If you are an individual and are married, your spouse is required to complete this form:

SPOUSAL CONSENT

I am the spouse of _____. On behalf of myself, my heirs and legatees, I hereby join in and consent to the terms of the foregoing Custody Agreement and agree to the sale of the shares of Common Stock of _____, registered in the name of my spouse or otherwise registered, which my spouse proposes to sell pursuant to the Underwriting Agreement (as defined therein).

Dated_____, 2005

_____
(Signature of Spouse)

Instruction: Complete each column as to certificate(s) to be deposited with the Custodian.

CERTIFICATE(S) DEPOSITED

Stock Certificate No.	Maximum Number of Shares of Common Stock To Be Sold from Certificate
TOTAL:	----------

Instruction: Indicate how you wish to receive payment for the shares of Common Stock sold to the Underwriters. Please note that if you are selling shares of Common Stock registered in the name of a corporation or other association or a trust, payment will be made only to the corporation or other association or trust. A wire transfer can be made only to an account standing in exactly the same name as the person or entity, including the corporation or other association or trust, that is the registered owner of the Common Stock being sold.

MANNER OF PAYMENT

I request that payment of the net proceeds from the sale of the shares of Common Stock of the Company to be sold by me pursuant to the Underwriting Agreement be made in the following manner (CHECK ONE):

[ ] CHECK made payable to:
to be sent to the following address:
_____
_____

Phone: ( ) _____

Please send by (check one):

[ ] First class mail

[ ] Federal Express
Federal Express account number
_____

[ ] or transfer to the following account:
Account No.

Bank _____ See attached wire transfer instructions
(name)

_____
(address)

ABA No._____

Phone:( )_____

[ ] Other (please specify)
_____

CUSTODIAN'S ACKNOWLEDGMENT AND RECEIPT

Citi Trends, Inc., as Custodian, acknowledges acceptance of the duties of the Custodian under the foregoing Custody Agreement and receipt of the certificate(s) referred therein.

Dated: _____, 2005

CITI TRENDS, INC.

By: _____
Name:
Title:

DO NOT DETACH FROM CUSTODY AGREEMENT

Exhibit C

SELLING STOCKHOLDERS'
IRREVOCABLE POWER OF ATTORNEY
for sale of shares of common stock,
par value $0.01 per share, of Citi Trends, Inc.

R. Edward Anderson
Thomas W. Stoltz
c/o Citi Trends, Inc.
102 Fahm Street
Savannah, GA 31401

Ladies and Gentlemen:

The undersigned stockholder and certain other holders of common stock of Citi Trends, Inc. (the "Company") (such holders and the undersigned being hereinafter sometimes collectively referred to as the "Selling Stockholders"), propose to enter into an Underwriting Agreement (the "Underwriting Agreement") with the Company, CIBC World Markets Corp., Wachovia Capital Markets, LLC, SG Cowen & Co., LLC and Piper Jaffray & Co., as representatives (the "Representatives") of the several underwriters to be named in Schedule I to the Underwriting Agreement (the "Underwriters"). The Selling Stockholders propose to sell to the Underwriters pursuant to the Underwriting Agreement certain authorized and issued shares of the common stock, par value $0.01 per share, of the Company (the "Common Stock") owned by them. It is understood that at this time there is no commitment on the part of the Underwriters to purchase any shares of Common Stock and no assurance that the Underwriting Agreement will be entered into by the Company or the Underwriters.

The undersigned hereby irrevocably constitutes and appoints R. Edward Anderson and Thomas W. Stoltz each with full power and authority to act alone in any matter hereunder and with full power of substitution, the true and lawful attorneys-in-fact of the undersigned (individually an "Attorney," and collectively the "Attorneys"), with full power and authority in the name of, for and on behalf of, the undersigned with respect to all matters arising in connection with the sale of Common Stock by the undersigned including, but not limited to, the power and authority on behalf of the undersigned to take any and all of the following actions:

1. To sell, assign, transfer and deliver to the several Underwritersup to the number of shares of Common Stock set forth on the signature page hereof such shares of Common Stock to be represented by certificate(s) deposited by the undersigned pursuant to the Custody Agreement (the "Custody Agreement") between the undersigned and Citi Trends, Inc., as Custodian (the "Custodian"), at a purchase price per share, after deducting underwriting discounts and commissions, to be paid by the Underwriters, as the Attorneys, in their sole discretion, shall determine, but at the same price per share at which the Company and all other

Selling Stockholders (as defined in the Underwriting Agreement) sell Common Stock to the Underwriters;

2. To determine the number of shares of Common Stock to be sold by the undersigned to the Underwriters, which numbers shall be no greater but may be fewer than the corresponding numbers set forth on the signature page hereof (such total number of shares of Common Stock as is finally determined by the Attorneys and set forth opposite the name of the undersigned in Schedule II to the Underwriting Agreement is hereinafter referred to as the "Shares");

3. To execute, deliver and perform the Underwriting Agreement in customary form with such customary representations, warranties and covenant as the Attorneys, in their sole discretion, may deem appropriate, with full power to make such amendments to the Underwriting Agreement as the Attorneys, in their sole discretion, may deem advisable;

4. On behalf of the undersigned, to make the representations and warranties and enter into the agreements contained in the Underwriting Agreement (including, without limitation, entering into the "lock-up" agreements);

5. (a) To instruct the Custodian on all matters pertaining to the sale of the Shares and the delivery of certificates therefor, including: (i) the transfer of the Shares on the books of the Company in order to effect the sale of the Shares (including designating the name or names in which new certificate(s) for Shares are to be issued and the denominations thereof), (ii) the delivery to or for the account of the Underwriters of the certificate(s) for the Shares against receipt by the Custodian of the purchase price to be paid therefor, (iii) the payment, out of the proceeds (net of underwriting discounts and commissions) from the sale of the Shares by the undersigned to the Underwriters, of any expense incurred in accordance with paragraph 6 which is not payable by the Company and any transfer taxes payable in connection with the transfer of the Shares to the Underwriters ("Transfer Taxes") and (iv) the transmission to the undersigned of the proceeds, if any, from the sale of the Shares (after deducting all amounts payable by the undersigned pursuant to clause (iii) above) and the return to the undersigned, of new certificate(s) representing the excess, if any, of the number of shares of Common Stock represented by certificate(s) deposited with the Custodian over the number of Shares sold to the Underwriters; and (b) to amend the Custody Agreement and any related documents in such manner as the Attorneys may determine to be not materially adverse to the undersigned.

6. To incur or authorize the incurrence of any necessary or appropriate expense in connection with the sale of the Shares and to determine the amount of any Transfer Taxes;

7. To take any and all steps deemed necessary or desirable by the Attorneys in connection with the registration of the Shares under the Securities Act of 1933, as amended (the "Act"), the Securities Exchange Act of 1934, as amended, and the securities or blue sky laws of various states and jurisdictions, including, without limitation, the giving, making or filing of such undertakings, consents to service of process and representations and agreements and the taking of such other steps as the Attorneys may deem necessary or desirable;

8. To retain legal counsel to represent the undersigned in connection with any and all matters referred to herein (which counsel may, but need not be, counsel for the Company);

9. To make, execute, acknowledge and deliver all such other contracts, stock powers, orders, receipts, notices, instructions, certificates, letters and other writings, including, without limitation, communications with the Securities and Exchange Commission state securities commissions and the National Association of Securities Dealers, Inc. ("NASD"), and in general to do all things and to take all actions which the Attorneys, in their sole discretion, may consider necessary or desirable in connection with the sale of Shares to the Underwriters and the public offering thereof, as fully as could the undersigned if personally present and acting;

10. If necessary, to endorse (in blank or otherwise) on behalf of the undersigned the certificate(s) representing the Shares, or a stock power or powers attached to such certificate(s); and

11. To sign such other certificates, documents and agreements and take any and all other actions as the Attorneys may deem necessary or desirable in connection with the consummation of the transactions contemplated by the Underwriting Agreement, the Custody Agreement and this Power of Attorney.

Each Attorney may act alone in exercising the rights and powers conferred on the Attorneys in this Power of Attorney, and the act of any Attorney shall be the act of the Attorneys. Each Attorney is hereby empowered to determine in his or her sole discretion the time or times when, the purpose for and the manner in which any power herein conferred upon him or her shall be exercised, and the conditions, provisions or covenants of any instrument or document which may be executed by him or her pursuant hereto.

The undersigned acknowledges receipt of a copy of the Registration Statement on Form S-1 (the "Registration Statement") relating to the offering of the Shares and the other shares of Common Stock (together, the "Offered Shares") to be sold by the Selling Stockholders and a copy of the draft form of the Underwriting Agreement dated_____, 2005. The undersigned has reviewed the Registration Statement and the form of the Underwriting Agreement and understands the obligations and agreements of the undersigned set forth in the Underwriting Agreement. All representations and warranties of the Selling Stockholders in the Underwriting Agreement with respect to the undersigned will be as of the date of the execution of the Underwriting Agreement, the Closing Dates (as determined in accordance with the Underwriting Agreement), true and correct. All such representations and warranties will, as provided in the Underwriting Agreement, survive the termination of the Underwriting Agreement and the delivery of and payment for the Shares.

Upon the execution and delivery of the Underwriting Agreement by the Attorneys on behalf of the Selling Stockholders, the undersigned agrees to be bound by and to perform each and every covenant and agreement contained therein of the undersigned as a Selling Stockholders.

The undersigned agrees, if so requested, to provide an opinion of counsel, addressed to Paul, Hastings, Janofsky & Walker LLP, which opinion shall expressly permit reliance thereon by such counsel, setting forth such matters as such counsel may reasonably request in rendering its opinion pursuant to the Underwriting Agreement and such other documentation as the Attorneys, the Company, the Representatives or any of their respective counsel may request to effectuate any of the provisions hereof or of the Underwriting Agreement, all of the foregoing to be in form and substance satisfactory in all respects to the party requesting such documentation.

This Power of Attorney and all authority conferred hereby are granted and conferred subject to and in consideration of the interests of the Attorneys, the several Underwriters, the Company and the other Selling Stockholders who may become parties to the Underwriting Agreement, and for the purposes of completing the transactions contemplated by the Underwriting Agreement and this Power of Attorney.

This Power of Attorney is an agency coupled with an interest and all authority conferred hereby shall be irrevocable, and shall not be withdrawn or terminated by any act of the undersigned or by operation of law, whether by the death or incapacity of the undersigned (or either or any of the undersigned) or by the occurrence of any other event or events (including, without limitation, the termination of any trust or estate for which the undersigned is acting as a fiduciary or fiduciaries, the death or incapacity of one or more trustees, guardians, executors or administrators under such trust or estate or the merger, consolidation, dissolution or liquidation of any corporation or partnership) (any of the foregoing being hereinafter referred to as an "Event"). If an Event shall occur after the execution hereof but before completion of the transactions contemplated by the Underwriting Agreement or this Power of Attorney, then certificate(s) representing the Shares will be delivered to the Underwriters by or on behalf of the undersigned in accordance with the terms and conditions of the Underwriting Agreement and the Custody Agreement and any actions taken hereunder by the Attorneys shall be as valid as if such Event had not occurred regardless of whether or not the Custodian, the Attorneys, the Underwriters, or any one of them, shall have received notice of such Event.

Notwithstanding any of the foregoing provisions, if the Underwriting Agreement shall not have been executed and delivered prior to [outside date], 2005 then, upon the written notice of the undersigned on or after that date to the Attorneys, this Power of Attorney shall terminate subject, however, to all lawful action done or performed pursuant hereto prior to the receipt of actual notice.

It is understood that the Attorneys assume no responsibility or liability to any person other than to deal with the certificate(s) for shares of Common Stock deposited with the Custodian pursuant to the Custody Agreement and the proceeds from the sale of the Shares in accordance with the provisions hereof. The Attorneys make no representations with respect to and shall have no responsibility for the Registration Statement or the Prospectus nor, except as herein expressly provided, for any aspect of the offering of Common Stock, and the Attorneys shall not be liable for any error of judgment or for any act done or omitted or for any mistake of fact or law except for the Attorneys' own gross negligence or willful misconduct. The

undersigned agrees to indemnify the Attorneys for and to hold the Attorneys, jointly and severally, free from and harmless against any and all loss, claim, damage, liability or expense incurred by or on behalf of the Attorneys, or any of them, arising out of or in connection with acting as Attorneys under this Power of Attorney, as well as the cost and expense of defending against any claim of liability hereunder, which is not due to the Attorneys' own gross negligence or willful misconduct. The undersigned agrees that the Attorneys may consult with counsel of their choice (which may but need not be counsel for the Company) and the Attorneys shall have full and complete authorization and protection for any action taken or suffered by the Attorneys, or any of them hereunder, in good faith and in accordance with the opinion of such counsel.

It is understood that the purchase price per share of Common Stock to be paid in connection with the offering contemplated by the Prospectus and the Underwriting Agreement could be higher or lower than the price per share of Common Stock as of the date hereof.

It is understood that the Attorneys shall serve entirely without compensation.

This Power of Attorney shall be binding upon the undersigned and the heirs, legal representatives, distributees, successors and assigns of the undersigned.

This Power of Attorney shall be governed by the laws of the State of New York.

Witness the due execution of the foregoing Power of Attorney as of the date written below.

Maximum Number of Shares of
Common Stock to be Sold by Selling
Stockholders(s):

_____

Very truly yours,

By:_____
Name:
Title:

DATED:_____, 2005
Print Name and Address of Selling
Stockholder(s) and Name and Title of any Person
Signing as Agent or Fiduciary:
_____
_____
_____
_____
_____
_____

Telephone:( )_____

Facsimile:( )_____

ACKNOWLEDGMENT

State of)
) ss.
County of)

On this the _____ day of _____ 2005 before me personally appeared _____ who acknowledged the signing of the foregoing instrument and that the same is the free act and deed of such person (and if such person is signing on behalf of a corporation, partnership or trust that the same is the free act and deed of such corporation, partnership or trust and that such person is duly authorized to sign the foregoing instrument).

WITNESS my hand and official seal.

Notary's Signature

Exhibit 3.1

FORM OF

SECOND AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

CITI TRENDS, INC.

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

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

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

3. The text of the Amended and Restated Certificate of Incorporation, as amended and restated again herein, shall read in its entirety as follows:

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

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

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

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is [_____] shares, consisting of:

(i) [_____] shares of common stock, par value $0.01 per share (the "Common Stock"); and

(ii) [_____] shares of preferred stock, par value $0.01 per share (the "Preferred Stock").

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

1. Common Stock.

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

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

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

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

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

(a) the number of shares constituting that series and the distinctive designation of that series;

(b) the rate of dividend, and whether (and if so, on what terms and conditions) dividends shall be cumulative (and if so, whether unpaid dividends shall compound or accrue interest) or shall be payable in preference or in any other relation to the dividends payable on any other class or classes of stock or any other series of the Preferred Stock;

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

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

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

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

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

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

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

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

FIFTH: The name and mailing address of the incorporator is as follows:

Francis A. Fuselier
Mayer, Brown & Platt
1675 Broadway, Suite 1900
New York, New York 10019-5820

SIXTH:

1. Limits on Director Liability. Directors of the Corporation shall have no personal liability to the Corporation or its stockholders for monetary damages for breach of a fiduciary duty as a director; provided that nothing contained in this Article SIXTH shall eliminate or limit the liability of a director (i) for any breach of a director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct

or knowing violations of law, (iii) under Section 174 of the GCL or (iv) for any transaction from which a director derived an improper personal benefit. If the GCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then by virtue of this Article SIXTH the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the GCL, as so amended.

2. Indemnification.

(a) The Corporation shall indemnify and hold harmless, in accordance with the By-laws of the Corporation and to the fullest extent permitted from time to time by the GCL or any other applicable laws as presently or hereafter in effect, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation, by reason of his serving as a director or officer of the Corporation (and the Corporation, in the discretion of the Board of Directors, may so indemnify a person by reason of the fact that he is or was an employee or agent of the Corporation or is or was serving at the request of the Corporation in any other capacity for or on behalf of the Corporation) against any liability or expense actually and reasonably incurred by such person in respect thereof; provided, however, the Corporation shall be required to indemnify an officer or director in connection with an action, suit or proceeding (or part thereof) initiated by such person only if (i) such action, suit or proceeding (or part thereof) was authorized by the Board of Directors and (ii) the indemnification does not relate to any liability arising under Section 16(b) of the Securities Exchange Act of 1934, as amended, or any rules or regulations promulgated thereunder. Such indemnification is not exclusive of any other right to indemnification provided by law or otherwise. The right to indemnification conferred by this Section 2 shall be deemed to be a contract between the Corporation and each person referred to herein.

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

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

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

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

5. Additional Indemnification. The Corporation may, by action of its Board of Directors, provide additional indemnification to such of the directors, officers, employees and agents of the Corporation to such extent and to such effect as the Board of Directors shall determine to be appropriate and authorized by the GCL.

6. Effect of Amendments. Neither the amendment, change, alteration or repeal of this Article SIXTH, nor the adoption of any provision of this Certificate of Incorporation or the By-laws of the Corporation, nor, to the fullest extent permitted by the GCL, any modification of law, shall eliminate or reduce the effect of this Article SIXTH or the rights or any protection afforded under this Article SIXTH in respect of any acts or omissions occurring prior to such amendment, repeal, adoption or modification.

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

EIGHTH:

1. Number of Directors. The number of directors of the Corporation shall be fixed from time to time by the vote of a majority of the entire Board of Directors, but such number shall in no case be [less than five (5) nor more than nine (9)]. Any such determination made by the Board of Directors shall continue in effect unless and until changed by the Board of Directors, but no such changes shall affect the term of any directors then in office.

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

3. Term of Office; Vacancies.

(i) Directors of Class I shall be elected to hold office for an initial term expiring at the first annual meeting of stockholders held after the date and time at which this Certificate of Incorporation of the Corporation shall become effective in accordance with Section 103(d) of the GCL (the "Effective Time").

(ii) Directors of Class II shall be elected to hold office for an initial term expiring at the second annual meeting of stockholders held after the Effective Time.

(iii) Directors of Class III shall be elected to hold office for an initial term expiring at the third annual meeting of stockholders held after the Effective Time.

(iv) At each annual meeting of stockholders, the respective successors of the directors whose terms are expiring shall be elected for terms expiring at the annual meeting of stockholders held in the third succeeding year.

(v) Vacancies in the Board of Directors and newly-created directorships resulting from any increase in the authorized number of directors may be filled as provided in the By-laws.

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

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

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

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

(2) The Board of Directors shall be authorized to adopt, amend and repeal the By-laws of the Corporation, without a stockholder vote, in any manner not inconsistent with the laws of the State of Delaware, this Certificate of Incorporation and the By-laws of the Corporation as from time to time in effect, subject to the power of the stockholders entitled to vote to adopt, amend, alter, change, add to or repeal By-laws made by the Board of Directors as provided below in Section 3 of this ARTICLE NINTH.

(3) Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the amendment, alteration or repeal of the provisions of ARTICLES

EIGHTH and TENTH and this ARTICLE NINTH shall require the affirmative vote of the holders of two-thirds (2/3) or more of the combined voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a class.

(4) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the GCL, this Certificate of Incorporation, and any By-laws adopted by the stockholders; provided, however, that no By-laws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such By-laws had not been adopted.

TENTH:

1. Stockholder Meetings; Keeping of Books and Records. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Meetings of stockholders may be held within or outside the State of Delaware as the By-laws may provide. The books of the Corporation may be kept (subject to any provision contained in the GCL) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-laws of the Corporation.

2. Special Stockholders Meetings. Except as otherwise required by law, special meetings of stockholders of the Corporation may be called only by:

(i) the Chairman of the Board of Directors of the Corporation;

(ii) the Board of Directors pursuant to a resolution approved by the Board of Directors; or

(iii) the Board of Directors upon a request by holders of at least 50% in voting power of all outstanding shares entitled to vote at such meeting.

3. No Written Ballot. Elections of directors need not be by written ballot unless the By-laws of the Corporation shall so provide.

4. Quorum at Stockholder Meetings. The holders of one-third in voting power of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except that the holders of a majority in voting power of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall be required to constitute a quorum for:

(i) a vote for any director in a contested election;

(ii) the removal of a director; or

(iii) the filling of a vacancy on the Board of Directors by the stockholders of the Corporation.

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

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

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

CITI TRENDS, INC.

By _____
Name:
Title:

ATTEST:

_____

Exhibit 3.2

FORM OF

AMENDED AND RESTATED BY-LAWS

OF

CITI TRENDS, INC.

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AMENDED AND RESTATED BY-LAWS

OF

CITI TRENDS, INC.

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PREAMBLE

These By-laws, as the same may be amended and restated from time to time, are subject to, and governed by, the General Corporation Law of the State of Delaware (the "GCL") and the second amended and restated certificate of incorporation, as the same may be amended and restated from time to time, of Citi Trends, Inc., a Delaware corporation (the "Corporation") then in effect (the "Certificate"). In the event of a direct conflict between the provisions of these By-laws and the mandatory provisions of the GCL or the provisions of the Certificate, such provisions of the GCL or the Certificate, as the case may be, will be controlling.

I.

OFFICES

The registered office of the Corporation shall be in the City of Wilmington, County of New Castle, State of Delaware and the name and address of its registered agent is c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

II.

STOCKHOLDERS

Section 2.1. Annual Meetings. The annual meeting of the stockholders of the Corporation for the purpose of electing directors and for the transaction of such other business as may properly be brought before such meeting shall be held on such date, and at such time and place within or without the State of Delaware, as may be designated from time to time by resolution of the Board of Directors and set forth in the notice or waiver of notice of the meeting.

Section 2.2. Time and Place of Special Meetings. Unless otherwise prescribed by law or by the Certificate, special meetings of stockholders of the Corporation may be called only by (a) the Chairman of the Corporation; (b) the Board of Directors pursuant to a resolution approved by the Board of Directors; or (c) the Board of Directors upon a request by the holders of at least fifty percent (50%) in voting power of all outstanding shares of capital stock of the Corporation entitled to vote at such meeting. Such request shall state the purpose of the proposed meeting.

All special meetings of the stockholders shall be held at such place, within or without the State of Delaware, as shall be designated by the Board of Directors. In the absence of any such designation by the Board of Directors, each such meeting shall be held at the principal office of the Corporation.

Section 2.3. Notice of Meetings. The Secretary or any Assistant Secretary shall cause written notice of the place, if any, date and hour of each meeting of the stockholders and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting and, in the case of a special meeting, the purpose or purposes for which such meeting is called, to be given in the manner set forth in the next paragraph, not less than ten (10) nor more than sixty (60) calendar days prior to the meeting, to each stockholder of record entitled to vote at such meeting. If a stockholder meeting is to be held via electronic communications and stockholders will take action at such meeting, the notice of such meeting must: (a) specify the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present and vote at such meeting; and (b) provide the information required to access the stockholder list.

Notices are deemed given (i) if by mail, when deposited in the United States mail, postage prepaid, directed to the stockholder at his or her address as it appears on the record of stockholders of the Corporation, or, if he or she shall have filed with the Secretary of the Corporation a written request that notices to him or her be mailed to some other address, then directed to him or her at such other address; (ii) if by facsimile, when faxed to a number where the stockholder has consented to receive notice; (iii) if by electronic mail, when mailed electronically to an electronic mail address at which the stockholder consented to receive such notice; (iv) if by posting on an electronic network (such as a website or chatroom) together with a separate notice to the stockholder of such specific posting, upon the later to occur of (A) such posting or (B) the giving of the separate notice of such posting; or (v) if by any other form of electronic communication, when directed to the stockholder in the manner consented to by the stockholder.

For notice given by electronic transmission to a stockholder to be effective, such stockholder must consent to the Corporation's giving notice by that particular form of electronic transmission. A stockholder may revoke consent to receive notice by electronic transmission by written notice to the Corporation. A stockholder's consent to notice by electronic transmission is automatically revoked if the Corporation is unable to deliver two consecutive electronic transmission notices and such inability becomes known to the Secretary, Assistant Secretary, the transfer agent or other person responsible for giving notice.

A written waiver of any such notice signed by the person entitled thereto, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of an individual at a meeting in person or by proxy shall constitute a waiver of notice of such meeting, except when the person attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice. Neither the business to be transacted at, nor the purpose of, an annual or special meeting of stockholders need be specified in any written waiver of notice.

Section 2.4. Organization; Procedure. The Chairman, or in the Chairman's absence or at the Chairman's direction, any officer of the Corporation shall call all meetings of the stockholders to order and shall act as chairman of such meeting. The Secretary of the Corporation or, in such officer's absence, an Assistant Secretary shall act as secretary of the meeting. If neither the Secretary nor an Assistant Secretary is present, the chairman of the meeting shall appoint a secretary of the meeting. The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting by the person presiding over the meeting. The Board of Directors may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the person presiding over any meeting of stockholders shall have the right and authority to convene and to adjourn the meeting, to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such presiding person, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the presiding person of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the presiding person of the meeting shall determine; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (e) limitations on the time allotted to questions or comments by participants. The presiding person at any meeting of stockholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall, if the facts warrant, determine and declare to the meeting that a matter or business was not properly brought before the meeting and if such presiding person should so determine, such presiding person shall so declare to the meeting and any such matter or business not properly brought before the meeting shall not be transacted or considered. Unless and to the extent determined by the Board of Directors or the person presiding over the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 2.5. Quorum. Except as otherwise provided by law, by the Certificate or these By-laws, the holders of one-third (1/3) in voting power of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except that the holders of a majority in voting power of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall be required to constitute a quorum for (a) a vote for any director in a contested election; (b) the removal of a director; or (c) the filling of a vacancy on the Board of Directors if the filling of such vacancy is submitted to a vote of the stockholders. If a quorum is not present at any meeting of the stockholders, the presiding officer shall have the power to adjourn any such meeting from time to time until a quorum is present. Notice of any adjourned meeting of the stockholders of the Corporation need not be given if the place, if any, date and hour thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, are announced at the meeting at which the adjournment is taken; provided, however, that if the adjournment is for more than thirty (30) calendar days, or if after the adjournment a new record date for the adjourned meeting is fixed pursuant to Section 2.6 of

these By-laws, a notice of the adjourned meeting, conforming to the requirements of Section 2.3 of these By-laws, shall be given to each stockholder of record entitled to vote at such meeting. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted on the original date of the meeting.

Section 2.6. Record Date. In order that the Corporation may determine the stockholders (a) entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof; (b) entitled to receive payment of any dividend or other distribution or allotment of any rights; or (c) entitled to exercise any rights in respect of any change, conversion or exchange of capital stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date (i) in the case of clause (a) above, shall, unless otherwise required by law, not be more than sixty (60) nor less than ten (10) calendar days before the date of such meeting; and (ii) in the case of clause (b) above, shall not be more than sixty (60) calendar days prior to such action. If for any reason the Board of Directors shall not have fixed a record date for any such purpose, the record date for such purpose shall be determined as provided by law. A determination of the stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 2.7. Proxies. At all meetings of stockholders, any stockholder entitled to vote thereat shall be entitled to vote in person or by proxy, but no proxy shall be voted or acted upon after three years from its date, unless such proxy provides for a longer period. Without limiting the manner in which a stockholder may authorize another person or persons to act for such stockholder as proxy pursuant to the GCL, the following shall constitute a valid means by which a stockholder may grant such authority: (a) a stockholder may execute a written instrument authorizing another person or persons to act for such stockholder as proxy, and execution of the written instrument may be accomplished by the stockholder or the stockholder's authorized officer, director, employee, trustee or agent signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature; or (b) a stockholder may authorize another person or persons to act for such stockholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or electronic transmission was authorized by the stockholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the inspectors, or if there are no inspectors, such other persons making that determination shall specify the information upon which they relied.

Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to the preceding paragraph of this Section 2.7 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile

telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

Proxies shall be filed with the Secretary of the meeting prior to or at the commencement of the meeting to which they relate. A proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by filing another duly executed proxy bearing a later date with the Secretary.

Section 2.8. Voting. Unless otherwise required by law, the Certificate or these By-laws, any question brought before any meeting of stockholders shall be decided by a majority of votes cast by holders of the Common Stock represented and entitled to vote thereon, with each such holder having the number of votes per share and voting as a member of such classes of stockholders as may be provided in the Certificate, unless the question is one upon which, by express provision of law or of the Certificate, a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 2.9. Voting by Ballot. No vote of the stockholders need be taken by written ballot, or by a ballot submitted by electronic transmission, or conducted by inspectors of elections unless otherwise required by law. Any vote not required to be taken by ballot or by ballot submitted by electronic transmission may be conducted in any manner approved by the presiding officer at the meeting at which such vote is taken.

Section 2.10 Inspector of Elections. The Corporation may, and shall if required by law, in advance of any meeting of stockholders, appoint one or more inspectors of election, who may be employees of the Corporation, to act at the meeting or any adjournment thereof and to make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. In the event that no inspector so appointed or designated is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector or inspectors so appointed or designated shall (a) ascertain the number of shares of capital stock of the Corporation outstanding and the voting power of each such share; (b) determine the shares of capital stock of the Corporation represented at the meeting and the validity of proxies and ballots; (c) specify the information relied upon to determine the validity of electronic transmissions in accordance with Section 2.7 hereof; (d) count all votes and ballots; (e) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors; and (f) certify their determination of the number of shares of capital stock of the Corporation represented at the meeting and such inspectors' count of all votes and ballots. Such certification and report shall specify such other information as may be required by law. No person who is a candidate for an office at an election may serve as an inspector at such election.

When determining the shares of capital stock represented and the validity of proxies and ballots, the inspector shall be limited to an examination of the proxies, any envelopes submitted

with those proxies, any information provided in accordance with Section 2.7 of these By-laws, ballots and the regular books and records of the Corporation. The inspector may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers or their nominees or a similar person which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspector considers other reliable information as outlined in this section, the inspector, at the time of his or her certification pursuant to provision (f) of this section shall specify the precise information considered, the person or persons from whom the information was obtained, when this information was obtained, the means by which the information was obtained, and the basis for the inspector's belief that such information is accurate and reliable.

Section 2.11 No Stockholder Action by Written Consent. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of the stockholders of the Corporation, and the ability of the stockholders to consent in writing to the taking of any action is specifically denied.

Section 2.12 List of Stockholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number and class of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

Section 2.13 Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 2.12 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 2.14 Notice of Stockholder Business and Nominations.

(a) Annual Meetings of Stockholders.

(i) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders at an annual meeting of stockholders may be made only (A) by or at the direction of the Board of Directors or the Chief Executive Officer; (B) by any stockholder of the Corporation who is entitled to vote at the meeting, who complies with the applicable requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder, and the notice procedures set forth in clause (ii) of this Section 2.14(a) and who was a stockholder of record at the time such notice is delivered to the Secretary of the Corporation; or (C) pursuant to the Corporation's notice of meeting (or any supplement thereto).

(ii) For nominations or other business to be properly brought before an annual meeting by a stockholder, pursuant to clause (B) of paragraph (a)(i) of this Section 2.14, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and any such other business other than nominations of persons for election to the Board of Directors must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered or mailed to the Secretary at the principal executive offices of the Corporation and received not less than ninety (90) calendar days, nor more than one hundred twenty (120) calendar days prior to the first anniversary of the previous year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting was changed by more than thirty (30) calendar days from the anniversary date of the previous year's annual meeting, notice by the stockholder must be so received not less than ninety (90) calendar days nor more than one hundred twenty (120) calendar days prior to such annual meeting or ten (10) calendar days following the date on which public announcement of the date of the meeting is first made by the Corporation or notice of such meeting is given. In no event shall an adjournment or postponement of an annual meeting (or the public announcement thereof) commence a new time period (or extend any time period) for the giving of stockholder's notice as described above. Such stockholder's notice shall set forth (A) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act, and Rule 14a-11 thereunder, including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting (including the text of any resolutions proposed for consideration), the reasons for conducting such business at the meeting and, in the event that such business includes a proposal to amend either the Certificate or the By-laws of the Corporation, the language of the proposed amendment; (C) any material interest in such business of such stockholder and of any beneficial owner on whose behalf the proposal is made and, in the case of nominations, a description of all arrangements or understandings between the stockholder and each nominee and any other persons (naming them) pursuant to which the nominations are to be made by the stockholder; (D) a representation that the stockholder is a holder of record of capital stock of the Corporation entitled to vote at such meeting and intends to appear in person or by a qualified representative at the meeting to propose such business; (E) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (1) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (2) otherwise to solicit proxies from stockholders in support of such proposal or nomination; and (F) as to the stockholder giving the notice and any beneficial owner on whose behalf the nomination or proposal is made, (1) the name and address of such stockholder, as it appears on the Corporation's books, and of such beneficial owner and (2) the class and number of shares of capital stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner. If such stockholder does not appear or send a qualified representative to present such proposal at such annual meeting, the Corporation need not present such proposal for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation. The presiding officer of any arrival meeting of stockholders shall refuse to permit any business

proposed by a stockholder to be brought before such annual meeting without compliance with the foregoing procedures or if the stockholder solicits proxies in support of such stockholder's proposal without such stockholder having made the representation required by clause (E) above. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

(iii) Notwithstanding anything in the second sentence of paragraph (a)(ii) of this Section 2.14 to the contrary, in the event that the number of directors to be elected to the Board of Directors at an annual meeting is increased and there is no public announcement by the Corporation naming the nominees for the additional directorships at least one hundred (100) calendar days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 2.14 shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

(b) Special Meetings of Stockholders.

(i) Only such business as shall have been brought before the special meeting of the stockholders pursuant to the Corporation's notice of meeting pursuant to Section 2.2 of these By-laws shall be conducted at such meeting.

(ii) In the event that directors are to be elected at a special meeting of stockholders pursuant to the Corporation's notice of meeting, nominations of persons for election to the Board of Directors may be made at such special meeting of stockholders (A) by or at the direction of the Board of Directors; or (B) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in this Section 2.14 and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation. Nominations by stockholders of persons for election to the Board of Directors may be made at such special meeting of stockholders if the stockholder's notice as required by paragraph (a)(ii) of this Section 2.14 shall be delivered to the Secretary at the principal executive offices of the Corporation not more than one hundred twenty (120) calendar days prior to such special meeting and not less than ninety (90) calendar days prior to such special meeting or ten (10) calendar days following the date on which a public announcement of the date of the special meeting and of the nominees to be elected at such meeting is first made or notice of such meeting is given. In no event shall the adjournment or postponement of a special meeting (or the public announcement thereof) commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(c) General.

(i) Only persons who are nominated in accordance with the procedures set forth in this Section 2.14 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.14. Except as otherwise provided by law, the Certificate or these By-laws, the presiding officer of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed in accordance with the procedures set forth in this Section 2.14 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's representation as required by clause (a)(ii)(E) of this Section 2.14) and, if any proposed nomination or business is not in compliance with this Section 2.14, to declare that such defective proposal or nomination shall be disregarded. Notwithstanding the foregoing provisions of this Section 2.14, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

(ii) For purposes of this Section 2.14, "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14, or 15(d) of the Exchange Act.

(iii) For purposes of this Section 2.14, no adjournment nor notice of adjournment of any meeting shall be deemed to constitute a new notice of such meeting for purposes of this Section 2.14 and in order for any notification required to be delivered by a stockholder pursuant to this Section 2.14 to be timely, such notification must be delivered within the periods set forth above with respect to the originally scheduled meeting.

(iv) Notwithstanding the foregoing provisions of this Section 2.14, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.14. Nothing in this Section 2.14 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 2.15 Opening and Closing of Polls. The date and time for the opening and the closing of the polls for the matters to be voted upon at a stockholder meeting shall be announced at the meeting. The inspector of the election shall be prohibited from accepting any ballots, proxies or votes or any revocations thereof or changes thereto after the closing of the polls, unless the Court of Chancery upon application by a stockholder shall determine otherwise.

Section 2.16 Confidential Voting.

(a) Proxies and ballots that identify the votes of specific stockholders shall be kept in confidence by the inspectors of election unless: (i) there is an opposing solicitation with respect to the election or removal of directors; (ii) disclosure is required by applicable law; (iii) a stockholder expressly requests or otherwise authorizes disclosure in relation to such

stockholder's vote; or (iv) the Corporation concludes in good faith that a bona fide dispute exists as to the authenticity of one or more proxies, ballots or votes, or as to the accuracy of any tabulation of such proxies, ballots or votes.

(b) The inspectors of election and any authorized agents or other persons engaged in the receipt, count and tabulation of proxies and ballots shall be advised of this Section 2.16 and instructed to comply herewith.

(c) The inspectors of election shall certify, to the best of their knowledge based on due inquiry, that proxies and ballots have been kept in confidence as required by this Section 2.16.

III.

DIRECTORS

Section 3.1 General Powers. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors, which may exercise all the powers of the Corporation and do all such lawful acts and things as are not by law or by the Certificate or by these By-laws directed or required to be exercised or done by the stockholders.

Section 3.2 Number and Election of Directors. The number of directors of the Corporation shall be fixed from time to time by resolution of the Board of Directors adopted by the vote of a majority of the entire Board of Directors, but such number shall in no case be less than [five (5) nor more than nine (9)], the majority of which will be "independent" under the rules of the Nasdaq National Market. Except as provided in Section 3.3 of this Article, directors shall be elected by a plurality of the votes cast at Annual Meetings of Stockholders. Any director may resign at any time by submitting an electronic transmission or by delivering a written notice of resignation, signed by such director, to the Chairman or the Secretary. Unless otherwise specified therein, such resignation shall take effect upon delivery. Directors need not be stockholders.

Section 3.3 Classified Board; Election of Directors. The Board of Directors shall be divided into three classes, designated Classes I, II and III, which shall be as nearly equal in number as possible. Directors of Class I shall hold office for an initial term expiring at the first annual meeting of stockholders to be held after the date hereof. Directors of Class II shall hold office for an initial term expiring at the second annual meeting of stockholders to be held after the date hereof. Directors of Class III shall hold office for an initial term of office expiring at the third annual meeting of stockholders to be held after the date hereof. Except as otherwise provided in Section 3.4 of these By-laws, at each annual meeting of stockholders of the Corporation, the respective successors of the directors whose terms are expiring shall be elected for terms expiring at the annual meeting of stockholders held in the third succeeding year.

Section 3.4 Additional Directorships. Newly created directorships or vacancies on the Board of Directors shall be filled by a majority of the directors then in office, regardless of whether such directors fulfill quorum requirements, or by a sole remaining director; and the newly created directorships shall be distributed among the three classes of directors so that, as

nearly as possible, each class will consist of one-third (1/3) of the Corporation's directors. Any director elected to fill any vacancy on the Board of Directors not resulting from an increase in the number of directors shall be of the same class as that of the director whose death, resignation, removal or other event caused the vacancy and shall have the same remaining term as that of his predecessor. A director elected to fill a vacancy or a newly created directorship shall hold office until such director's successor has been elected and qualified or until such director's earlier death, resignation or removal. Any vacancy or newly created directorship may also be filled by the vote of the holders of a majority in voting power of the capital stock issued and outstanding and entitled to vote. Directors may be removed only for cause, and only by the affirmative vote of at least a majority in voting power of all outstanding capital stock of the Corporation entitled to vote generally in the election of directors, voting as a single class.

Section 3.5 Place of Meetings. The Board of Directors may hold meetings, both regular and special, either within or without the State of Delaware.

Section 3.6 Annual and Regular Meetings. The annual meeting of the Board of Directors for the purpose of electing officers and for the transaction of such other business as may come before the meeting shall be held as soon as practicable following adjournment of the annual meeting of the stockholders. Notice of such annual meeting of the Board of Directors need not be given. The Board of Directors from time to time may by resolution provide for the holding of regular meetings and fix the place (which may be within or without the State of Delaware) and the date and hour of such meetings. Notice of regular meetings need not be given; provided, however, that if the Board of Directors shall fix or change the time or place of any regular meeting, notice of such action shall be mailed promptly, or sent by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail or other electronic means, to each director who shall not have been present at the meeting at which such action was taken, addressed or transmitted to him or her at his or her usual place of business, or shall be delivered or transmitted to him or her personally. Notice of such action need not be given to any director who attends the first regular meeting after such action is taken without protesting the lack of notice to him or her, prior to or at the commencement of such meeting, or to any director who submits a signed waiver of notice, whether before or after such meeting.

Section 3.7 Special Meetings. Special meetings of the Board of Directors shall be held whenever called by the Chairman, any director or the Chief Executive Officer (or, in the event of the Chief Executive Officer's absence or disability, by any other officer) at such place (within or without the State of Delaware), date and hour as may be specified in the respective notices or waivers of notice of such meetings. Special meetings of the Board of Directors may be called on twenty-four (24) hours' notice, if notice is given to each director personally or by telephone, including a voice messaging system, or other system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail or other electronic means, or on five (5) calendar days' notice, if notice is mailed to each director, addressed or transmitted to him or her at such director's usual place of business or other designated location. Notice of any special meeting shall be deemed to have been waived by any director who attends such meeting without protesting the lack of notice to him or her, prior to or at the commencement of such meeting, or to any director who submits a signed waiver of notice, whether before or after such meeting, and any business may be transacted thereat.

Section 3.8 Quorum. Except as may be otherwise specifically provided by law, the Certificate or these By-laws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors.

Section 3.9 Adjournment. A majority of the directors present, whether or not a quorum is present, may adjourn any meeting of the Board of Directors to another time or place. No notice need be given of any adjourned meeting unless the time and place of the adjourned meeting are not announced at the time of adjournment, in which case notice conforming to the requirements of Section 3.7 of these By-laws shall be given to each director.

Section 3.10 Action without Meeting. Unless otherwise restricted by the Certificate or these By-laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

Section 3.11 Regulations; Manner of Acting. To the extent consistent with applicable law, the Certificate and these By-laws, the Board of Directors may adopt such rules and regulations for the conduct of meetings of the Board of Directors and for the management of the property, affairs and business of the Corporation as the Board of Directors may deem appropriate. The directors shall act only as a Board, and the individual directors shall have no power as such.

Section 3.12 Attendance by Telephone. Unless otherwise restricted by the Certificate or these By-laws, members of the Board of Directors, or of any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

Section 3.13 Removal. Any director may be removed at any time, but only for cause, upon the affirmative vote of the holders of a majority of the combined voting power of the then outstanding capital stock of the Corporation entitled to vote generally in the election of directors.

Section 3.14 Compensation of Directors. The amount, if any, which each director shall be entitled to receive as compensation for his or her services as such shall be fixed from time to time by resolution of the Board of Directors.

Section 3.15 Reliance on Accounts and Reports, etc. A director, or a member of any committee designated by the Board of Directors shall, in the performance of his or her duties, be fully protected in relying in good faith upon the records of the Corporation and upon information, opinions, reports or statements presented to the Corporation by any of the Corporation's officers or employees, or committees designated by the Board of Directors, or by any other person as to the matters the member reasonably believes are within such other person's

professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

IV.

BOARD COMMITTEES

Section 4.1 How Constituted. The Board of Directors may designate one or more Committees, including, but not limited to, an Audit Committee, a Compensation Committee and a Corporate Governance Committee, each such Committee to consist of such number of directors as from time to time may be fixed by the Board of Directors. The Board of Directors may designate one or more directors as alternate members of any such Committee, who may replace any absent or disqualified member or members at any meeting of such Committee. Thereafter, members of each such Committee may be designated from time to time by the Board of Directors. Any such Committee may be abolished or re-designated from time to time by the Board of Directors. Each member (and each alternate member) of any such Committee (whether designated at an annual meeting of the Board of Directors or to fill a vacancy or otherwise) shall hold office until his or her successor shall have been designated or until he or she shall cease to be a director, or until his or her earlier death, resignation or removal.

Section 4.2 Powers.

(a) Audit Committee. The Audit Committee, except as otherwise may be provided in any resolution of the Board of Directors or as may be required by applicable law, shall have and may exercise the authority of the Board of Directors to, among other things:

(i) have direct responsibility for the selection, compensation, retention, replacement and oversight of the work of the Corporation's independent auditors, including prescribing what services are allowable and approve in advance all services provided by the auditors;

(ii) set clear hiring policies for employees or former employees of the independent auditors;

(iii) review all proposed corporation hires formerly employed by the independent auditors;

(iv) have direct responsibility for ensuring its receipt from the independent auditors at least annually of a formal written statement delineating all relationships between the auditor and the Corporation, consistent with Independence Standards Board Standard No. 1;

(v) discuss with the independent directors any disclosed relationships or services that may impact the objectivity and independence of the auditor and for taking, or recommending that the full Board of Directors take, appropriate action to oversee the independence of the independent auditor;

(vi) discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits including the adequacy of staffing, compensation and resources;

(vii) review, at least annually, the results and scope of the audit and other services provided by the Corporation's independent auditors and discuss any audit problems or difficulties and management's response;

(viii) review the Corporation's annual audited financial statement and quarterly financial statements and discuss the statements with management and the independent auditors;

(ix) review and discuss with management, the internal auditors and the independent auditors the adequacy and effectiveness of the Corporation's internal controls, including the Corporation's ability to monitor and manage business risk, legal and ethical compliance programs and financial reporting;

(x) review and discuss separately with the internal auditors and the independent auditors, with and without management present, the results of their examinations;

(xi) review the Corporation's compliance with legal and regulatory independence;

(xii) review and discuss the Corporation's interim financial statements and the earnings press releases prior to the filing of the Corporation's report on Form 10-Q, as well as financial information and earnings guidance provided to analysts and rating agencies;

(xiii) review and discuss the Corporation's risk assessment and risk management policies;

(xiv) prepare an Audit Committee report required by the Securities and Exchange Commission to be included in the Corporation's annual proxy statement;

(xv) engage independent counsel and other advisors to assist the audit committee in carrying out its duties;

(xvi) review and approve all related party transactions consistent with the rules applied to companies listed on the Nasdaq National Market; and

(xvii) establish procedures regarding complaints received by the Corporation or the Corporation's employees regarding accounting, accounting controls or accounting matters.

(b) Compensation Committee. The Compensation Committee, except as otherwise may be provided in any resolution of the Board of Directors or as may be required by applicable law, shall have and may exercise all the authority of the Board of Directors with respect to compensation, benefits and personnel administration of the employees of the Corporation to, among other things:

(i) review and approve corporate goals and objectives relevant to our Chief Executive Officer's and the other named executive officers' of the Corporation compensation;

(ii) evaluate the Chief Executive Officer's performance in light of these corporate goals and objectives;

(iii) either as a committee, or together with the other independent directors, determine and approve the compensation of the Chief Executive Officer;

(iv) make recommendations to the Corporation's Board of Directors regarding the salaries, incentive compensation plans and equity-based plans for the employees of the Corporation; and

(v) produce a compensation committee report on executive compensation as required by the Securities and Exchange Commission to be included in the Corporation's annual proxy statement or annual report on Form 10-K filed with the Securities and Exchange Commission.

(c) Corporate Governance Committee. The Corporate Governance Committee, except as otherwise may be provided in any resolution of the Board of Directors or as required by applicable law, shall, among other things:

(i) identify candidates qualified to become board members, consistent with criteria approved by the Board of Directors;

(ii) recommend the candidates identified to be selected as nominees for the next annual meeting of the stockholders;

(iii) develop and recommend to the Board of Directors a set of corporate governance principles applicable to the Corporation; and

(iv) oversee the evaluation of the Board of Directors and management.

(d) Other Committees. Each other Committee, except as otherwise provided in this section, shall have and may exercise such powers of the Board of Directors as may be provided by resolution or resolutions of the Board of Directors.

Section 4.3 Proceedings. Each Committee may, subject to approval of the Board of Directors, adopt a charter specifying its scope of responsibility and may fix its own rules of procedure and may meet at such place (within or without the State of Delaware), at such time and upon such notice, if any, as it shall determine from time to time. Each Committee shall keep minutes of its proceedings and shall report such proceedings to the Board of Directors at the meeting of the Board of Directors next following any such proceedings.

Section 4.4 Quorum and Manner of Acting. Except as may be otherwise provided in the resolution creating such Committee, at all meetings of any Committee the presence of members (or alternate members) constituting a majority of the total membership of such Committee shall constitute a quorum for the transaction of business. The act of the majority of the members

present at any meeting at which a quorum is present shall be the act of such Committee. Any action required or permitted to be taken at any meeting of any such Committee may be taken without a meeting, if all members of such Committee shall consent to such action in writing or by electronic transmission, and such writing or writings or electronic transmission or transmissions are filed with the minutes of the proceedings of the Committee. The members of any such Committee shall act only as a Committee, and the individual members of such Committee shall have no power as such.

Section 4.5 Action by Telephonic Communications. Members of any Committee designated by the Board of Directors may participate in a meeting of such Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting.

Section 4.6 Resignations. Any member of any Committee may resign at any time by delivering a written notice of resignation, signed by such member, to the Chairman or the Chief Executive Officer. Unless otherwise specified therein, such resignation shall take effect upon delivery.

Section 4.7 Removal. Any member (and any alternate member) of any Committee may be removed from his or her position as a member of such Committee at any time, either for or without cause, by resolution adopted by a majority of the whole Board of Directors.

Section 4.8 Vacancies. If any vacancy shall occur in any Committee, by reason of death, resignation, removal or otherwise, the remaining members (and alternate members) shall continue to act, and any such vacancy may be filled by the Board of Directors.

V.

OFFICERS

Section 5.1 Number. The officers of the Corporation shall be elected by the Board of Directors and may include a Chairman, a Chief Executive Officer, a President, one or more Vice Presidents, a Chief Financial Officer, a Secretary and a Treasurer. The Board of Directors may appoint such other officers as it may deem appropriate; provided that officers of the rank of Vice President and below may be appointed by the Compensation Committee. Such other officers shall exercise such powers and perform such duties as may be determined from time to time by the Board of Directors, the Chief Executive Officer or the President. Any number of offices may be held by the same person. No officer, other than the Chairman, need be a director of the Corporation.

Section 5.2 Election. Unless otherwise determined by the Board of Directors, the officers of the Corporation shall be elected by the Board of Directors at the annual meeting of the Board of Directors, and shall be elected to hold office until the next succeeding annual meeting of the Board of Directors. In the event of the failure to elect officers at such meeting, officers may be elected at any regular or special meeting of the Board of Directors. Officers of the rank of Vice President and below may be elected by the Compensation Committee. Each officer shall

hold office until such officer's successor has been elected and qualified, or until such officer's earlier death, resignation or removal.

Section 5.3 Powers. Each of the officers of the Corporation elected by the Board of Directors or appointed by an officer in accordance with these By-laws shall have the powers and duties prescribed by law, by these By-laws or by the Board of Directors and, in the case of appointed officers, the powers and duties prescribed by the appointing officer, and, unless otherwise prescribed by these By-laws or by the Board of Directors or such appointing officer, shall have such further powers and duties as ordinarily pertain to that office.

Section 5.4 Salaries. Except as otherwise provided by Section 4.2 hereof, the salaries of all executive officers (as determined by the Board of Directors) of the Corporation shall be fixed by the Board of Directors. The Chief Executive Officer shall fix the salaries of all non-executive officers.

Section 5.5 Removal and Resignation; Vacancies. Any officer may be removed for or without cause at any time by the Board of Directors. Any officer may resign at any time by delivering notice of resignation, either in writing signed by such officer or by electronic transmission, to the Board of Directors or the Chief Executive Officer. Unless otherwise specified therein, such resignation shall take effect upon delivery. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise, shall be filled by the Board of Directors.

Section 5.6 Chairman of the Board. The Chairman, if any, when elected, shall have general supervision, direction and control of the business and affairs of the Corporation, subject to the control of the Board of Directors, shall preside at meetings of stockholders and shall have such other functions, authority and duties as customarily appertain to the Chairman of a business corporation or as may be prescribed by the Board of Directors. During the absence or disability of the Chief Executive Officer, the Chairman shall exercise all the powers and discharge all the duties of the Chief Executive Officer. The Chairman shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these By-laws.

Section 5.7 Chief Executive Officer. The Chief Executive Officer shall have general control and supervision of the policies and operations of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. The Chief Executive Officer shall be a U.S. citizen. He or she shall manage and administer the Corporation's business and affairs and shall also perform all duties and exercise all powers usually pertaining to the office of a chief executive officer of a corporation. He or she shall have the authority to sign, in the name and on behalf of the Corporation, checks, orders, contracts, leases, notes, drafts and other documents and instruments in connection with the business of the Corporation and together with the Secretary, or any Assistant Secretary, conveyances of real estate and other documents and instruments to which the seal of the Corporation is affixed. He or she shall have the authority to cause the employment or appointment of such employees and agents of the Corporation as the conduct of the business of the Corporation may require, to fix their compensation, and to remove or suspend any employee or agent elected or appointed by the Chief Executive Officer or the Board of Directors. The Chief Executive Officer shall perform such other duties and have such other powers as the Board of Directors or the Chairman may from time to time prescribe.

Section 5.8 Chief Financial Officer. The Chief Financial Officer shall be the principal financial officer of the Corporation and shall have responsibility for the financial affairs of the Corporation and shall keep or cause to be kept correct records of the business and transactions of the Corporation. The Chief Financial Officer shall perform such other duties and exercise such other powers as are normally incident to the office of chief financial officer and as may be prescribed by the Board of Directors or the Chief Executive Officer from time to time.

Section 5.9 President. The President shall perform such duties and have such powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

Section 5.10 Absence or Disability of the Chief Executive Officer. In the event of the absence of the Chief Executive Officer or in the event of the Chief Executive Officer's inability to act, the officer, if any, designated by resolution of the Board of Directors (or in the event there is more than one such designated officer, then in the order of designation) shall perform the duties of the Chief Executive Officer, and when so acting, shall have all the powers and be subject to all the restrictions of the Chief Executive Officer. Any such officer or officers acting in the absence or inability to act of the Chief Executive Officer shall be U.S. citizens.

Section 5.11 Vice President. The Vice Presidents shall have such designations and shall perform such duties and have such powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

Section 5.12 Secretary. The Secretary shall keep or cause to be kept a record of all the proceedings of the meetings of the stockholders and of the Board of Directors, and shall cause all notices to be duly given in accordance with the provisions of these By-laws and as required by law. The Secretary shall be the custodian of the records and of the seal of the Corporation and cause such seal (or a facsimile thereof) to be affixed to instruments when appropriate. The Secretary shall perform, in general, all duties incident to the office of secretary and such other duties as may be specified in these By-laws or as may be assigned to him or her from time to time by the Board of Directors or the Chief Executive Officer.

Section 5.13 Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination. then in the order of their election), shall, in the absence of the Secretary or in the event of the Secretary's inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman, the Chief Executive Officer, the President or the Secretary.

Section 5.14 Treasurer. The Treasurer shall have charge and supervision over and be responsible for the moneys, securities, receipts and disbursements of the Corporation, and shall keep or cause to be kept full and accurate records of all receipts of the Corporation, and shall cause the moneys and other valuable effects of the Corporation to be deposited in the name and to the credit of the Corporation. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chairman, the President and the Board of Directors, at its regular meetings or when the Board of Directors so requires, an account of all transactions as Treasurer and of the financial condition of the Corporation. The Treasurer shall perform such other duties as may from time to

time be prescribed by the Board of Directors, the Chairman, the Chief Executive Officer or the Chief Financial Officer.

Section 5.15 Assistant Treasurer. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election), shall, in the absence of the Treasurer or in the event of the Treasurer's inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as may from time to time be prescribed by the Board of Directors, the Chairman, the Chief Executive Officer or the Chief Financial Officer.

Section 5.16 Other Officers. The Chief Executive Officer or Board of Directors may appoint other officers and agents for any Group, Division or Department into which this Corporation may be divided by the Board of Directors, with titles as the President or Board of Directors may from time to time deem appropriate. All such officers and agents shall receive such compensation, have such tenure and exercise such authority as the President or Board of Directors may specify. All appointments made by the Chief Executive Officer hereunder and all the terms and conditions thereof must be reported to the Board of Directors.

In no case shall an officer or agent of any one Group, Division or Department have authority to bind another Group, Division or Department of the Company or to bind the Corporation except as to the business and affairs of the Group, Division or Department of which he or she is an officer or agent.

VI.

CERTIFICATES OF STOCK

Section 6.1 Certificates of Stock, Uncertificated Shares. The shares of capital stock of the Corporation may be either represented by certificates or uncertificated shares; provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the capital stock of the Corporation shall be uncertificated shares. Any resolution of the Board of Directors providing for uncertificated shares shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Subject to Section 6.4 below, notwithstanding the adoption of such resolution by the Board of Directors, every holder of capital stock represented by certificates and, upon request, every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of, the Corporation, (a) by the Chairman, the Chief Executive Officer, the President or a Vice President; and (b) by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, representing the number of shares registered in certificate form. Such certificate shall be in such form as the Board of Directors may determine, to the extent consistent with applicable law, the Certificate and these By-laws.

Section 6.2 Signatures; Facsimile. All signatures on the certificate referred to in Section 6.1 of these By-laws may be in facsimile, engraved or printed form, to the extent permitted by

law. In case any officer, transfer agent or registrar who has signed, or whose facsimile, engraved or printed signature has been placed upon a certificate representing shares of capital stock of the Corporation shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 6.3 Transfer. Except as otherwise established by rules or regulations adopted by the Board of Directors, upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate of stock or uncertificated shares in place of any certificate therefor issued by the Corporation to the person entitled thereto, cancel the old certificate and record the transaction on its books.

Section 6.4 Replacement. In case of the loss, destruction or theft of a certificate for any stock of the Corporation, a new certificate of stock or uncertificated shares in place of any certificate therefor issued by the Corporation may be issued upon satisfactory proof of such loss, destruction or theft and upon such terms as the Board of Directors may prescribe. The Board of Directors may in its discretion require the owner of the lost, destroyed or stolen certificate, or his legal representative, to give the Corporation a bond, in such sum and in such form and with such surety or sureties as it may direct, to indemnify the Corporation against any claim that may be made against it with respect to a certificate alleged to have been lost, destroyed or stolen.

Section 6.5 Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law. The Corporation shall not be required to register any transfer of shares made in violation of any agreement among a stockholder or investor in the Corporation and the Corporation, or recognize as a holder of any such shares any transferee in such a violative transaction.

VII.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

To the fullest extent permitted by the laws of the State of Delaware:

Section 7.1 Nature of Indemnity. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or an officer of the Corporation or is or was serving at the request of the Corporation as a director, officer or trustee of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action in an

official capacity as a director, officer or trustee or in any other capacity while serving as a director, officer or trustee, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the GCL, as the same exists or may hereafter be amended, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith; provided, however, that, except as provided in these By-laws with respect to proceedings to enforce rights to indemnification and "advancement of expenses" (as defined below), the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors. Furthermore, the Corporation may only indemnify such person if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding had no reasonable cause to believe that his or her conduct was unlawful; except that in the case of an action or suit by or in the name of the Corporation to procure a judgment in its favor (a) such indemnification shall be limited to expenses (including attorneys' fees) actually and reasonably incurred by such person in the defense or settlement of such action or suit; and (b) no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 7.2 Advance Payment of Expenses. In addition to the right to indemnification conferred in this Article VII, an indemnitee shall also have the right to be paid by the Corporation the expenses (including attorneys' fees) incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if the GCL requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Article VII or otherwise. Such expenses (including attorneys' fees) incurred by former directors and officers shall be so paid upon such terms and conditions, if any, as the Corporation deems appropriate. The Board of Directors may authorize the Corporation's counsel to represent such director or officer in any action, suit or proceeding, whether or not the Corporation is a party to such action, suit or proceeding.

Section 7.3 Procedure for Indemnification. If, following final disposition of a proceeding, a claim for indemnification under this Article VII is not paid in full by the Corporation within sixty (60) calendar days after a written claim has been received by the Corporation, or if, whether before or after final disposition of a proceeding, a claim for an advancement of expenses under this Article VII is not paid in full by the Corporation within twenty (20) calendar days after a written claim has been received by the Corporation, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit, including without limitation reasonable attorneys' fees. In any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that the indemnitee has not met any applicable standard for indemnification set forth in the GCL. In any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the GCL. Neither the failure of the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) to have made a determination that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the GCL, nor an actual determination by the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article VII or otherwise shall be on the Corporation.

Section 7.4 Preservation of Other Rights. The rights to indemnification and to the advancement of expenses conferred in this Article VII shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Certificate, these By-laws, agreement, vote of stockholders or directors or otherwise.

Section 7.5 Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the GCL.

Section 7.6 Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Article VII with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

Section 7.7 Survival. The rights conferred upon indemnitees in this Article VII shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer or trustee and shall inure to the benefit of the indemnitee's heirs, executors and administrators. Any amendment, alteration or repeal of this Article VII that adversely affects any right of an indemnitee or its successors shall be prospective only and shall not limit or eliminate any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment, alteration or repeal.

VIII.

GENERAL PROVISIONS

Section 8.1 Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 8.2 Corporate Seal. The corporate seal shall be in such form as may be approved from time to time by the Board of Directors. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 8.3 Dividends. Subject to any applicable provisions of law and the Certificate or any resolution or resolutions adopted by the Board of Directors pursuant to authority expressly vested in it by the Certificate and Section 151 of the GCL, the Board of Directors may, at any regular or special meeting of the Board of Directors, out of funds legally available therefore, declare dividends upon the capital stock of the Corporation, and any such dividend may be paid in cash, property, or shares of the Corporation's stock.

A member of the Board of Directors, or a member of any committee designated by the Board of Directors shall be fully protected in relying in good faith upon the records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of its officers or employees, or committees of the Board of Directors, or by any other person as to matters the director reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation, as to the value and amount of the assets, liabilities and/or net profits of the Corporation, or any other facts pertinent to the existence and amount of surplus or other funds from which dividends might properly be declared and paid.

Section 8.4 Reserves. There may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, thinks proper as a reserve or reserves to meet contingencies or for such other purpose as the Board of Directors shall think conducive to the interests of the Corporation, and the Board of Directors may similarly modify or abolish any such reserve.

Section 8.5 Execution of Instruments. The Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Secretary or the Treasurer may enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. The Board of Directors or the Chief Executive Officer may authorize any other officer or agent to enter into any contract or execute and deliver any instrument in the name and on behalf of the

Corporation. Any such authorization may be general or limited to specific contracts or instruments.

Section 8.6 Corporate Books. The books of the Corporation may be kept outside of the State of Delaware at such place or places as the Board of Directors may from time to time determine.

Section 8.7 Corporate Indebtedness. No loan shall be contracted on behalf of the Corporation, and no evidence of indebtedness shall be issued in its name, unless authorized by the Board of Directors, the Chief Executive Officer or the Chief Financial Officer. Such authorization may be general or confined to specific instances. Loans so authorized may be effected at any time for the Corporation from any bank, trust company or other institution, or from any firm, corporation or individual. All bonds, debentures, notes and other obligations or evidences of indebtedness of the Corporation issued for such loans shall be made, executed and delivered as the Board of Directors, the Chief Executive Officer or the Chief Financial Officer shall authorize. When so authorized by the Board of Directors, the Chief Executive Officer or the Chief Financial Officer, any part of or all the properties, including contract rights, assets, business or good will of the Corporation, whether then owned or thereafter acquired, may be mortgaged, pledged, hypothecated or conveyed or assigned in trust as security for the payment of such bonds, debentures, notes and other obligations or evidences of indebtedness of the Corporation, and of the interest thereon, by instruments executed and delivered in the name of the Corporation.

Section 8.8 Deposits. Any funds of the Corporation may be deposited from time to time in such banks, trust companies or other depositaries as may be determined by the Board of Directors, the Chief Executive Officer, the Chief Financial Officer or the Treasurer or by such officers or agents as may be authorized by the Board of Directors or the Chief Executive Officer, the Treasurer or the Chief Financial Officer or the Treasurer to make such determination.

Section 8.9 Checks. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such agent or agents of the Corporation, and in such manner, as the Board of Directors or the Chief Executive Officer from time to time may determine.

Section 8.10 Sale, Transfer, etc. of Securities. To the extent authorized by the Board of Directors or by the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Secretary or the Treasurer or any other officers designated by the Board of Directors or the Chief Executive Officer may sell, transfer, endorse, and assign any shares of stock, bonds or other securities owned by or held in the name of the Corporation, and may make, execute and deliver in the name of the Corporation, under its corporate seal (if required), any instruments that may be appropriate to effect any such sale, transfer, endorsement or assignment.

Section 8.11 Voting as Stockholder. Unless otherwise determined by resolution of the Board of Directors, the Chief Executive Officer, the President or any Vice President shall have full power and authority on behalf of the Corporation to attend any meeting of stockholders of any corporation in which the Corporation may hold stock, and to act, vote (or execute proxies to vote) and exercise in person or by proxy all other rights, powers and privileges incident to the

ownership of such stock. Such officers acting on behalf of the Corporation shall have full power and authority to execute any instrument expressing consent to or dissent from any action of any such corporation without a meeting. The Board of Directors may by resolution from time to time confer such power and authority upon any other person or persons.

Section 8.12 Transactions with Interested Parties. No contract or transaction between the Corporation and one or more of the directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of the directors or officers are directors, officers or employees, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or a committee of the Board of Directors which authorizes the contract or transaction or solely because his or their votes are counted for such purpose, if:

(a) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum;

(b) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(c) The contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee of the Board of Directors, or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

IX.

AMENDMENTS

Section 9.1 Amendment. Subject to the provisions of this Section 9.1 and the Certificate, these By-laws (including this Article IX) may be amended, altered or repealed:

(a) by resolution adopted by a majority of the Board of Directors without a stockholder vote at any special or regular meeting of the Board of Directors if, in the case of such special meeting only, notice of such amendment, alteration or repeal is contained in the notice or waiver of notice of such meeting; provided, however, that the amendment, alteration or repeal of the provisions of Sections 2.2, 2.11, 3.2, 3.3, or 3.13 hereof or this Section 9.1 shall require the affirmative vote of the holders of two-thirds (2/3) or more of the combined voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors; or

(b) at any regular or special meeting of the stockholders upon the affirmative vote of the holders of two-thirds (2/3) or more of the combined voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, if, in the case of such special meeting only, notice of such amendment, alteration or repeal is contained in the notice or waiver of notice of such meeting.

X.

SUBJECT TO CERTIFICATE OF INCORPORATION

These By-laws and the provisions hereof are subject to the terms and conditions of the Certificate of the Corporation (including any certificates of designations filed thereunder), and in the event of any conflict between these By-laws and the Certificate, the Certificate shall control.

Adopted: _____, 2005

EXHIBIT 10.1

HAMPSHIRE EQUITY PARTNERS

Tracey L. Rudd
Managing Partner

Mr. R. Edward Anderson
1920 Hunting Ridge Road
Raleigh, NC 27615

November 16, 2001

Dear Ed,

I am pleased to offer you the position of Chief Executive Officer ("CEO") of Citi Trends, Inc. ("Citi Trends" or the "Company"). 'this letter will outline the terms of your employment:

POSITION:

Chief Executive Officer
Member of the Board of Directors

BASE SALARY:

$300,000 annually

START DATE:

December 10, 2001 (or sooner if practical)

PERFORMANCE BONUS:

Target is a bonus of 50% of base Salary ($150,000) contingent on achieving budgeted EBIT, as approved by the Board of Directors. The percentage bonus earned will be determined according to the following table:

% Range of Budget		% Range of Target Bonus		Bonus Dollars	
80%	85%	20%	25%	$ 30,000	$ 37,500
86%	90%	27%	37%	$ 40,500	$ 55,500
91%	99%	40%	67%	$ 60,000	$100,500
100%	110%	100%	120%	$150,000	$180,000
110%	120%	120%	150%	$180,000	$225,000
120%	130%	150%	200%	$225,000	$300,000
Above 130%		200%		$300,000	

Note: EBIT budget would be adjusted to reflect any acquisition or capital investment.

HIRING BONUS:

$75,000 paid January 1, 2002 (50%), and June 1, 2002 (50%).

BENEFITS:

Benefits consistent with the company's existing plans.

AUTOMOBILE:

Lease car - Lincoln Town Car or Buick Park Avenue.

RELOCATION:

Company will pay out of pocket moving expenses from Raleigh, NC to Savannah, GA capped at $25,000. Company will pay for temporary lodging in Savannah for up to 90 days (Capped at $7,500).

520 Madison Avenue, New York, NY 10022
(212) 453-1706 - Fax (212) 750-2970
Email: trudd@hampep.com

PURCHASED EQUITY:

You will have the right until December 31, 2001 to purchase 3,500 common shares at $10 per share as well as 35 shares of preferred stock at $1,000 per share. if terminated, the purchased common and the purchased preferred will not be subject to any par right by the holder or call right by the Company if terminated for any reason but cause. If terminated for cause the Company will have the right to purchase both the common and preferred for cost plus accrued dividends.

GRANTED OPTIONS:

You will be granted 16,800 (approximately 4% of the fully diluted ownership of the Company) options that vest in equal amounts over four years on an annual basis at an exercise price of $10.00 per share. However if the Company achieves an EBITDA of $13 million or greater for any trailing twelve month period within the next four years, 4,200 options of the remaining unvested options would immediately vest at a strike price of $10.00 per share. Upon termination for a reason besides cause, the vested options will be subject to the current repurchase provisions which include a call at the Company's option at fair market value (as determined by the Board of Directors). If you are terminated for cause all vested options will be cancelled.

All unvested options will vest upon change of control but not an initial public offering.

SEVERENCE:

Upon termination by the Company for a reason besides cause, you will receive $150,000 to be paid over 6 months in arrears.

Would you please indicate your acceptance of this offer by November 19, 2001 by returning a signed copy.

Sincerely,

/s/ Tracey L. Rudd

Tracey L. Rudd
Managing Partner, Hampshire Equity Partners
On behalf of Greg Flynn
Chairman of the Board of Directors, Citi Trends, Inc.
November 16, 2001

/s/ R. Edward Anderson

As Agreed
R. Edward Anderson
November 16, 2001

EXHIBIT 10.2

EMPLOYMENT AND NON-INTERFERENCE AGREEMENT

This Employment and Non-Interference Agreement, dated as of April 13, 1999 (this "Agreement"), is by and between George Bellino (the "Executive") and Allied Fashion, Inc., a Delaware corporation (the "Company").

WITNESSETH:

WHEREAS, the Company wishes to obtain the future services of the Executive for the Company;

WHEREAS, the Executive is willing, upon the terms and conditions herein set forth, to provide services hereunder;

WHEREAS, the Company wishes to secure the Executive's non-interference, upon the terms and conditions herein set forth; and

WHEREAS, defined terms not defined herein shall have the respective meanings set forth on Schedule 1 attached hereto;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Nature of Employment

The Company hereby employs Executive, and Executive agrees to accept such employment, as Chief Executive Officer and President of the Company.

2. Extent of Employment

The Executive shall perform his obligations hereunder faithfully and to the best of his ability under the direction of the Board of Directors of the Company (the "Board of Directors"). The Executive shall devote all of his business time, energy and skill as may be reasonably necessary for the performance of his duties, responsibilities and obligations hereunder, consistent with past practices and norms in similar positions and shall abide by the rules, customs and usages from time to time established by the Company. Nothing contained herein shall require Executive to follow any directive or to perform any act which would violate any laws, ordinances, regulations or rules of any governmental, regulatory or administrative body, agent or authority, any court or judicial authority, or any public, private or industry regulatory authority (collectively, "Regulations").

3. Compensation During the Term of Employment, the Company shall pay compensation to Executive as follows:

(a) As base compensation for his services hereunder, in [bi-monthly] installments, an annual base salary of $190,000. The Board of Directors shall annually, and in its sole discretion, determine whether the base salary should be increased and, if so, the amount of such increase.

(b) The Executive is eligible to participate in the Company's Cash Incentive Plan, and to earn a bonus, subject to further deliberation by the Board of Directors, as set forth on Exhibit A hereto, and to be paid at the time of the first meeting of the Board of Directors following receipt of audited annual financial statements of the Company. Payment of the bonus is conditioned upon the Executive being employed by the Company during the relevant performance period and on the date which the bonus is paid.

(c) The Company shall provide the Executive with an appropriate Company car in accordance with its current and future usual and customary policies and practices. The Company shall lease the car under the same terms and conditions currently in place, and bear all expenses associated with it, except any associated personal income tax liability of the Executive, and the cost of fuel for the Executive's personal use of the car. The Company shall maintain adequate liability insurance coverage related to the use and operation of the vehicle and the Executive shall be named as additional insured on such policy.

4. Term of Employment

The "Term of Employment" shall commence on the date hereof and shall continue for a term of two years; provided that, (i) such term shall continue for the twelve month period following such two year period, and for each twelve month period thereafter, unless at least 90 days prior to the scheduled expiration date, either the Executive or the Company notifies the other of its decision not to continue such term and (ii) should the Executive's employment by the Company be earlier terminated pursuant to Section 5, or by the Executive pursuant to Section 5, the Term of Employment shall end on the date of such earlier termination.

5. Termination

(a) Subject to the Company's obligations to make the payments contemplated by Section 5(b)(i), the Term of Employment may be terminated at any time:

(i) upon the death of Executive ("Death");

(ii) in the event that because of physical or mental disability the Executive is unable to perform, and does not perform, as certified by a mutually agreeable

competent medical physician, his material duties hereunder for 180 days in any continuous 210 day period ("Disability");

(iii) by the Company for Cause;

(iv) by the Company for any other reason or no reason ("No Reason") and the Company shall not be required to specify a reason for the termination, such that this Agreement shall be construed as terminable at will by the Company;

(v) by the Executive voluntarily or for any reason or no reason, in each case, after 90 days' prior written notice to the Company and the Board of Directors ("Resignation"); or

(vi) by the Executive for Reason

Executive acknowledges that no representations or promises have been made in connection with this Agreement or any other arrangement, plan or agreement between the Executive and the Company concerning the grounds for termination or the future operation of the Company's business, and that nothing contained herein or otherwise stated by or on behalf of the Company modifies or amends the right of the Company to terminate Executive at any time, with or without Cause.

(b) If Executive's employment is terminated for any reason whatsoever, then Executive shall be entitled to (1) accrued and unpaid base salary and benefits (including sick pay, vacation pay and benefits under Section 7 with respect to the period prior to termination, (2) reimbursement for expenses under Section 6 with respect to such period, and (3) any other benefits (including COBRA) required by law to be provided after termination of employment under the circumstances. Except as may otherwise be expressly provided to the contrary in this Agreement, nothing in this Agreement shall be construed as requiring the Executive to be treated as employed by the Company for purposes of any employee benefit plan following the date of the termination of the Term of Employment. In the event Executive's employment is terminated:

(i) for Death, Disability, by the Company for No Reason or by Executive for Reason, the Company will also pay to Executive (or his estate or representative) termination benefits equal to twelve (12) months of his base salary in effect immediately prior to the event that gave rise to such termination. Such payment shall be made over a period of twelve (12) months, provided, however, that to the extent the Executive shall receive compensation or benefits from any other employment during the twelve (12) months following such termination, the payments to be made by the Company under the provisions of this Section 5(b)(i) shall be correspondingly reduced; and

(ii) for Cause or Resignation, there will be no additional amounts owing by the Company to Executive under this Agreement from and after such termination.

(c) In the Event of termination of employment by Executive, such termination shall be for "Reason" if it is due to a failure by the Company to satisfy any of its obligations under this Agreement, or due to a material reduction in Executive's duties or change in Executive's Title by the Company without Executive's consent, which shall not be unreasonably withheld. In no event shall the foregoing provisions be deemed to restrict, limit or prevent the Company from recruiting, retaining or employing any person to hold any executive office of the Company or any other position with the Company.

(d) Termination of the Term of Employment will not terminate any provisions not associated specifically with the Term of Employment.

(e) In the event of termination, the Company shall have no further obligations to the Executive under any option plan, long-term incentive plan, share subscription or similar plan or arrangement, except to the extent specifically provided in the documentation governing such plan or arrangement; provided, however, that for a period of twelve (12) months following the termination of the Term of Employment for any of the reasons set forth in Section 5(b)(i), the Executive may continue to participate in the Company's retirement plan and other benefit plans in which the Executive was a participant immediately prior to termination.

6. Reimbursement of Expenses

During the Term of Employment, the Company shall reimburse Executive for reasonably documented travel, entertainment and other expenses reasonably incurred by Executive in connection with the performance of his duties hereunder and, in each case, in accordance with the rules, customs and usages promulgated by the Company from time to time in effect. In addition, the Company shall reimburse Executive for reasonable attorney's fees incurred by Executive in connection with the negotiation and execution of this Agreement, and all other documents contemplated hereby or in connection herewith up to a maximum of $5,000.

7. Benefits

The Executive shall be entitled to participate in and be covered by any insurance plan (including but not limited to medical, dental, health, accident, hospitalization and disability), vacation policy, 401(k), plan and pension plan of the Company, each as determined, from time to time, by the Board of Directors. The Executive shall be entitled to four weeks paid vacation in each twelve month period subject to the reasonable requirements of the Company as to the timing of the taking of such vacation.

8. Confidential Information

During and after the Term of Employment, Executive will not, directly or indirectly in one or a series of transactions, disclose to any person, or use or otherwise exploit for the Executive's own benefit or for the benefit of anyone other than the Company, any Confidential Information, whether prepared by Executive or not; provided, however, that any Confidential Information may be disclosed (i) to officers, representatives, employees and agents of the Company who need to know such Confidential Information in order to perform the services or conduct the operations required or expected of them in the Business and (ii) in good faith by the Executive in connection with the performance of his duties hereunder. Executive shall use his best efforts to prevent the removal of any Confidential Information from the premises of the Company, except as required in the Executive's normal course of employment by the Company. Executive shall have no obligation hereunder to keep confidential any Confidential Information if and to the extent disclosure of any thereof is specifically required by law; provided, however, that in the event disclosure is required by applicable law, the Executive shall provide the Company with prompt notice of such requirement, prior to making any disclosure, so that the Company may seek an appropriate protective order. At the request of the Company, Executive agrees to deliver to the Company, at any time during the Term of Employment, or thereafter, all Confidential Information which he may possess or control. Executive agrees that all Confidential Information of the Company (whether now or hereafter existing) conceived, discovered or made by him during the Term of Employment exclusively belongs to the Company (and not to Executive). Executive will promptly disclose such Confidential Information to the Company and perform all actions reasonably requested by the Company to establish and confirm such exclusive ownership.

9. Non-interference

Executive acknowledges that services to be provided give him the opportunity to have special knowledge of the Company and its Confidential Information and the capabilities of individuals employed by or affiliated with the Company and that interference in these relationships would cause irreparable injury to the Company. In consideration of this Agreement, Executive covenants and agrees that during the Term of Employment and for a period of twelve (12) months thereafter, Executive will not, without the express written approval of the Board of Directors, anywhere in the Market, directly or indirectly, in one or a series of transactions, or enter into any agreement to, own, manage, operate, control, invest or acquire an interest in, or otherwise engage or participate in, whether as a proprietor, partner, stockholder, lender, director, officer, employee, joint venturer, investor, lessor, agent, representative or other participant, in any business which competes with the Business in the Market; provided, however, that Executive may, anywhere in the Market, in one or a series of transactions, own, invest or acquire an interest in up to five percent (5%) of the capital stock of a corporation whose capital stock is traded publicly. The scope and term of this Section 9 would not preclude Executive from earning a living with an entity that does not compete with the Business in the Market. Notwithstanding the foregoing

provisions, this Section 9 shall be of no force or effect in the event that Executive's employment is terminated under Section 5(a)(iv) or Section 5(a)(vi).

10. Non-Solicitation

During the Term of Employment and for a period of twelve (12) months thereafter, Executive will not, and will not cause another commercial or business enterprise to, without the express prior written approval of the Board of Directors, in one or a series of transactions, recruit, solicit or otherwise induce or influence any proprietor, partner, stockholder, lender, director, officer, employee, sales agent, joint venturer, investor, lessor, customer, agent, representative or any other person which has a business relationship with the Company Group or had a business relationship with the Company Group to discontinue, reduce or modify such employment, agency or business relationship.

11. Non-Disparagement

During and after the Term of Employment, the Executive agrees that he shall not make any false, defamatory or disparaging statements about the Company, its subsidiaries and affiliates, or the officers or directors of the Company and its subsidiaries and affiliates. During and after the Term of Employment, neither the Company nor any of its subsidiaries or affiliates shall make any false, defamatory or disparaging statements about the Executive.

12. Defense of Claims

The Executive agrees that, from the date hereof, and continuing for a reasonable period after termination of the Term of Employment, the Executive will cooperate with the Company in defense of any claims that may be made against the Company provided same does not interfere with the Executive's then current employment. The Company agrees to reimburse the Executive for all of the Executive's reasonable out-of-pocket expenses associated with such cooperation, including travel expenses and the fees and expenses of the Executive's legal counsel.

13. Definitions

"Business" means any business conducted, or engaged in, by the Company prior to the date hereof or at any time during the Term of Employment.

"Cause" means any of the following:

(i) Executive's conviction of, or plea of guilty or nolo contendere to, a serious felony or a crime involving embezzlement, conversion of property or moral turpitude;

(ii) Executive's commission of fraud, embezzlement or conversion of property, as reasonably determined by the Board of Directors based upon credible evidence;

(iii) Executive's conviction of, or plea of guilty or nolo contendere to, or an administrative or judicial determination that the Executive committed a crime, fraud or any other material violation of law involving the acquisition, use or expenditure of federal, state or local government funds;

(iv) a finding by majority of the Board of Directors of Executive's knowing breach of any of his fiduciary duties to the Company or the Company's stockholders or making of a misrepresentation or omission which breach, misrepresentation or omission would reasonably be expected to materially adversely affect the business, properties, assets, condition (financial or other) or prospects of the Company; provided, that the Executive has been given notice and 30 days from such notice fails to cure the breach, misrepresentation or omission;

(v) Executive's willful and continual neglect or failure (other than by reason of death or Disability) to discharge his material duties, responsibilities or obligations prescribed by this Agreement or any other agreement between the Executive and any company in the Company Group; provided, that the Executive has been given notice and 30 days from such notice fails to cure the neglect or failure;

(vi) Executive's alcohol or substance abuse, which materially interferes with Executive's ability to discharge his duties, responsibilities and obligations prescribed by this Agreement; provided, that Executive has been given notice and 30 days from such notice fails to cure such abuse;

(vii) Executive's material violation, with the actual knowledge of Executive, of any non-competition, confidentiality or similar agreement with the Company, including without limitation, those set forth in Sections 8 through 12 of this Agreement, or any other similar agreements with the Company;

(viii) any material violation, with the actual knowledge of Executive, of any obligations imposed upon Executive, personally, as opposed to upon the Company, whether as a stockholder or otherwise, under this Agreement, the Certificate of Incorporation of the Company provided, that Executive has been given notice and 30 days from such notice fails to cure such violation; or

(ix) Executive's personal (as opposed to the Company's) material and knowing failure, to observe or comply with Regulations whether as an officer, stockholder or otherwise, in any material respect or in any manner which would reasonably be expected to have a material adverse effect in respect of the Company's ongoing business, operations, conditions, other business relationships or properties;

provided, that Executive has been given notice and 30 days from such notice fails to cure the failure.

"Confidential Information" means any confidential information including, without limitation, any study, data, calculations, software storage media or other compilation of information, patent, patent application, copyright, "know-how", trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans or any portion or phase of any scientific or technical information, ideas, discoveries, designs, inventions, creative works, computer programs (including source of object codes), processes, procedures, formulae, improvements or other proprietary or intellectual property of the Company Group, whether or not in written or tangible form, and whether or not registered, and including all files, records, manuals, books, catalogues, memoranda, notes, summaries, plans, reports, records, documents and other evidence thereof. Notwithstanding the foregoing, the term "Confidential Information" does not include, and there shall be no obligation hereunder with respect to, information that is or becomes generally available to the public other than as a result of a disclosure by the Executive not permissible hereunder.

"knowing" and "knowledge" means actual knowledge without any duty of investigation.

"Market" means any State where the Business was conducted by or engaged in by the Company prior to the date hereof or is conducted or engaged in by the Company at any time during the Term of Employment.

14. Notice

Any notice, request, demand or other communication required or permitted to be given under this Agreement shall be given in writing and if delivered personally, sent by certified or registered mail, return receipt requested, sent by overnight courier or sent by facsimile transmission (with confirmation and a copy sent by mail within one day) as follows (or to such other addressee or address as shall be set forth in a notice given in the same manner):

If to Executive: George Bellino
_____
_____

If to the Company: _____
_____
_____
Attention:_____
Facsimile No.:_____

with a copy to: Hampshire Equity Partners
520 Madison Avenue
New York, New York 10022
Attention: Olivier L. Trouveroy
Facsimile No.: (212) 750-2970

Any such notices shall be deemed to be given on the date personally delivered or sent by facsimile transmission or such return receipt is issued or the day after if sent by overnight courier.

15. Executive's Representations

Executive hereby warrants and represents to the Company that Executive has carefully reviewed this Agreement and has consulted with such advisors as Executive considers appropriate in connection with this Agreement, and is not subject to any covenants, agreements or restrictions, including without limitation any covenants, agreements or restrictions arising out of Executive's prior employment which would be breached or violated by Executive's execution of this Agreement or by Executive's performance of his duties hereunder.

16. Company's Obligation: Taxes

Executive agrees and acknowledges that the obligations owed to Executive under this Agreement are solely the obligations of the Company, and that none of the Company's members, stockholders, directors, officers or lenders will have any obligations or liabilities in respect of this Agreement and the subject matter hereof. Any amounts payable to the Executive pursuant to this Agreement shall be subject to withholding and any other applicable taxes

17. Severability

Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein. If any court determines that any provision of this Agreement is unenforceable and therefore acts to reduce the scope or duration of such provision, the provision in its reduced form, shall then be enforceable.

18. Right to Withhold Payments

Upon the determination of a majority of the Board of Directors that the Executive has breached his obligations in any material respect under Sections 8 through 12, the Company, in addition to pursuing all available remedies under this Agreement, at law or otherwise, and without limiting its right to pursue the same, shall cease all payments to the Executive under this Agreement. In the event a court of competent jurisdiction described in Section 21 shall ultimately determine that the Executive did not in any material respect commit a breach of any such sections, such withheld amounts shall thereupon be payable to Executive.

19. Breach: Waiver of Breach: Specific Performance

If either party breaches its obligations in connection with this Agreement, the non-breaching party shall be entitled to pursue all remedies available at law or in equity for such breach. The waiver by the Company or Executive of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other breach of such other party. Each of the parties (and third party beneficiaries) to this Agreement will be entitled to enforce its rights under this breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that the Company would be irreparably injured by a violation of Sections 8 through 12 of this Agreement, that the provisions of such sections are reasonable and that the Company could not adequately be compensated in monetary damages, in light of the sensitivity of the non-public information of the Company to which the Executive will be exposed and that the Company may apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions in order to enforce or prevent any violations of the provisions of such sections of this Agreement.

20. Assignment: Third Parties

Neither the Executive nor the Company may assign, transfer, pledge, hypothecate, encumber or otherwise dispose of this Agreement or any of his or its respective rights or obligations hereunder, without the prior written consent of the other.

21. Amendment: Entire Agreement

This Agreement may not be changed orally but only by an agreement in writing agreed to by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought. This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and supersedes all prior and contemporaneous agreements, if any, between the parties relating to employment, compensation, incentive payments, termination or severance. The enforceability of this Agreement shall not cease or otherwise be adversely affected by the termination of the Executive's employment with the Company. The Executive and the Company agree that the

language used in this Agreement is the language chosen by the parties to express their mutual intent, and that no rule of strict construction is to be applied against any party hereto.

22. Choice of Law: Litigation

THIS AGREEMENT SHALL BE GOVERNED BY, CONSTRUED, APPLIED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF GEORGIA. IN THE EVENT ANY PARTY TO THIS AGREEMENT COMMENCES ANY LITIGATION, PROCEEDING OR OTHER LEGAL ACTION IN CONNECTION WITH OR RELATING TO THIS AGREEMENT, ANY RELATED AGREEMENT OR ANY MATTERS DESCRIBED OR CONTEMPLATED HEREIN OR THEREIN, THE PARTIES TO THIS AGREEMENT HEREBY (1) AGREE, AFTER CONSULTATION WITH COUNSEL, TO WAIVE ANY RIGHTS TO A JURY TRIAL TO RESOLVE ANY DISPUTES OR CLAIMS RELATING TO THIS AGREEMENT; AND (2) AGREE THAT NOTHING HEREIN SHALL AFFECT THE RIGHTS OF ANY PARTY TO EFFECT SERVICE OF PROCESS IN ANY MANNER PERMITTED BY LAW.

23. Headings

The headings contained in this Agreement are for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

24. Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have set their hands as of the day and year first written above.

EXECUTIVE:

/s/ George Bellino

Name: George Bellino

ALLIED FASHION, INC.

By: /s/ Olivier L. Trouveroy

Name: Olivier L. Trouveroy
Title: Executive Vice President

PERFORMANCE MEASURES:

Annual bonus will be based on achieving the following two objectives:

- - 50% of the bonus will be based on achievement of threshold or higher levels of corporate financial performance, the measure of which will be EBITDA.

- - 50% of the bonus will be based on achievement of financial goals specific to the executive's area of responsibility plus certain non-financial goals to be defined by the CEO and the Compensation Committee. In the case of the CEO, the non-financial goals will include objectives such as sales per square foot, store remodels and new store openings and other objectives to be mutually agreed upon.

TARGET BONUS LEVELS:

	TARGET BONUS AS A PERCENT OF BASE
G. Bellino	35%

The Board will consider increasing the target percentages above over time based on performance.

FINANCIAL PERFORMANCE SCALE:

PERFORMANCE LEVEL	PERCENT FINANCIAL GOAL ATTAINED	FINANCIAL GOAL	PERCENT TARGET BONUS EARNED
Outstanding	120%	TBD	200%
Target	100%	TBD	100%
Threshold	Greater of 80% or prior year actual	TBD	50%
Below Threshold	Lesser of 80% or prior year actual	TBD	0%

- - Bonus payouts for achievement between these results will be calculated by linear interpolation.

- - For performance above 120% of plan, bonuses are capped at 200% of target.

- - Bonuses will be paid upon receipt of annual audited financial statements.

INDIVIDUAL FUNCTIONAL GOALS

For each of the executives, individual functional goals will be developed, both financial and non-financial. These goals must be objective and measurable, must relate to company goals, must deal with strategic issues within a department or division, and may be related to the accomplishment of milestones on a long-term project.

EXHIBIT 10.3

AMENDMENT NUMBER ONE TO
EMPLOYMENT AND NON-INTERFERENCE AGREEMENT

This AMENDMENT NUMBER ONE TO EMPLOYMENT AND NONINTERFERENCE AGREEMENT, dated as of December __, 2001 (this "Amendment"), is by and between George Bellino (the "Executive") and Citi Trends, Inc., f/k/a Allied Fashion, Inc., a Delaware corporation (the "Company").

WITNESSETH:

WHEREAS, the Company and the Executive are parties to that certain Employment and Non-Interference Agreement, dated April 13, 1999 (the "Original Agreement" and, as amended by this Amendment, the "Agreement");

WHEREAS, the Company and the Executive wish to amend certain terms of the Original Agreement as set forth herein; and

WHEREAS, capitalized terms not defined herein shall have the respective meanings set forth in the Original Agreement;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

Section 1. Section 1 of the Original Agreement is hereby deleted in its entirety and replaced with the following:

"1. Nature of Employment

The Company hereby employs Executive, and Executive agrees to accept such employment, as President and Chief Merchandising Officer of the Company."

Section 2. Section 3 of the Original Agreement is hereby amended by deleting the figure "$190,000" and inserting in lieu thereof "215,000".

Section 3. Section 4 of the Original Agreement is hereby amended by deleting the words "on the date hereof" and inserting in lieu thereof the words "on December_____, 2001".

Section 4. Section 14 of the Original Agreement is hereby amended

(a) by inserting as the notice information for the Executive the following;

"George Bellino
c/o Citi Trends, Inc.
102 FAHM ST,
SAVANNAH, GA 31401"

(b) by inserting as the notice information for the Company the following:

"Citi Trends, Inc.
c/o Hampshire Equity Partners
520 Madison Avenue, 33rd Floor
New York, NY 10022
Attention: Gregory P. Flynn
Facsimile No.: 212-750-2970"; and

(c) by deleting the name "Olivier L. Trouveroy" and inserting in lieu thereof "Gregory P. Flynn".

Section 5. Exhibit A to the Original Agreement is hereby deleted and replaced with Exhibit A attached hereto and all references to "Exhibit A" in the Agreement shall hereafter be references to Exhibit A to this Amendment.

Section 6. Acknowledgement and Waiver. Executive agrees and acknowledges that his reassignment to the position of President and Chief Merchandising Officer, as contemplated by this Amendment shall not constitute a Reason for termination within the meaning of the Agreement and Executive hereby expressly waives any right he may have to assert that such reassignment constitutes Reason within the meaning of the Agreement.

Section 7. Except as expressly provided herein, the Original Agreement shall remain in full force and effect. On or after the effectiveness of this Amendment, each reference in the Original Agreement to "this Agreement," "hereof," "hereunder," "herein" and words of similar import, and each reference to the Original Agreement in any other agreements, documents or instruments executed and delivered pursuant to the Original Agreement, shall mean and be a reference to the Original Agreement, as amended by this Amendment.

Section 8. Choice of Law. THIS AMENDMENT SHALL BE GOVERNED BY, CONSTRUED, APPLIED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF GEORGIA.

Section 9. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have set their hands as of the day and year first written above.

EXECUTIVE:

/s/ George Bellino

Name: George Bellino

CITI TRENDS, INC.

By: /s/ Gregory P. Flynn

Name: Gregory P. Flynn
Title: CHAIRMAN

Exhibit A

Bonus Calculation for George Bellino

Executive's Target Bonus shall be 50% of his annual base salary, as set forth in Section 3(a) of the Agreement,

Criteria for achievement of the Target Bonus shall be as follows, to be calculated in accordance with the Performance Matrix set forth below; provided, however, that for fiscal year 2001, 50% ($53,750) of the Executive's Target Bonus shall be guaranteed and the remaining 50% shall be subject to the Criteria and Performance Matrix set forth below, applied to the period from August 2001 to January 2002, versus the reforecast as of June 13, 2001.

Criteria	Percentage of Target Bonus
Achievement of budgeted sales (including new stores)	30%
Achievement of budgeted gross profit dollars	30%
Achievement of budgeted EBIT	20%
At the discretion of the Board of Directors	20%

Performance Matrix;

% Range of Budget		Multiple	% Range of Total Bonus	
80%	85%	1.00x	20%	25%
86%	90%	2.00x	27%	37%
91%	99%	3.00x	40%	67%
100%	110%	2.00x	100%	120%
110%	120%	3.00x	120%	150%
120%	130%	5.00x	150%	200%
Above 130%			200%	

EXHIBIT 10.4

LOAN AND SECURITY AGREEMENT

by and between

CONGRESS FINANCIAL CORPORATION (SOUTHWEST)
as Lender

and

ALLIED FASHION, INC.
as Borrower

Dated: April 2, 1999

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LOAN AND SECURITY AGREEMENT

This Loan and Security Agreement dated April 2,1999 is entered into by and between CONGRESS FINANCIAL CORPORATION (SOUTHWEST), a Texas corporation ("Lender"), and ALLIED FASHION, INC., a Delaware corporation ("Borrower").

WITNESSETH:

WHEREAS, Borrower has requested that Lender enter into certain financing arrangements with Borrower pursuant to which Lender may make loans and provide other financial accommodations to Borrower, and

WHEREAS, Lender is willing to make such loans and provide such financial accommodations on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. DEFINITIONS.

All terms used herein which are defined in Article 1 or Article 9 of the New York Uniform Commercial Code shall have the respective meanings given therein unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural. All references to Borrower and Lender pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns. The words "hereof", "herein", "hereunder", "this Agreement" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. An Event of Default shall exist or continue or be continuing until such Event of Default is waived in accordance with Section 11.3. Any accounting term used herein unless otherwise defined in this Agreement shall have the meaning customarily given to such term in accordance with GAAP. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

1.1 "Accounts" shall mean all present and future rights of Borrower to payment for goods sold or leased or for services rendered, which are not evidenced by instruments or chattel paper, and whether or not earned by performance.

1.2 "Adjusted Tangible Net Worth" shall mean as to any Person, at any time, in accordance with GAAP (except as otherwise specifically set forth below), on a consolidated basis for such Person and its subsidiaries (if any), the amount equal to: (a) the difference between: (i) the aggregate net book value of all assets of such Person and its subsidiaries, calculating the book value of inventory for this purpose, as the lower of (A) cost as determined by the retail method of accounting (which method of accounting includes the netting of

markdowns from the Retail Sales Price or ticketed sales price under the first-in-first-out method in accordance with GAAP) or (B) market value, and after deducting from such book values all appropriate reserves in accordance with GAAP (including all reserves for doubtful receivables, obsolescence, depreciation and amortization) and (ii) the aggregate amount of the indebtedness and other liabilities of such Person and its subsidiaries (including tax and other proper accruals and accounts payable), plus (b) indebtedness of such Person and its subsidiaries which is subordinated in right of payment to the full and final payment of all of the Obligations on terms and conditions acceptable to Lender, and redeemable preferred stock and junior notes permitted hereunder, minus (c) goodwill, patents, trademarks, copyrights, franchises, formulas, leasehold interests, leasehold improvements, non-compete agreements, engineering plans, organization costs, and any other assets of Borrower that would be treated as intangible assets on Borrower's balance sheet prepared in accordance with GAAP.

1.3 "Appraised Inventory Value" shall mean, with respect to Eligible Inventory, the appraised value of such Eligible Inventory, expressed as a percentage of either the Value or the Retail Sales Price, as required by Lender, determined as of any date on a "going out of business sale" basis, net of all estimated liquidation expenses, shrinkage and markdowns, pursuant to an appraisal conducted, at Borrower's expense, by an independent appraisal firm acceptable to Lender in its sole and absolute discretion exercised in good faith or such value as otherwise determined by Lender in its reasonable discretion; it being understood by the parties hereto that such percentage shall be seventy-three and one-half percent (73.5%) until such time that such percentage shall be adjusted in accordance with this Section 1.3 hereof.

1.4 "Availability Reserves" shall mean, as of any date of determination, such amounts as Lender may from time to time reasonably establish and revise reducing the amount of Revolving Loans and Letter of Credit Accommodations which would otherwise be available to Borrower under the lending formula(s) provided for herein: (a) to reflect events, conditions, contingencies or risks which, as determined by Lender in good faith, do or may affect either (i) the Collateral or any other property which is security for the Obligations or its value, (ii) the assets or business of Borrower or any Obligor or (iii) the security interests and other rights of Lender in the Collateral (including the enforceability, perfection and priority thereof) or (b) to reflect Lender's good faith belief that any collateral report or financial information furnished by or on behalf of Borrower or any Obligor to Lender is or may have been incomplete, inaccurate or misleading in any material respect or (c) to reflect any state of facts which Lender determines in good faith constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default. Without limiting the generality of the foregoing, Lender (i) shall establish on the date hereof and maintain throughout the term of this Agreement and throughout any renewal term an Availability Reserve for an amount equal to two (2) months of Borrower's gross rent as lessee for each leased premises of Borrower which is either a distribution center or warehouse location or is located in a state where a landlord may be entitled to a priority lien on Collateral to secure unpaid rent and with respect to each such property the landlord has not executed a form of waiver and consent reasonably acceptable to Lender, (ii) may establish an additional Availability Reserve on the date hereof, and from time to time hereafter, and maintain such reserve throughout the term of this Agreement and throughout any renewal term in an amount determined by Lender in its reasonable discretion to be sufficient to cover the anticipated moving expenses and other costs associated with the transfer of Inventory from each of Borrower's retail locations to another location for which the landlord thereof has not executed a

form of waiver and consent reasonably acceptable to Lender, (iii) upon an Event of Default or an event that, with notice or passage of time or both, would be an Event of Default, may establish and maintain an additional Availability Reserve from time to time in an amount equal to the Dollar value of cash-on-hand in registers maintained by Borrower, and (iv) may establish and maintain an additional Availability Reserve from time to time in an amount equal to any increase in shrinking Inventory from the amount reflected in the most recent appraisal conducted by an outside appraiser satisfactory to Lender.

1.5 "Blocked Account" shall have the meaning set forth in Section 6.3 hereof.

1.6 "Business Day" shall mean any day other than a Saturday, Sunday, or other day on which commercial banks are authorized or required to close under the laws of the State of New York or the State of North Carolina, and a day on which First Union National Bank, or such other bank as Lender may from time to time designate, and Lender are open for the transaction of business.

1.7 "Code" shall mean the Internal Revenue Code of 1986, as the same now exists or may from time to time hereafter be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

1.8 "Collateral" shall have the meaning set forth in Section 5 hereof.

1.9 "Confidential Information" shall have the meaning set forth in Section 12.6 hereof.

1.10 "Credit Card Agreements" shall mean all agreements now or hereafter entered into by Borrower with any Credit Card Issuer or Credit Card Processor as the same may now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.11 "Credit Card Issuer" shall mean any person who issues or whose members issue credit cards used by customers of the Borrower to purchase goods, including, without limitation, MasterCard or VISA bank credit or debit cards or other bank credit or debit cards, and American Express, Discover, Diners Club, Carte Blanche, and other non-bank credit or debit cards.

1.12 "Credit Card Processor" shall mean any servicing or processing agent or any factor or financial intermediary who facilities, services, processes or manages the credit authorization, billing transfer and/or payment from a Credit Card Issuer or Credit Card Processor and other procedures with respect to any sales transactions of the Borrower involving credit card or debit card purchases by customers using credit cards or debit cards issued by any Credit Card Issuer.

1.13 "Credit Card Receivables" shall mean all Accounts consisting of the present and future rights of Borrower to payment by Credit Card Issuers or Credit Card Processors for merchandise sold and delivered to customers of Borrower who have purchased such goods using a credit card or a debit card issued by a Credit Card Issuer.

1.14 "Eligible Inventory" shall mean Inventory consisting of finished merchandise held for sale in the ordinary course of the business of Borrower which are located either at one of Borrower's retail stores, its distribution center or are in transit from one store location or distribution center to another store location and which are acceptable to Lender based on the criteria set forth below except, that, any and all Inventory located at a distribution center or retail store within the State of Florida shall not be deemed Eligible Inventory unless Lender has received a waiver or consent reasonably acceptable to Lender with respect to such distribution center or retail store and executed by the lessor thereof. In general, Eligible Inventory shall not include (a) raw materials, (b) work-in-process; (c) components which are not part of finished goods; (d) spare parts for equipment; (e) packaging and shipping materials; (f) supplies used or consumed in Borrower's business; (g)Inventory at premises not owned or controlled by Borrower except Inventory at retail locations of Borrower which are leased or sub-leased by Borrower and are not sub-leased to another Person, (h) Inventory in transit other than Inventory in transit described in the immediately preceding sentence; (i) Inventory subject to a security interest or lien in favor of any person other than Lender except those permitted in this Agreement; (j) Inventory which has been sold and not delivered to a customer, provided, that, Layaway Inventory shall be deemed Eligible Inventory to the extent that it meets all other criteria set forth in this Section 1.14; (k) Inventory which is not subject to the first priority, valid and perfected security interest of Lender; (l) damaged and/or defective Inventory; (m) Inventory held for return to vendors; (n) Inventory returned by customers and not held for resale or otherwise used by a customer; (o) Inventory consisting of samples and not held for resale; (p) display Inventory; (q) that portion of the Value of Inventory attributable to markdowns not posted to the Inventory retail system due to month-end cut-off, or to unearned discounts; and (r) Inventory purchased or sold on consignment. General criteria for Eligible Inventory may be established and revised from time to time by Lender in its reasonable credit judgment. Any Inventory which is not Eligible Inventory shall nevertheless be part of the Collateral.

1.15 "Equipment" shall mean all of Borrower's now owned and hereafter acquired equipment, machinery, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

1.16 "ERISA" shall mean the United States Employee Retirement Income Security Act of 1974, as the same now exists or may hereafter from time to time be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

1.17 "ERISA Affiliate" shall mean any person required to be aggregated with Borrower or any of its affiliates under Section 414(b) or 414(c) of the Code or, for purposes of Section 412 of the Code, Sections 414(m) or 414(o) of the Code.

1.18 "Event of Default" shall mean the occurrence or existence of any event or condition described in Section 10.1 hereof.

1.19 "Excess Availability" shall mean the amount, as determined by Lender, calculated at any time, equal to:

(a) the lesser of (i) the amount of the Revolving Loans available to Borrower as of such time (based on the applicable advance rate set forth in Section 2.1 (a)(i) hereof multiplied by the Retail Sales Price or Appraised Inventory Value of Eligible Inventory, as applicable, as determined by Lender), subject to the sublimits and Availability Reserves from time to time established by Lender hereunder and (ii) the Maximum Credit, minus

(b) the sum of: (i) the amount of all then outstanding and unpaid Obligations, (ii) the aggregate amount of all trade payables of Borrower which are more than sixty (60) days past due as of such time, (iii) the aggregate amount of Borrower's book overdrafts, and (iv) the aggregate amount of Borrower's past due lease and notes payable.

1.20 "Financing Agreements" shall mean, collectively, this Agreement and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by Borrower or any Obligor in connection with this Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.21 "GAAP" shall mean generally accepted accounting principles in the United States of America as in effect from time to time as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Boards which are applicable to the circumstances as of the date of determination consistently applied, except that, for purposes of Section 9.15 hereof, GAAP shall be determined on the basis of such principles in effect on the date hereof and consistent with those used in the preparation of the audited financial statements delivered to Lender prior to the date hereof.

1.22 "Information Certificate" shall mean the Information Certificate of Borrower constituting Exhibit A hereto containing material information with respect to Borrower, its business and assets provided by or on behalf of Borrower to Lender in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

1.23 "Inventory" shall mean all of Borrower's now owned and hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, wherever located.

1.24 "Inventory Advance Rate" shall mean the advance rate applicable to Eligible Inventory as determined in accordance with Section 2.1(a)(i).

1.25 "Layaway Inventory" shall mean Inventory of Borrower for which a customer of Borrower has made a cash deposit towards the purchase of such Inventory and Borrower has retained title and possession of such Inventory.

1.26 "Letter of Credit Accommodations" shall mean the letters of credit, merchandise purchase or other guaranties which are from time to time either (a) issued, opened or provided by Lender for the account of Borrower or any Obligor or (b) with respect to which Lender has agreed to indemnify the issuer or guaranteed to the issuer the performance by Borrower of its obligations to such issuer.

1.27 "Loans" shall mean the Revolving Loans.

1.28 "Maximum Credit" shall mean, with reference to the Revolving Loans, and the Letter of Credit Accommodations, the amount of Eight Million Dollars ($8,000,000).

1.29 "Obligations" shall mean any and all Revolving Loans, the Letter of Credit Accommodations and all other obligations, liabilities and indebtedness of every kind, nature and description owing by Borrower to Lender and/or its affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under this Agreement or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of this Agreement or after the commencement of any case with respect to Borrower under the United States Bankruptcy Code or any similar statute (including, without limitation, the payment of interest and other amounts which would accrue and become due but for the commencement of such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Lender.

1.30 "Obligor" shall mean any guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than Borrower.

1.31 "Participant" shall mean any person which at any time participates with Lender in respect of the Loans, the Letter of Credit Accommodations or other Obligations or any portion thereof.

1.32 "Payment Account" shall have the meaning set forth in Section 6.3 hereof.

1.33 "Person" or "person" shall mean any individual, sole proprietorship, partnership, corporation (including, without limitation, any corporation which elects subchapter S status under the Internal Revenue Code of 1986, as amended), business trust, limited liability company, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.34 "Prime Rate" shall mean the rate from time to time publicly announced by First Union National Bank, or its successors, as its prime rate, whether or not such announced rate is the best rate available at such bank.

1.35 "Purchase Agreements" shall mean, individually and collectively, the Asset Purchase Agreement of even date herewith between Borrower and Seller, together with bills of sale, quitclaim deeds, assignment and assumption agreements and such other instruments of transfer as are referred to therein and all side letters with respect thereto, and all agreements, documents and instruments executed and/or delivered in connection therewith, as all of the foregoing now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced; provided, that, the term "Purchase Agreements" as used herein shall not include any of the "Financing Agreements" as such term is defined herein.

1.36 "Purchased Assets" shall mean all of the assets and properties acquired by Borrower from Seller pursuant to the Purchase Agreements.

1.37 "Records" shall mean all of Borrower's present and future books of account of every kind or nature, purchase and sale agreements, invoices, ledger cards, bills of lading and other shipping evidence, statements, correspondence, memoranda, credit files and other data relating to the Collateral or any account debtor, together with the tapes, disks, diskettes and other data and software storage media and devices, file cabinets or containers in or on which the foregoing are stored (including any rights of Borrower with respect to the foregoing maintained with or by any other person).

1.38 "Retail Sales Price" shall mean the retail sales price as reflected in the Borrower's MIS System, net of markdowns from the original retail sales price with respect thereto, for the types, categories and styles of inventory included in the Eligible Inventory of Borrower.

1.39 "Revolving Loans" shall mean the loans now or hereafter made by Lender to or for the benefit of Borrower on a revolving basis (involving advances, repayments and readvances) as set forth in Section 2.1 hereof.

1.40 "Seller" shall mean Variety Wholesalers, Inc., a North Carolina corporation, and its successors and assigns.

1.41 "Value" shall mean, as determined by Lender in good faith, with respect to Inventory, the lower of (a) cost as determined by the retail method of accounting (which method of accounting includes the netting of markdowns from the Retail Sales Price or ticketed sales price under the first-in-first-out method, in accordance with GAAP) or (b) market value.

1.42 "Year 2000 Problem" shall have the meaning set forth in Section 9.14 hereof.

SECTION 2. CREDIT FACILITIES.

2.1 Revolving Loans.

(a) Subject to, and upon the terms and conditions contained herein, Lender agrees to make Revolving Loans to Borrower from time to time in amounts requested by Borrower up to the amount equal to the sum of:

(i) the least of:

(A) sixty-five percent (65%) of the Value of the Eligible Inventory;

(B) thirty-five percent (35%) of the Retail Sales Price of the Eligible Inventory;or

(C) eighty-five percent (85%) of the Appraised Inventory Value of Eligible Inventory; minus

(ii) the then undrawn amounts of outstanding Letter of Credit Accommodations; multiplied by the applicable percentages as provided for in Section 2.2(c)(i)(A) hereof; minus

(iii) any Availability Reserves.

(b) Lender may, in its discretion, from time to time, upon not less than five (5) days prior notice to Borrower, reduce the lending formula(s) with respect to Eligible Inventory to the extent that Lender determines in good faith that: (A) the mix of such Inventory for any period has changed in any materially adverse respect or (B) the Appraised Inventory Value of the Eligible Inventory, or any category thereof, has decreased in any material respect; provided, however, in the event that Lender reduces such lending formula(s) based on a material decrease in the Appraised Inventory Value, pursuant to clause (B) of this Section 2.1(b), Lender shall not further reduce such lending formula(s) pursuant to clause (A) of this Section 2.1(b) based on the same event, condition, contingency or risk that caused such material decrease in the Appraised Inventory Value. In determining whether to reduce the lending formula(s), Lender may consider events, conditions, contingencies or risks which are also considered in determining Eligible Inventory or in establishing Availability Reserves.

(c) Except in Lender's discretion, the aggregate amount of the Loans, the Letter of Credit Accommodations and other Obligations outstanding at any time shall not exceed the Maximum Credit. In the event that the outstanding amount of any component of the Loans and Letter of Credit Accommodations or the aggregate amount of the outstanding Loans and Letter of Credit Accommodations and other Obligations exceeds the amounts available under the lending formulas set forth in Section 2.1 (a) hereof, the sublimits for Letter of Credit Accommodations set forth in Section 2.2(d), or the Maximum Credit, as applicable, such event shall not limit, waive or otherwise affect any rights of Lender in that circumstance or on any future occasions and Borrower shall, upon demand by Lender, which may be made at any time or from time to time, immediately repay to Lender the entire amount of any such excess(es) for which payment is demanded.

(d) To the extent Lender may revise the lending formula set forth in Section 2.1 (a) hereof or establish new criteria or revise existing criteria for Eligible Inventory so as to address any circumstance, condition, event or contingency in a manner satisfactory to Lender, Lender shall not establish an Availability Reserve for the same purpose. The amount of any Availability Reserve established by Lender shall have a reasonable relationship to the event, condition or other matter which is the basis for such reserve as reasonably determined by Lender.

2.2 Letter of Credit Accommodations.

(a) Subject to, and upon the terms and conditions contained herein, at the request of Borrower, Lender agrees to provide or arrange for Letter of Credit Accommodations for the account of Borrower containing terms and conditions acceptable to Lender and the issuer thereof. Any payments made by Lender to any issuer thereof and/or related parties in connection

with the Letter of Credit Accommodations shall constitute additional Revolving Loans to Borrower pursuant to this Section 2.

(b) In addition to any charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations, Borrower shall pay to Lender a letter of credit fee at a rate equal to one and one quarter percent (1.25%) per annum on the daily outstanding balance of the Letter of Credit Accommodations for the immediately preceding month (or part thereof), payable in arrears as of the first day of each succeeding month; provided, however, that such letter of credit fee shall be increased, at Lender's option without notice, to three and one quarter percent (3.25%) per annum for the period on or after the date of termination or non-renewal of this Agreement, or the date of the occurrence of an Event of Default. Such letter of credit fee shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed and the obligation of Borrower to pay such fee shall survive the termination or non-renewal of this Agreement.

(c) No Letter of Credit Accommodations shall be available unless on the date of the proposed issuance of any Letter of Credit Accommodations, the Revolving Loans available to Borrower (subject to the Maximum Credit and any Availability Reserves) are equal to or greater than:

(i) if the proposed Letter of Credit Accommodation is for the purpose of purchasing Eligible Inventory, the sum of:

(A) the product of the Value of such Eligible Inventory multiplied by one minus the Inventory Advance Rate under Sections 2.1 (a)(i)(A), (B) or (C) hereof, as applicable; plus

(B) freight, taxes, duty and other amounts which Lender estimates must be paid in connection with such Inventory upon arrival and for delivery to one of Borrower's locations for Eligible Inventory within the United States of America; and

(ii) if the proposed Letter of Credit Accommodation is for standby letters of credit guaranteeing the purchase of Eligible Inventory or for any other purpose, an amount equal to one hundred percent (100%) of the face amount thereof and all other commitments and obligations made or incurred by Lender with respect thereto.

Effective on the issuance of each Letter of Credit Accommodation, the amount of Revolving Loans which might otherwise be available to Borrower shall be reduced by the applicable amount set forth in Section 2.2(c)(i) or Section 2.2(c)(ii).

(d) Except in Lender's discretion, the amount of all outstanding Letter of Credit Accommodations and all other commitments and obligations made or incurred by Lender in connection therewith shall not at any time exceed Five Hundred Thousand Dollars ($500,000). At any time an Event of Default exists or has occurred and is continuing, upon Lender's request, Borrower will either furnish cash collateral to secure the reimbursement obligations to the issuer in connection with any Letter of Credit Accommodations or furnish cash collateral to Lender for the Letter of Credit Accommodations, and in either case, the Revolving Loans otherwise

available to Borrower shall not be reduced as provided in Section 2.2(c) to the extent of such cash collateral.

(e) Borrower shall indemnify and hold Lender harmless from and against any and all losses, claims, damages, liabilities, costs and expenses which Lender may suffer or incur in connection with any Letter of Credit Accommodations and any documents, drafts or acceptances relating thereto, including, but not limited to, any losses, claims, damages, liabilities, costs and expenses due to any action taken by any issuer or correspondent with respect to any Letter of Credit Accommodation. Borrower assumes all risks with respect to the acts or omissions of the drawer under or beneficiary of any Letter of Credit Accommodation and for such purposes the drawer or beneficiary shall be deemed Borrower's agent. Borrower assumes all risks for, and agrees to pay, all foreign, Federal, State and local taxes, duties and levies relating to any goods subject to any Letter of Credit Accommodations or any documents, drafts or acceptances thereunder. Borrower hereby releases and holds Lender harmless from and against any acts, waivers, errors, delays or omissions, whether caused by Borrower, by any issuer or correspondent or otherwise, unless caused by the gross negligence or willful misconduct of Lender, with respect to or relating to any Letter of Credit Accommodation. The provisions of this Section 2.2(e) shall survive the payment of Obligations and the termination or non-renewal of this Agreement.

(f) Nothing contained herein shall be deemed or construed to grant Borrower any right or authority to pledge the credit of Lender in any manner. Lender shall have no liability of any kind with respect to any Letter of Credit Accommodation provided by an issuer other than Lender unless Lender has duly executed and delivered to such issuer the application or a guarantee or indemnification in writing with respect to such Letter of Credit Accommodation. Borrower shall be bound by any interpretation reasonably made by Lender, or any other issuer or correspondent under or in connection with any Letter of Credit Accommodation or any documents, drafts or acceptances thereunder, notwithstanding that such interpretation may be inconsistent with any instructions of Borrower. Lender shall have the sole and exclusive right and authority to, and Borrower shall not at any time an Event of Default exists or has occurred and is continuing, (i) approve or resolve any questions of non-compliance of documents, (ii) give any instructions as to acceptance or rejection of any documents or goods, (iii) execute any and all applications for steamship or airway guaranties, indemnities or delivery orders, (iv) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents, or (v) agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letter of Credit Accommodations, or documents, drafts or acceptances thereunder or any letters of credit included in the Collateral. Lender may take such actions either in its own name or in Borrower's name.

(g) Any rights, remedies, duties or obligations granted or undertaken by Borrower to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been granted or undertaken by Borrower to Lender. Any duties or obligations undertaken by Lender to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement by Lender in favor of any issuer or correspondent relating to any Letter of Credit

Accommodation, shall be deemed to have been undertaken by Borrower to Lender and to apply in all respects to Borrower.

SECTION 3. INTEREST AND FEES.

3.1. Interest.

(a) Borrower shall pay to Lender interest on the outstanding principal amount of the non-contingent Obligations at the rate of three-quarters of one percent (.75%) per annum in excess of the Prime Rate, except that Borrower shall pay to Lender interest, at Lender's option, without notice, at the rate of two and three quarters percent (2.75%) per annum in excess of the Prime Rate:

(i) on the non-contingent Obligations for the period from and after the date of termination or non-renewal hereof, or the date of the occurrence of an Event of Default, and for so long as such Event of Default is continuing as determined by Lender and until such time as Lender has received full and final payment of all such Obligations (notwithstanding entry of any judgment against Borrower) and

(ii) on the Revolving Loans at any time outstanding in excess of the amounts available to Borrower under Section 2 (whether or not such excess(es) arise or are made with or without Lender's knowledge or consent and whether made before or after an Event of Default). All interest accruing hereunder on and after the occurrence of any of the events referred to in Sections 3.1(a)(i) or 3.1(a)(ii) above shall be payable on demand.

(b) Interest shall be payable by Borrower to Lender monthly in arrears not later than the first day of each calendar month and shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed. The interest rate shall increase or decrease by an amount equal to each increase or decrease in the Prime Rate effective on the first day of the month after any change in such Prime Rate is announced based on the Prime Rate in effect on the last day of the month in which any such change occurs. In no event shall charges constituting interest payable by Borrower to Lender exceed the maximum amount or the rate permitted under any applicable law or regulation, and if any part or provision of this Agreement is in contravention of any such law or regulation, such part or provision shall be deemed amended to conform thereto.

3.2 Closing Fee. Borrower shall pay to Lender as a closing fee Eighty Thousand Dollars ($80,000), which fee shall be fully earned as of and payable on the date hereof. Lender and Borrower hereby acknowledge that Borrower has paid to Lender Twenty-Five Thousand Dollars ($25,000) as a deposit against expenses incurred by Lender. Such deposit shall be: (a) retained by Lender and credited to the loan account of Borrower, less the cost of Lender's field examinations, legal fees and other expenses directly related to the loan application and credit review if the loans contemplated hereunder are funded or (b) retained by Lender as a fee in addition to expenses payable by Borrower as set forth in clause (a) hereof if the initial loans contemplated hereunder are not funded prior to April 20,1999, whether as a result of Borrower's election not to do business with Lender or a failure to fulfill any of the conditions of the proposed financing as approved by Lender.

3.3 Loan Servicing Fee. In addition to any fees or expenses payable by Borrower under Section 9.16 hereof, Borrower shall pay to Lender an annual loan servicing fee in an amount equal to Ten Thousand Dollars ($10,000), in respect of Lender's services for each year (or part thereof) while this Agreement remains in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be fully earned as of the date hereof and on each annual anniversary hereafter, such annual loan servicing fee to be payable on a quarterly basis, in advance, with the first such quarterly payment payable on the date hereof and on the first day of each quarter hereafter.

3.4 Compensation Adjustment.

(a) If after the date of this Agreement the introduction of, or any change in, any law or any governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any interpretation thereof, or compliance by Lender or any Participant therewith:

(i) subjects Lender to any tax, duty, charge or withholding on or from payments due from Borrower (excluding franchise taxes imposed upon, and taxation of the overall net income of, Lender or any Participant), or changes the basis of taxation of payments, in either case in respect of amounts due it hereunder, or

(ii) imposes or increases or deems applicable any reserve requirement or other reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by Lender or any Participant, or

(iii) imposes any other condition the result of which is to increase the cost to Lender or any Participant of making, funding or maintaining the Loans or Letter of Credit Accommodations or reduces any amount receivable by Lender or any Participant in connection with the Loans or Letter of Credit Accommodations, or requires Lender or any Participant to make payment calculated by references to the amount of loans held or interest received by it, by an amount deemed material by Lender or any Participant, or

(iv) imposes or increases any capital requirement or affects the amount of capital required or expected to be maintained by Lender or any Participant or any corporation controlling Lender or any Participant, and Lender or any Participant reasonably determines that such imposition or increase in capital requirements or increase in the amount of capital expected to be maintained is based upon the existence of this Agreement or the Loans or Letter of Credit Accommodations hereunder, all of which may be determined by Lender's reasonable allocation of the aggregate of its impositions or increases in capital required or expected to be maintained, and the result of any of the foregoing is to increase the cost to Lender or any Participant of making, renewing or maintaining the Loans or Letter of Credit Accommodations, or to reduce the rate of return to Lender or any Participant on the Loans or Letter of Credit Accommodations, then upon demand by Lender, Borrower shall pay to Lender, and continue to make periodic payments to Lender or any Participant, such additional amounts as may be necessary to compensate Lender or any Participant for any such additional cost incurred or reduced rate of return realized.

(b) A certificate of Lender claiming entitlement to compensation as set forth above will create a rebuttable presumption that it is conclusive in the absence of manifest error. Such certificate will set forth the nature of the occurrence giving rise to such compensation, the additional amount or amounts to be paid and the compensation and the method by which such amounts were determined. In determining any additional amounts due from Borrower under this Section 3.4, Lender shall act reasonably and in good faith and will, to the extent that the increased costs, reductions, or amounts received or receivable relate to the Lender's or a Participant's loans or commitments generally and are not specifically attributable to the Loans and commitments hereunder, use averaging and attribution methods which are reasonable and equitable and which cover all loans and commitments under this Agreement by the Lender or such Participant, as the case may be, whether or not the loan documentation for such other loans and commitments permits the Lender or such Participant to receive compensation costs of the type described in this Section 3.4.

SECTION 4. CONDITIONS PRECEDENT.

4.1 Conditions Precedent to Initial Loans and the Letter of Credit Accommodations. Each of the following is a condition precedent to Lender making the initial Loans and providing the initial Letter of Credit Accommodations hereunder:

(a) Lender shall have received, in form and substance satisfactory to Lender, evidence that the Purchase Agreements have been duly executed and delivered by and to the appropriate parties thereto and the transactions contemplated under the terms of the Purchase Agreements have been consummated prior to or contemporaneously with the making of the initial Loans to Borrower hereunder; it being understood by the parties hereto that if the transactions contemplated under the terms of the Purchase Agreements are not consummated on or before April 20, 1999, notwithstanding any provision to the contrary contained in this Agreement or the other Financing Agreements (including, but not limited to Section 12.1(b) hereof), neither Lender nor Borrower shall have any obligations to the other party hereunder or under the other Financing Agreements; provided, however, that in such event, Borrower hereby agrees to pay and satisfy in full the obligations of ING Equity Partners II, L.P. and its successors or assigns to pay Lender's costs and expenses under that certain Proposal Letter Agreement dated as of February 25,1999 addressed to George Bellino of The Bellino Group, and that this Agreement and the other Financing Agreements shall terminate as of the date of such event;

(b) Lender shall have received, in form and substance satisfactory to Lender, all releases, terminations and such other documents as Lender may request to evidence and effectuate the termination of any interest in and to any assets and properties of Borrower, duly authorized, executed and delivered by it or each of them, including, but not limited to, UCC termination statements for all UCC financing statements and Lender shall have satisfied itself that it has valid, perfected and first priority security interests in and liens upon the Collateral and any other property which is intended as security for the Obligations or the liability of any Obligor in respect thereto, subject only to the security interests and liens permitted herein or in the other Financing Agreements;

(c) all requisite corporate action and proceedings in connection with this Agreement and the other Financing Agreements shall be satisfactory in form and substance to Lender, and Lender shall have received all information and copies of all documents, including, without limitation, records of requisite corporate action and proceedings which Lender may have requested in connection therewith, such documents where requested by Lender or its counsel to be certified by appropriate corporate officers or governmental authorities;

(d) no material adverse change shall have occurred in the assets or business prospects of Borrower or the Allied Fashion for Less division of Seller since the date of Lender's latest field examination and no change or event shall have occurred which would materially impair the ability of Borrower or any Obligor to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Lender to enforce the Obligations or realize upon the Collateral;

(e) Lender shall have completed a field review of the Records and of such other financial information, projections, budgets, business plans, cash flows as Lender shall reasonably request from time to time, including, but not limited to, current agings of receivables, current perpetual inventory records and/or rollforwards of Accounts and Inventory through the date of closing (including a physical count of the Inventory by a third party acceptable to Lender), together with supporting documentation, including documentation with respect to Inventory in-transit, goods in bonded warehouses or at other third-party locations, that will enable Lender to accurately identify and verify the Eligible Inventory at or before the date hereof in a manner reasonably satisfactory to Lender, the results of which shall be reasonably satisfactory to Lender;

(f) Borrower shall have used its best efforts to obtain, in form and substance satisfactory to Lender, all consents, waivers, acknowledgments and other agreements from lessors of all premises leased by Borrower, acknowledging Lender's security interests in the Collateral, waivers by such persons of any security interests, liens or other claims by such persons to the Collateral and agreements permitting Lender access to, and the right to remain on, the premises to exercise its rights and remedies and otherwise deal with the Collateral;

(g) all Credit Card Processors shall have been irrevocably directed by the parties to Credit Card Agreements, and such Credit Card Processors shall agree, that all proceeds of Credit Card Receivables shall be remitted to the Blocked Account;

(h) Lender shall have received evidence of insurance and loss payee endorsements required hereunder and under the other Financing Agreements, in form and substance satisfactory to Lender, and certificates of insurance policies and/or endorsements naming Lender as loss payee;

(i) Lender shall have received, in form and substance satisfactory to Lender, such opinion letters of counsel to Borrower with respect to the Purchase Agreements, the Financing Agreements and the security interests and liens of Lender with respect to the Collateral and such other matters as Lender may reasonably request;

(j) the Borrower shall have Excess Availability, as determined by Lender as of the date hereof, in an amount not less than One Million Five Hundred Thousand Dollars ($1,500,000) after giving effect to the initial Loans made or to be made hereunder and the payment of all fees and expenses payable upon the consummation of the initial transactions contemplated by this Agreement, and provided that Borrower's accounts payable, notes and leases payable and book overdrafts (including those acquired or to be acquired by Borrower from Allied Fashion for Less) are acceptable to Lender in all respects;

(k) Crestar Bank, Lender and Borrower shall have entered into an agreement, pursuant to which Crestar Bank has acknowledged Lender's security interests in the funds deposited into Borrower's collection account with Crestar Bank and has agreed to direct all such funds to the Blocked Account or as Lender otherwise directs;

(l) Lender shall have received, in form and substance satisfactory to Lender, an executed copy of a Blocked Account agreement, pursuant to Section 6.3(a)(ii) hereof, among Lender, Borrower and First Union National Bank;

(m) the other Financing Agreements and all instruments and documents hereunder and thereunder shall have been duly executed and delivered to Lender, in form and substance satisfactory to Lender;

(n) Lender shall have received, in form and substance satisfactory to Lender, an estimated pro-forma balance sheet of Borrower reflecting the initial transactions contemplated hereunder, including, but not limited to, (i) the consummation of the acquisition of the Purchased Assets by Borrower from Seller and the other transactions contemplated by the Purchase Agreements and (ii) the Loans and Letter of Credit Accommodations provided by Lender to Borrower on the date hereof and the use of the proceeds of the initial Loans as provided herein, accompanied by a certificate, dated of even date herewith, of the chief financial officer of Borrower stating that such pro-forma balance sheet represents the reasonable, good faith opinion of such officer as to the subject matter thereof as of the date of such certificate;

(o) Lender shall have received, in form and substance satisfactory to Lender, evidence that Borrower has received net cash proceeds from a cash equity capital contribution to Borrower of not less than Six Million Eight Hundred Ninety-Five Thousand Dollars ($6,895,000) and such proceeds have been applied to the purchase price of the Purchased Assets payable pursuant to the Purchase Agreements;

(p) the conditions precedent set forth in this Section 4.1 shall have been satisfied and the initial funding of the Loans contemplated hereunder shall have occurred on or prior to April 20,1999;

(q) Lender shall have received the Information Certificate executed by Borrower and a certificate, in form and substance satisfactory to Lender, certifying that all representations and warranties contained herein and in the other Financing Agreements, including, without limitation, the information set forth in the Information Certificate and the Schedules hereto, are true and correct in all material respects and any exceptions to such certificate or changes to the Information Certificate or Schedules hereto (other than changes to

Schedule 8.7 deleting therefrom Borrower's violation of certain regulations of the Occupational Safety and Hazard Act of 1970, as amended) shall be acceptable to Lender in its sole discretion;

(r) receipt of physical inventory count results as conducted by an independent third party reasonably acceptable to Lender;

(s) Lender shall have received evidence, in form and substance reasonably satisfactory to Lender, that any funds released by the Escrow Agent under the Purchase Price Escrow Agreement (as defined in the Purchase Agreements) to Borrower shall be paid directly into the Payment Account; and

(t) if Borrower acquires any federally registered trademarks or the rights to any applications therefor pending with the United States Patent and Trademark Office from Seller pursuant to the Purchase Agreements, Borrower shall have executed a Collateral Assignment of Trademarks, in form and substance satisfactory to Lender, in favor of Lender with respect to such existing or future trademarks.

4.2 Conditions Precedent to All Loans and Letter of Credit Accommodations. Each of the following is an additional condition precedent to Lender making Loans and/or providing Letter of Credit Accommodations to Borrower, including the initial Loans and Letter of Credit Accommodations and any future Loans and Letter of Credit Accommodations:

(a) all representations and warranties contained herein and in the other Financing Agreements shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of the making of each such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto; and

(b) no Event of Default and no event or condition which, with notice or passage of time or both, would constitute an Event of Default, shall exist or have occurred and be continuing on and as of the date of the making of such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto.

4.3 Condition Subsequent to Initial Loans and Letter of Credit Accommodations.

Within sixty (60) days of the date that the initial Loans contemplated hereunder are made, each of the depository banks used by Borrower's retail store locations for the deposit of receipts from the sale of merchandise or for the deposit of other proceeds of Collateral and other property which is security for the Obligations shall have been notified of Lender's security interests therein and shall have been irrevocably authorized and directed to send all funds on deposit with such banks only to the Blocked Account or as Lender otherwise directs, and the failure to complete this condition to Lender's satisfaction within the time frame set forth herein shall constitute an Event of Default.

SECTION 5. GRANT OF SECURITY INTEREST.

To secure payment and performance of all Obligations, Borrower hereby grants to Lender a continuing security interest in, a lien upon, and a right of set off against, and hereby assigns to Lender as security, the following property and interests in property, whether now owned or hereafter acquired or existing, and wherever located (collectively, the "Collateral"):

5.1 Accounts, Credit Card Receivables and other indebtedness owed to the Borrower;

5.2 all present and future contract rights, general intangibles (including, but not limited to, tax and duty refunds, registered and unregistered patents, trademarks, service marks, copyrights, trade names, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, chooses in action and other claims and existing and future leasehold interests in equipment, real estate and fixtures), chattel paper, documents, instruments, investment property, letters of credit, proceeds of letters of credit, bankers' acceptances and guaranties;

5.3 all present and future monies, securities, credit balances, deposits, deposit accounts and other property of Borrower now or hereafter held or received by or in transit to Lender or its affiliates or at any other depository or other institution from or for the account of Borrower, whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all present and future liens, security interests, rights, remedies, title and interest in, to and in respect of Accounts, Credit Card Receivables, and other Collateral, including, without limitation, (a) rights and remedies under or relating to guaranties, contracts of suretyship, letters of credit and credit and other insurance related to the Collateral, (b) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, (c) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Accounts, Credit Card Receivables, or other Collateral, including, without limitation, returned, repossessed and reclaimed goods, and (d) deposits by and property of account debtors or other persons securing the obligations of account debtors;

5.4 Inventory;

5.5 Equipment;

5.6 Records; and

5.7 all products and proceeds of the foregoing, in any form, including, without limitation, insurance proceeds and all claims against third parties for loss or damage to or destruction of any or all of the foregoing.

SECTION 6. COLLECTION AND ADMINISTRATION.

6.1 Borrower's Loan Account. Lender shall maintain one or more loan account(s) on its books in which shall be recorded (a) all Loans, all Letter of Credit Accommodations and all other Obligations and the Collateral, (b) all payments made by or on behalf of Borrower and

(c) all other appropriate debits and credits as provided in this Agreement, including, without limitation, fees, charges, costs, expenses and interest. All entries in the loan account(s) shall be made in accordance with Lender's customary practices as in effect from time to time.

6.2 Statements. Lender shall render to Borrower each month a statement setting forth the balance in the Borrower's loan account(s) maintained by Lender for Borrower pursuant to the provisions of this Agreement, including principal, interest, fees, costs and expenses. Each such statement shall be subject to subsequent adjustment by Lender but shall, absent manifest errors or omissions, be considered correct and deemed accepted by Borrower and conclusively binding upon Borrower as an account stated except to the extent that Lender receives a written notice from Borrower of any specific exceptions of Borrower thereto within thirty (30) days after the date such statement has been mailed by Lender. Until such time as Lender shall have rendered to Borrower a written statement as provided above, the balance in Borrower's loan account(s) shall be presumptive evidence of the amounts due and owing to Lender by Borrower.

6.3 Collection of Accounts.

(a) Borrower shall establish and maintain, at its expense, deposit account arrangements and merchant payment arrangements with the banks set forth on Schedule 6.3 and after prior written notice to Lender, such other banks as Borrower may hereafter select as are acceptable to Lender. The banks set forth on Schedule 6.3 constitute all of the banks with whom Borrower has deposit account arrangements and merchant payment arrangements as of the date hereof and identifies each of the deposit accounts at such banks to a retail store location of Borrower or otherwise describes the nature of the use of such deposit account by Borrower.

(i) Borrower shall deposit all proceeds from sales of Inventory in every form (including, without limitation, cash, checks, credit card sales drafts, credit card sales or charge slip or receipts and other forms of daily store receipts) from each retail store location of Borrower, and all other proceeds of Collateral, on each Business Day into the deposit accounts of Borrower used solely for such purpose and identified to each retail store location as set forth on Schedule 6.3. Borrower shall irrevocably authorize and direct in writing, in form and substance satisfactory to Lender, each of the banks into which proceeds from sales of Inventory from each retail store location of Borrower and any and all other proceeds of Collateral are at any time deposited as provided above to send by wire transfer on a daily basis all funds deposited in such account, and shall irrevocably authorize and direct in writing its account debtors, Credit Card Issuers and Credit Card Processors to directly remit payments on its Accounts, Credit Card Receivables and all other payments constituting proceeds of Inventory to the Blocked Accounts described in Section 6.3(a)(ii) below. Such authorizations and directions shall not be rescinded, revoked or modified without the prior written consent of Lender.

(ii) Borrower shall establish and maintain, at its expense, pursuant to an agreement described in the following sentence, a blocked account with such bank or banks as are acceptable to Lender (each a "Blocked Account" and collectively the "Blocked Accounts"). Each bank at which a Blocked Account is established shall enter into an agreement, in form and substance satisfactory to Lender, providing (unless otherwise agreed to by Lender) that all items received or deposited in such Blocked Account are the Collateral of Lender, that the depository bank has no lien upon, or right to setoff against, the Blocked Accounts, the items received for

deposit therein, or the funds from time to time on deposit therein, and that the depository bank will wire, or otherwise transfer, in immediately available funds, on a daily basis, all funds received or deposited into such Blocked Account to such bank account of Lender as Lender may from time to time designate for such purpose (the "Payment Account"). Borrower agrees that all amounts deposited in the Blocked Account[s] or other funds received and collected by Lender, whether as proceeds of Inventory, the collection of Accounts or other Collateral or otherwise shall be the Collateral of Lender.

(b) For purposes of calculating interest on the Obligations, such payments or other funds received will be applied (conditional upon final collection) to the Obligations on the Business Day following the date of receipt of immediately available funds by Lender in the Payment Account, or on the Business Day following the date of receipt of funds that are not immediately available to Lender in the Payment Account, as applicable. For purposes of calculating the amount of the Revolving Loans available to Borrower such payments will be applied (conditional upon final collection) to the Obligations on the Business Day of receipt by Lender in the Payment Account, if such payments are received within sufficient time (in accordance with Lender's usual and customary practices as in effect from time to time) to credit Borrower's loan account on such day, and if not, then on the next Business Day. If no monetary obligations by Borrower are outstanding on any day, Borrower shall pay interest at the applicable rate set forth in Section 3.1(a) on the amount of any payments or other funds that are received by Lender (irrespective of the characterization whether receipts are owned by Lender or Borrower) for such day.

(c) Borrower and all of its affiliates, subsidiaries, shareholders, directors, employees or agents shall, acting as trustee for Lender, receive, as the property of Lender, any monies, cash, checks, credit card sales drafts, credit card sales or charge slips or receipts, notes, drafts and all forms of daily store receipts or any other payment relating to and/or proceeds from sales of Inventory or other Collateral which come into their possession or under their control and immediately upon receipt thereof, shall deposit or cause the same to be deposited in the Blocked Accounts, or remit the same or cause the same to be remitted, in kind, to Lender. In no event shall any such monies, checks, credit card sales drafts, credit card sales or charge slips or receipts, notes, drafts or other payments be commingled with Borrower's own funds. Borrower agrees to reimburse Lender on demand for any amounts owed or paid to any bank at which a Blocked Account is established or any other bank or person involved in the transfer of funds to or from the Blocked Accounts arising out of Lender's payments to or indemnification of such bank or person, unless such payment or indemnification obligation of Lender was a result of Lender's gross negligence or willful misconduct. The obligation of Borrower to reimburse Lender for such amounts pursuant to this Section 6.3 shall survive the termination or non-renewal of this Agreement.

6.4 Payments. All Obligations shall be payable to the Payment Account as provided in Section 6.3 or such other place as Lender may designate from time to time. Lender may apply payments received or collected from Borrower or for the account of Borrower (including, without limitation, the monetary proceeds of collections or of realization upon any Collateral) to such of the Obligations, whether or not then due, in such order and manner as Lender determines. At Lender's option, all principal, interest, fees, costs, expenses and other charges provided for in this Agreement or the other Financing Agreements may be charged

directly to the loan accounts of Borrower. Borrower shall make all payments to Lender on the Obligations free and clear of, and without deduction or withholding for or on account of, any setoff, counterclaim, defense, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. If after receipt of any payment of, or proceeds of Collateral applied to the payment of, any of the Obligations, Lender is required to surrender or return such payment or proceeds to any Person for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by Lender. Borrower shall be liable to pay to Lender, and docs hereby indemnify and hold Lender harmless for the amount of any payments or proceeds surrendered or returned. This Section 6.4 shall remain effective notwithstanding any contrary action which may be taken by Lender in reliance upon such payment or proceeds. This Section 6.4 shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

6.5 Authorization to Make Loans. Lender is authorized to make the Loans and provide Letter of Credit Accommodations based upon telephonic or other instructions received from anyone purporting to be an officer of Borrower or other authorized person or, at the discretion of Lender, if such Loans are necessary to satisfy any Obligations. All requests for Loans or Letter of Credit Accommodations hereunder shall specify the date on which the requested advance is to be made or Letter of Credit Accommodations established (which day shall be a Business Day) and the amount of the requested Loan. Requests received after 1:45 p.m. (New York time) on any day shall be deemed to have been made as of the opening of business on the immediately following Business Day. All Loans and Letter of Credit Accommodations under this Agreement shall be conclusively presumed to have been made to, and at the request of and for the benefit of, Borrower when deposited to the credit of Borrower or otherwise disbursed or established in accordance with the instructions of Borrower or in accordance with the terms and conditions of this Agreement.

6.6 Use of Proceeds. Borrower shall use the initial proceeds of the Loans provided by Lender to Borrower hereunder only for: (a) payments to each of the persons listed in the disbursement direction letter furnished by Borrower to Lender on or about the date hereof and (b) costs, expenses and fees in connection with the preparation, negotiation, execution and delivery of this Agreement and the other Financing Agreements. All other Loans made or Letter of Credit Accommodations provided by Lender to Borrower pursuant to the provisions hereof shall be used by Borrower only for the acquisition under the Purchase Agreements and for general operating, working capital and other proper corporate purposes of Borrower not otherwise prohibited by the terms hereof. None of the proceeds will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security or for the purposes of reducing or retiring any indebtedness which was originally incurred to purchase or carry any margin security or for any other purpose which might cause any of the Loans to be considered a "purpose credit" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, as amended.

SECTION 7. COLLATERAL REPORTING AND COVENANTS.

7.1 Collateral Reporting. Borrower shall provide Lender with the following documents in a form satisfactory to Lender:

(a) on a monthly basis, on or before the tenth (10th) Business Day after the closing date for the immediately preceding monthly period for such period or more frequently Lender may reasonably request:

(i) perpetual inventory reports;

(ii) inventory reports by category;

(iii) summary agings of accounts payable, lease payables and other payables;

(iv) summary reports of sales for each category of Inventory;

(v) summary reports on sales and use tax collections, deposits and payments, including monthly sales and use tax accruals;

(vi) reports on Accounts, Credit Card Receivables, and other indebtedness owed to Borrower, including aggregate outstanding amounts by category, payments, accruals and returns and other credits;

(vii) a certificate from an authorized officer of Borrower representing that Borrower has made payment of sales and use taxes during such month or, at Lender's request, other evidence of such payment; and

(viii) a schedule of the Inventory of Borrower by retail store and warehouse location of Borrower, setting forth the aggregate cost and Retail Sales Price of such Inventory located at each such retail store or warehouse location;

(b) on the Monday of each week, as of the immediately preceding Business Day, or more frequently as Lender may reasonably request, a schedule of the Inventory of Borrower, setting forth the aggregate cost and Retail Sales Price of such Inventory;

(c) on the Monday of each week for the immediately preceding week ending on the close of business on the Friday of that week or more frequently as Lender may reasonable request:

(i) reports of deposits in each of Borrower's depository accounts and in the Blocked Account and amounts retained by Borrower, together with the separate amounts thereof arising from cash sales, Credit Card Receivables;

(ii) except as otherwise agreed in writing by Lender, reports of the costs and other information as required by Lender of Inventory and other goods which are either

acquired by Borrower with Letter of Credit Accommodations which are the subject of bills of lading and which have not been delivered to Borrower at the permitted locations of Eligible Inventory in the United States;

(iii) summary reports of sales of Inventory, indicating gross sales, returns, allowances and net sales; and

(iv) summary reports of all Inventory purchases (including all costs related thereto, such as freight, duty and taxes) and identifying items of Inventory in transit to Borrower related to the applicable documentary letter of credit and/or bill of lading number,

(d) on a quarterly basis, on or before the tenth (10th) Business Day after the end of each of Borrower's fiscal quarters for the immediately preceding fiscal quarter period, or more frequently as Lender may reasonably request:

(i) reports by retail store location of sales and operating profits for each such retail store location; and

(ii) agings of accounts receivable;

(e) upon Lender's reasonable request:

(i) copies of customer statements and credit memos, remittance advices and reports, and copies of deposit slips and bank statements;

(ii) copies of shipping and delivery documents;

(iii) copies of purchase orders, invoices and delivery documents for Inventory and Equipment acquired by Borrower; and

(iv) the results of periodic counts of Inventory performed by an independent firm satisfactory to Lender,

(f) as soon as available, but in any event not later than ten (10) days after receipt by Borrower, the monthly statements received by Borrower from any Credit Card Issuers or Credit Card Processors, together with such additional information with respect thereto as shall be sufficient to enable Lender to monitor the transactions pursuant to the Credit Card Agreements; and

(g) such other reports as to the Collateral or other property which is security for the Obligations, projections, budgets, business plans, statements of cash flow and other information as Lender shall reasonably request from time to time.

If any of Borrower's records or reports of the Collateral or other property which is security for the Obligations are prepared or maintained by an accounting service, contractor, shipper or other agent, Borrower hereby irrevocably authorizes such service, contractor, shipper or agent to deliver such records, reports, and related documents to Lender and to follow Lender's

instructions with respect to further services at any time that an Event of Default exists or has occurred and is continuing.

7-2 Accounts Covenants.

(a) No credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any Credit Card Issuer or Credit Card Processor except in the ordinary course of Borrower's business in accordance with its most recent past practices and policies. So long as no Event of Default exists or has occurred and is continuing, Borrower may settle, adjust or compromise any claim, offset, counterclaim or dispute with any Credit Card Issuer or Credit Card Processor in the ordinary course of Borrower's business in accordance with its most recent past practices and policies. At any time that an Event of Default exists or has occurred and is continuing, Lender shall, at its option, have the exclusive right to settle, adjust or compromise any claim, offset, counterclaim or dispute with account debtors, Credit Card Issuers or Credit Card Processors or grant any credits, discounts or allowances.

(b) Borrower shall notify Lender promptly of:

(i) any notice of a material default by Borrower under any of the Credit Card Agreements or of any default which might result in the Credit Card Issuer or Credit Card Processor ceasing to make payments or suspending payments to Borrower,

(ii) any notice from any Credit Card Issuer or Credit Card Processor that such person is ceasing or suspending, or will cease or suspend, any present or future payments due or to become due to Borrower from such person, or that such person is terminating or will terminate any of the Credit Card Agreements; and

(iii) the failure of Borrower to comply with any material terms of the Credit Card Agreements or any terms thereof which might result in the Credit Card Issuer or Credit Card Processor ceasing or suspending payments to Borrower.

(c) With respect to each Account:

(i) the amounts shown on any invoice delivered to Lender or schedule thereof delivered to Lender shall be true and complete;

(ii) no payments shall be made thereon except payments delivered to Lender pursuant to the terms of this Agreement;

(iii) no credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any Credit Card Issuer or Credit Card Processor, except as reported to Lender in accordance with this Agreement and except for credits, discounts, allowances or extensions made or given in the ordinary course of Borrower's business in accordance with practices and policies previously disclosed to Lender; and

(iv) none of the transactions giving rise thereto will violate any applicable State or Federal Laws or regulations, all documentation relating thereto will be legally

sufficient under such laws and regulations and all such documentation will be legally enforceable in accordance with its terms.

(d) Lender may, at any time or times that an Event of Default exists or has occurred:

(i) notify any or all account debtors, Credit Card Issuers and Credit Card Processors that the Accounts have been assigned to Lender and that Lender has a security interest therein and Lender may direct any or all account debtors, Credit Card Issuers and Credit Card Processors to make payments of Accounts directly to Lender,

(ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any other party or parties in any way liable for payment thereof without affecting any of the Obligations;

(iii) demand, collect or enforce payment of any Accounts or such other obligations, but without any duty to do so, and Lender shall not be liable for its failure to collect or enforce the payment thereof or for the negligence of its agents or attorneys with respect thereto except, for, Lender's failure to collect or enforce the foregoing due to Lender's gross negligence or intentional misconduct; and

(iv) take whatever other action Lender may deem reasonably necessary or desirable for the protection of its interests.

At any time that an Event of Default exists or has occurred and is continuing, at Lender's request, all invoices and statements sent to any account debtor, Credit Card Issuer or Credit Card Processor shall state that the Accounts due from such account debtor, Credit Card Issuer or Credit Card Processor and such other obligations have been assigned to Lender and are payable directly and only to Lender and Borrower shall deliver to Lender such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Lender may require.

7.3 Inventory Covenants. With respect to the Inventory:

(a) Borrower shall at all times maintain inventory records reasonably satisfactory to Lender, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, Borrower's cost therefor, the Retail Sales Price thereof and daily withdrawals therefrom and additions thereto;

(b) Borrower shall cause a third party firm reasonably acceptable to Lender to conduct a complete physical count of the Inventory at a minimum of once over every twelve (12) month period (whether by cycle count or otherwise), except, that, (i) upon the occurrence of an Event of Default which results in an acceleration of payment of all Obligations pursuant to Section 10.2(b) hereof, such physical count shall be conducted at any time Lender may request and (ii) upon the occurrence of an Event of Default which does not result in such acceleration of payment of all Obligations, such physical count shall be conducted at any time as Lender may

request but no more than once in any three (3) month period, and promptly following any such physical count, such firm shall supply Lender with a report in the form and with such specificity as may be reasonably satisfactory to Lender concerning such physical count;

(c) Borrower shall not remove any Inventory from the locations set forth or permitted herein, without the prior written consent of Lender, except for sales of Inventory in the ordinary course of Borrower's business and except to move Inventory directly from one location set forth or permitted herein to another such location;

(d) upon Lender's request, Borrower shall, at its expense, no more than one time in any twelve (12) month period, but at any time or times as Lender may request upon the occurrence of an Event of Default, deliver or cause to be delivered to Lender written reports or appraisals as to the Inventory in form, scope and methodology acceptable to Lender by an appraiser acceptable to Lender, addressed to Lender or upon which Lender is expressly permitted to rely (with the understanding that Lender may establish Availability Reserves as Lender may deem advisable in its reasonable discretion based upon the results of such updated appraisals in accordance with Section 1.4 and 2.1 hereof);

(e) Borrower shall produce, use, store and maintain the Inventory, with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable laws (including, but not limited to, the requirements of the Federal Fair Labor Standards Act of 1938, as amended and all rules, regulations and orders related thereto);

(f) Borrower assumes all responsibility and liability arising from or relating to the production, use, sale or other disposition of the Inventory;

(g) Borrower shall not sell Inventory to any customer on approval, or any other basis which entitles the customer to return or may obligate Borrower to repurchase such Inventory with the exception of Inventory sold in the ordinary course of Borrower's business subject to Borrower's normal and customary return policy;

(h) Borrower shall keep the Inventory in good and marketable condition;

(i) Borrower shall not, without prior written notice to Lender, acquire or accept any Inventory on consignment or approval except as set forth on Schedule 7.3(1) hereto; and

(j) upon the occurrence of an Event of Default, Borrower shall not return any Inventory to its vendors without the prior consent of Lender.

7.4 Equipment Covenants. With respect to the Equipment:

(a) upon Lender's request, Borrower shall, at its expense, at any time or times as Lender may request on or after an Event of Default, deliver or cause to be delivered to Lender written reports or appraisals as to the Equipment in form, scope and methodology acceptable to Lender and by an appraiser acceptable to Lender;

(b) Borrower shall keep the Equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted);

(c) Borrower shall use the Equipment with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws;

(d) the Equipment is and shall be used in Borrower's business and not for personal, family, household or farming use;

(e) Borrower shall not remove any Equipment from the locations set forth or permitted herein, except to the extent necessary to have any Equipment repaired or maintained in the ordinary course of the business of Borrower or to move Equipment directly from one such location set forth or permitted herein to another such location and except for the movement of motor vehicles used by or for the benefit of Borrower in the ordinary course of business;

(f) the Equipment is now and shall remain personal property and Borrower shall not permit any of the Equipment to be or become a part of or affixed to real property; and

(g) Borrower assumes all responsibility and liability arising from the use of the Equipment

7.5 Power of Attorney. Borrower hereby irrevocably designates and appoints Lender (and all persons designated by Lender) as Borrower's true and lawful attorney-in-fact, and authorizes Lender, in Borrower's or Lender's name, to:

(a) at any time an Event of Default or event with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing;

(i) demand payment on Accounts or other proceeds of Inventory or other Collateral;

(ii) enforce payment of Accounts, Credit Card,Receivables or other obligations included in the Collateral by legal proceedings or otherwise;

(iii) exercise all of Borrower's rights and remedies to collect any Account, Credit Card Receivables or other proceeds of Inventory or other Collateral;

(iv) sell or assign any Account upon such terms, for such amount and at such time or times as the Lender deems advisable;

(v) settle, adjust, compromise, extend or renew an Account;

(vi) discharge and release any Account, Credit Card Receivables or other obligations included in the Collateral;

(vii) prepare, file and sign Borrower's name on any proof of claim in bankruptcy or other similar document against an account debtor;

(viii) notify the post office authorities to change the address for delivery of Borrower's mail to an address designated by Lender, and open and dispose of all mail addressed to Borrower; and

(ix) do all acts and things which are necessary, in Lender's determination, to fulfill Borrower's obligations under this Agreement and the other Financing Agreements; and

(b) at any time, subject to the terms of the agreement(s) relating to the Blocked Account(s) to:

(i) take control in any manner of any item of payment or proceeds thereof;

(ii) have access to any lockbox or postal box into which Borrower's mail is deposited;

(iii) endorse Borrower's name upon any items of payment or proceeds thereof and deposit the same in the Lender's account for application to the Obligations;

(iv) endorse Borrower's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Account or Credit Card Receivables or any goods pertaining thereto or any other Collateral;

(v) sign Borrower's name on any verification of Accounts or Credit Card Receivables and notices thereof to account debtors; and

(vi) execute in Borrower's name and file any UCC financing statements or amendments thereto.

Borrower hereby releases Lender and its officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Lender's own gross negligence or willful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

7.6 Right to Cure. Lender may, at its option: (a) cure any default by Borrower under any agreement with a third party or pay or bond on appeal any judgment entered against Borrower; (b) discharge taxes, liens, security interests or other encumbrances at any time levied on or existing with respect to the Collateral; and (c) pay any amount, incur any expense or perform any act which, in Lender's judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Lender with respect thereto. Lender may add any amounts so expended to the Obligations and charge Borrower's account therefor, such amounts to be repayable by Borrower on demand. Lender shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of Borrower. Any payment made or other action taken by Lender under this Section 7.6 shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

7.7 Access to Premises. From time to time as requested by Lender, at the cost and expense of Borrower:

(a) Lender or its designee shall have complete access to all of Borrower's premises during normal business hours and after reasonable notice to Borrower, or at any time and without notice to Borrower if an Event of Default exists or has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of Borrower's books and records, including, without limitation, the Records;

(b) Borrower shall promptly furnish to Lender such copies of such books and records or extracts therefrom as Lender may request; and

(c) use during normal business hours such of Borrower's personnel, equipment, supplies and premises as may be reasonably necessary for the foregoing and if an Event of Default exists or has occurred and is continuing for the collection of Accounts and Credit Card Receivables and realization of other Collateral.

SECTION 8. REPRESENTATIONS AND WARRANTIES.

Borrower hereby represents and warrants to Lender as of the date of the initial funding of the Loans, the following (which shall survive the execution and delivery of this Agreement), the truth and accuracy of which are a continuing condition of the making of Loans and the providing of Letter of Credit Accommodations by Lender to Borrower:

8.1 Corporate Existence, Power and Authority; Subsidiaries. Borrower is a corporation duly organized and in good standing under the laws of its state of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on Borrower's financial condition, results of operation or business or the rights of Lender in or to any of the Collateral. The execution, delivery and performance of this Agreement, the other Financing Agreements and the transactions contemplated hereunder and thereunder are all within Borrower's corporate powers, have been duly authorized and are not in contravention of law or the terms of Borrower's certificate of incorporation, by-laws, or other organizational documentation, or any indenture, agreement or undertaking to which Borrower is a party or by which Borrower or its property are bound. This Agreement and the other Financing Agreements constitute legal, valid and binding obligations of Borrower enforceable in accordance with their respective terms. Borrower does not have any subsidiaries except as set forth on the Information Certificate.

8.2 Financial Statements; No Material Adverse Change. All financial statements relating to Borrower which have been delivered by Borrower to Lender have been prepared consistent with previous accounting policies and practices (which were established to enable the inclusion of the financial statements of the Allied Fashion for Less division with and into the consolidated financial statements of Seller, which were prepared in accordance with GAAP) and fairly present the financial condition and the results of operations of Borrower as of the dates and for the periods set forth therein; it being understood by Lender that the working capital of

Borrower as set forth in such financial statements have been calculated by the accounting firm of Deloitte and Touche. Except as disclosed in any interim financial statements furnished by Borrower to Lender prior to the date of this Agreement, there has been no material adverse change in the assets, liabilities, properties and condition, financial or otherwise, of Borrower, since the date of the most recent financial statements furnished by Borrower to Lender prior to the date of this Agreement.

8.3 Chief Executive Office; Collateral Locations. The chief executive office of Borrower and Borrower's Records concerning Accounts are located only at the address set forth below and its only other places of business and the only other locations of Collateral, if any, are the addresses set forth in Schedule 8.3 hereto, subject to the right of Borrower to establish new locations in accordance with Section 9.2 below. Schedule 8.3 correctly identifies any of such locations which are not owned by Borrower and sets forth the owners and/or operators thereof.

8.4 Priority of Liens; Title to Properties. The security interests and liens granted to Lender under this Agreement and the other Financing Agreements constitute valid and perfected first priority liens and security interests in and upon the Collateral subject only to the liens indicated on Schedule 8.4 hereto and the other liens permitted under Section 9.8 hereof. Borrower has good and marketable title to all of its properties and assets subject to no liens, mortgages, pledges, security interests, encumbrances or charges of any kind, except those granted to Lender and such others as are specifically listed on Schedule 8.4 hereto or permitted under Section 9.8 hereof.

8.5 Tax Returns. Borrower has filed, or caused to be filed, in a timely manner all tax returns, reports and declarations which are required to be filed by it (without requests for extension except as previously disclosed in writing to Lender). All information in such tax returns, reports and declarations is complete and accurate in all material respects. Borrower has paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books. Adequate provision has been made for the payment of all accrued and unpaid Federal, State, county, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.

8.6 Litigation. Except as set forth on the Information Certificate, there is no present investigation by any governmental agency pending, or to the best of Borrower's knowledge threatened, against or affecting Borrower, its assets or business and there is no action, suit, proceeding or claim by any Person pending, or to the best of Borrower's knowledge threatened, against Borrower or its assets or goodwill, or against or affecting any transactions contemplated by this Agreement, which if adversely determined against Borrower would result in any material adverse change in the assets or business of Borrower or would impair the ability of Borrower to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Lender to enforce any Obligations or realize upon any Collateral.

8.7 Compliance with Other Agreements and Applicable Laws. Except as otherwise set forth on Schedule 8.7 hereto, Borrower is not in default in any material respect under, or in violation in any material respect of any of the terms of, any agreement, contract, instrument,

lease or other commitment to which it is a party or by which it or any of its assets are bound and Borrower is in compliance in all material respects with all applicable provisions of laws, rules, regulations, licenses, permits, approvals and orders of any foreign, Federal, State or local governmental authority.

8.8 Acquisition of Purchased Assets.

(a) The Purchase Agreements and the transactions contemplated thereunder have been duly executed, delivered and performed in accordance with their terms by the respective parties thereto in all respects, including the fulfillment (not merely the waiver, except as may be disclosed to Lender and consented to in writing by Lender) of all conditions precedent set forth therein and giving effect to the terms of the Purchase Agreements and the assignments to be executed and delivered by Seller (or any of its affiliates or subsidiaries) thereunder, and, except as set forth on Schedule 8.8 hereto, Borrower acquired and has good and marketable title to the Purchased Assets, free and clear of all claims, liens, pledges and encumbrances of any kind, except as permitted hereunder.

(b) All actions and proceedings, required by the Purchase Agreements, applicable law or regulation (including, but not limited to, compliance with the Hart-Scott-Rodino Anti-Trust Improvements Act of 1976, as amended) have been taken and the transactions required thereunder have been duly and validly taken and consummated.

(c) No court of competent jurisdiction has issued any injunction, restraining order or other order which prohibits consummation of the transactions described in the Purchase Agreements and no governmental or other action or proceeding has been threatened or commenced, seeking any injunction, restraining order or other order which seeks to void or otherwise modify the transactions described in the Purchase Agreements.

(d) Borrower has delivered, or caused to be delivered, to Lender, true, correct and complete copies of the Purchase Agreements.

8.9 Capitalization.

(a) Ninety-seven percent (97%) of the primary issued and outstanding shares of capital stock of Borrower are directly and beneficially owned and held by Hampshire Equity Partners II, L.P. (as successor in interest to ING Equity Partners II, L.P.). All issued and outstanding shares of capital stock of Borrower have been duly authorized and are fully paid and non-assessable, free and clear of all claims, liens, pledges and encumbrances of any kind, except as disclosed in writing to Lender.

(b) Borrower is solvent and will continue to be solvent after the creation of the Obligations, the security interests of Lender and the other transaction contemplated hereunder, is able to pay its debts as they mature and has (and has reason to believe it will continue to have) sufficient capital (and not unreasonably small capital) to carry on its business and all businesses in which it is about to engage. The assets and properties of Borrower at a fair valuation and at their present fair salable value are, and will be, greater than the Indebtedness of Borrower, and including subordinated and contingent liabilities computed at the amount which,

to the best of Borrower's knowledge, represents an amount which can reasonably be expected to become an actual or matured liability.

(c) Hampshire Equity Partners II, L.P. (as successor in interest to ING Equity Partners II, L.P.) has on or before the date that the initial Loans are funded hereunder, made a cash equity capital contribution to Borrower in an aggregate amount not less than Six Million Eight Hundred Ninety-Five Thousand Dollars ($6,895,000) as consideration for shares of capital stock of Borrower consisting of common stock and the proceeds of such cash equity capital contribution have been applied, contemporaneously herewith, to the purchase price for the Purchased Assets.

8.10 Employee Benefits.

(a) Borrower has not engaged in any transaction in connection with which Borrower or any of its ERISA Affiliates is subject to either a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Code.

(b) No liability to the Pension Benefit Guaranty Corporation (other than liability for premiums) has been or is expected by Borrower to be incurred with respect to any employee pension benefit plan of Borrower or any of its ERISA Affiliates. There has been no reportable event (within the meaning of Section 4043(c) of ERISA) or any other event or condition with respect to any employee pension benefit plan of Borrower or any of its ERISA Affiliates which presents a material risk of termination of any such plan by the Pension Benefit Guaranty Corporation.

(c) Full payment has been made of all amounts which Borrower or any of its ERISA Affiliates is required under Section 302 of ERISA and Section 412 of the Code to have paid under the terms of each employee pension benefit plan as contributions to such plan as of the last day of the most recent fiscal year of such plan ended prior to the date hereof, and no accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, exists with respect to any such employee pension benefit plan.

(d) The current value of all vested accrued benefits under all employee pension benefit plans maintained by Borrower that are subject to Title IV of ERISA does not exceed the current value of the assets of such plans allocable to such vested accrued benefits. The terms "current value" and "accrued benefit" have the meanings specified in ERISA.

(e) Neither Borrower nor any of its ERISA Affiliates is or has ever been obligated to contribute to any "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA) that is subject to Title IV of ERISA.

8.11 Accuracy and Completeness of Information. All information furnished by or on behalf of Borrower in writing to Lender in connection with this Agreement or any of the other Financing Agreements or any transaction contemplated hereby or thereby, including, without limitation, all information on the Information Certificate is true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading. No event or circumstance has occurred which has had or could reasonably be expected to have a material

adverse affect on the business, assets or prospects of Borrower, which has not been fully and accurately disclosed to Lender in writing.

8.12 Survival of Warranties; Cumulative. All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Lender on the date of each additional borrowing or other credit accommodation hereunder and shall be conclusively presumed to have been relied on by Lender regardless of any investigation made or information possessed by Lender. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Borrower shall now or hereafter give, or cause to be given, to Lender.

SECTION 9. AFFIRMATIVE AND NEGATIVE COVENANTS.

9.1 Maintenance of Existence. Borrower shall at all times preserve, renew and keep in full force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, trademarks, trade names, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted. Borrower shall give Lender forty-five (45) days prior written notice of any proposed change in its corporate name, which notice shall set forth the new name and Borrower shall deliver to Lender a copy of the amendment to the Certificate of Incorporation of Borrower providing for the name change certified by the Secretary of State of the jurisdiction of incorporation of Borrower as soon as it is available.

9.2 New Collateral Locations. Borrower may open any new location within the continental United States provided Borrower (a) gives Lender forty-five (45) days prior written notice of the intended opening of any such new location, and (b) executes and delivers, or causes to be executed and delivered, to Lender such agreements, documents, and instruments as Lender may deem reasonably necessary or desirable to protect its interests in the Collateral at such location, including, without limitation, UCC financing statements and, if Borrower leases such new location, uses its best efforts to provide a landlord waiver or subordination in form and substance reasonably satisfactory to Lender, or, in the alternative, Lender may apply an Availability Reserve, all in a manner consistent with the Availability Reserve established to cover rent as defined in Section 1.4 hereof.

9.3 Compliance with Laws, Regulations, Etc. Except as provided on Schedule 8.7 hereto, Borrower shall, at all times, comply in all material respects with all laws, rules, regulations, licenses, permits, approvals and orders applicable to it and duly observe all requirements of any Federal, State or local governmental authority, including, without limitation, the Employee Retirement Security Act of 1974, as amended, the Occupational Safety and Hazard Act of 1970, as amended, the Fair Labor Standards Act of 1938, as amended, and all statutes, rules, regulations, orders, permits and stipulations relating to environmental pollution and employee health and safety, including, without limitation, all of the Environmental Laws.

9.4 Payment of Taxes and Claims. Borrower shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or

assets, except for taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books. If, at any time, Lender assigns, or sells participations in, all or any part of the Loans, the Letter of Credit Accommodations or any other interest herein to a foreign financial institution or other foreign Person, Borrower shall be liable for any tax or penalties imposed on Lender as a result of the financing arrangements provided for herein and Borrower agrees to indemnify and hold Lender harmless with respect to the foregoing, and to repay to Lender on demand the amount thereof, and until paid by Borrower such amount shall be added and deemed part of the Loans, provided, that, nothing contained herein shall be construed to require Borrower to pay any income or franchise taxes attributable to the income of Lender from any amounts charged or paid hereunder to Lender. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

9.5 Insurance. Borrower shall, at all times, maintain with financially sound and reputable insurers insurance with respect to the Collateral against loss or damage and all other insurance of the kinds and in the amounts customarily insured against or carried by corporations of established reputation engaged in the same or similar businesses and similarly situated. Said policies of insurance shall be satisfactory to Lender as to form, amount and insurer. Borrower shall furnish certificates, policies or endorsements to Lender as Lender shall require as proof of such insurance, and, if Borrower fails to do so, Lender is authorized, but not required, to obtain such insurance at the expense of Borrower. All policies shall provide for at least thirty (30) days prior written notice to Lender of any cancellation or reduction of coverage and that Lender may act as attorney for Borrower in obtaining, and at any time an Event of Default exists or has occurred and is continuing, adjusting, settling, amending and canceling such insurance; provided, that, so long as no Event of Default exists or has occurred and is continuing, Lender shall not amend such insurance so as to reduce the amounts of coverage without the consent of Borrower. Borrower shall cause Lender to be named as a loss payee and an additional insured (but without any liability for any premiums) under such insurance policies and Borrower shall obtain non-contributory lender's loss payable endorsements to all insurance policies in form and substance satisfactory to Lender. Such lender's loss payable endorsements shall specify that the proceeds of such insurance shall be payable to Lender as its interests may appear and further specify that Lender shall be paid regardless of any act or omission by Borrower or any of its affiliates. At its option, Lender may apply any insurance proceeds received by Lender at any time to the cost of repairs or replacement of Collateral and/or to payment of the Obligations, whether or not then due, in any order and in such manner as Lender may determine or hold such proceeds as cash collateral for the Obligations.

9.6 Financial Statements and Other Information.

(a) Borrower shall keep proper books and records in which true and complete entries shall be made of all dealings or transactions of or in relation to the Collateral and the business of Borrower and its subsidiaries (if any) in accordance with GAAP and Borrower shall furnish or cause to be furnished to Lender: (i) within thirty (30) days after the end of each fiscal month, monthly unaudited consolidated financial statements, and, if Borrower has any subsidiaries, unaudited consolidating financial statements (including in each case balance sheets, statements of income and loss, statements of cash flow and statements of shareholders' equity), all in reasonable detail, fairly presenting the financial position and the results of the operations of

Borrower and its subsidiaries as of the end of and through such fiscal month; (ii) within thirty (30) days after the end of each calendar month, a store-by-store profitability report for each of Borrower's retail locations; and (iii) within one hundred twenty (120) days after the end of each fiscal year, audited consolidated financial statements and, if Borrower has any subsidiaries, audited consolidating financial statements of Borrower and its subsidiaries (including in each case balance sheets, statements of income and loss, statements of cash flow and statements of shareholders' equity), and the accompanying notes thereto, all in reasonable detail, fairly presenting the financial position and the results of the operations of Borrower and its subsidiaries as of the end of and for such fiscal year, together with the opinion of independent certified public accountants, which accountants shall be an independent accounting firm selected by Borrower and reasonably acceptable to Lender, that such financial statements have been prepared in accordance with GAAP, and present fairly the results of operations and financial condition of Borrower and its subsidiaries as of the end of and for the fiscal year then ended.

(b) Borrower shall promptly notify Lender in writing of the details of (i) any loss, damage, investigation, action, suit, proceeding or claim relating to the Collateral or any other property which is security for the Obligations or which would result in any material adverse change in Borrower's business, properties, assets, goodwill or condition, financial or otherwise and (ii) the occurrence of any Event of Default or event which, with the passage of time or giving of notice or both, would constitute an Event of Default.

(c) Borrower shall promptly after the sending or filing thereof furnish or cause to be furnished to Lender copies of all financial reports which Borrower sends to its stockholders generally and copies of all reports and registration statements which Borrower files with the Securities and Exchange Commission, any national securities exchange or the National Association of Securities Dealers, Inc.

(d) Borrower shall furnish or cause to be furnished to Lender such budgets, forecasts, projections and other information in respect of the Collateral and the business of Borrower, as Lender may, from time to time, reasonably request. Lender is hereby authorized to deliver a copy of any financial statement or any other information relating to the business of Borrower to any court or other government agency or to any participant or assignee or prospective participant or assignee. Borrower hereby irrevocably authorizes and directs all accountants or auditors to deliver to Lender, at Borrower's expense, copies of the financial statements of Borrower and any reports or management letters prepared by such accountants or auditors on behalf of Borrower and to disclose to Lender such information as they may have regarding the business of Borrower. Any documents, schedules, invoices or other papers delivered to Lender may be destroyed or otherwise disposed of by Lender one (1) year after the same are delivered to Lender, except as otherwise designated by Borrower to Lender in writing.

(e) Borrower shall deliver, or cause to be delivered, to Lender, within ninety (90) days from the date hereof, an opening balance sheet of Borrower after giving effect to the transactions contemplated by this Agreement and the Purchase Agreements, together with the unqualified opinion of independent certified public accountants, which accountants shall be an independent accounting firm selected by Borrower and reasonably acceptable to Lender, to the effect that such opening balance sheet has been prepared in accordance with GAAP and presents fairly the financial condition of Borrower as of such date.

9.7 Sale of Assets, Consolidation, Merger, Dissolution, Etc. Borrower shall not, directly or indirectly, (a) merge into or with or consolidate with any other Person or permit any other Person to merge into or with or consolidate with it, or (b) sell, assign, lease, transfer, abandon or otherwise dispose of any stock or indebtedness to any other Person or any of its assets to any other Person (except for (i) sales of Inventory in the ordinary course of business, (ii) the sale or other disposition of Equipment in the event of a store closure, and (iii) the disposition of Equipment so long as (A) if an Event of Default exists or has occurred and is continuing, any proceeds are paid to Lender (B) such sales do not involve Equipment having an aggregate fair market value in excess of One Hundred Thousand Dollars ($ 100,000) for all such Equipment disposed of in any fiscal year of Borrower and (C) Borrower reinvests the proceeds from the sale of such Equipment (other than worn-out or obsolete Equipment or Equipment no longer used in the business of Borrower) to benefit the ordinary business purpose of Borrower), or (c) form or acquire any subsidiaries, or (d) wind up, liquidate or dissolve or (e) agree to do any of the foregoing.

9.8 Encumbrances. Borrower shall not create, incur, assume or suffer to exist any security interest, mortgage, pledge, lien, charge or other encumbrance of any nature whatsoever on any of its assets or properties, including, without limitation, the Collateral, except: (a) the liens and security interests of Lender, (b) liens securing the payment of taxes, either not yet overdue or the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books; (c) security deposits in the ordinary course of business; (d) non-consensual statutory liens (other than liens securing the payment of taxes) arising in the ordinary course of Borrower's business to the extent: (i) such liens secure indebtedness which is not overdue or (ii) such liens secure indebtedness relating to claims or liabilities which arc fully insured and being defended at the sole cost and expense and at the sole risk of the insurer (subject to applicable deductibles) or being contested in good faith by appropriate proceedings diligently pursued and available to Borrower, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books; (e) liens in favor of credit card processors with respect to Credit Card Receivables processed by them; (f) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the business of Borrower as presently conducted thereon or materially impair the value of the real property which may be subject thereto; (g) purchase money security interests in Equipment (including capital leases) and purchase money mortgages on real estate or other security interests in equipment or fixtures so long as such security interests and mortgages do not apply to any property of Borrower other than the Equipment or real estate so acquired, and the indebtedness secured thereby does not exceed the cost of the Equipment or real estate so acquired, as the case may be; (h) deposits of cash with the owner or lessor of premises leased by Borrower, and (i) the security interests and liens set forth on Schedule 8.4 hereto.

9.9 Indebtedness. Borrower shall not incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, except:

(a) the Obligations;

(b) trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which Borrower is contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books;

(c) purchase money indebtedness (including capital leases) to the extent not incurred or secured by liens (including capital leases) in violation of any other provision of this Agreement;

(d) unsecured indebtedness to former employees of Borrower in an aggregate amount not to exceed Five Hundred Thousand Dollars ($500,000) at any time, provided, that, (i) such indebtedness shall at all times be evidenced by a promissory note, containing terms and conditions satisfactory to Lender, including, without limitation, a provision subordinating the right of payment of such indebtedness to the right of Lender to receive the prior final payment and satisfaction in full of all of the Obligations, (ii) Borrower shall not, directly or indirectly, make any payments in respect of such indebtedness, including, but not limited to, any prepayments or other non-mandatory payments, except that until an Event of Default, or event which with notice or passage of time or both would constitute an Event of Default, shall exist or have occurred and be continuing, Borrower may make regularly scheduled payments of principal and interest in accordance with the terms of such agreement or instrument as in effect on the date hereof, (ii) Borrower shall not, directly or indirectly, (A) amend, modify, alter or change any terms of such indebtedness or any agreement, document or instrument related thereto, or (B) redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, and (iii) Borrower shall furnish to Lender all notices, demands or other materials concerning such indebtedness either received by Borrower or on its behalf, promptly after receipt thereof, or sent by Borrower or on its behalf, concurrently with the sending thereof, as the case may be; and

(e) obligations or indebtedness set forth on the Information Certificate; provided, that, (i) Borrower may only make regularly scheduled payments of principal and interest in respect of such indebtedness in accordance with the terms of the agreement or instrument evidencing or giving rise to such indebtedness as in effect on the date hereof, (ii) Borrower shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such indebtedness or any agreement, document or instrument related thereto as in effect on the date hereof, or (B) except as otherwise permitted under this Agreement, redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, and (iii) Borrower shall furnish to Lender all notices or demands in connection with such indebtedness either received by Borrower or on its behalf, promptly after the receipt thereof, or sent by Borrower or on its behalf, concurrently with the sending thereof, as the case may be.

9.10 Loans, Investments, Guarantees, Etc. Borrower shall not, directly or indirectly, make any loans or advance money or property to any person, or invest in (by capital contribution, dividend or otherwise) or purchase or repurchase the stock or indebtedness or all or a substantial part of the assets or property of any person, or guarantee, assume, endorse, or otherwise become responsible for (directly or indirectly) the indebtedness, performance, obligations or dividends of any Person or agree to do any of the foregoing, except: (a) the

endorsement of instruments for collection or deposit in the ordinary course of usiness; (b) investments in: (i) short-term direct obligations of the United States Government, (ii) negotiable certificates of deposit issued by any bank satisfactory to Lender, payable to the order of the Borrower or to bearer and delivered to Lender, and (iii) commercial paper rated Al or P1; provided, that, as to any of the foregoing, unless waived in writing by Lender, Borrower shall take such actions as are deemed necessary by Lender to perfect the security interest of Lender in such investments; (c) the loan to Ted Boswell and George Bellino in an amount not to exceed Thirty-Five Thousand Dollars ($35,000) in the aggregate as evidenced by a promissory note; and (d) the guarantees set forth in the Information Certificate.

9.11 Dividends and Redemptions. Borrower shall not, directly or indirectly, declare or pay any dividends on account of any shares of any class of capital stock of Borrower now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class of capital stock (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other than common stock or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or agree to do any of the foregoing, except Borrower may redeem shares of capital stock owned by the management employees of Borrower, provided, that, (a) no Event of Default exists, or has occurred and is continuing (b) no more than Five Hundred Thousand Dollars ($500,000) is paid by Borrower to its employees in any twelve (12) month period to redeem such stock and (c) Excess Availability is not less than One Million Dollars ($1,000,000) after giving effect to such redemption.

9.12 Transactions with Affiliates. Borrower shall not enter into any transaction for the purchase, sale or exchange of property or the rendering of any service to or by any affiliate, except in the ordinary course of and pursuant to the reasonable requirements of Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than Borrower would obtain in a comparable arm's length transaction with an unaffiliated person, except so long as an Event of Default does not exist or has occurred and is continuing, Borrower may pay Hampshire Equity Partners II, L.P. a management fee not to exceed One Hundred Twenty Thousand Dollars ($120,000) in any fiscal year of Borrower.

9.13 Compliance with ERISA. Borrower shall not with respect to any "employee pension benefit plans" maintained by Borrower or any of its ERISA Affiliates:

(a) (i) terminate any of such employee pension benefit plans so as to incur any liability to the Pension Benefit Guaranty Corporation established pursuant to ERISA; (ii) allow or suffer to exist any prohibited transaction involving any of such employee pension benefit plans or any trust created thereunder which would subject Borrower or such ERISA Affiliate to a material tax or penalty or other liability on prohibited transactions imposed under Section 4975 of the Code or ERISA; (iii) fail to pay to any such employee pension benefit plan any contribution which it is obligated to pay under Section 302 of ERISA, Section 412 of the Code the terms of such plan; (iv) allow or suffer to exist any accumulated funding deficiency, whether or not waived, with respect to any such employee pension benefit plan; (v) allow or suffer to exist any occurrence of a reportable event or any other event or condition which presents a material risk of termination by the Pension Benefit Guaranty Corporation of any such employee pension benefit plan that is a single employer plan, which termination could result in any

material liability to the Pension Benefit Guaranty Corporation; or (vi) incur any withdrawal liability with respect to any multiemployer pension plan.

(b) As used in this Section 9.13, the term "employee pension benefit plans," "employee benefit plans," "accumulated funding deficiency" and "reportable event" shall have the respective meanings assigned to them in ERISA, and the term "prohibited transaction" shall have the meaning assigned to it in Section 4975 of the Code and ERISA.

9.14 Year 2000 Matter. The Borrower has reviewed the areas within its business and operations which could be adversely affected by, and have developed or are developing a program to address on a timely basis, the "Year 2000 Problem" (that is, the risk that computer applications used by the Borrower may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date on or after December 31, 1999). Based on such review and program, the Borrower believes that the "Year 2000 Problem", to the extent resulting from a deficiency in the hardware or software operated by the Borrower, will not have a material adverse effect on the Borrower, and that such program to address the "Year 2000 Problem" shall have been resolved in all material respects by June 30, 1999. From time to time, at the request of the Lender, the Borrower shall provide to the Lender such updated information of documentation as is requested regarding the status of their efforts to address the "Year 2000 Problem".

9.15 Adjusted Tangible Net Worth. Borrower shall, at the end of each fiscal quarter of Borrower, maintain Adjusted Tangible Net Worth of not less than (i) Adjusted Tangible Net Worth as calculated by Deloitte & Touche in their opening audited balance sheet, minus (ii) One Million Two Hundred Fifty Thousand Dollars ($1,250,000). In no event shall Adjusted Tangible Net Worth be less than One Million Dollars ($1,000,000).

9.16 Costs and Expenses. Borrower shall pay to Lender on demand all costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Lender's rights in the Collateral, this Agreement, the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including, but not limited to: (a) all costs and expenses of filing or recording (including Uniform Commercial Code financing statement filing taxes and fees, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable);(b) costs and expenses and fees for title insurance and other insurance premiums, environmental audits, surveys, assessments, engineering reports and inspections, appraisal fees and search fees; (c) costs and expenses of remitting loan proceeds, collecting checks and other items of payment, and establishing and maintaining the Blocked Accounts, together with Lender's customary charges and fees with respect thereto; (d) charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations; (e) costs and expenses of preserving and protecting the Collateral; (f) costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the security interests and liens of Lender, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this Agreement and the other Financing Agreements or defending any claims made or threatened against Lender arising out of the transactions contemplated hereby and thereby (including,

without limitation, preparations for and consultations concerning any such matters); (g) all out-of-pocket expenses and costs incurred by Lender's examiners in the conduct of their periodic field examinations of the Collateral and Borrower's operations, plus a per diem charge at the rate of $650 per person per day for Lender's examiners in the field and office; and (h) the reasonable fees and disbursements of counsel (including legal assistants) to Lender in connection with any of the foregoing.

9.17 Further Assurances. At the request of Lender at any time and from time to time, Borrower shall, at its expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the security interests and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements. Lender may at any time and from time to time request a certificate from an officer of Borrower representing on behalf of Borrower that all conditions precedent to the making of Loans and providing Letter of Credit Accommodations contained herein are satisfied. In the event of such request by Lender, Lender may, at its option, cease to make any further Loans or provide any further Letter of Credit Accommodations until Lender has received such certificate and, in addition, Lender has determined that such conditions are satisfied. Where permitted by law, Borrower hereby authorizes Lender to execute and file one or more UCC financing statements signed only by Lender.

SECTION 10. EVENTS OF DEFAULT AND REMEDIES.

10.1 Events of Default. The occurrence or existence of any one or more of the following events are referred to herein individually as an "Event of Default," and collectively as "Events of Default":

(a) Borrower fails to pay when due any of the Obligations;

(b) Borrower fails to perform any of the covenants contained in Sections 9.1, 9.2, 9.3, 9.4, 9.6, 9.13, 9.14, 9.15 and 9.16 of this Agreement and such failure shall continue for fifteen (15) days; provided, that, such fifteen (15) day period shall not apply in the case of: (i) any failure to observe any such covenant which is not capable of being cured at all or within such fifteen (15) day period or which has previously been the subject of a prior failure within the prior twelve (12) months period or (ii) an intentional breach by Borrower of any such covenant;

(c) Borrower fails to perform any of the terms, covenants, conditions or provisions contained in this Agreement or any of the other Financing Agreements (other than the covenants set forth in Section 10.1(b) above) and such failure shall continue for five (5) Business Days; provided; that, such five (5) Business Day period shall not apply in the case of: (i) any failure to observe any such term, covenant, condition or provision which is not capable of being cured at all or within such five (5) Business Day period or which has previously been the subject of a prior failure within the prior twelve (12) month period or (ii) an intentional breach by Borrower of such term, covenant, condition or provision;

(d) any representation, warranty or statement of fact made by Borrower to Lender in this Agreement, the other Financing Agreements or any other agreement, schedule, confirmatory assignment or otherwise shall when made or deemed made be false or misleading in any material respect;

(e) any Obligor revokes, terminates or fails to perform any of the terms, covenants, conditions or provisions of any guarantee, endorsement or other agreement of such party in favor of Lender;

(f) any judgment for the payment of money is rendered against Borrower in excess of Fifty Thousand Dollars ($50,000) in any one case or in excess of Two Hundred Thousand Dollars ($200,000) in the aggregate and shall remain undischarged or unvacated for a period in excess of thirty (30) days or execution shall at any time not be effectively stayed, or any material judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against Borrower or any Obligor or any of their assets;

(g) Borrower or any Obligor, which is a partnership, limited liability company, or corporation, dissolves or suspends or discontinues doing business;

(h) Borrower or any Obligor becomes insolvent (however defined or evidenced), makes an assignment for the benefit of creditors, makes or sends notice of a bulk transfer or calls a meeting of its creditors or principal creditors;

(i) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed against Borrower or any Obligor or all or any part of its properties and such petition or application is not dismissed within thirty (30) days after the date of its filing or Borrower or any Obligor shall file any answer admitting or not contesting such petition or application or indicates its consent to, acquiescence in or approval of, any such action or proceeding or the relief requested is granted sooner;

(j) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at a law or equity) is filed by Borrower or for all or any Obligor or any part of its property;

(k) any default by Borrower or any Obligor under any agreement, document or instrument relating to any indebtedness for borrowed money owing to any person other than Lender, or any capitalized lease obligations, contingent indebtedness in connection with any guarantee, letter of credit, indemnity or similar type of instrument in favor of any person other than Lender, in any case in an amount in excess of One Hundred Fifty Thousand Dollars ($150,000) which default continues for more than the applicable cure period, if any, with respect thereto, or any default by Borrower or any Obligor under any material contract, lease, license or other obligation to any person other than Lender, which default continues for more than the applicable cure period, if any, with respect thereto;

(l) Hampshire Equity Partners II, L.P. shall own or otherwise control less than 50.1% of all issued and outstanding voting stock of Borrower;

(m) the indictment or threatened indictment of Borrower or any Obligor under any criminal statute, or the commencement or threatened commencement of criminal or civil proceedings against Borrower or any Obligor, pursuant to which statute or proceedings the penalties or remedies sought or available include forfeiture of any of the property of Borrower or such Obligor;

(n) there shall be a material adverse change in the business or assets of Borrower or any Obligor after the date hereof; or

(o) there shall be an event of default under any of the other Financing Agreements.

10.2 Remedies.

(a) At any time an Event of Default exists or has occurred and is continuing, Lender shall have all rights and remedies provided in this Agreement, the other Financing Agreements, the Uniform Commercial Code and other applicable law, all of which rights and remedies may be exercised without notice to or consent by Borrower or any Obligor, except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Lender hereunder, under any of the other Financing Agreements, the Uniform Commercial Code or other applicable law, are cumulative, not exclusive and enforceable, in Lender's discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include, without limitation, the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by Borrower of this Agreement or any of the other Financing Agreements. Lender may, at any time or times, proceed directly against Borrower or any Obligor to collect the Obligations without prior recourse to the Collateral.

(b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Lender may, in its discretion and without limitation:

(i) accelerate the payment of all Obligations and demand immediate payment thereof to Lender (provided, that, upon the occurrence of any Event of Default described in Sections 10.1(i) and 10.1(j), all Obligations shall automatically become immediately due and payable);

(ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral;

(iii) require Borrower, at Borrower's expense, to assemble and make available to Lender any part or ail of the Collateral at any place and time designated by Lender;

(iv) collect, foreclose, receive, appropriate, setoff and realize upon any and all Collateral;

(v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose;

(vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including, without limitation, entering into contracts with respect thereto,public or private sales at any exchange, broker's board, at any office of Lender or elsewhere) at such prices or terms as Lender may deem reasonable, for cash, upon credit or for future delivery, with the Lender having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Borrower, which right or equity of redemption is hereby expressly waived and released by Borrower, and/or

(vii) terminate this Agreement.

If any of the Collateral is sold or leased by Lender upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Lender. If notice of disposition of Collateral is required by law, five (5) days prior notice by Lender to Borrower designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and Borrower waives any other notice. In the event Lender institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, Borrower waives the posting of any bond which might otherwise be required.

(c) Lender shall apply the cash proceeds of Collateral actually received by Lender from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in such order as Lender may elect, whether or not then due. Borrower shall remain liable to Lender for the payment of any deficiency with interest at the highest rate provided for herein and all costs and expenses of collection or enforcement, including reasonable attorneys' fees and legal expenses.

(d) Without limiting the foregoing, upon the occurrence of an Event of Default or an event which with notice or passage of time or both would constitute an Event of Default, Lender may, at its option, without notice: (i) cease making Loans or arranging Letter of Credit Accommodations or reduce the lending formulas or amounts of Loans and Letter of Credit Accommodations available to Borrower, and/or (ii) terminate any provision of this Agreement providing for any future Loans or Letter of Credit Accommodations to be made by Lender to Borrower.

SECTION 11. JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW.

11.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

(a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of New York (without giving effect to principles of conflicts of law); provided, however, with respect to perfecting Lender's security interest and lien on the deposit accounts of Borrower, such acts shall be governed by the Uniform Commercial Code of the State of California (without giving effect to principles of conflicts of law.

(b) Borrower and Lender irrevocably consent and submit to the non-exclusive jurisdiction of the state courts of the County of New York, State of New York and of the United States District Court for the Southern District of New York and waive any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of the parties hereto in respect of this Agreement or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that Lender shall have the right to bring any action or proceeding against Borrower or its property in the courts of any other jurisdiction which Lender deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Borrower or its property).

(c) Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited hi the U.S. mails, or, at Lender's option, by service upon Borrower in any other manner provided under the rules of any such courts.

(d) BORROWER AND LENDER EACH HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. BORROWER AND LENDER EACH HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT BORROWER OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS

AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) Lender shall not have any liability to Borrower (whether in tort, contract, equity or otherwise) for losses suffered by Borrower in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Lender, that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation, Lender shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of this Agreement.

11.2 Waiver of Notices. Borrower hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonor with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on Borrower which Lender may elect to give shall entitle Borrower to any other or further notice or demand in the same, similar or other circumstances.

11.3 Amendments and Waivers. Neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Lender. Lender shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

11.4 Indemnification. Borrower shall indemnify and hold Lender, and its directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including, without limitation, amounts paid in settlement, court costs, and the reasonable fees and expenses of counsel. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section 11.4 may be unenforceable because it violates any law or public policy, Borrower shall pay the maximum portion which it is permitted to pay under applicable law to Lender in satisfaction of indemnified matters under this Section. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

SECTION 12. TERM OF AGREEMENT; MISCELLANEOUS.

12.1 Term.

(a) This Agreement and the other Financing Agreements shall become effective as of the date set forth on the first page hereof and shall continue in full force and effect for a term ending on the date three (3) years from the date hereof. Regardless of the timing of termination, this Agreement and all other Financing Agreements must be terminated simultaneously. Upon me effective date of termination of the Financing Agreements, Borrower shall pay to Lender, in full, all outstanding and unpaid Obligations and shall furnish cash collateral to Lender in such amounts as Lender determines are reasonably necessary to secure Lender from loss, cost, damage or expense, including reasonable attorneys' fees and legal expenses, in connection with any contingent Obligations, including issued and outstanding Letter of Credit Accommodations and checks or other payments provisionally credited to the Obligations and/or as to which Lender has not yet received final and indefeasible payment Such cash collateral shall be remitted by wire transfer in Federal funds to such bank account of Lender, as Lender may, in its discretion, designate in writing to Borrower for such purpose. Interest shall be due until and including the next Business Day, if the amounts so paid by Borrower to the bank account designated by Lender are received in such bank account later than 3:00 p.m., New York time.

(b) No termination of this Agreement or the other Financing Agreements shall relieve or discharge Borrower of its respective duties, obligations and covenants under this Agreement or the other Financing Agreements until all Obligations have been fully and finally discharged and paid, and Lender's continuing security interest in the Collateral and the rights and remedies of Lender hereunder, under the other Financing Agreements and applicable law, shall remain in effect until all such Obligations have been fully and finally discharged and paid.

(c) If for any reason this Agreement is terminated prior to the end of the then current term or any agreed upon renewal term of this Agreement, in view of the impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Lender's lost profits as a result thereof, Borrower agrees to pay to Lender, upon the effective date of such termination, an early termination fee in the amount set forth below if such termination is effective in the period indicated:

	Amount	Period
(i)	1% of the Maximum Credit	from the date of this Agreement to and including the first anniversary of this Agreement
(ii)	1% of the Maximum Credit	from the day after the first anniversary of this Agreement to and including the second anniversary of this Agreement

	Amount	Period
(iii)	0.5% of the Maximum Credit	from the day after the second anniversary of this Agreement to and including the end of the term of this Agreement.

Such early termination fee shall be presumed to be the amount of damages sustained by Lender as a result of such early termination and Borrower agrees that it is reasonable under the circumstances currently existing. Lender shall be entitled to such early termination fee upon the occurrence of any Event of Default described in Sections 10.1(i) and 10.1(j) hereof, even if Lender does not exercise its right to terminate this Agreement, but elects, at its option, to provide financing to Borrower or permit the use of cash collateral under the United States Bankruptcy Code; provided, however, if Lender waives such Event of Default, does not exercise its rights to terminate this Agreement and continues financing Borrower, such early termination fee shall not be due and payable by Borrower at such time. The early termination fee provided for in this Section 12.1 shall be deemed included in the Obligations.

Notwithstanding the foregoing, the early termination fee shall be waived (a) after the first anniversary of this Agreement, if the termination is due to the refinancing of the Obligations by First Union National Bank and if there is no Event of Default or event or circumstance which, with notice or passage of time or both, would become an Event of Default under this Agreement or (b) if Borrower chooses to exercise the right to terminate this Agreement and the other Financing Agreements upon any assignment by Lender of its rights or obligations under or related to this Agreement or the other Financing Agreements to a non-U.S. Lender, defined as any Lender that is not a "United States person," within the meaning of Section 7701(a)(30) of the Code.

12.2 Notices. All notices, requests and demands hereunder shall be in writing and: (a) made to Lender at its address set forth below and to Borrower at its chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision; and (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next Business Day, one (1) Business Day after sending; and if by certified mail, return receipt requested, five (5) days after mailing.

12.3 Partial Invalidity. If any provision of this Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Agreement as a whole, but this Agreement shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.

12.4 Successors. This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon and inure to the benefit of and be enforceable by Lender, Borrower and their respective successors and assigns, except that Borrower may not assign its rights under this Agreement, the other Financing Agreements and

any other document referred to herein or therein without the prior written consent of Lender. Lender may, after notice to Borrower, assign its rights and delegate its obligations under this Agreement and the other Financing Agreements (a) to any of its present and future domestic subsidiaries or affiliates that are in the business of making loans or otherwise have arrangements for the making of loans or (b) to the extent of the interests of Participants as provided herein, or (c) upon the merger, consolidation, sale, transfer, or other disposition of all or any substantial portion of its business, loan portfolio or other assets or (d) at any time an Event of Default shall exist or have occurred and be continuing or (e) with the consent of Borrower, which shall not be unreasonably withheld, delayed or conditioned. In addition, Lender may sell participations in any part of the Loans, the Letter of Credit Accommodations or any other interest herein to another financial institution or other Person.

12.5 Entire Agreement. This Agreement, the other Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto, and supersede all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.

12.6 Confidentiality. Lender hereby agrees that all written or oral information disseminated by Borrower to Lender concerning Borrower, now or hereafter is confidential (the "Confidential Information"). The Confidential Information: (i) shall be kept confidential by Lender and will not be disclosed, divulged or provided to any Person without Borrower's prior written consent; provided, however, that the Confidential Information may be disclosed: (A) to Lender's officers and employees or any of Lender's affiliated companies' officers and employees, independent attorneys, accountants, loan participants and appraisers who need to know such Confidential Information for the purpose of evaluating the financing of Borrower hereunder; or (B) if such disclosure is required by operation of law, and (ii) shall not be deemed to include information which: (A) is public knowledge or becomes generally available to the public; (B) becomes available to Lender, on a non-confidential basis, from Borrower or its agents; or (c) is in Lender's possession prior to disclosure by Borrower.

12.7 Publicity. Lender may publish a tombstone or similar advertising material relating to the financing transaction contemplated by this Agreement with Borrower's consent, which shall not be unreasonably withheld.

IN WITNESS WHEREOF, Lender and Borrower have caused these presents to be duly executed as of the day and year first above written.

LENDER	BORROWER
CONGRESS FINANCIAL CORPORATION (SOUTHWEST)	ALLIED FASHION, INC.
By:/s/ Frederick P. Kiehne	By: /s/ Olivier C. Trouveroy
Name:Frederick P. Kiehne	Name:Olivier C. Trouveroy
Title:Vice President	Title:Executive Vice President
Address:	Chief Executive Office:
1201 Main Street, Suite 1625 Dallas, Texas 75202	102 Fahm Street Savannah, Georgia 31401

INFORMATION CERTIFICATE
OF
ALLIED FASHION, INC.

Dated:_____199__

Congress Financial Corporation (Western)
225 South Lake Avenue Suite 1000
Pasadena, CA 91101

In order to assist you in the continuing evaluation of the financing you are considering for Allied Fashion Inc. ("the Corporation"), and to expedite the preparation of any documentation which may be required, and to induce you to provide such financing to the Corporation, we represent and warrant to you the following information about the Corporation, its organizational structure and other manners of interest to you:

1. The full and exact name of the Corporation as set forth in its Certificate of Incorporation is: Allied Fashion, Inc.

2. The Corporation uses and owns the following trade name(s) in the operation of its business (i.e. billing, advertising, etc.): (Note, do not include names which are product names only):

   Allied Fashion for kids, Allied Department Store, Allied Kidswear, Kidswear, Sugar Grove, ALady fashions, APlus Fashions, Mad Mervin's

3. The date of incorporation of the Corporation was March 3, 1999, under the laws of the State of Delaware, and the Corporation is in good standing under those laws.

   Check one: Correct [X] Incorrect[ ]. If incorrect, explain:
   _____
   _____

4. The Corporation has never been involved in a bankruptcy or reorganization. Check one: Correct[X] Incorrect[ ]. If incorrect, explain:
   _____
   _____
   _____

5. The Corporation is duly qualified and authorized to transact business as a foreign corporation in the following states and is in good standing in such states:

   Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina

6. Since the date of incorporation, the corporate name of the Corporation has been changed as follows: Check, if appropriate: Not Applicable [X]

7. Since the date of incorporation, the Corporation has made or entered into the following mergers or acquisitions: Check. if appropriate: None, Acquisition of the Allied Division of Variety Wholesalers, Inc., as of the date hereof.

8. The chief executive office of the Corporation is located at:
102 Fahm Street, Savannah 6A

9: The books and records of the Corporation pertaining to accounts, contract rights, inventory, etc. are located at (if other than the chief executive office referred to in Section 7 above):
102 Fahm Street Savannah 6A

10. The Corporation has other places of business and/or maintains inventory or other assets at the following addresses (indicate whether locations are: owned, leased or operated by third parties and if leased or operated by third parties, their names and addresses): See Exhibit A attached here to.

11. Listed below is a complete list of real property owned by the Corporation with all respective trust deeds or mortgages against the properties. Check if appropriate: No real property owned [X].

12. The places of business or other locations of any assets utilized by the Corporation during the last four (4) months other than those listed above are as follows: None

Street Address	City	State	County
Street Address	City	State	County
Street Address	City	State	County

13. The Corporation is affiliated with, or has ownership in, the following corporations (including subsidiaries): None

Exact Name	Chief Executive Office	Jurisdiction of Incorporation	Ownership Percentage or Relationship	Fed Tax ID Number
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

14. The Federal Employer Identification Number of the Corporation is as follows 52-2150697

15. There is no provision in the Certificate of Incorporation or By-laws of the Corporation, or in the laws of the State of its incorporation, requiring any vote or consent of shareholders to borrow or to authorize the mortgage or pledge of or creation of a security interest in any assets of the Corporation or any subsidiary. Such power is vested exclusively in its Board of Directors. Check one: Correct [X] Incorrect[ ]. If incorrect, explain:_____
_____
_____
_____

16. The primary officers of the Corporation and their respective titles are as follows:

Title	Name
President & CEO	George Bellino
Assistant Secretary, Executive VP	Olivier Trouveroy
CFO, Secretary	Ted Boswell

The following will have signatory powers as to all of your transaction with the Corporation:
Olivier Trouveroy, George Bellino, Ted Boswell

17. With respect to the officers noted above, such officers are affiliated with or have ownership in the following corporations: If none, check here See Exhibit B attached here to.

Officer's Name	Corporate Name	Type of Business	% Ownership

18. The members of the Board of Directors of the Corporation are:
Olivier Trouveroy
_____
_____
_____
_____
_____
_____

19. The name of the stockholders of the Corporation and their stock holdings are as follows (if stock is widely held indicate only stockholders owning 10% or more of the voting stock):

Name	No. of Shares	% Ownership
Hampshire Equity Partners II,.L.P.	339,500	97.3%
George Bellino	7,500	1.93%
Ted Boswell	3,000	0.77%

20. There are no pending or threatened judgments and there is no pending or threatened litigation by or against the Corporation, its subsidiaries and/or affiliates or any of its officers/principals.
Check one : Correct [X] Incorrect [ ]. If incorrect, explain exceptions :_____

21. At the present time, there are no delinquent taxes due (including, but not limited to, all payroll taxes, personal property taxes).
Check one: Correct [X] Incorrect [ ]. If incorrect, explain exceptions :_____

22. The Corporation's assets are owned and held free and clear of any security interests, liens or attachments.
Check one: Correct [ ] Incorrect [X]. If incorrect, list below:

Lienholder	Assets	Amount of Debt Secured
Statutory Landlords Liens in the State where qualified to do business		

23. The Corporation has not guaranteed and is not otherwise liable for the obligations of others.
Check one: Correct [X] Incorrect [ ]. If incorrect, explain:

24. The Corporation does not own or license any trademarks, patents, copyright or other intellectual property.
Check one: Correct [ ] Incorrect [X]. If incorrect, indicate the type of intellectual property and whether owned or licensed, registration number, date of registration, and if licensed, the name and address of the licensor:

Trademark Applications for Allied Fashion for Less (751,512,682) and Allied Department Stores (751,512,681)

25. The Corporation's fiscal year end is: December 31

26. With regard to any pension or profit sharing plan; N/A

(a.) A determination as to qualification has been issued: Yes [ ] No [ ].
(b.) Funding is on a current basis and in compliance with established requirements:Yes [ ] No [ ].

27. The Certified Public Accounting firm for the Corporation is:

Name of firm Deloitte & Touche LLP
Address 191 Peachtree Street, St. 1500, Atlanta, GA 30303
Patrner handling relationship Roger Herndon
Phone Number 404-220-1864
Were financial statements uncertified for any fiscal year Yes [ ] No [X].

28. The law firm for the Corporation is:

Name of firm Mayer, Brown & Platt
Address 1675 Broadway, New York, NY 10019
Partner handling relationship Kathleen A. Walsh
Phone Number 212-506-2500

29. The name of all insurers, who have issued policies of insurance to the Corporation, their address, the number of the policy and the nature of the insurance coverage provided are as follows:

See Exhibit D attached hereto.

Insurer	Address	Policy No.	Nature of Coverage

30. The following are all banks or savings institutions at which the Corporation and its subsidiaries maintain deposit accounts:

See Exhibit C attached hereto.

Institution	Account Number	Branch Address	Corporation or Subsidiary

31. Prompt written notice will be given to you of any change or amendment with respect to any of the foregoing. Until such notice is received by you. you shall be entitled to rely upon the foregoing in all respects.

CORPORATE SEAL TO BE
AFFIXED HEREIN BELOW

Very Truly Yours.

ALLIED FASHION, INC.

By: George Bellino
Title: President

EXHIBIT A

Collateral Locations

STORE NO.	LOCATION
02/ 501	203 N PARLER AVE. ST. GEORGE, SC 29477 843 563-3539
07/ 505	215 S PALMETTO AVE. DENMARK, SC 29042 803 793-3171
11/ 508	323 COTTON AVE. MILLEN, GA 30442 JENKINS COUNTY 912 982-1534
12/ 509	CARTER SHOPPING PLAZA 1922 BURR STREET BARNWELL, SC 29812 BARNWELL COUNTY 803 259-3946
13/ 510	201-203 W BROUGHTON ST. SAVANNAH, GA 31401 912 234-3342
16/ 513	122 N MAIN STREET BAXLEY,GA 31513 912 367-4464
19/ 649	WESTSIDE SHOPPING CTR HIGHWAY 80 GARDEN CITY,GA 31408 912 966-5009
20/ 515	16 RIGBY STREET MANNING, SC 29102 803 435-8731
21/ 516	703-707 LIBERTY STREET WAYNESBORO, GA 30830 706 554-2348
22/ 517	108 W. BROAD STREET LOUISVILLE, GA 30434 912 625-7419
23/ 518	107 W. BARNARD GLENNVILLE, GA 30427 912 654-2220
25/ 520	722 SPRING STREET SPARTA, GA 31087 706 444-6941

STORE NO.	LOCATION
55/ 542	20 BROAD STREET CAMILLA, GA 31730 912 336-7427
56/ 543	12 WASHINGTON STREET QUINCY, FL 32351 850 627-3254
57/ 544	115 E. MAIN STREET KINGSTREE, SC 29556 803 354-9756
58/ 545	149 S. BROAD STREET CARIO, GA 31728 912 377-8366
63/ 547	100 W. JACKSON STREET DUBLIN, GA 31021 912 275-2399
65/ 549	315 MAIN STREET MONCKS CORNER, SC 29461 843 761-8687
67/ 551	120 S. MAIN STREET BLAKELY,GA 31723 912 723-8715
69/ 552	NAPIER SQ. SHOPPING CTR 949 HILLCREST BLVD MACON, GA 31204 912 742-3018
70/ 553	SOUTH GATE PLAZA 1631 GORDON H-WAY AUGUSTA, GA 30906 706 790-5982
71/ 554	4121-B W. BELTLINE BLVD EDENS PLAZA COLUMBIA,SC 29204 803 256-2719
72/ 555	317-321 N. MAIN STREET MARION, SC 29571 803 423-4036
73/ 556	3 LEWIS SMITH SHOP/CTR WHITEVILLE, NC 28472 910 642-2191
76/ 557	112 S. MAIN STREET TUSKEGEE, AL 36083 334 727-9455

STORE NO.	LOCATION
27/ 522	115 LEE AVENUE HAMPTON, SC 29924 HAMPTON COUNTY 803 943-2644
30/ 525	104-108 W. BROAD STREET P.O. BOX 387 HEMINGWAY, SC 29554 803 558-5019
34/ 527	458 LEE STREET JOHNSTON, SC 29832 803 275-2342
35/ 528	8-20 OAK STREET JACKSON, GA 30233 770 775-2333
36/ 529	136 RUSSEL STREET ORANGEBURG, SC 29115 803 534-0670
40/ 531	135 MAIN STREET FT. VALLEY, GA 31030 912 825-8162
41/ 532	930 FRONT STREET GEORGETOWN, SC 29440 803 546-5469
42/ 533	112 W. MAIN STREET DILLON, SC 29536 843 774-6331
44/ 535	6 S. MAIN STREET MOULTRIE, GA 31768 912 985-3310
45/ 536	201 E. SCREVEN STREET QUITMAN, GA 31643 912 263-7774
47/ 537	146 MARKET STREET CHERA W, SC 29520 843 537-2568
49/ 538	205 WASHINGTON STREET WALTERBORO, SC 29488 803 549-5813
52/ 540	117 W. 11TH AVENUE CORDELE.GA 31015 912 273-1014
53/ 648	EDISTO VILLAGE H-WAY 301 ORANGEBURG.SC 29115 803 536-6548

STORE NO.	LOCATION
91/ 645	NORTHSIDE SHOPPING CTR 3599 N. PATTERSON AVE. WINSTON-SALEM, NC 27105 336 767-7688
120/ 574	FIVE POINT SHOPPING CTR 3144-A N. ASHLEY STREET VALDOSTA,GA 31602 912 244-8551
121/ 575	PERLIS PLAZA SHOPPING CTR 1536 E. FORSYTH STREET AMERICUS, GA 31709 912 928-3341
123/ 577	TRI-CITIES SHOPPING CTR 3206 E. MAIN STREET EASTPOINT, GA 30344 FULTON COUNTY 404 762-6533
128/ 608	EASTGATE SHOPPING CTR LA HIGHWAY 10 FRANKLINTON, LA 70438 504 839-5527
130/ 606	810 US HWY 64 EAST PLYMOUTH, NC 27962 252 793-3578
132/ 609	601 W. MAIN STREET WEST POINT, MS 39773 601 494-5436
133/ 610	112-114 N. CENTER STREET GOLDSBORO, NC 27530 919 580-1179

STORE NO.	LOCATION
77/ 558	NORTHWAY PLAZA 5112 FAIRFIELD ROAD COLUMBIA, SC 29204 803 754-2451
78/ 559	20 N. MAIN STREET SUMTER, SC 29150 803 775-2986
79/ 636	344-A NORTHEAST BLVD CLINTON, NC 28328 910 590-3664
81/ 561	150 N. DARGAN STREET FLORENCE, SC 29501 843 667-4255
83/ 639	GREENVILLE BUYERS MARKET MEMORIAL DRIVE GREENVILLE, NC 27834 919 355-0945
84/ 562	225-227 E. NASH STREET WILSON, NC 27893 252 291-8937
86/ 643	SUMMIT SHOPPING CTR 940 SUMMIT AVENUE GREENSBORO, NC 27405 336 691-9880
87/ 564	502 13TH STREET PHENIX PLAZA PHENIX CITY, AL 36867 334 297-2542
88/ 565	483-485 KING STREET CHARLESTON, SC 29403 843 577-6786
89/ 566	5451 NORWOOD AVENUE NORWOOD PLAZA JACKSONVILLE, FL 32208 904 768-6976
90/ 567	SHIPWATCH PLAZA 3655 RIVERS AVENUE N. CHARLESTON, SC 29405 803 554-9055

STORE NO.	LOCATION
137/ 583	TRIANGLE MART SHOP/CTR 4547 N. STATE STREET JACKSON, MS 39206 601 982-2781
139/ 585	GATEWAY SHOPPING CTR 201 N. ALABAMA STREET COLUMBUS, MS 39701 LOWNDES COUNTY 601 328-8259
141/ 647	COPIAH TRADE CENTER 664 CALDWELL DRIVE HAZLEHURST, MS 39083 601 894-2295
142/ 588	MAGNOLIA MALL 261 DEVEREAUX DR/SUITE 14 NATCHEZ, MS 39120 601 446-9543
144/ 651	415 HOWARD STREET GREENWOOD, MS 38930 601 455-5461
145/ 653	421 COLUMBIA STREET BOGALUSA, LA 70427 (504) 735-8181
147/ 655	138 NORTH HARVEY ST GOYER SHP CENTER GREENVILLE, MS 38701 (601)332-4880
148/ 591	PIKE CTR MART SHPNG CTR MCCOMB, MS 39648 601 684-4142
150/ 592	DEEPSOUTH SHOPPING CTR 1702 DENNY AVENUE PASCAGOULA, MS 39567 228 762-6825
154/ 595	NICHOLS SHOPPING CTR 509 SAINT MARYS STREET THIBODAUX, LA 70301 504 446-5573

STORE NO.	LOCATION
156/ 596	BAKER PLAZA SHPNG/CTR 2080 MAIN STREET BAKER, LA 70714 225 778-1920
157/ 597	RIVERVIEW PLAZA 25027 HIGHWAY 1 SOUTH PLAQUEMINE, LA 70764 IBERVILLE PARISH 504 687-6436
158/ 591	720 MAIN STREET FRANKLIN, LA 70538 318 828-0495
161/ 600	VISTA VILLAGE SHPING CTR 688 E. CRESWELL LANE OPELOUSAS, LA 70570 ST. LANDRY PARISH 318 942-4904
162/ 601	PARKVIEW PLAZA SQUARE SHOPPING CENTER 623 W. LINCOLN ROAD VILLE PLATTE, LA 70586 318 363-3868
164/ 602	N. PARK SHOPPING CTR 1504 N. PARKERSON AVENUE CROLEY, LA 70526 ACADIA PARISH 318 783-2045
166/ 652	DELMONT VILLAGE SHOPPING CENTER 5151 PLANK ROAD SUITE 1 F BATON ROUGE, LA 70805 225 356-5950
169/ 604	SOUTHGATE SHOPPING CTR 311-A S. SLAPPY BLVD ALBANY, GA 31707 912 439-0047
172/ 615	100 MAIN STREET BISHOPVILLE, SC 29010 LEE COUNTY 803 484-4102

STORE NO.	LOCATION
176/ 619	1323 E. MEMORIAL DRIVE USA HWY 13 AHOSKIE, NC 27910 252 332-6557
180/ 623	HWY 15/401 BYPASS BENNETTSVILLE, SC 29512 843 479-3402
184/ 627	210 SECOND STREET COCHRAN, GA 31014 BECKLEY COUNTY 912 934-2174
185/ 628	4122 MAIN STREET LORIS, SC 29569 803 756-0256
186/ 629	125 W. MAIN STREET WILLIAMSTON, NC 27892 252 792-2101
187/ 630	MART 51 SHOPPING CTR 1700 TERRY ROAD JACKSON, MS 39204 601 352-7615
188/ 635	206 S. MAIN STREET ROCKY MOUNT, NC 27801 252 972-6802
189/ 631	1221 W. BASE STREET MADISON, FL 32340 850 973-3303

EXHIBIT B

Officer Affiliations

Olivier Trouveroy is a principal of Hampshire Equity Partners, which controls several investment funds, including the sole shareholder of Allied Fashion, Inc. Through its investment funds, Hampshire Equity Partners holds investments in many corporations. In addition, Olivier Trouveroy is a director of two public companies, Cost Plus, Inc. and E.Spire Communications, Inc.

DEPOSIT ACCOUNTS

Store	STORE NAME	Account #	Routing #	Name	Phone
30	HEMINGWAY, SC	550121966	053207054	Anderson State Bank	843-558-2511
41	GEORGETOWN, SC	120263819	053200019	Wachovia	843-527-6200
42	DILLION, SC	79002379	053202240	Carolina Community	843 8410444
57	KINGSTREE, SC	620018366	053207685	Williamsburg First Nat	843-354-6101
72	MARION, SC	530216423	053201720	Anchor Bank	843-431-1000
73	WHITEVILLE, NC	5115058888	053101121	Branch Banking & Turst	910-914-9945
79	CLINTON, NC	002412560394	053100300	1st Citizens Bank	910-590-5340
81	FLORENCE, SC	2000006213488	053207766	First Union	843-664-2900
133	GOLDSBORO, NC	1692428545	053100300	1st Citizens Bank	919-705-2260
172	BISHOPVILLE, SC	270002849701	053906041	1st Citizens Bank	803-484-4257
185	LORIS, SC	5121851271	053201607	Branch Banking & Turst	843-756-4091
7	DENMARK. SC	070074695	053200983	First National Bank	803-793-3324
12	BARNWELL, SC	240001187601	053906041	1st Citizens	803-259-356
20	MANNING, SC	020214475301	053200666	NBSC	803-435-5100
36	ORANGEBURG, SC	2000006211891	053207766	First Union	803-533-4400
53	ORANGEBURG, SC	213000768	053201924	Orangeburg National Bank	803-531-5566
65	MONCKS CORNER, S	240063818	053200019	Wachovia	843-761-8030
71	COLUMBIA, SC	3521432401	053200666	NBSC	803-256-6303
77	COLUMBIA, SC	80047634301	053906041	1st Citizens	803-733-2079
78	SUMTER, SC	760203547	053200019	Wachovia	803-778-7718
88	CHARLESTON, SC	079019396501	053906041	1st Citizens	843-722-5835
90	N. CHARLESTON, SC	079019284301	053201487	1st Citizens	843-747-1180
2	ST. GEORGE, SC	710000726401	053906041	1st Citizens	843-563-3011
11	MILLEN, GA	150913	061103975	Ogeechee Valley	912-982-5700
13	SAVANNAH, GA	200002704687	061200030	First Union	1-800-566-3862
16	BAXLEY, GA	9800294648	061200878	Baxley Suntrust	912-367-8972
19	GARDEN CITY, GA	2000006211943	061000227	First Union	1-800-566-3862
21	WAYNESBORO, GA	0524440	061202245	First National	706-554-8100
23	GLENNVILLE, GA	40741	061204683	Glennville Bank Trust	912-654-3471
27	HAMPTON, SC	0069013538	053202596	Palmetto State Bank	803-943-2671
49	WALTERBORO, SC	890025448	0653200983	First National	843-549-1553
63	DUBLIN, GA	127118	061205938	Dublin Bank of Dudley	912-275-4980

184	COCHRAN, GA	0201582	061210237	Cochran Sale Bank	912-934-4501
22	LOUISVILLE, GA	136882	061103975	1st National Bank	912-625-2000
25	SPARTA, GA	0019144	061107146	Bank of Hancock	706-444-5781
34	JOHNSTON, SC	470001234901	053201487	1st Citizens	803-275-2354
35	JACKSON, GA	003251604320	061000052	National Bank	770-775-7178
40	FT. VALLEY, GA	00000088641726	0261170070	1st Liberty Bank	912-825-7721
69	MACON, GA	0003601134004	061100473	Suntrust Bank	912-751-5731
70	AUGUSTA, GA	501138580	061100334	Suntrust Bank	706-821-2005
76	TUSKEGEE , AL	5024374	062205665	Alabama Exchange	334-727-1730
87	PHENIX CITY, AL	061100606	142298	CB&T Bank	334-291-3368
123	EASTPOINT, GA	003261259305	061000052	National Bank	404-765-1958
44	MOULTRIE, GA	0170293901	061202025	Southwest Bank	912-985-1120
45	QUITMAN, GA	0119115	061201851	Heritage Bank	912-263-7525
52	CORDELE, GA	0183301	0621210965	Cordele Banking	912-276-2470
55	CAMILLA, GA	045640	061202957	Planters Bank	912-336-5271
56	QUINCY, FL	176318501	063100882	Qunicy State Bank	850-875-1000
58	CARIO, GA	1626961301	061203338	Citizens Bank	
67	BLAKLEY, GA	45640	061212002	Bank of Early	912-723-3101
120	VALDOSTA, GA	003251835718	0610052	Nations Bank	912-249-5041
121	AMERICUS, GA	0049229	061202410	Sumter Bank & Trust	
169	ALBANY, GA	6967021879	061101375	Regents Bank	912-432-8417
189	MADISON, FL	003063631439	063000047	Nations Bank	850-973-4126
142	NATCHEZ, MS	5200377240	065305436	Deposit Guaranty	
150	PASCAGOULA, MS	1092855	065301362	Merchants Marine	228-762-3311
154	THIBODAUX, LA	9500008355	065404913	Union Planters Bank	504-446-8161
156	BAKER, LA	882105237	065000090	Hibernia Bank	225-381-2041
157	PLAQUEMINE, LA	618520	065403150	Citizens Bank & Trust	225-687-6897
158	FRANKLIN, LA	001135546	065400713	St Marys Bank	318-828-0560
161	OPELOUSAS, LA	0169811	065205031	American Bank	318-948-3056
162	VILLE PLATTE, LA	011875159	065204977	American Security Bank	318-363-5602
164	CROWLEY, LA	50905315	065200528	Bank Of Commerce	318-7884805

166	BATON ROUGE, LA	882105334	065000090	Hibernia Bank	
128	FRANKLINTON, LA	011622129	0065400153	Hancock Bank	504-839-9821
132	WEST POINT, MS	60350436	084201278	Bank Of Mississippi	601-495-1000
137	JACKSON, NS	1007177678	065300279	Trustmark	601-354-5040
139	COLUMBUS, MS	8808306920	065300279	Trust mark	601-354-5040
141	HAZLEHURST, MS	6331656	065301744	Copiah Bank	601-894-3930
144	GREENWOOD, MS	394056-01	00842-00981	Bank of Commerce	601-453-4142
145	BOGALUSA, LA	8520005227	06500090	Hibernia Bank	
147	GREENVILLE, MS	7006698484	065300279	Trustmark	601-334-8433
148	MCCOMB, MS	4502220481	065300279	Trust mark	601-249-1116
187	JACKSON, MS	5200396933	064000017	Deposit Guaranty	601-960-6462
47	CHERAW, SC	700073547	053200019	Wachovia	843-921-6500
*83	GREENVILLE, NC	3602010281	053101529	Wachovia	252-758-8369
84	WILSON, NC	5212711421	053101121	BB& T Bank	
86	GREENSBORO, NC	5112951190	053101121	BB&T	336-733-0105
91	WINSTON SALEM, NC	5112951204	053101121	BB&T	336-733-0105
130	PLYMOUTH, NC	7210024084	053111852	Triangle Bank	252-793-9031
176	AHOSKIE, NC	0126001983	053100494	Wachovia Carolina	252-332-7250
I80	BENNETTSVILLE, SC	0701125819	053207216	Bank	843-479-4141
186	WILLIAMSTON, NC	8540002886	053101529	Wachovia	252-809-4002
188	ROCKY MOUNT, NC	0450004754	053100850	Centura Bank	888-738-2455

DATE (MM/DD/YY)

ACORD CERTIFICATE OF LIABILITY INSURANCE 4/13/99

PRODUCER
Aon Risk Services Inc of NY
Two World Trade Center
New York, NY 10048

212-441-1000

INSURED
Allied Fashion, Inc.
102 Fahm Street
Savannah, GA 31401

THIS CERTIFICATE IS ISSUED AS MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFIED HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OF ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW

COMPANIES AFFORDING COVERAGE

COMPANY
A American Home Assurance Co.
COMPANY
B CIGNA
COMPANY
C
COMPANY
D

COVERAGE

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THE CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERM EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

CO LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS	
	GENERAL LIABILITY				GENERAL AGGREGATE	$ 2,000,000
A	[X] COMMERCIAL GENERAL LIABILITY	6122694	4/15/99	4/15/00	PRODUCTS-COMP/OP AGG	$ 1,000,000
	[ ] [ ] CLAIMS MADE [X] OCCUR				PERSONAL & ADV INJURY	$ 1,000,000
	[ ] OWNER'S & CONTRACTOR'S FROT				EACH OCCURRENCE	$ 1,000,000
	[ ] _____				FIRE DAMAGE (Any one fire)	$ 100,000
	[ ]				MED EXP (Any one person)	$ 10,000
	AUTOMOBILE LIABILITY					
A	[X] ANY AUTO	3209890	4/15/99	4/15/00	COMBINED SINGLE LIMIT	$ 1,000,000
	[ ] ALL OWNED AUTOS				BODILY INJURY (Per Person)	$
	[ ] SCHEDULED AUTOS				BODILY INJURY (Per Accident)	$
	[ ] HIRED AUTOS					
	[ ] NON-OWNED AUTOS					
	[ ] _____					
	[ ]				PROPERTY DAMAGE	$
	GARAGE LIABILITY				AUTO ONLY -EA ACCIDENT	$
	[ ] ANY AUTO				OTHER THAN AUTO ONLY EACH ACCIDENT	$
	[ ] _____				AGGREGATE	$
	[ ]					
	EXCESS LIABILITY				EACH OCCURRENCE	$10,000,000
B	[X] UMBRELLA FORM				AGGREGATE	$10,000,000
	[ ] OTHER THAN UMBRELLA FORM	TBD	4/15/99	4/15/00		$
	WORKERS COMPENSATION AND EMPLOYER'S LIABILITY				[X] WC STATUTORY LIMITS OTHER	
A	THE PROPRIETOR [ ] INCL	3479346	4/15/99	4/15/00	EL EACH ACCIDENT	$ 1,000,000
	PARTNERS/EXECUTIVE [ ] EXCL				EL DISEASE - POLICY LIMIT	$ 1,000,000
	OFFICERS ARE:				EL DISEASE - EA EMPLOYEE	$ 1,000,000
	OTHER					

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/SPECIAL ITEMS

Congress Financial Corporation (Southwest), as lender is named as an additional insured.

CERTIFICATE HOLDER

Congress Financial
Corporation (Southwest)
1201 Main Street, Suite 1625
Dallas, TX 75202

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING COMPANY WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT. BUT

FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE COMPANY, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE 337725000

/s/ Deirdre Linky

ACORD 25,9

DATE (MM/DD/YY)

ACORD. EVIDENCE OF PROPERTY INSURANCE 4/02/99

THIS IS EVIDENCE THAT INSURANCE AS IDENTIFIED BELOW HAS BEEN ISSUED, IS IN FORCE, AND CONVEYS ALL THE RIGHTS AND PRIVILEGES AFFORDED UNDER THE POLICY.

PRODUCER PHONE (A/C NO. Ext.) COMPANY

Aon Risk Services Inc of NY
Two World Trade Center
New York, NY 10048

Security Insurance Company
of Hartford
TIG Insurance Company
Zurich Insurance Company

CODE: SUB CODE:
AGENCY
CUSTOMER ID:

INSURED Allied Fashion, Inc.
102 Fahm Street
Savannah, GA 31401

LOAN NUMBER POLICY NUMBER
COPG13583
EFFECTIVE DATE EXPIRATION DATE CONTINUED UNTIL
4/13/99/ 4/13/00 [ ] TERMINATED IF CHECKED

THIS REPLACES PRIOR EVIDENCE DATED:

PROPERTY INFORMATION
LOCATION/DESCRIPTION

COVERAGE INFORMATION

COVERAGE/PERILS/FORMS	AMOUNT OF INSURANCE	DEDUCTABLE
All Risk Property subject to policy terms, conditions & exclusions	10,000,000	
Contingent Business Interruption	100,000	

REMARKS (Including Special Conditions)

Congress Financial Corporation (Southwest), as lender, is hereby named as a loss payee and/or additional insured as its interests may appear.

CANCELLATION

THE POLICY IS SUBJECT TO THE PREMIUMS, FORMS, AND RULES IN EFFECT FOR EACH POLICY PERIOD. SHOULD THE POLICY BE TERMINATED, THE COMPANY WILL GIVE THE ADDITIONAL INTEREST IDENTIFIED BELOW 30 DAYS WRITTEN NOTICE, AND WILL SEND NOTIFICATION OF ANY CHANGES TO THE POLICY THAT WOULD AFFECT THAT INTEREST, IN ACCORDANCE WITH THE POLICY PROVISIONS OR AS REQUIRED BY LAW.

ADDITIONAL INTEREST

NAME AND ADDRESS
Congress Financial Corporation (Southwest)-Suite 1625
1201 Main Street
Dallas, TX 75202

[ ] MORTGAGEE [X] ADDITIONAL INSURED
[X] LOSS PAYEE [ ]
LOAN'
AUTHORIZED REPRESENTATIVE
/s/

Lender's Loss Payable Endorsement- Form 438 BFU

1 Loss or damage, if any, under this policy shall be paid to CONGRESS FINANCIAL CORPORATION (SOUTHWEST), 1201 MAIN STREET, SUITE 1625, DALLAS, TX 75202, its assigns, as agent, its successors and assigns, hereinafter referred to as "the Lender" in whatever form or capacity its interests may appear and whether said interest be vested in said Lender in its individual or in its disclosed or undisclosed fiduciary or representative capacity, or otherwise, or vested in a nominee or trustee of said Lender.

2 The insurance under this policy, or any rider or endorsement attached thereto, as to the interest only of the Lender, its successors and assigns, shall not be invalidated nor suspended: (a) by any error, omission, or change respecting the ownership, description, possession, or location of the subject of the insurance or interest therein, or the title thereto; (b) by the commencement of foreclosure proceedings or the giving of notice of sale of any of the property covered by this policy by virtue of any mortgage or trust deed; (c) by any breach of warranty, act, omission, neglect, or non-compliance with any of the provisions of this policy, including any and all riders now or hereafter attached thereto, by the named insured, the borrower, mortgagor, trustor, vendee, owner, tenant, warehouseman, custodian, occupant, or by the agents of either or any of them or by the happening of any event permitted by them or either of them, or their agents or which they failed to prevent whether occurring before or after the attachment of this endorsement, or whether before or after a loss, which under the provisions of this policy of insurance or of any rider or endorsement attached thereto would invalidate or suspend the insurance as to the named insured, excluding herefrom, however, any acts or omissions of the lender while exercising active control and management of the property.

3 In the event of failure of the insured to pay any premium or additional premium which shall be or become due under the terms of this policy or on account of any change in occupancy or increase in hazard not permitted by this policy, this Company agrees to give written notice to the Lender of such non-payment or premium after sixty (60) days from and within one hundred and twenty (120) days after due date of such premium and it is a condition of the continuance of the rights of the Lender hereunder that the Lender when so notified in writing by this Company of the failure of the insured to pay such premium shall pay or cause to be paid the premium due within ten (10) days following receipt of the Company's demand in writing therefor. If the Lender shall decline to pay said premium or additional premium, the rights of the Lender under this Lender's Loss Payable Endorsement shall not be terminated before ten (10) days after receipt of said written notice by the Lender.

4 Whenever this Company shall pay to the Lender any sum for loss or damage under this policy and shall claim that as to the insured no liability therefor exists, this Company, at its option, may pay to the Lender the whole principal sum and interest and other indebtedness due or to become due from the insured, whether secured or unsecured, (with refund of all interest not accrued), and this Company, to the extent of such payment, shall thereupon receive a full assignment and transfer, without recourse, of the debt and all rights and securities held as collateral thereto.

5 If there be any other insurance upon the within described property, this Company shall be liable under this policy as to the Lender for the proportion of such loss or damage that the sum hereby bears to the entire insurance of similar character on said property under policies held by, payable to and expressly consented to by the Lender. Any Contribution Clause included in any Fallen Building Clause Waiver or any Extended Coverage Endorsement attached to this contract of insurance is hereby nullified, and also any Contribution Clause in any other endorsement or rider attached to this contract of insurance is hereby nullified except Contribution Clauses for the compliance with which the insured has received reduction in the rate charged or has received extension of the coverage to include hazards other than fire and compliance with such Contribution Clause is made a part of the consideration for insuring such other hazards. The Lender upon the payment to it of the full amount of its claim, will subrogate this Company (pro rata with all other insurers contributing to said payment) to all of the Lender's rights of contribution under said other insurance.

6 This Company reserves the right to cancel this policy at any time, as provided by its terms, but in such case this policy shall continue in force for the benefit of the Lender for ten (10) days after written notice of such cancellation is received by the Lender and shall then cease.

7 This policy shall remain in full force and effect as to the interests of the Lender for a period of ten (10) days after its expiration unless an acceptable policy in renewal therefore with loss thereunder payment to the Lender in accordance with the terms of this Lender's Loss Payable Endorsement, shall have been issued by some insurance company and accepted by the Lender.

8 Should legal title to and beneficial ownership of any of the property covered under this policy become vested in the Lender or its agents, insurance under this policy shall continue for the term thereof for the benefit of the Lender but, in such event, any privileges granted by this Lender's Loss Payable Endorsement which are not also granted the insured under the terms and conditions of this policy and/or under riders or endorsements attached thereto shall not apply to the insurance hereunder as respects such property.

9 All notices herein provided to be given by the Company to the Lender in connection with this policy and this Lender's Loss Payable Endorsement shall be mailed to or be delivered to the Lender at its office or branch at 1201 Main Street, Suite 1625, Dallas, TX 75202.

Insured to: Allied Fashion, Inc.

Agency at: Aon Risk Services Inc. of NY. 2 WTC. New York. NY 10048

Date: April 13, 1999

Schedule 6.3

DEPOSIT ACCOUNTS

See Attached.

DEPOSIT ACCOUNTS

STORE	STORE NAME	ACCOUNT #	ROUTING #	NAME	PHONE
30	HEMINGWAY, SC	550121966	053207054	Anderson State Bank	843-558-2511
41	GEORGETOWN, SC	120263819	053200019	Wachovia	843-527-6200
42	DILLION, SC	79002379	053202240	Carolina Community	843-8410444
57	KINGSTREE, SC	620018366	053207685	Williamsburg First Nat	843-354-6101
72	MARION, SC	530216423	053201720	Anchor Bank	843-431-1000
73	WHITEVILLE, NC	5115058888	053101121	Branch Banking & Turst	910-914-9945
79	CLINTON, NC	002412560394	053100300	1st Citizens Bank	910-590-5340
81	FLORENCE, SC	2000006213488	053207766	First Union	843-664-2900
133	GOLDSBORO, NC	1692428545	053100300	1st Citizens Bank	919-705-2260
172	BISHOPVILLE, SC	270002849701	053906041	1st Citizens Bank	803-484-4257
185	LORIS, SC	5121851271	053201607	Branch Banking & Turst	843-756-4091
7	DENMARK, SC	070074695	053200983	First National Bank	803-793-3324
12	BARNWELL, SC	240001187601	053906041	1st Citizens	803-259-356
20	MANNING, SC	020214475301	053200666	NBSC	803-435-5100
36	ORANGEBURG, SC	2000006211891	053207766	First Union	803-533-4400
53	ORANGEBURG, SC	213000768	053201924	Orangeburg National Bank	803-531-5566
65	MONCKS CORNER, S	240063818	053200019	Wachovia	843-761-8030
71	COLUMBIA, SC	3521432401	053200666	NBSC	803-256-6303
77	COLUMBIA, SC	80047634301	053906041	1st Citizens	803-733-2079
78	SUMTER, SC	760203547	053200019	Wachovia	803-778-7718
88	CHARLESTON, SC	079019396501	053906041	1st Citizens	843-722-5835
90	N CHARLESTON, SC	079019284301	053201487	1st Citizens	843-747-1180
2	ST. GEORGE, SC	710000726401	053906041	1st Citizens	843-563-3011
11	MILLEN, GA	150913	061103975	Ogeechee Valley	912-982-5700
13	SAVANNAH, GA	200002704687	061200030	First Union	1-800-566-3862
16	BAXLEY, GA	9800294648	061200878	Baxley Suntrust	912-367-8972
19	GARDEN CITY, GA	2000006211943	061000227	First Union	1-800-566-3862
21	WAYNESBORO, GA	0524440	061202245	First National	706-554 8100
23	GLENNVILLE, GA	40741	061204683	Glennville Bank Trust	912-654-3471
27	HAMPTON, SC	0069013538	053202596	Palmetto State Bank	803-943-2671
49	WALTERBORO, SC	890025448	0653200983	First National	843-549-1553
63	DUBLIN, GA	127118	061205938	Dublin Bank of Dudley	912-275-4980

89	JACKSONVILLE, FL	3751278573	0111000012	Nations Bank	704-388-6429
184	COCHRAN, GA	0201582	061210237	Cochran Sale Bank	912-934-4501
22	LOUISVILLE, GA	136822	061103975	1st National Bank	912-625-2000
25	SPARTA, GA	0019144	061107146	Bank of Hancock	706-444-5781
34	JOHNSTON, SC	470001234901	053201487	1st Citizens	803-275-2354
35	JACKSON, GA	003251604320	061000052	National Bank	770-775-7178
40	FT. VALLEY, GA	00000088641726	0261170070	1st Liberty Bank	912-825-7721
69	MACON, GA	0003601134004	061100473	Suntrust Bank	912-751-5731
70	AUGUSTA, GA	501138580	061100334	Suntrust Bank	706-821-2005
76	TUSKEGEE , AL	5024374	062205665	Alabama Exchange	334-727-1730
87	PHENIX CITY, AL	061100606	142298	CB&T Bank	334-291-3368
123	EASTPOINT, GA	003261259305	061000052	National Bank	404-765-1958
44	MOULTRIE, GA	0170293901	061202025	Southwest Bank	912-985-1120
45	QUITMAN, GA	0119115	061201851	Hertiage Bank	912-263-7525
52	CORDELE, GA	0183301	0621210965	Cordele Banking	912-276-2470
55	CAMILLA, GA	045640	061202957	Planters Bank	912-336-5271
56	QUINCY, FL	176318501	063100882	Qunicy State Bank	850-875-1000
58	CARIO, GA	1628961301	061203338	Citizens Bank	
67	BLAKLEY, GA	45640	061212002	Bank of Early	912-723-3101
120	VALDOSTA, GA	003251835718	0610052	Nations Bank	912-249-5041
121	AMERICUS, GA	0049229	061202410	Sumter Bank & Trust	
169	ALBANY, GA	6967021879	061101375	Regents Bank	912-432-8417
189	MADISON, FL	003063631439	063000047	Nations Bank	850-973-4126
142	NATCHEZ, MS	5200377240	065305436	Deposit Guaranty	
150	PASCAGOULA, MS	1092855	065301362	Merchants Marine	228-762-3311
154	THIBODAUX, LA	9500008355	065404913	Union Planters Bank	504-446-8161
156	BAKER, LA	882105237	065000090	Hibernia Bank	225-381-2041
157	PLAQUEMINE , LA	618520	065403150	Citizens Bank & Trust	225-687-6897
158	FRANKLIN, LA	001135546	065400713	St Marys Bank	318-828-0560
161	OPELOUSAS, LA	0169811	065205031	American Bank	318-948-3056
162	VILLE PLATTE, LA	011875159	065204977	American Security Bank	318-363-5602
164	CROWLEY, LA	50905315	065200528	Bank Of Commerce	318-7884805

166	BATON ROUGE, LA	882105334	065000090	Hibernia Bank	
128	FRANKLINTON, LA	011622129	0065400153	Hancock Bank	504-839-9821
132	WEST POINT, MS	60350436	084201278	Bank Of Mississippi	601-495-1000
137	JACKSON, NS	1007177678	065300279	Trustmark	601-354-5040
139	COLUMBUS, MS	8808306920	065300279	Trust mark	601-354-5040
141	HAZLEHURST, MS	6331656	065301744	Copiah Bank	601-894-3930
144	GREENWOOD, MS	394056-01	00842-00981	Bank of Commerce	601-453-4142
145	BOGALUSA, LA	8520005227	06500090	Hibernia Bank	
147	GREENVILLE, MS	7006698484	065300279	Trustmark	601-334-8433
148	MCCOMB, MS	4502220481	065300279	Trust mark	601-249-1116
187	JACKSON, MS	5200396933	064000017	Deposit Guaranty	601-960-6462
47	CHERAW, SC	700073547	053200019	Wachovia	843-921-6500
*83	GREENVILLE, NC	3602010281	053101529	Wachovia	252-758-8369
84	WILSON, NC	5212711421	053101121	BB& T Bank	
86	GREENSBORO, NC	5112951190	053101121	BB&T	336-733-0105
91	WINSTON SALEM, NC	5112951204	053101121	BB&T	336-733-0105
130	PLYMOUTH, NC	7210024084	053111852	Triangle Bank	252-793-9031
176	AHOSKIE, NC	0126001983	053100494	Wachovia	252-332-7250
I80	BENNETTSVILLE, SC	0701125819	053207216	Carolina Bank	843-479-4141
186	WILLIAMSTON, NC	8540002886	053101529	Wachovia	252-809-4002
188	ROCKY MOUNT, NC	0450004754	053100850	Centura Bank	888-738-2455

Schedule 7.3(i)

CONSIGNMENT INVENTORY

None

Schedule 8.3

CHIEF EXECUTIVE OFFICE; COLLATERAL LOCATIONS

Chief Executive Office:

102 Fahm Street
Savannah, GA 31401

Collateral Locations:

See Attached.

STORE NO.	LOCATION
27/ 522	115 LEE AVENUE HAMPTON, SC 29924 HAMPTON COUNTY 803 943-2644
30/ 525	104-108 W. BROAD STREET P.O. BOX 387 HEMINGWAY, SC 29554 803 558-5019
34/ 527	458 LEE STREET JOHNSTON, SC 29832 803 275-2342
35/ 528	8-20 OAK STREET JACKSON, GA 30233 770 775-2333
36/ 529	136 RUSSEL STREET ORANGEBURG, SC 29115 803 534-0670
40/ 531	135 MAIN STREET FT. VALLEY, GA 31030 912 825-8162
41/ 532	930 FRONT STREET GEORGETOWN, SC 29440 803 546-5469
42/ 533	112 W. MAIN STREET DILLON, SC 29536 843 774-6331
44/ 535	6 S. MAIN STREET MOULTRIE, GA 31768 912 985-3310
45/ 536	201 E. SCREVEN STREET QUITMAN, GA 31643 912 263-7774
47/ 537	146 MARKET STREET CHERAW, SC 29520 843 537-2568
49/ 538	205 WASHINGTON STREET WALTERBORO, SC 29488 803 549-5813
52/ 540	117 W. 11TH AVENUE CORDELE, GA 31015 912 273-1014
53/ 648	EDISTO VILLAGE H-WAY 301 ORANGEBURG, SC 29115 803 536-6548

Collateral Locations (Schedule 8.3)

STORE NO.	LOCATION
02/501	203 N PARLER AVE. ST. GEORGE, SC 29477 843 563-3539
07/505	215 S PALMETTO AVE. DENMARK, SC 29042 803 793-3171
ll/508	323 COTTON AVE. MILLEN, GA 30442 JENKINS COUNTY 912982-1534
12/509	CARTER SHOPPING PLAZA 1922 BURR STREET BARNWELL, SC 29812 BARNWELL COUNTY 803 259-3946
13/510	201-203 W BROUGHTON ST. SAVANNAH, GA 31401 912 234-3342
16/513	122 N MAIN STREET BAXLEY, GA31513 912 367-4464
19/649	WESTSIDE SHOPPING CTR HIGHWAY 80 GARDEN CITY, GA 31408 912 966-5009
20/515	16 RIGBY STREET MANNING, SC 29102 803 435-8731
21/516	703-707 LIBERTY STREET WAYNESBORO, GA 30830 706 554-2348
22/517	108 W. BROAD STREET LOUISVILLE, GA 30434 912 625-7419
23/518	107 W. BARNARD GLENNVILLE, GA 30427 912 654-2220
25/520	722 SPRING STREET SPARTA, GA 31087 706 444-6941

STORE NO.	LOCATION
55/542	20 BROAD STREET CAMILLA, GA 31730 912 336-7427
56/543	12 WASHINGTON STREET QUINCY, FL 32351 850 627-3254
57/544	115 E. MAIN STREET KINGSTREE, SC 29556 803 354-9756
58/545	149 S. BROAD STREET CARIO, GA 31728 912 377-8366
63/547	100 W. JACKSON STREET DUBLIN, GA 31021 912 275-2399
65/549	315 MAIN STREET MONCKS CORNER, SC 29461 843 761-8687
67/551	120 S. MAIN STREET BLAKELY, GA 31723 912 723-8715
69/552	NAPIER SQ. SHOPPING CTR 949 HILLCREST BLVD MACON, GA 31204 912 742-3018
70/553	SOUTH GATE PLAZA 1631 GORDON H- WAY AUGUSTA, GA 30906 706 790-5982
71/554	4121-B W. BELTLINE BLVD EDENS PLAZA COLUMBIA, SC 29204 803 256-2719
72/555	317-321 N. MAIN STREET MARION, SC 29571 803 423-4036
73/556	3 LEWIS SMITH SHOP/CTR WHITEVILLE NC 28472 910 642-2191
76/557	112 S. MAIN STREET TUSKEGEE, AL 36083 334 727-9455

STORE NO.	LOCATION
77/558	NORTHWAY PLAZA 5112 FAIRFIELD ROAD COLUMBIA, SC 29204 803 754-2451
78/559	20 N. MAIN STREET SUMTER, SC 29150 803 775-2986
79/636	344-A NORTHEAST BLVD. CLINTON, NC 28328 910 590-3664
81/561	150 N. DARGAN STREET FLORENCE, SC 29501 843 667-4255
83/639	GREENVILLE BUYERS MARKET MEMORIAL DRIVE GREENVILLE, NC 27834 919 355-0945
84/562	225-227 E. NASH STREET WILSON, NC 27893 252 291-8937
86/643	SUMMIT SHOPPING CTR 940 SUMMIT AVENUE GREENSBORO, NC 27405 336 691-9880
87/564	502 13TH STREET PHENIX PLAZA PHENIX CITY, AL 36867 334 297-2542
88/565	483-485 KING STREET CHARLESTON, SC 29403 843 577-6786
89/566	5451 NORWOOD AVENUE NORWOOD PLAZA JACKSONVILLE, FL 32208 904 768-6976
90/567	SHIPWATCH PLAZA 3655 RIVERS AVENUE N. CHARLESTON, SC 29405 803 554-9055

STORE NO.	LOCATION
91/645	NORTHSIDE SHOPPING CTR 3599 N. PATTERSON AVE. WINSTON-SALEM, NC 27105 336 767-7688
120/574	FIVE POINT SHOPPING CTR 3144-A N. ASHLEY STREET VALDOSTA, GA 31602 912 244-8551
121/575	PERLIS PLAZA SHOPPING CTR 1536 E. FORSYTH STREET AMERICUS, GA 31709 912 928-3341
123/577	TRI-CITIES SHOPPING CTR 3206 E. MAIN STREET EASTPOINT, GA 30344 FULTON COUNTY 404 762-6533
128/608	EASTGATE SHOPPING CTR LA HIGHWAY 10 FRANKLINTON, LA 70438 504 839-5527
130/606	810 US HWY 64 EAST PLYMOUTH, NC 27962 252 793-3578
132/609	601 W. MAIN STREET WEST POINT, MS 39773 601 494-5436
133/610	112-114 N. CENTER STREET GOLDSBORO, NC 27530 919 580-1179

STORE NO.	LOCATION
137/583	TRIANGLE MART SHOP/CTR 4547 N. STATE STREET JACKSON, MS 39206 601 982-2781
139/585	GATEWAY SHOPPING CTR 201 N. ALABAMA STREET COLUMBUS, MS 39701 LOWNDES COUNTY 601 328-8259
141/647	COPIAH TRADE CENTER 664 CALDWELL DRIVE HAZLEHURST, MS 39083 601 894-2295
142/588	MAGNOLI A MALL 261 DEVEREAUX DR/SUITE 14 NATCHEZ, MS 39120 601 446-9543
144/651	415 HOWARD STREET GREENWOOD, MS 38930 601 455-5461
145/653	421 COLUMBIA STREET BOGALUSA, LA 70427 (504)735-8181
147/655	138 NORTH HARVEY ST GOYER SHP CENTER GREENVILLE, MS 38701 (601)332-4880
148/591	PIKE CTR MART SHPNG CTR MCCOMB,MS 39648 601 684-4142
150/592	DEEPSOUTH SHOPPING CTR 1702 DENNY AVENUE PASCAGOULA,MS 39567 228 762-6825
154/595	NICHOLS SHOPPING CTR 509 SAINT MARYS STREET THIBODAUX, LA 70301 504 446-5573

STORE NO.	LOCATION
156/596	BAKER PLAZA SHPNG/CTR 2080 MAIN STREET BAKER, LA 70714 225 778-1920
157/597	RIVERVIEW PLAZA 25027 HIGHWAY SOUTH PLAQUEMINE, LA 70764 IBERVILLE PARISH 504 687-6436
158/598	720 MAIN STREET FRANKLIN, LA 70538 318 828-0495
161/600	VISTA VILLAGE SHPING CTR 688 E. CRESWELL LANE OPELOUSAS, LA 705 70 ST. LANDRY PARISH 318 942-4904
162/601	PARKVIEW PLAZA SQUARE SHOPPING CENTER 623 W. LINCOLN ROAD VILLE PLATTE, LA 70586 318 363-3868
164/602	N. PARK SHOPPING CTR 1504 N. PARKERSON AVENUE CROLEY, LA 70526 ACADIA PARISH 318 783-2045
166/652	DELMONT VILLAGE SHOPPING CENTER 5151 PLANK ROAD SUITE 1 F BATON ROUGE, LA 70805 225 356-5950
169/604	SOUTHGATE SHOPPING CTR 311-A S. SLAPPY BLVD ALBANY, GA 3 1707 912 439-0047
172/615	100 MAIN STREET BISHOP VILLE, SC 29010 LEE COUNTY 803 484-4102

STORE NO.	LOCATION
176/619	1323 E. MEMORIAL DRIVE USA HWY 13 AHOSKIE,NC 27910 252 332-6557
180/623	HWY 15/401 BYPASS BENNETTSVILLE, SC 29512 843 479-3402
184/627	210 SECOND STREET COCHRAN,GA 31014 BECKLEY COUNTY 912 934-2174
185/628	4122 MAIN STREET LORIS, SC 29569 803 756-0256
186/629	125 W. MAIN STREET WILLIAMSTON, NC 27892 252 792-2101
187/630	MART 51 SHOPPING CTR 1700 TERRY ROAD JACKSON, MS 39204 601 352-7615
188/635	206 S. MAIN STREET ROCKY MOUNT, NC 27801 252 972-6802
189/631	1221 W. BASE STREET MADISON, FL 32340 850 973-3303

Schedule 8.7

COMPLIANCE WITH OTHER AGREEMENTS AND APPLICABLE LAWS

See Attached Memo.

Schedule 8.4

OTHER LIENS

Any UCC Financing Statements filed of record with respect to equipment leased by Borrower. Borrower is not aware of any liens on any owned equipment.

[ENSR LOGO]

MEMORANDUM

To: Laurene Goff/ING Equity Partners
From: Jennifer Ledbetter. P.E.
RE: Allied Fashion for Less

Date: March 23,1999
File: 4507-061-100
CC: Halley Moriyama / ENSR
George Bellino / Allied Fashion for Less

On Wednesday, March 17, 1999, I conducted a walk-through safety inspection of Allied Fashion for Less (Allied) located at 102 Fahm Street in Savannah, Georgia. During the Inspection, I met with Mr. George Bellino, Mr. Ted Boswell and Ms. Terasa Reckner of Allied. This memo outlines the findings of my inspection.

Emergency Action Plan (28 CFR 1910.38). The facility should prepare a site-specific emergency action plan that covers required items such as evacuation routes, procedures for accounting for employee during an emergency, assignments of designated personnel during an emergency, and means of reporting an emergency. Finding: The facility does not have a site-specific emergency action plan. Estimated cost to mitigate: S2,000.

Means of Egress (29 CFR 1910.37). The facility should conduct a comprehensive evaluation of exit doors, egress routes, signs, emergency lighting, alarm systems, etc. Finding: Exit doors were locked; slide locks that could prevent egress were observed on the exterior of office doors ; egress routes were blocked with boxes or other items; combustible items were observed in an exit hallway; exit signs were confusing. Estimated cost to mitigate: $2,000.

Fire Extinguishers (29 CFR 1910.157). The facility should routinely inspect and maintain fire extinguishers. Finding: Fire Extinguishers had not inspected within the last year, extinguishers are not being checked monthly: some extinguishers were not mounted or were missing from designated locations; some extinguishers were inaccessible due to items in front of extinguishers; some extinguishers were not charged. Estimated cost to mitigate: $500.

Electrical Safety (29 CFR 1910.303 et al.). Damaged electrical receptacle boxes, panel boxes, and extension cords should be replaced. Finding: An electrical panel box cover behind the cardboard bailer had fallen off, outlet box covers were missing; all outlets in the conference room had broken receptacles and one showed signs of heat damage; a prong was broken inside of a receptacle located on the wall with the elevator, wires were observed in the A/C unit drip pans; extension cords used as permanent wiring were observed throughout the building; damaged electrical cords on fans and the battery charging station were observed. Estimated cost to mitigate: $2,000 to $5,000.

Hazard Communication (29 CFR 1910.1200). Most Allied personnel do not come into contact with chemicals during their normal job function. Those employees (e.g., maintenance and janitorial staff) that do come into contact with chemicals should be trained in hazard communication. Finding: The facility does not have a written hazard communication plan; MSOSs are not being maintained; unlabelled chemicals were observed. Estimated cost to mitigate:$1,000.

Bloodborne Pathogens (29CFR 1910.1030). The facility should implement a Bloodborne Pathogen Program and train affected personnel. Finding: Allied personnel are responsible for janitorial duties, and therefore could be exposed to bloodborne pathogens. Estimated cost to mitigate: $1,000.

Record keeping of Occupational Injuries and Illnesses (29 CFR 1904). The facility should maintain OSHA 200 logs and supplementary records. Finding: The facility has not been maintaining OSHA 200 logs. Some injury reports are being kept but the reports do not cover injuries for all employees at the facility. Estimated cost to mitigate: $0.

Lock Out/Tag Out (29 CFR 1910.147). The facility should implement a lock out tag out program (or ensure that their contractor maintains one) for any work conducted on equipment (e.g., conveyors, automatic rollers, the

[ENSR LOGO]

cardboard bailer) that could become energized and cause injury. Finding: The facility does not maintain or require contractors to have a lock out/tag out program. Estimated cost to mitigate: $1,500.

Asbestos (29 CFR 1910.1001). An asbestos survey should be conducted before disturbing any building materials. Finding: Suspect materials were observed in the office areas and on piping on the third floor. No asbestos survey has been conducted at the facility. Estimated cost to conduct survey; $1,500.

The following is a list of miscellaneous items that were noted during the inspection:

- - Compressed gas cylinders (Helium in the loading area, Oxygen in the mezzanine, and welding gases in the maintenance shop) were observed. According to facility personnel, compressed gases are not needed; therefore, these cylinders should be removed from the site or maintained (e.g., secured) properly.

- - A guard covering the belt on the motor located underneath the loading area conveyor was missing.

- - Chains at the top of the concretes stairs should be replaced w/ permanent railings. One of the chains was secured to an electrical conduit.

- - The fork lift driver's training should be documented.

- - Due to the addition of the mezzanine level,some space heaters are now floor level and should be protected so employees are not injured by the heaters.

- - Kill switches and lines on automatic rollers should be routinely tested. The pull line on the third floor automatic rollers appeared to be loose.

- - Distance between wheel and resting area of pedestal grinder in maintenance shop appeared to be greater than 1/8 inch.

- - The cardboard bailer could be construed as a confined space. At a minimum, a warning sign indicating that employees are not to enter the bailer should be visible and employees should be instructed to never enter the bailer.

- - The mezzanine level should be placarded to show that it is rated properly for loads placed upon it.

- - A 55-gallon drum containing residual dry spot cleaner was observed on the third floor. According to facility personnel, this chemical is no longer used at the facility. The drum and residual chemical should be disposed of properly.

- - Two wooden walkways across the rollers on the third floor should be replaced with manufactured walkways.

- - The water fountain in reception area should be turned off or repaired so that water leaking from it does not create a slip hazard.

- - On the mezzanine level, the metal platform (by the concrete stairs) that passes through the doorway should be moved or extended so there is no gap between the platform and gate.

Estimated cost to mitigate the above Items: $2,000 to $3,000

In addition. I visited the Allied Fashion retail store (#19-649) located at the West Side Shopping Mall on Highway 50 in Garden City, Georgia. Items noted during the walk through Included:

- - The rear fire exit door was locked with a pad lock.

- - The fire extinguisher in the storeroom was not mounted and is not being routinely inspected. Also, a fire extinguisher should be available in the store area.

- - The panic bar alarm leading to the store room exit was not activated.

- - Allied employees, who are responsible for janitorial duties and/or chemical use, should be trained in bloodborne pathogens and hazard communication.

Schedule 8.8

TITLE TO PURCHASED ASSETS

Any UCC Financing Statements filed of record with respect to equipment leased by Borrower. Borrower is not aware of any liens on any owned equipment.

Exhibit 10.5

FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment"), dated as of June 28th, 2000, is entered into between CONGRESS FINANCIAL CORPORATION (SOUTHWEST), a Texas corporation ("Lender"), and ALLIED FASHION, INC., a Delaware corporation ("Borrower").

RECITAL

A. Borrower and Lender have previously entered into that certain Loan and Security Agreement dated April 2, 1999, (the "Loan Agreement"), pursuant to which Lender has made certain loans and financial accommodations available to Borrower. Terms used herein without definition shall have the meanings ascribed to them in the Loan Agreement.

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

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

1. Amendments to Loan Agreement.

(a) Section 1.28 of the Loan Agreement is hereby amended to read in its entirety as follows

"Maximum Credit" shall mean, with reference to the Revolving Loans and the Letter of Credit Accommodations, the amount of Ten Million Dollars ($10,000,000).

2. Amendment Fee. Borrower shall pay Lender an amendment fee in the amount of Five Thousand Dollars ($5,000) for the processing and approval of this Amendment, which fee will be fully earned on the date of this Amendment.

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

(a) Amendment. This Amendment fully executed in a sufficient number of counterparts for distribution to Lender and Borrower.

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

(c) Payment of Fee. Borrower shall have paid the Amendment Fee required by Section 3.

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

4. Representations and Warranties. The Borrower represents and warrants as follows:

(a) Authority. The Borrower has the requisite corporate power and authority to execute and deliver this Amendment, and to perform its obligations hereunder and under the Financing Agreements (as amended or modified hereby) to which it is a party. The execution, delivery and performance by the Borrower of this Amendment have been duly approved by all necessary corporate action, have received all necessary governmental approval, if any, and do not contravene any law or any contractual restrictions binding on Borrower. No other corporate proceedings are necessary to consummate such transactions.

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

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

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

5. Choice of Law. The validity of this Amendment, its construction, interpretation and enforcement, the rights of the parties hereunder, shall be determined under, governed by, and construed in accordance with the internal laws of the State of New York governing contracts only to be performed in that State.

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

7. Reference to and Effect on the Financing Agreements.

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

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

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

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

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

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

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

"BORROWER"

ALLIED FASHION INC.,
a Delaware corporation

By: /s/ Anthony M. Orofi

Title: VP Finance

"LENDER"

CONGRESS FINANCIAL CORPORATION
(SOUTHWEST), a Texas corporation

By: /s/ Joe T. Curdy

Title: AVP

EXHIBIT 10.6

SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment"), dated as of November 30, 2000, is entered into between CONGRESS FINANCIAL CORPORATION (SOUTHWEST), a Texas corporation ("Lender"), and ALLIED FASHION, INC., a Delaware corporation ("Borrower").

RECITAL

A. Borrower and Lender have previously entered into that certain Loan and Security Agreement dated April 2, 1999, as amended in the First Amendment to Loan and Security Agreement dated June 22, 2000 (collectively the "Loan Agreement"), pursuant to which Lender has made certain loans and financial accommodations available to Borrower. Terms used herein without definition shall have the meanings ascribed to them in the Loan Agreement.

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

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

1. Amendments to Loan Agreement.

(a) The following definitions are hereby added to Section 1 in respective alphabetical order:

"Adjusted Eurodollar Rate shall mean, with respect to each Interest Period for any Eurodollar Rate Loan, the rate per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one (1%) percent) determined by dividing (a) the Eurodollar Rate for such Interest Period by (b) a percentage equal to: (i) one (1) minus (ii) the Reserve Percentage. For purposes hereof, "Reserve Percentage" shall mean the reserve percentage, expressed as a decimal, prescribed by any United States or foreign banking authority for determining the reserve requirement which is or would be applicable to deposits of United States dollars in a non-United States or an international banking office of Reference Bank used to fund a Eurodollar Rate Loan or any Eurodollar Rate Loan made with the proceeds of such deposit, whether or not the Reference Bank actually holds or has made any such deposits or loans. The Adjusted Eurodollar Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage."

"Eurodollar Rate Loans shall mean any Loans or portion thereof on which interest is payable based on the Adjusted Eurodollar Rate in accordance with the terms hereof."

"Eurodollar Rate shall mean with respect to the Interest Period for a Eurodollar Rate Loan, the interest rate per annum equal to the arithmetic average of the rates of interest per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one (1%) percent) at which Reference Bank is offered deposits of United States dollars in the London interbank market (or other Eurodollar Rate market selected by Borrower and approved by Lender) on or about 9:00 a.m. (New York time) two (2) Business Days prior to the commencement of such Interest Period in amounts substantially equal to the principal amount of the Eurodollar Rate Loans requested by and available to Borrower in accordance with this Agreement, with a maturity of comparable duration to the Interest Period selected by Borrower."

"Interest Period shall mean for any Eurodollar Rate Loan, a period of approximately one (l), two (2), or three (3) months duration as Borrower may elect, the exact duration to be determined in accordance with the customary practice in the applicable Eurodollar Rate market; provided, that, Borrower may not elect an Interest Period which will end after the last day of the then-current term of this Agreement."

"Interest Rate shall mean, as to Prime Rate Loans, a rate of one quarter of one percent (.25%) per annum in excess of the Prime Rate and, as to Eurodollar Rate Loans, a rate of two and three-quarters of one percent (2.75%) per annum in excess of the Adjusted Eurodollar Rate (based on the Eurodollar Rate applicable for the Interest Period selected by Borrower as in effect three (3) Business Days after the date of receipt by Lender of the request of Borrower for such Eurodollar Rate Loans in accordance with the terms hereof, whether such rate is higher or lower than any rate previously quoted to Borrower); provided, that, the Interest Rate shall mean the rate of two and one quarter of one percent (2.25%) per annum in excess of the Prime Rate as to Prime Rate Loans and the rate of four and three-quarters of one percent (4.75%) per annum in excess of the Adjusted Eurodollar Rate as to Eurodollar Rate Loans, at Lender's option, without notice, (a) for the period (i) from and after the date of termination or non-renewal hereof until Lender has received full and final payment of all obligations (notwithstanding entry of a judgment against Borrower) and (ii) from and after the date of the occurrence of an Event of Default for so long as such Event of Default is continuing as determined by Lender, and (b) on the Revolving Loans at any time outstanding in excess of the amounts available to Borrower under Section 2 (whether or not such

excess(es), arise or are made with or without Lender's knowledge or consent and whether made before or after an Event of Default)."

"Prime Rate Loans shall mean any Loans or portion thereof on which interest is payable based on the Prime Rate in accordance with the terms thereof."

"Reference Bank shall mean First Union National Bank, or such other bank as Lender may from time to time designate."

(b) The definition of "Business Day" is hereby replaced in its entirety to read as follows:

"Business Day shall mean any day other than a Saturday, Sunday, or other day on which commercial banks are authorized or required to close under the laws of the State of New York or the State of North Carolina, and a day on which the Reference Bank and Lender are open for the transaction of business, except that if a determination of a Business Day shall relate to any Eurodollar Rate Loans, the term Business Day shall also exclude any day on which banks are closed for dealings in dollar deposits in the London interbank market or other applicable Eurodollar Rate market."

(c) Section 1.28 of the Loan Agreement is hereby amended in its entirety to read as follows:

"Maximum Credit shall mean, with reference to the Revolving Loans and the Letter of Credit Accommodations, the amount of Fifteen Million Dollars ($15,000,000)."

(d) Section 3.1 of the Loan Agreement is hereby replaced in its entirety to read as follows:

"Interest.

a. Borrower shall pay to Lender interest on the outstanding principal amount of the non-contingent Obligations at the Interest Rate. All interest accruing hereunder on and after the date of any Event of Default or termination or non-renewal hereof shall be payable on demand.

b. Borrower may from time to time request that Prime Rate Loans be converted to Eurodollar Rate Loans or that any existing Eurodollar Rate Loans continue for an additional Interest Period. Such request from Borrower shall specify the amount of the Prime Rate Loans which will constitute Eurodollar Rate Loans (subject to the limits set forth below) and the Interest Period to be applicable to such Eurodollar Rate Loans. Subject to the terms and conditions contained herein, three (3) Business Days after receipt by Lender of such a request from Borrower, such Prime Rate Loans shall be converted to Eurodollar

Rate Loans or such Eurodollar Rate Loans shall continue, as the case may be, provided, that, (i) no Event of Default, or event which with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing, (ii) no party hereto shall have sent any notice of termination or non-renewal of this Agreement, (iii) Borrower shall have complied with such customary procedures as are established by Lender and specified by Lender to Borrower from time to time for requests by Borrower for Eurodollar Rate Loans, (iv) no more than four (4) Interest Periods may be in effect at any one time, (v) the aggregate amount of the Eurodollar Rate Loans must be in an amount not less than $5,000,000 or an integral multiple of $1,000,000 in excess thereof, (vi) the maximum amount of the Eurodollar Rate Loans at any time requested by Borrower shall not exceed the amount equal to eighty (80%) percent of the lowest principal amount of the Loans which it is anticipated will be outstanding during the applicable Interest Period, in each case as determined by Lender (but with no obligation of Lender to make such Loans) and (vii) Lender shall have determined that the Interest Period or Adjusted Eurodollar Rate is available to Lender through the Reference Bank and can be readily determined as of the date of the request for such Eurodollar Rate Loan by Borrower. Any request by Borrower to convert Prime Rate Loans to Eurodollar Rate Loans or to continue any existing Eurodollar Rate Loans shall be irrevocable. Notwithstanding anything to the contrary contained herein, Lender and Reference Bank shall not be required to purchase United States Dollar deposits in the London interbank market or other applicable Eurodollar Rate market to fund any Eurodollar Rate Loans, but the provisions hereof shall be deemed to apply as if Lender and Reference Bank had purchased such deposits to fund the Eurodollar Rate Loans.

c. Any Eurodollar Rate Loans shall automatically convert to Prime Rate Loans upon the last day of the applicable Interest Period, unless Lender has received and approved a request to continue such Eurodollar Rate Loan at least three (3) Business Days prior to such last day in accordance with the terms hereof. Any Eurodollar Rate Loans shall, at Lender's option, upon notice by Lender to Borrower, convert to Prime Rate Loans in the event that (i) an Event of Default or event which, with the notice or passage of time, or both, would constitute an Event of Default, shall exist, (ii) this Agreement shall terminate or not be renewed, or (iii) the aggregate principal amount of the Prime Rate Loans which have previously been converted to Eurodollar Rate Loans or existing Eurodollar Rate Loans continued, as the case may be, at the beginning of an Interest Period shall at any time during such Interest Period exceed either (A) the aggregate principal amount of the Loans then outstanding, or (B) the Revolving Loans then available to Borrower under Section 2 hereof. Borrower shall pay to Lender, upon demand by Lender (or Lender may, at its option, charge any loan account of Borrower) any amounts required to compensate Lender, the Reference Bank or any participant with Lender for any loss (including loss of anticipated profits), cost or expense incurred by such person, as a result of the conversion of Eurodollar Rate Loans to Prime Rate Loans pursuant to any of the foregoing.

d. Interest shall be payable by Borrower to Lender monthly in arrears not later than the first day of each calendar month and shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed. The interest rate on non-contingent Obligations (other than Eurodollar Rate Loans) shall increase or decrease by an amount equal to each increase or decrease in the Prime Rate effective on the first day of the month after any change in such Prime Rate is announced based on the Prime Rate in effect on the last day of the month in which any such change occurs. In no event shall charges constituting interest payable by Borrower to Lender exceed the maximum amount or the rate permitted under any applicable law or regulation, and if any such part or provision of this Agreement is in contravention of any such law or regulation, such part or provision shall be deemed amended to conform thereto.

e. In the event Borrower's Tangible Net Worth as defined in Section 1.2 falls below seventy-five percent (75%) of the requisite level as set forth in Section 9.15, the Interest Rate shall increase by one-quarter of one percent (.25%)."

(e) Section 3.3 of the Loan Agreement is hereby amended to read in its entirety as follows:

"Loan Servicing Fee. In addition to any fees or expenses payable by Borrower under Section 9.16 hereof, Borrower shall pay to Lender an annual loan servicing fee in an amount equal to Five Thousand Dollars ($5,000),in respect of Lender's services for each year (or part thereof) while this Agreement remains in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be fully earned as of the date hereof and on each annual anniversary hereafter, such annual loan servicing fee to be payable on a quarterly basis, in advance, with the first such quarterly payment payable on the next scheduled quarterly payment and on the first day of each quarter thereafter."

(f) Section 3.5 is hereby included in the Loan Agreement to read as follows:

"Changes in Laws and Increased Costs of Loans.

a. Notwithstanding anything to the contrary contained herein, all Eurodollar Rate Loans shall, upon notice by Lender to Borrower, convert to Prime Rate Loans in the event that (i) any change in applicable law or regulation (or the interpretation or administration thereof) shall either (A) make it unlawful for Lender, Reference Bank or any participant to make or maintain Eurodollar Rate Loans or to comply with the terms hereof in connection with the Eurodollar Rate Loans, or (B) shall result in the increase in the costs to Lender, Reference Bank or any participant of making or maintaining any Eurodollar Rate Loans by an amount deemed by Lender to be material, or (C) reduce the amounts received or receivable by Lender in respect thereof, by an amount deemed by Lender to be

material or (ii) the cost to Lender, Reference Bank or any participant of making or maintaining any Eurodollar Rate Loans shall otherwise increase by an amount deemed by Lender to be material. Borrower shall pay to Lender, upon demand by Lender (or Lender may, at its option, charge any loan account of Borrower) any amounts required to compensate Lender, the Reference Bank or any participant with Lender for any loss (including loss of anticipated profits), cost or expense incurred by such person as a result of the foregoing, including, without limitation, any such loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such person to make or maintain the Eurodollar Rate Loans or any portion thereof. A certificate of Lender setting forth the basis for the determination of such amount necessary to compensate Lender as aforesaid shall be delivered to Borrower and shall be conclusive, absent manifest error.

b. If any payments or prepayments in respect of the Eurodollar Rate Loans are received by Lender other than on the last day of the applicable Interest Period (whether pursuant to acceleration, upon maturity or otherwise), including any payments pursuant to the application of collections under Section 6.3 or any other payments made with the proceeds of Collateral, Borrower shall pay to Lender upon demand by Lender (or Lender may, at its option, charge any loan account of Borrower) any amounts required to compensate Lender, the Reference Bank or any participant with Lender for any additional loss (including loss of anticipated profits), cost or expense incurred by such person as a result of such prepayment or payment, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such person to make or maintain such Eurodollar Rate Loans or any portion thereof."

(g) Section 12 of the Loan Agreement is replaced in its entirety to read as follows:

"Term.

(a) This Agreement and the other Financing Agreements shall become effective as of the date set forth on the first page hereof and shall continue in full force and effect for a term ending on April 2, 2003. Regardless of the timing of termination, this Agreement and all other Financing Agreements must be terminated simultaneously. Upon the effective date of termination of the Financing Agreements, Borrower shall pay to Lender, in full, all outstanding and unpaid Obligations and shall furnish cash collateral to Lender in such amounts as Lender determines are reasonably necessary to secure Lender from loss, cost, damage or expense, including reasonable attorneys' fees and legal expenses, in connection with any contingent Obligations, including issued and outstanding Letter of Credit Accommodations and checks or other payments provisionally

credited to the Obligations and/or as to which Lender has not yet received final and indefeasible payment. Such cash collateral shall be remitted by wire transfer in Federal funds to such bank account of Lender, as Lender may, in its discretion, designate in writing to Borrower for such purpose. Interest shall be due until and including the next Business Day, if the amounts so paid by Borrower to the bank account designated by Lender are received in such bank account later than 3:00 p.m., New York time.

(b) No termination of this Agreement or the other Financing Agreements shall relieve or discharge Borrower of its respective duties, obligations and covenants under this Agreement or the other Financing Agreements until all Obligations have been fully and finally discharged and paid, and Lender's continuing security interest in the Collateral and the rights and remedies of Lender hereunder, under the other Financing Agreements and applicable law, shall remain in effect until all such Obligations have been fully and finally discharged and paid.

(c) If for any reason this Agreement is terminated prior to the end of the then current term or any agreed upon renewal term of this Agreement, in view of the impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Lender's lost profits as a result thereof, Borrower agrees to pay to Lender, upon the effective date of such termination, an early termination fee in the amount set forth below if such termination is effective in the period indicated:

	Amount	Period
(i)	1% of the Maximum Credit	from the date of this Agreement to April 2, 2002
(ii)	.5% of the Maximum Credit	from April 3, 2002 to April 2, 2003

Such early termination fee shall be presumed to be the amount of damages sustained by Lender as a result of such early termination and Borrower agrees that it is reasonable under the circumstances currently existing. Lender shall be entitled to such early termination fee upon the occurrence of any Event of Default described in Sections 10.2(i) and 10.1(j) hereof, even if Lender does not exercise its right to terminate this Agreement, but elects, at its option, to provide financing to Borrower or permit the use of cash collateral under the United States Bankruptcy Code; provided, however, if Lender waives such Event of Default, does not exercise its rights to terminate this Agreement and continues financing Borrower, such early termination fee shall not be due and payable by Borrower at such time. The early termination fee provided for in this Section 12.1 shall be deemed included in the Obligations.

Notwithstanding the foregoing, the early termination fee shall be waived (a) if the termination is due to the refinancing of the Obligations by First Union National Bank and if there is no Event of Default or event or circumstance which, with notice or passage of time or both, would become an Event of Default under this Agreement or (b) if Borrower chooses to exercise the right to terminate this Agreement and the other Financing Agreements upon any assignment by Lender of its rights or obligations under or related to this Agreement or the other Financing Agreements to a non-U.S. Lender, defined as any Lender that is not a "United States person," within the meaning of Section 7701(a)(30) of the Code.

2. Amendment Fee. Borrower shall pay Lender an amendment fee in the amount of Twenty Five Thousand Dollars ($25,000) for the processing and approval of this Amendment, which fee will be fully earned on the date of this Amendment.

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

(a) Amendment. This Amendment fully executed in a sufficient number of counterparts for distribution to Lender and Borrower.

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

(c) Payment of Fee. Borrower shall pay the Amendment Fee required by Section 2.

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

4. Representations and Warranties. The Borrower represents and warrants as follows:

(a) Authority. The Borrower has the requisite corporate power and authority to execute and deliver this Amendment, and to perform its obligations hereunder and under the Financing Agreements (as amended or modified hereby) to which it is a party. The execution, delivery and performance by the Borrower of this Amendment have been duly approved by all necessary corporate action, have received all necessary governmental approval, if any, and do not contravene any law or any contractual restrictions binding on Borrower. No other corporate proceedings are necessary to consummate such transactions.

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

Borrower in accordance with its terms, and is in full force and effect.

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

5. Choice of Law. The validity of this Amendment, its construction, interpretation and enforcement, the rights of the parties hereunder, shall be determined under, governed by, and construed in accordance with the internal laws of the State of New York governing contracts only to be performed in that State.

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

7. Reference to and Effect on the Financing Agreements.

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

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

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

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

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

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

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

"BORROWER"

ALLIED FASHION INC.,
a Delaware corporation

By: /s/ G. BELLINO

Title: President

"LENDER"

CONGRESS FINANCIAL CORPORATION
(SOUTHWEST), a Texas corporation

By: /s/ JOE T. CURDY

Title: AVP

EXHIBIT 10.7

THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment"), dated as of January_____, 2003, is entered into between CONGRESS FINANCIAL CORPORATION (SOUTHWEST), a Texas corporation ("Lender"), and CITI TRENDS, INC., a Delaware corporation ("Borrower").

RECITALS

A. Borrower and Lender have previously entered into that certain Loan and Security Agreement dated April 2, 1999, as amended by that certain First Amendment to Loan and Security Agreement dated June 22, 2000, that certain Second Amendment to Loan and Security Agreement dated November 30, 2000 and that certain letter agreement dated August 1, 2001 regarding Borrower's name change (as amended, the "Loan Agreement"), pursuant to which Lender has made certain loans and financial accommodations available to Borrower. Terms used herein without definition shall have the meanings ascribed to them in the Loan Agreement.

B. Lender and Borrower now wish to further amend the Loan Agreement on the terms and conditions set forth herein.

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

AMENDMENT

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

1. Amendments to Loan Agreement.

(a) Section 1.28 of the Loan Agreement is hereby amended and restated to read in its entirety as follows:

> "1.28 "Maximum Credit" shall mean, with reference to the Revolving Loans and the Letter of Credit Accommodations, the amount of Fifteen Million Dollars ($15,000,000); provided, however, from April 3, 2003 to and including April 2, 2004, it shall mean the amount of Twenty Million Dollars ($20,000,000); provided, further, on April 3, 2004 and thereafter, it shall mean the amount of Twenty-Five Million Dollars ($25,000,000)."

(b) The definition of "Interest Rate" set forth in Section 1 of the Loan Agreement is hereby amended and restated to read in its entirety as follows:

> " "Interest Rate shall mean:

(a)as to Prime Rate Loans, a rate of:

(i) the Prime Rate to the extent either (A) Borrower has maintained Excess Availability of $5,000,000 or greater at all times during the immediately preceding month or (B) both (1) Borrower has maintained Excess Availability of $3,000,000 or greater at all times during the immediately preceding month and (2) Borrower's then year to date EBITDA, as determined by Lender based upon its review of the financial statements provided to Lender by Borrower for the relevant period, when measured as of the last day of such period, was $5,000,000 or greater;

(ii) one-quarter of one percent (0.25%) per annum in excess of the Prime Rate to the extent either (A) Borrower has maintained Excess Availability of between $2,500,000 and $4,999,999 at all times during the immediately preceding month or (B) Borrower's then year to date EBITDA, as determined by Lender based upon its review of the financial statements provided to Lender by Borrower for the relevant period, when measured as of the last day of such period, was between $3,000,000 and $4,999,999; or

(iii) one-half of one percent (0.50%) per annum in excess of the Prime Rate to the extent either (A) Borrower has maintained Excess Availability of $2,499,999 or less at all times during the immediately preceding month or (B) Borrower's then year to date EBITDA, as determined by Lender based upon its review of the financial statements provided to Lender by Borrower for the relevant period, when measured as of the last day of such period, was $2,999,999 or less; and

(b) as to Eurodollar Rate Loans, a rate of:

(i) two and one-quarter percent (2.25%) per annum in excess of the Adjusted Eurodollar Rate (based on the Eurodollar Rate applicable for the Interest Period selected by Borrower as in effect three (3) Business Days after the date of receipt by Lender of the request of Borrower for such Eurodollar Rate Loans in accordance with the terms hereof, whether such rate is higher or lower than any rate previously quoted to Borrower) to the extent either (A) Borrower has maintained Excess Availability of $5,000,000 or greater at all times during the immediately preceding month or (B) both (1) Borrower has maintained Excess Availability of $3,000,000 or greater at all times during the immediately preceding month and (2) Borrower's then year to date EBITDA, as determined by Lender based upon its review of the financial statements provided to Lender by Borrower for the relevant period, when measured as of the last day of such period, was $5,000,000 or greater;

(ii) two and one-half percent (2.50%) per annum in excess of the Adjusted Eurodollar Rate (based on the Eurodollar Rate applicable for the Interest Period selected by Borrower as in effect three (3) Business Days after the date of receipt by Lender of the request of Borrower for such Eurodollar Rate Loans in accordance with the terms hereof, whether such rate is higher or lower than any rate previously quoted to Borrower) to the extent either (A) Borrower has maintained Excess Availability of between $2,500,000 and $4,999,999 at all times during the immediately preceding month or (B) Borrower's then year to date EBITDA, as determined by Lender based upon its review of the financial statements provided to Lender by Borrower for the relevant period, when measured as of the last day of such period, was between $3,000,000 and $4,999,999; or

(iii) two and three-quarters percent (2.75%) per annum in excess of the Adjusted Eurodollar Rate (based on the Eurodollar Rate applicable for the Interest Period selected by Borrower as in effect three (3) Business Days after the date of receipt by Lender of the request of Borrower for such Eurodollar Rate Loans in accordance with the terms hereof, whether such rate is higher or lower than any rate previously quoted to Borrower) to the extent either (A) Borrower has maintained Excess Availability of $2,499,999 or less at all times during the immediately preceding month (B) Borrower's then year to date EBITDA, as determined by Lender based upon its review of the financial statements provided to Lender by Borrower for the relevant period, when measured as of the last day of such period, was $2,999,999 or less;

provided, that, the Interest Rate shall mean a rate of two percent in excess of the rate that would otherwise be applied in accordance with the foregoing, at Lender's option, without notice, (x) for the period (i) from and after the date of termination or non-renewal hereof until Lender has received full and final payment of all obligations (notwithstanding entry of a judgment against Borrower) and (ii) from and after the date of the occurrence of an Event of Default for so long as such Event of Default is continuing as determined by Lender, and (y) on the Revolving Loans at any time outstanding in excess of the amounts available to Borrower under Section 2 (whether or not such excess(es), arise or are made with or without Lender's knowledge or consent and whether made before or after an Event of Default)."

(c) The following definitions are hereby added, in their proper alphabetical order, to Section 1 of the Loan Agreement:

" "Capital Lease" shall mean, as applied to any Person, any lease of (or any agreement conveying the right to use) any property (whether real,

personal or mixed) by such Person as lessee that, in accordance with GAAP, is required to be reflected as a liability on the balance sheet of such Person.

"Capital Stock" shall mean, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of such Person's capital stock, partnership interests or limited liability company interests at any time outstanding, and any and all rights, warrants or options exchangeable for or convertible into such capital stock or other interests (but excluding any debt security that is exchangeable for or convertible into such capital stock).

"EBITDA" shall mean, as to any Person, with respect to any period, an amount equal to: (a) the Net Income of such Person and its Subsidiaries for such period on a consolidated basis determined in accordance with GAAP, plus (b) depreciation, amortization and other non-cash charges (including, but not limited to, imputed interest and deferred compensation) of such Person for such period (to the extent deducted in the computation of Net Income), all in accordance with GAAP, plus (c) Interest Expense of such Person for such period (to the extent deducted in the computation of Net Income), plus (d) charges for Federal, State, local and foreign income taxes for such period (to the extent deducted in the computation of Net Income), plus (e) all extraordinary losses and unusual losses related to the restructuring of the business of such Person and costs associated with the refinancing transaction contemplated by this Agreement, minus (f) all income (and plus all charges, up to the amount of such income) attributable to any Subsidiary of such Person.

"Interest Expense" shall mean, for any period, as to any Person and its Subsidiaries, all of the following as determined in accordance with GAAP, total interest expense, whether paid or accrued (including the interest component of Capital Leases for such period), including, without limitation, all bank fees, commissions, discounts and other fees and charges owed with respect to letters of credit, banker's acceptances or similar instruments, but excluding (a) amortization of discount and amortization of deferred financing fees and closing costs paid in cash in connection with the transactions contemplated hereby, (b) interest paid in property other than cash and (c) any other interest expense not payable in cash.

"Net Income" shall mean, with respect to any Person, for any period, the aggregate of the net income (loss) of such Person and its Subsidiaries, on a consolidated basis, for such period (excluding to the extent included therein any extraordinary or one-time gains or losses) after deducting all charges which should be deducted before arriving at the net income (loss) for such period and after deducting the Provision for Taxes for such period, all as determined in accordance with GAAP, provided, that, (a) the net income of any Person that is not a wholly-owned Subsidiary or that is accounted for by the equity method of accounting shall be included only to

the extent of the amount of dividends or distributions paid or payable to such Person or a wholly-owned Subsidiary of such Person; (b) the effect of any change in accounting principles adopted by such Person or its Subsidiaries after the date hereof shall be excluded; and (c) the net income (if positive) of any wholly-owned Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such wholly-owned Subsidiary to such Person or to any other wholly-owned Subsidiary of such Person is not at the time permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule of government regulation applicable to such wholly-owned Subsidiary shall be excluded. For the purpose of this definition, net income excludes any gain or loss, together with any related Provision for Taxes for such gain or loss realized upon the sale or other disposition of any assets that are not sold in the ordinary course of business (including, without limitation, dispositions pursuant to sale and leaseback transactions), or of any Capital Stock of such Person or a Subsidiary of such Person and any net income realized as a result of changes in accounting principles or the application thereof to such Person.

"Provision for Taxes" shall mean, with respect to any Person, for any period, an amount equal to all taxes imposed on or measured by net income, whether Federal, State or local, and whether foreign or domestic, that are paid or payable by such Person and its Subsidiaries in respect of such period on a consolidated basis in accordance with GAAP.

"Subsidiary" shall mean, with respect to any Person, any corporation, limited or general partnership, limited liability company, trust, association or other business entity of which more than fifty percent (50%) of the voting stock or other voting equity interests (in the case of a business entity other than a corporation) is owned or controlled directly or indirectly by such Person, or one or more Subsidiaries of such Person, or a combination thereof."

(d) Section 2.1(a)(i) of the Loan Agreement is hereby amended and restated to read in its entirety as follows:

"(i) the lesser of:

(A) sixty-five percent (65%) of the Value of the Eligible Inventory; or

(B) eighty-five percent (85%) of the Appraised Inventory Value of Eligible Inventory; minus"

(e) The first sentence of Section 2.2(d) of the Loan Agreement is hereby amended to read as follows:

"Except in Lender's discretion, the amount of all outstanding Letter of Credit Accommodations and all other commitments and obligations made

or incurred by Lender in connection therewith shall not at any time exceed Two Million Dollars ($2,000,000)."

(f) Section 3.1(b)(v) of the Loan Agreement is hereby amended to read as follows:

"(v) the aggregate amount of the Eurodollar Rate Loans must be in an amount not less than $1,000,000 or an integral multiple of $500,000 in excess thereof,"

(g) A new Section 3.6 is hereby added to Section 3 of the Loan Agreement which reads as follows:

"3.6 Unused Line Fee. Beginning April 3, 2003, Borrower shall pay to Lender monthly an unused line fee at a rate equal to one-quarter of one percent (0.25%) per annum calculated upon the amount by which Ten Million Dollars ($10,000,000) exceeds the average daily principal balance of the outstanding Revolving Loans and Letter of Credit Accommodations during the immediately preceding month (or part thereof) while this Agreement is in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be payable on the first day of each month (beginning May 1, 2003) in arrears."

(h) Section 6.3(a)(ii) of the Loan Agreement is hereby amended and restated to read in its entirety as follows:

"(ii) Borrower shall establish and maintain, at its expense, pursuant to an agreement described in the following sentence, a blocked account with such bank or banks as are acceptable to Lender (each a "Blocked Account" and collectively the "Blocked Accounts"). Each bank at which a Blocked Account is established shall enter into an agreement, in form and substance satisfactory to Lender, providing (unless otherwise agreed to by Lender) that all items received or deposited in such Blocked Account are the Collateral of Lender, that the depository bank has no lien upon, or right to setoff against, the Blocked Accounts, the items received for deposit therein, or the funds from time to time on deposit therein, and that, upon notice from Lender (a "Control Notice"), the depository bank will wire, or otherwise transfer, in immediately available funds, on a daily basis, all funds received or deposited into such Blocked Account to such bank account of Lender as Lender may from time to time designate for such purpose (the "Payment Account"); provided, that, Lender may only issue a Control Notice upon the occurrence of an Event of Default or in the event that Excess Availability is $4,999,999 or less at any time; and provided, further, that Lender shall rescind such Control Notice if Borrower maintains Excess Availability of $5,000,000 or more at all times during the ninety (90) day period immediately following the issuance of such Control Notice. Borrower agrees that all amounts deposited in the Blocked Account(s) or other funds received and collected by Lender,

whether as proceeds of Inventory, the collection of Accounts or other Collateral or otherwise shall be the Collateral of Lender. Prior to the issuance of a Control Notice, Borrower shall make all payments with respect to the Obligations to the Payment Account, which payments shall automatically be made, pursuant to the terms of this Section, after the issuance of a Control Notice."

(i) A new Section 7.8 is hereby added to the Loan Agreement which reads as follows:

"7.8 Interim Collateral Audits. Lender shall be entitled to conduct interim audits of the Collateral a minimum of twice over every twelve (12) month period, except, that, upon the occurrence of an Event of Default or if Excess Availability is $4,999,999 or less at any time, such audits shall be conducted at any time as Lender may request."

(j) Section 9.16(g) of the Loan Agreement is hereby amended to read as follows:

"(g) all out-of-pocket expenses and costs incurred by Lender's examiners in the conduct of their periodic field examinations of the Collateral and Borrower's operations, plus a per diem charge at the rate of $750 per person per day for Lender's examiners in the field and office; and"

(k) The first sentence of Section 12.1(a) of the Loan Agreement is hereby amended to read as follows:

"This Agreement and the other Financing Agreements shall become effective as of the date set forth on the first page hereof and shall continue in full force and effect for a term ending on April 2, 2005."

(l) Sections 12.1(c)(i) and (ii) of the Loan Agreement are hereby amended to read as follows:

	Amount	Period
(i)	1% of the Maximum Credit	from the date of this Agreement to and including April 2, 2004
(ii)	.5% of the Maximum Credit	from April 3, 2004 to and including April 1, 2005

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

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

(b) Extension Fee. An extension fee in the amount of Fifty Thousand Dollars ($50,000), which fee is fully earned as of and due and payable on the date hereof.

(c) Representations and Warranties. The representations and warranties set forth herein and in the Loan Agreement must be true and correct.

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

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

(a) Authority. Borrower has the requisite corporate power and authority to execute and deliver this Amendment, and to perform its obligations hereunder and under the Financing Agreements (as amended or modified hereby) to which it is a party. The execution, delivery and performance by Borrower of this Amendment have been duly approved by all necessary corporate action and no other corporate proceedings are necessary to consummate such transactions.

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

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

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

(e) No Default. No event has occurred and is continuing that constitutes an Event of Default.

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

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

4. Choice of Law. The validity of this Amendment, its construction, interpretation and enforcement, the rights of the parties hereunder, shall be determined under, governed by, and

construed in accordance with the internal laws of the State of New York (without giving effect to principals of conflicts of law).

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

6. Reference to and Effect on the Financing Agreements.

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

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

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

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

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

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

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

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

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

CITI TRENDS, INC.,
a Delaware corporation

By: /s/ TOM STOLTZ

Name: Tom Stoltz
Title: CFO

CONGRESS FINANCIAL CORPORATION
(SOUTHWEST),
a Texas corporation

By: /s/ JOE T. CURDY

Name: Joe T. Curdy
Title: AVP

EXHIBIT 10.8

FOURTH AMENDMENT TO LOAN AND SECURITY AGREEMENT AND CONSENT

THIS FOURTH AMENDMENT TO LOAN AND SECURITY AGREEMENT AND CONSENT (this "Amendment"), dated as of February 9, 2005, is entered into between CONGRESS FINANCIAL CORPORATION (SOUTHWEST), a Texas corporation ("Lender"), and CITI TRENDS, INC., a Delaware corporation ("Borrower").

RECITALS

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

B. Borrower desires to sell its common stock in an initial public offering (the "IPO"). Borrower has requested that Lender consent to the IPO and amend the Loan Agreement, and Lender is willing to provide such consent and to amend the Loan Agreement, all upon the terms and conditions set forth below.

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

AMENDMENT

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

1. Amendments to Loan Agreement.

(a) Section 3.6 is hereby amended and restated in its entirety to read as follows:

> "3.6 Unused Line Fee. Borrower shall pay to Lender monthly an unused line fee at a rate equal to three-eighths of one percent (0.375%) per annum calculated upon the amount by which Fifteen Million Dollars ($15,000,000) exceeds the average daily principal balance of the outstanding Revolving Loans and Letter of Credit Accommodations during the immediately preceding month (or part thereof) while this Agreement is in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be payable on the first day of each month in arrears."

(b) Section 9.15 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"9.15 Adjusted Tangible Net Worth. Borrower shall maintain its Adjusted Tangible Net Worth, measured as at the end of each fiscal quarter, at an amount not less than the amount set forth opposite such quarter:

Fiscal Quarter Ending	Minimum Adjusted Tangible Net Worth
April 30, 2005	$15,000,000
July 31,2005	$17,500,000
October 31,2005	$20,000,000
January 31,2006	$25,000,000
April 30, 2006	$28,000,000
July 31,2006	$28,000,000
October 31,2006	$28,000,000
January 31,2007	$34,000,000
April 30, 2007	$37,000,000

; provided, however, if Borrower sells its common stock in an initial public offering, Borrower and Lender will enter into an amendment to this Agreement, in form and substance satisfactory to Lender, to reset this minimum Adjusted Tangible Net Worth covenant as of the last day of each fiscal quarter of Borrower after December 31,2005 at levels as reasonably determined by Lender based upon the Borrower's projections for such time periods."

(c) The first sentence of Section 12.l (a) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"This Agreement and the other Financing Agreements shall become effective as of the date set forth on the first page hereof and shall continue in full force and effect for a term ending on April 2, 2007."

(d) Sections 12.l (c)(i) and (ii) of the Loan Agreement are hereby amended and restated in their entirely to read as follows:

	Amount	Period
(i)	1% of the Maximum Credit	from the date of this Agreement to and including April 2, 2006
(ii)	5% of the Maximum Credit	from April 3, 2004 to and including April 1, 2007

(c) The last paragraph of Section 12.1(c) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"Notwithstanding the foregoing, the early termination fee shall be waived (a) if the termination is due to the refinancing of the Obligations by Wachovia Bank, National Association and if at the time of such refinancing there is no Event of Default or event or circumstance which, with notice or passage of time or both, would become an Event of Default under this Agreement, or (b) if Borrower chooses to exercise the right to terminate this Agreement and the other Financing Agreements upon any assignment by Lender of its rights or obligations under or related to this Agreement or the other Financing Agreements to a non-U.S. Lender, defined as any Lender that is not a "United States person," within the meaning of Section 7701(a)(30) of the Code."

2. Consent. Lender hereby consents to the IPO and acknowledges and agrees that consummation of the IPO shall not constitute an Event of Default under Section 10.1(l) of the Loan Agreement.

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

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

(b) Extension Fee. An amendment fee in the amount of Forty Thousand Dollars ($40,000), which fee is fully earned as of and due and payable on the date hereof.

(c) Representations and Warranties. The representations and warranties set forth herein and in the Loan Agreement must be true and correct.

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

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

(a) Authority. Borrower has the requisite corporate power and authority to execute and deliver this Amendment, and to perform its obligations hereunder and under the Financing Agreements (as amended or modified hereby) to which it is a party. The execution, delivery and performance by Borrower of this Amendment have been duly approved by all necessary corporate action and no other corporate proceedings are necessary to consummate such transactions.

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

(c) Representations and Warranties. The representations and warranties contained in each Financing Agreement (other than any such representations or warranties that,

by their terms, are specifically made as of a date other than the date hereof) are correct on and as of the date hereof as though made on and as of the date hereof.

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

(e) No Default. No event has occurred and is continuing that constitutes an Event of Default.

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

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

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

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

7. Reference to and Effect on the Financing Agreements.

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

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

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

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

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

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

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

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

[Remainder of Page Left Intentionally Blank]

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

CITI TRENDS, INC.,
a Delaware corporation

By: /s/ Tom Stoltz

Name: Tom Stoltz

Title: CFO

CONGRESS FINANCIAL CORPORATION
(SOUTHWEST),
a Texas corporation

By: /s/ Joe T. Curdy

Name: Joe T. Curdy

Title: Vice President

EXHIBIT 10.9

LEASE AGREEMENT

MEYER WAREHOUSE, LLC, LANDLORD

AND

CITI TRENDS, INC., TENANT

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LEASE AGREEMENT

THIS LEASE AGREEMENT ("Lease") is made and entered into this 30th day of September 2004, by and between MEYER WAREHOUSE LLC, a Georgia limited liability company (the "Landlord"), and Citi Trends, Inc., a Delaware corporation ("Tenant"). This Lease supersedes and replaces all negotiations and other agreements between the parties. Tenant has submitted to Landlord a signed financial statement demonstrating its net worth and showing an ability to perform.

1. LEASED PREMISES. In consideration of the payment of the rent and the performance of the agreements of Tenant hereinafter set forth, Landlord does hereby lease unto Tenant and Tenant does hereby lease from Landlord the real property and improvements, situate in the County of Chatham, and State of Georgia, described on Exhibit A (the "Premises"), including a building encompassing approximately Seventy-One Thousand Eight Hundred Seventy-Five (71,875) gross square feet (the "Building"), as shown on the drawing attached as Exhibit B. The Building is numbered as 104 Coleman Boulevard, Savannah, Georgia 31408.

Tenant is accepting the Premises "as-is." Tenant will return the trash compactor to Southern Paper Recovery (or make arrangements to keep the compactor and have it removed before the Premises are restored).

2. TERM OF LEASE AND RENT.

a. TERM. The initial term of this Lease shall be for two (2) years, commencing on October 1, 2004 (the "Commencement Date") and terminating on the last day of September, 2006.

b. ANNUAL BASE RENT. The Annual Base Rent for each full year of the Term of this Lease shall be payable in lawful money of the United States and shall be the sum of Two Hundred Fifteen Thousand Dollars ($215,000) payable in advance in monthly installments of Seventeen Thousand Nine Hundred Sixteen and 67/100 Dollars ($17,916.67) per month. The Annual Base Rent is not calculated on a per-square-foot basis and shall not be adjusted regardless of the actual square footage of the Building or the Premises except as may elsewhere be provided for in this Lease.

c. OPERATING EXPENSE RENT. This is a triple-net lease. Subject to the provision below concerning expenses on parking lots, roof and structure in excess of $10,000, in addition to the payment of Annual Base Rent, Tenant shall pay any and all property and maintenance costs and all operating expenses, taxes, and insurance attributable to the Premises ("Operating Expense Rent"), whether directly under Section 3 or under Section 4 or by reimbursing Landlord or some combination thereof.

d. PAYMENT OF RENT. Any and all Annual Base Rent and the amount of the Operating Expense Rent, if any, paid directly to Landlord (collectively "Rent") shall be paid in advance on or before the first day of each calendar month during said term at the office of Landlord at 211 East York Street, Savannah, Georgia 31401, or at such other place as Landlord may designate from time to time in writing. In the event rent due under this Lease shall commence (or end) on any day other than the first (or last) day of a calendar month, the rental payments for the partial month shall be prorated to reflect the actual number of days the Premises were under lease.

3. OPERATING EXPENSES AND TAXES.

a. The term "Operating Expenses and Taxes" means the sum of:

(1) All operating expenses of any kind or nature with respect to the Premises and shall include, but not be limited to, the following costs:

(a) building supplies;

(b) utility costs incurred in connection with all energy sources for the Building, such as natural gas and electricity;

(c) water and sewer service;

(d) janitorial services required by the Lease;

(e) general maintenance of the Premises, including but not limited to the interior, the exterior, the roof, and the heating, electrical, and air conditioning systems of the Building, but excluding repairs of the parking lot, roof and structure beyond $10,000 per occurrence;

(f) landscaping and maintenance of the Premises;

(g) maintenance, repair, replacement, and striping of all parking areas, subject to the limitation contained in (e);

(h) fire and extended coverage, public liability insurance, "all risk" insurance, rental value insurance covering a period of twelve (12) months, and all other insurance required to be obtained by the Lease;

(i) labor costs incurred in the operation and maintenance of the Premises, including wages and other payments, costs to Landlord for workmen's compensation and disability insurance, payroll taxes, and reasonable fringe benefits;

(j) legal, accounting, inspection, and consultation fees reasonably and necessarily incurred in connection with any breach of this Lease if Landlord is the prevailing party;

(k) expenditures necessary to comply with ADA and any other laws, rules, regulations, or orders of any governmental authority having jurisdiction and expenditures solely of an energy conservation, security, or handicapped access nature required by any laws, rules, regulations, or orders of any governmental authority having jurisdiction.

(2) All taxes and assessments of any kind or nature against the Premises, including but not limited to:

(a) any form of assessment, special assessment, license fee, license tax, business license fee, business license tax, commercial rental tax, levy, charge, penalty, or other tax imposed by any authority having the direct

power to tax, including any city, county, state, or federal government, or any school, agricultural, lighting, water, drainage, or other municipal, improvement, or special district, against the Building, the Premises, or any legal or equitable interest of Landlord therein but excluding Landlord's income tax; and

(b) any assessment, tax, fee, levy or charge in substitution, partially or totally, of or in addition to any assessment, tax, fee, levy, or charge which may be imposed by governmental agencies for such services as fire protection; street, sidewalk, and road maintenance; refuse removal; and for other governmental services.

(3) Operating Expenses and Taxes shall not include:

(a) depreciation and amortization of Landlord;

(b) interest and principal payments on mortgages and other debt, financing and refinancing costs, if any, of Landlord;

(c) any leasing or brokerage commission or compensation, including any advertising or promotional expense (except in the event of a breach);

(d) repair expenses of the parking lots, roof, or structural that are in excess of $10,000 per occurrence. (For parking lot repairs, the only expenses for which Landlord shall be liable are expenses in excess of $10,000 for each occurrence to repair the parking lot to the condition it is now; Landlord shall not be responsible for any upgrades.)

(e) payments to any affiliate of Landlord for goods or services in excess of "market" costs;

(f) Landlord's federal, state, or local income tax; and

(g) Landlord's executive salaries and bonuses.

(4) "Operating Cost Year" means the twelve- (12) month period beginning on the Commencement Date of this Lease and any twelve- (12) month period thereafter.

b. Any Operating Expense Rent payable by Tenant shall be payable as follows, unless otherwise provided: During the term hereof, Tenant shall pay to Landlord monthly in advance and every month thereafter during the initial term one-twelfth (1/12th) of the estimated amount of such Operating Expense Rent as determined by Landlord (and, if possible, based on the actual expenses for the preceding twelve- (12) month period). Such initial budget may be adjusted at the end of each twelve- (12) month period by Landlord, based on actual and expected increases; and Tenant shall pay installments of Operating Expense Rent according to such estimate or any adjustment thereof. In the event such estimated Operating Expense Rent exceeds the actual Operating Expense, Landlord shall credit Tenant for any excess payment within thirty (30) days of the end of each twelve- (12) month period. In the event such estimated Operating Expense Rent is less than the actual Operating Expense, Tenant shall pay the difference to Landlord promptly within thirty (30) days of demand therefor.

c. Landlord shall maintain books of account, which shall be open during normal business hours to Tenant and its representatives for audit and inspection for one (1) year after billing for Operating Expense Rent so that Tenant can determine that such Operating Expense costs have, in fact, been paid or incurred and are within the definition of Operating Expenses. Tenant shall give Landlord at least thirty (30) days' notice of such inspection. Tenant shall pay the costs of such audit and any of Landlord's out-of-pocket expenses associated therewith.

d. Even though the Lease has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's share of actual Operating Expense for the previous twelve- (12) month period, Tenant shall, within thirty (30) days after receipt of written demand therefore together with reasonably detailed support for the charges, pay any increase due over the estimated amount previously paid and, conversely, any overpayment made shall be rebated by Landlord to Tenant within thirty (30) days after Landlord has determined the amount of Operating Expense has exceeded costs incurred. Failure of Landlord or Tenant to submit statements as called for herein shall not be deemed to be a waiver of Tenant's and/or Landlord's requirement to pay sums as herein provided, unless Landlord fails to submit a final invoice within one (1) year after the Lease terminates or Tenant fails to request a final invoice within one (1) year after the Lease terminates.

e. Notwithstanding subsections (b), (c), and (d) above, Tenant shall arrange for and perform all maintenance and repairs and other items that would constitute operating expenses hereunder (except for payment of real estate taxes and Landlord's insurance). Notwithstanding the foregoing, Tenant shall pay in advance to Landlord monthly one-twelfth (1/12) of the taxes.

f. Tenant shall pay upon execution hereof and yearly thereafter to Landlord an amount equal to one (1) year's payment of the insurance Landlord may maintain under Section 10 below or elsewhere.

4. TRIPLE NET LEASE.

It is the purpose and intent of Landlord and Tenant that this Lease be a triple net Lease.

a. Notwithstanding anything to the contrary anywhere hereunder, including in Sections 2, 3, 4, and 6, Tenant shall be responsible, at its sole cost and expense, for the entire and full maintenance, repair, and upkeep of the Premises and the Building and for the maintenance, repairs, replacements, and matters, including but not limited to those described in said sections and elsewhere; provided, however, Tenant shall not be responsible for repairs to parking lot, roof, or structure more than $10,000 per occurrence. (For parking lot repairs, the only expenses for which Landlord shall be liable are expenses in excess of $10,000 for each occurrence to repair the parking lot to the condition it is now. Landlord shall not be responsible for upgrades.) Tenant shall keep the Property, Premises, Building, grounds, and parking lot in good working order and repair and shall fix or replace all items which are broken. Tenant shall comply with all laws, rules, regulations, codes, and ordinances, at its expense. Landlord and its agents shall be entitled to periodically enter the Premises for the reason of inspection and to observe whether the Tenant is properly maintaining the Premises. Landlord shall be under no duty to inspect. If Landlord does inspect, such inspection shall not be a waiver of any right of Landlord or duty of Tenant. If after inspection of the Premises by Landlord, Landlord makes a good-faith determination that the maintenance is inadequate, Landlord shall notify Tenant in writing of such determination. In the event Tenant fails to correct such situation within thirty (30) days of receipt of such

notice or if the nature of the situation is such that it cannot reasonably be corrected within a period of thirty (30) days and work thereon has not been initiated and diligently pursued to completion, Landlord shall have the right to declare a default; and Landlord shall also have the right to elect to perform and assume the maintenance and repair of the Premises and to perform the obligations set forth in Sections 2,3,4, and 6 hereof, all at Tenant's expense. In either event, the provisions of Sections 2,3,4, and 6.b. relating to maintenance shall apply.

b. Under Sections 3.e. and 4.a. above, Tenant shall be responsible for and shall provide all service, maintenance, repair, and replacement to the Premises except those repairs or replacements excluded in Section 3a, including but not limited to that required under the definition of Operating Expenses, including (without limitation) mechanical systems, lighting, roof, utilities, roads, parking, landscaping, and grounds. Such activities shall be at least consistent with the standard of service for similar buildings. If Tenant does not comply, Landlord, at its option thereafter, may provide all of such service, at Tenant's expense.

c. In connection with any repair where Tenant asks for reimbursement, Tenant will notify Landlord at least twenty (20) days prior to initiating the repair and provide copies of the bids and detailed information on the repair at that time. Landlord shall only be liable for costs where the notices were timely given and only for reasonable and necessary expenses above the $10,000 per occurrence for parking lot, roof, and structure.

d. Tenant shall provide telephone service, comprehensive general liability insurance, workman's compensation insurance (or its equivalent), and security services and insurance on Tenant's property, all at Tenant's sole cost.

e. At Landlord's option, Landlord (if it is providing services at Tenant's expense) may delegate the responsibility of providing services under this Lease to one or more rental managers or, with Tenant's prior consent, to Tenant.

5. OPTION TO RENEW. Tenant shall have the option to renew and extend this Lease for one (1) additional term of one (1) year, as long as Tenant is not in default of the lease beyond any applicable cure periods.

a. Tenant is given the option to extend the term on all the provisions contained in this Lease, including Annual Base Rent, for a one-(1) year period ("First Extended Term") by giving written notice of exercise of the option ("First Option Notice") to Landlord at least six (6) months but not more than one (1) year before the expiration of the initial term.

b. Tenant, if it exercises the option in a. above and is not in default beyond any applicable cure periods, is given the option to extend the terms for a two- (2) year period (the "Second Extended Term") by giving written notice of exercise of the option (the "Second Option Notice") to Landlord at least six (6) months prior to the end of the first extended term but not more than one (1) year prior to the end of the first extended term. If Tenant exercises this option, the following shall be applicable:

(1) The Annual Base Rent shall be the greater of (a) $236,500 per year, payable in advance monthly or (b) an amount determined by the Consumer Price Index. The index used shall be the Consumer Price Index for Savannah, Georgia, if available, or the area selected by Landlord near Savannah, Georgia. The amount shall be the Annual Base Rent multiplied by a fraction, the denominator (top) of which is the Consumer Price Index for the month which is six (6) months prior to the beginning of the second extended term and the numerator (bottom) of which is the

same Consumer Price Index for the month which is six (6) months prior to the date of the initial term of this Lease.

(2) If Tenant exercises this second extended term, the figure of $10,000 found in Sections 3.a.(1)(e), 3.a.(3)(d), 4.a., and 4.c. shall be changed to $150,000.

c. Tenant shall have no other right to extend the term beyond that provided above.

6. GENERAL AGREEMENT BETWEEN LANDLORD AND TENANT:

a. For and in consideration of leasing of the Premises aforesaid, Tenant does covenant and agree as follows:

(1) to pay the rent for the Premises hereinabove provided promptly when due and payable;

(2) to pay directly to the provider all charges for telephone services and utilities to the Premises promptly when due and payable;

(3) except as specifically permitted herein, to order no improvements or repairs and, at the expiration of this Lease, to surrender and deliver up the Premises in at least as good order and condition as when the same were entered upon, ordinary wear and tear excepted;

(4) to use the Premises for warehousing, distribution, office, and related business purposes and for no other purposes unless approved in advance by Landlord in writing, which approval will not be unreasonably withheld; to use the Premises for no purposes prohibited by the ordinances of the city or county in which the Premises are located or by the laws, rules, regulations, and codes of the United States or the State of Georgia, now in force or hereafter enacted; and for no unlawful purpose whatsoever; Tenant agrees not to request approval for any manufacturing activity or any activities involving storage of Hazardous Substances;

(5) to neither permit nor suffer any disorderly conduct, odor, noise, dust, or nuisance about the Premises having a tendency to unreasonably annoy or unreasonably disturb any persons occupying nearby properties;

(6) to commit no waste on the Premises;

(7) to not allow or permit heavy trucks on asphalt;

(8) to fully comply with all federal, state and local codes, statutes, laws, and ordinances ("Law"). Tenant shall be responsible to make and pay for any and all repairs and alterations to the components of the Premises (subject to the terms and provisions of this Lease) and to any appurtenances situated upon the Premises that may be required of the Landlord or Tenant as a result of any Law in effect at the time of execution of this Lease or which may be enacted during the term of this Lease.

(9) to neither permit nor suffer the Premises, or the walls, floors, doors, windows, roof, or ceiling thereof, to be endangered by overloading;

(10) to permit Landlord to place a For Rent sign upon the Premises at any time one hundred eighty (180) days before the expiration of the term or any extended term of this Lease; and

(11) to surrender and deliver up the possession of the Premises promptly at the expiration of this Lease or in case of termination of this Lease on account of a breach of any one or more of the covenants or agreements hereof.

b. For and in consideration of this Lease, Tenant does covenant and agree to pay all Operating Expenses and Taxes, including (without limitation) assessments for water and sewer charges levied against such Premises and all charges for heating, cooling, gas, power, light, telephone, and all other services and utilities applied to the Premises:

(1) to keep and maintain all exterior and interior improvements upon the Premises (including lighting, landscaping, and blacktop or its equivalent) clean and neat in appearance and in good order and repair and to repair and maintain the same as the need arises;

(2) to furnish building standard heating and ventilating and air conditioning for the office space as appropriate for the season;

(3) to furnish janitorial service for the Building.

7. FAILURE OF LANDLORD TO MAINTAIN PREMISES. If Landlord refuses or neglects to pay an amount required under Section 3.a. and under Section 4.c. (which is only to pay for the reasonable costs for parking lot, roof, and structure repair costs above $10,000 per occurrence and any other matters that Landlord elects to do) and if Tenant has paid all amounts due hereunder and performed hereunder and complied with Section 4.c., Tenant may deduct the amount owed by Landlord from rent, with applicable interest. This shall be Tenant's sole remedy, notwithstanding any other provision herein.

8. ALTERATIONS AND ADDITIONS.

a. Tenant shall not make or allow to be made any alterations, additions, or improvements to or of the Premises or any part thereof without the prior written consent of Landlord, which shall not be unreasonably withheld. Any alterations, additions, or improvements to or of the Premises (but excepting furniture and equipment) and fixtures shall become a part of the realty and belong to Landlord and shall be surrendered with the Premises at the expiration of this Lease, at Landlord's option. No consent shall be needed for any non-structural alterations, additions, or improvements to the Premises which (i) cannot reasonably be expected to decrease the value of the Premises and (ii) the cost of which does not exceed $40,000.

b. In the event Landlord consents to the making of any alterations, additions, or improvements to the Premises by Tenant, the same may be made by Tenant at Tenant's sole cost and expense in accordance with all applicable codes, ordinances, and other governmental regulations or, by mutual agreement, by Landlord at Tenant's sole cost.

9. LIENS. Tenant shall keep the Premises free of mechanics', materialmen's, judgment, tax, and all other liens and encumbrances, including but not limited to those arising out of any construction or other work done for, or debts incurred by, Tenant. Not less than twenty-one (21) days prior to the commencement of any construction, alteration, or addition to the Premises, Tenant shall notify Landlord in writing of its intention to commence the same and provide written evidence of its

ability to pay for the work; and Landlord shall have the right to post and maintain on the Premises such notices of non-responsibility as may be allowed under applicable law.

10. INSURANCE.

a. Tenant agrees to provide comprehensive general liability insurance with combined single limits of not less than $2,000,000 per occurrence, written with a company authorized to do business in the State of Georgia and having a Best's Rating of at least A or its equivalent, and shall name Landlord, Landlord's mortgagees, or their assigns under said insurance policy as additional named insureds. The limit of said insurance shall not, however, limit any liability of Tenant here under. Tenant shall furnish to Landlord a certificate of insurance indicating that said policy is in full force and effect, that the premium is fully paid, that Landlord and Landlord's mortgagees have been named as additional insureds, and that said policy will not be canceled unless at least thirty (30) days' prior written notice of the proposed cancellation has been given to Landlord and Landlord's mortgagees.

b. Landlord shall obtain and provide fire and extended coverage and property damage insurance in an amount equal to the fair market value of the Premises, written with a company authorized to do business in the State of Georgia and having a Best's Rating of at least A minus or its equivalent, and may, at Landlord's option, name Tenant under said insurance policy as an additional insured. Upon at least ten (10) days' prior written request, Landlord shall furnish Tenant a certificate of insurance indicating that said policy is in full force and effect, that the premium is fully paid, and that said policy will not be canceled unless at least thirty (30) days' prior written notice of the proposed cancellation has been given to Tenant. Said policy may contain rental interruption insurance, at Landlord's option. Tenant shall reimburse Landlord for the full and complete cost of said policy or, at Landlord's option, shall pay the bill for said policy within ten (10) days of presentment.

c. Tenant shall purchase workmen's compensation insurance (or its equivalent) in compliance with all state, federal, and other governmental laws, rules, and regulations.

d. Tenant shall fully insure any and all personal properly and trade fixtures owned by Tenant on the Premises.

e. All insurance of Tenant under this Lease shall be written with an insurance company licensed to do business within the State of Georgia, with ratings of A and above, and not disapproved by Landlord (which disapproval shall not be unreasonable), with such policies to be non-assessable and fully paid and with thirty (30) days' prior notice to Landlord before cancellation.

f. Notwithstanding anything herein to the contrary, Tenant shall maintain at least the amounts and coverages which are customarily maintained, including umbrella coverage. If it is customary to have more insurance or higher limits, Landlord may require Tenant to obtain such additional insurance.

g. Upon request, Tenant will provide evidence of insurance. If Tenant fails to secure any policy, Landlord, at its option, may secure the policy, at Tenant's expense.

h. Tenant shall cause Landlord and Richard Meyer III to be named insureds or additional insureds, as their interests may appear, under any policy which Tenant obtains.

11. WAIVER OF SUBROGATION. Landlord and Tenant agree to request in any policy providing fire and extended coverage insurance and any other property damage insurance as

required hereunder a waiver of any right of subrogation any such insurer of either party may acquire or claim against the other party by reason of the payment of any loss under such insurance with respect to damage to the Premises.

12. HOLD HARMLESS. Tenant agrees to and shall indemnify and hold harmless (including reasonable attorney's fees) Landlord against and from any and all claims arising from any negligent act or omission of Tenant and its officers, agents, and employees or arising out of the Premises or for a breach hereunder.

13. REPLACEMENT OF BUILDING.

a. In the event of a casualty to the Premises, a portion thereof, or any portion of the Building which causes the Building to become untenantable or prevents Tenant from using the Premises and the Building for their intended purpose on account of damage by fire, act of God, or other casualty, Landlord shall be given the option, in Landlord's sole discretion, to correct the deficiency or condition which shall render the Premises untenantable or to terminate this Lease.

b. Tenant shall immediately notify Landlord of any damage to the building. Within twenty (20) days after receipt of written notice from Tenant describing the damage to the Premises, Landlord shall notify Tenant in writing as to whether or not it elects to repair the same. If in the reasonable opinion of Landlord it is not feasible to repair or rebuild the same, Landlord may terminate this Lease. In the event Landlord elects to repair said Premises, Landlord shall have one hundred twenty (120) days from the date of its notice to Tenant to effect such repairs; and Landlord shall diligently pursue the repair or replacement of the Building and the Premises and shall use commercially reasonable efforts to cause the repair or restoration to be completed and to restore the Building and Premises to at least the condition existing on the date immediately preceding the date the damage occurred. Landlord will not be liable or responsible if the repairs take longer.

c. During the period from the date of Landlord's receipt of notice from Tenant of damage to the Premises until the Premises are restored to their prior condition and possession thereof given to Tenant, the rent shall abate, but only to the extent loss of rents insurance is paid to Landlord. Insurance against loss of rents shall be carried on the Premises at the cost and expense of Tenant. In the event of a scheduled rent loss on said policy, the appropriate proceeds as a result of the same shall be paid to Landlord and shall be credited against rent due from Tenant on a monthly basis for the time the Premises are not tenantable. In the event said repairs have not been completed within the period above specified, Tenant, at its option (if the damage was not the result of Tenant's negligence or the wilful act of Tenant and/or its agents, employees, and subcontractors), which must be exercised in writing within ten (10) days from the expiration of the time period specified and prior to completion of construction, may terminate this Lease. If either Landlord or Tenant terminates this Lease as provided in this section, any monies due and owing to Landlord shall be paid by Tenant to the date of the casualty or the date Tenant vacates the Premises, whichever is later; and all future obligations on the part of both parties hereto shall cease and Landlord shall incur no further obligations to Tenant whatsoever from and after such termination of this Lease.

d. Notwithstanding anything to the contrary contained in this section, Landlord, at its option, shall not have any obligation whatsoever to repair, reconstruct, or restore the Premises when the damage resulting from any casualty occurs during the last twelve (12) months of the term of this Lease or any extension thereof.

e. The parties hereto waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

f. Notwithstanding anything to the contrary contained in this section, Tenant, as long as Tenant is not in default, may, in the event Landlord elects to terminate the Lease pursuant to this section, at its option, within twenty (20) days of termination, elect to purchase the Premises in accordance with Section 34 of this Lease. In such event, all proceeds or payments from any Insurance required to be carried under the terms of this Lease shall be paid to Tenant at closing, other than rental interruption insurance.

14. CONDEMNATION OF PREMISES.

a. If the entire Premises, at any time during the term of this Lease or any extension thereof, shall be taken by the exercise of a power of eminent domain, this Lease shall then terminate as of the date of title vesting in such proceeding, all rentals shall be paid up to that date, and Tenant shall have no claim against Landlord or the condemning authority for the value of the unexpired term of this Lease.

b. In the event of a taking of more than twenty-five (25%) percent of the Building or the Premises which renders the Premises or Building unfit for the normal and proper conduct of the business of Tenant, Tenant shall have the right to cancel and terminate this Lease effective upon the actual taking. Tenant must exercise such option to terminate no later than thirty (30) days after such partial taking. All rentals shall be paid up to that date, and Tenant shall have no claim against Landlord or the condemning authority for the value of any unexpired term of this Lease. If this Lease shall not be canceled as above provided, it shall continue in effect; and the rental after such partial taking shall be that part of the rental herein agreed to be paid which the value of the untaken part of the Premises, immediately after the taking, bears to the value of the entire Premises immediately before the taking. If Tenant's continued use of the Premises requires alterations and repairs by reason of a partial taking, Landlord may elect to terminate this Lease within thirty (30) days after the actual taking or, subject to Tenant's right of termination above provided, may elect to continue this Lease, in which event Landlord shall make all necessary alterations and repairs at its expense which are required because of such partial taking. Until such alterations and repairs are completed, an equitable abatement of rent shall be made to Tenant for any portion of the Premises unfit for occupancy and use in the conduct of Tenant's business or inaccessible for the period during which same is unfit for such occupancy and use or inaccessible.

c. In the event of any condemnation or taking as aforesaid, whether whole or partial, Tenant shall not be entitled to any part of the award paid for such condemnation, Tenant hereby expressly waiving any right or claim to any part thereof. Although all such damages awarded in the event of any condemnation are to belong to Landlord, whether such damages are awarded as compensation for diminution in value of the leasehold or to the fee of the Premises, Tenant shall have the right to claim and recover from the condemning authority, but not from Landlord, such compensation as may be separately awarded or recoverable by Tenant in Tenant's own right on account of any and all damage to Tenant's business by reason of the condemnation and for or on account of any cost or loss to which Tenant might be put in removing Tenant's merchandise, furniture, fixtures, leasehold improvements, and equipment.

d. Notwithstanding anything to the contrary contained in this section, Tenant may, in the event any full taking contemplated by this section occurs, at its option, elect to purchase the Premises in accordance with Section 34 of this Lease; and Tenant shall be

entitled to the whole of any award paid for such condemnation or taking up to the amount of the purchase price.

15. ENTRY BY LANDLORD. Subject to Tenant's security and safety requirements, Landlord reserves, and shall have, the right to enter the Premises to inspect or to exhibit the Premises to prospective lenders, purchasers, or tenants; to post notices of non-responsibility; to post signs; to make repairs to the Premises or the Building that Landlord may reasonably deem necessary, without abatement of rent, and may for that purpose erect scaffolding and other necessary structures where reasonably required by the character of the work to be performed, always providing that the entrances to the Premises, including all loading docks, shall not be unreasonably blocked thereby and further providing that the business of Tenant shall not be unreasonably impeded or disrupted. In the event of an emergency, Landlord shall have the right to use any and all reasonable means which Landlord may deem proper to open doors or gates in order to obtain entry to the Premises or the Building without liability to Tenant.

16. ASSIGNMENT AND SUBLETTING. Tenant shall not assign, transfer, mortgage, pledge, hypothecate, or encumber this Lease or any interest therein and shall not sublet the Premises or any part thereof, or any right or privilege appurtenant thereof, or allow any person (excepting the employees, agents, servants, licensees, and invitees of Tenant) to occupy or use the Premises or any portion thereof, or change the use of the Premises without the prior written consent of the Landlord, which consent will not be unreasonably withheld. A consent to one assignment, subletting, occupation, or use by another person shall not be deemed to be a consent to any subsequent assignment, subletting, occupation, or use by another person. Consent to any such assignment or subletting shall not relieve Tenant of any liability under this Lease. Any such assignment or subletting without Landlord's consent shall be void.

Notwithstanding the foregoing, Tenant may assign this Lease or enter into a sublease without the consent of Landlord if such assignment or sublease is to a successor entity and part of the sale of all or a substantial portion of the assets or controlling interest in the securities of the Tenant, the sale of the pertinent operational division of the Tenant, merger or other corporate reorganization, or transfer to an affiliated company, provided such assignment or sublease is for the continued use of the Leased Premises for the purpose set forth herein and Tenant shall not be released.

17. HOLDING OVER. Should Tenant, or any of its successors in interest, hold over the Premises, or any part thereof, after the expiration of the term of this Lease and any renewals and extensions thereof, unless otherwise specifically agreed in writing signed by both parties, such holding over shall constitute and be construed as a tenancy from month to month only, subject to all conditions and obligations required to be performed by the Landlord and Tenant hereunder; provided, however, if Tenant holds over without the express written consent of Landlord, all forms of Rent shall be payable at a monthly rate equal to one and one-quarter times the Rent during the last month of the term of this Lease.

18. DEFAULT.

a. DEFAULT OF TENANT AND REMEDIES OF LANDLORD:

(1) Tenant shall be in default of this Lease if any of the following events occur:

(a) The failure of Tenant to make payment of any rent or other sums required to be paid by Tenant under this Lease when and as the same shall become due and payable and such failure continues for five (5) days after Tenant's receipt of notice of such failure ;

(b) The failure of Tenant to comply with any of the covenants, agreements, terms or conditions contained in this Lease other than those referred to in the foregoing Section 18.a.(1)(a), provided such default continues for a period of twenty (20) days after written notice thereof from Landlord is received by Tenant; provided further that Tenant's time to cure such default shall be extended for such additional time as shall be reasonably required for the purpose if Tenant shall proceed with due diligence during such twenty- (20) day period to cure such default and is unable by reason of the nature of the work involved to cure the same within said twenty (20) days;

(c) If (i) a petition is filed against Tenant seeking a bankruptcy reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any present or future federal, state, or other statute, law, or regulation and remains undismissed for an aggregate of ninety (90) days; or (ii) any trustee, receiver, or liquidator of Tenant or of all or any substantial part of Tenant's properties or the Premises shall be appointed without the consent or acquiescence of Tenant and such appointment remains unvacated for an aggregate of ninety (90) days; or

(d) If Tenant vacates or abandons the Premises for a period of thirty (30) consecutive days during the term hereof without payment of rent.

(2) If Tenant is in default as provided in sub-paragraphs (1)(a), (b), (c), or (d) above or elsewhere, Landlord shall have the option, without further notice to Tenant or further demand for performance:

(a) to (i) institute suit against Tenant to collect each installment of rent or other sum as it becomes due; or (ii) accelerate the rental due for the balance of the term of this Lease and sue for and collect the full amount of such future rentals (discounted to date of judgment, with interest at eight percent (8%)); and (iii) enforce any other obligation of Tenant under this Lease;

(b) as a matter of right, to procure the appointment of a receiver by any Court of competent jurisdiction upon application and with notice to Tenant. All rents, issues, and profits, income, and revenue from the Premises shall be applied by such receiver to the payment of the rent, together with any other obligations of Tenant under this Lease; or

(c) to re-enter and take possession of the Premises and to remove Tenant and Tenant's agents and employees therefrom, and either:

(i) Terminate this Lease and sue Tenant for damages for breach of the obligations of Tenant under this Lease; or

(ii) Without terminating this Lease, to relet, assign, or sublet the Premises as the agent and for the account of Tenant in the name of Landlord or otherwise, upon the best terms and conditions Landlord may make with the new tenant for such term or terms (which may be greater or less than the period which would otherwise have constituted the balance of the term of this Lease) and on such conditions as Landlord, in its reasonable discretion, may determine,

and to collect the rent therefor; provided Landlord shall in no way be responsible or liable for any failure to relet the Premises or any part thereof or for any failure to collect any rent due upon any such reletting. In this event, the rents received on any such reletting shall be applied first to the reasonable expenses of reletting, including (without limitation) all repossession costs, reasonable attorneys' fees, and any real estate commission paid, reasonable alteration costs, and reasonable expenses of preparing the Premises for reletting, and thereafter toward payment of the rental and of any other amounts payable by Tenant under this Lease. If the sum realized shall not be sufficient to pay such rent and other charges attributable to Tenant under this Lease, within five (5) days after demand, Tenant will pay to Landlord any such deficiency as it accrues. Landlord may sue Tenant therefor as each deficiency shall arise if Tenant shall fail to pay such deficiency within said time allowed.

(3) In the event Landlord elects to re-enter or take possession of the Premises, Tenant shall quit and peaceably surrender the Premises to Landlord, and Landlord may enter upon and re-enter the Premises and possess and repossess itself thereof and may dispossess Tenant and remove Tenant and may have, hold, and enjoy the Premises and the right to receive all rental income of and from the same.

(4) No such re-entry or taking of possession by Landlord shall be construed as an election on Landlord's part to terminate or surrender this Lease or to prefer one form of action unless a written notice of such intention is served on Tenant.

(5) Notwithstanding any other provision, any amounts due from Tenant or to Landlord shall bear interest at one and one-half percent (1-1/2%) per month, compounded monthly.

(6) If either party shall at any time be adjudged in default hereunder, or if either party incurs any expense in connection with any action or proceeding instituted by either party reasonably necessary to protect, enforce or defend its rights under this Lease, and if the other party shall deem it necessary to engage attorneys to enforce its rights hereunder, then the prevailing party will be reimbursed by the other party for the reasonable expenses incurred thereby, including, but not limited to, courts costs and reasonable attorneys' fees. These fees and costs will be due if and when a final judgment or court order shall be obtained confirming or declaring that such party has committed an event or act of default under this Lease.

b. DEFAULT OF LANDLORD AND REMEDIES OF TENANT:

(1) Landlord shall be in default of this Lease if any of the following events occur:

(a) The failure of Landlord to make payment of any sums required to be paid by Landlord under this Lease when and as the same shall become due and payable and such failure continues for twenty (20) days after Landlord's receipt of written notice of such failure.

(b) The failure of Landlord to comply with any of the covenants, agreements, terms, or conditions contained in this Lease other than those

referred to in the foregoing Section 18.b.(1)(a), provided such default continues for a period of twenty (20) days after written notice thereof from Tenant is received by Landlord; provided further that Landlord's time to cure such default shall be extended for such additional time as shall be reasonably required for the purpose if Landlord shall proceed with due diligence during such twenty- (20) day period to cure such default and is unable by reason of the nature of the work involved to cure the same within said twenty (20) days.

(2) If Landlord is in material default after notice and right to cure as provided above, Tenant, at its election and after further written notice and if no cure is effected within ten (10) days thereafter, may terminate this Lease but waives the right to recover from Landlord damages, costs, and expenses, including reasonable attorneys' fees and court costs, arising from or caused by Landlord's default; or, Tenant may continue this Lease without termination and nonetheless recover from Landlord all such damages, costs, and expenses, including reasonable attorneys' fees and court costs, incurred as a result of such default (but not to exceed an amount equal to twelve (12) months' rent).

(3) Any amounts due from Landlord or to Tenant shall bear interest at one and one-half percent (1-1/2%) per month, compounded monthly.

c. GENERAL PROVISIONS UPON DEFAULT:

(1) The enumeration of the foregoing remedies of Landlord does not exclude any other remedy of Landlord, but all remedies of Landlord are cumulative and shall be in addition to every other remedy now or hereafter existing at law or in equity.

(2) No failure by either party to insist upon the strict performance of any covenant, agreement, term, or condition of this Lease or to exercise any right or remedy consequent upon a breach thereof, and no acceptance of full or partial rent during the continuance of any such breach, shall constitute a waiver of any such breach or of such covenant, agreement, term, or condition. No covenant, agreement, term, or condition of this Lease to be performed or complied with by either party, and no breach thereof, shall be waived, altered, modified, or terminated except by written instrument executed by either party. No waiver of any breach shall affect or alter this Lease, but each and every covenant, agreement, term, and condition of this Lease shall continue in full force and effect with respect to any other then existing or subsequent breach thereof.

(3) No restriction, condition, or other form of limitation on or accompanying any check or other form of payment to Landlord shall limit (i) Landlord's right to insist upon the strict performance of every covenant, agreement, term, and condition of this Lease or (ii) Landlord's right to exercise every right and remedy consequent upon a breach hereof. Tenant agrees that Landlord may strike and disregard any such restriction, condition, or other form of limitation and retain such payment without being deemed to have agreed, explicitly or implicitly, to such restriction, condition, or other form of limitation and without being deemed to have been unjustly enriched, provided the amount of cash or its equivalent actually received by Landlord is applied toward any amounts payable by Tenant under this Lease.

(4) No restriction, condition, or other form of limitation on or accompanying any check or other form of payment to Tenant shall limit (i) Tenant's right to insist

upon the strict performance of every covenant, agreement, term, and condition of this Lease or (ii) Tenant's right to exercise every right and remedy consequent upon a breach hereof. Landlord agrees that Tenant may strike and disregard any such restriction, condition, or other form of limitation and retain such payment without being deemed to have agreed, explicitly or implicitly, to such restriction, condition, or other form of limitation and without being deemed to have been unjustly enriched, provided the amount of cash or its equivalent actually received by Tenant is applied toward any amounts payable by Landlord under this Lease.

19. QUIET ENJOYMENT. Landlord represents and warrants that it has granted no mortgage on the Premises and that Landlord is the owner of the Premises and Building, free and clear of all liens and encumbrances, to the best of its knowledge, and subject to all other matters of record, including those set forth on Exhibit D. Landlord makes no other warranties, express or implied. Landlord covenants that if, and so long as, Tenant pays all forms of Rent herein provided and performs the covenants hereof, Landlord shall do nothing to affect Tenant's right to peaceably and quietly have, hold, and enjoy the Premises for the term herein mentioned, subject to the provisions of this Lease. Tenant accepts the Premises in its existing condition, after thorough inspection, subject to all zoning ordinances and regulations pertaining to the Premises, without responsibility or warranty by Lessor; and further Tenant accepts the Premises subject to easements, rights-of-way, restrictive covenants, and reservations of record. The Premises have been inspected thoroughly by Tenant and Tenant's independent inspectors prior to executing this Lease, and the Premises have been found by Tenant to be satisfactory for Tenant's intended use. Tenant agrees to accept the Premises in its as-is condition and rely on its own investigation.

20. AS-IS. Tenant hereby acknowledges, certifies, warrants, represents, and agrees, in connection with the lease of the Premises, that it has thoroughly examined and studied the Premises and all aspects thereof and has performed examinations and investigations of the Premises, including, specifically but without limitation, examinations and investigations for the presence of hazardous substances, materials, or wastes (as those terms may be defined by applicable federal or state law, rule, or regulation) on the Premises. Tenant warrants, represents, and agrees that it is sophisticated and knowledgeable and that it has relied solely upon its own investigation. Notwithstanding anything to the contrary herein, it is expressly understood and agreed that Tenant leases (and if it buys, buys) the Premises "as-is" and "where-is" and with all faults and problems. Except for the specific representations and warranties of Landlord specifically set forth herein and in writing in this Lease Agreement, if any, Landlord is making no representations or warranties, whether express or implied or by operation of law or otherwise, with respect to the Premises or the quality, physical condition, or value of the Premises, the income from or expenses of the Premises, or the compliance of the Premises with applicable building or fire codes or any local, state, or federal laws or regulations. Without limiting the foregoing, it is understood and agreed that Landlord makes no warranty of habitability, suitability, merchantability, or fitness for a particular purpose. Tenant agrees that Landlord is not liable or bound by any guarantees, promises, statements, representations, or information pertaining to the Premises made or furnished by Landlord or by any real estate agent, broker, employee, servant, or other person representing or purporting to represent Landlord except as and to the extent as specifically set forth in this Lease Agreement. Tenant hereby releases and discharges Landlord and all Landlord's members, managers, and agents for any claims, including but not limited to those based upon warranty or implied warranty. Tenant further acknowledges and agrees that the compensation to be paid to Landlord is being given subject to the foregoing disclaimers. This Lease Agreement supersedes and replaces all prior agreements, warranties, and representations. Tenant also agrees to indemnify and hold Landlord and all its members, managers, and agents harmless, including reasonable attorney's fees and costs, in connection with any claims made or asserted by Tenant or its successors or assigns inconsistent with this paragraph.

21. ESTOPPEL CERTIFICATE.

a. Tenant shall, without charge, at any time and from time to time hereafter, within twenty (20) days after receipt of a request therefor from Landlord, certify by written instrument duly executed and acknowledged to any mortgagee or prospective mortgagee of the Premises or to any purchaser or prospective purchaser of the Premises as to (i) the validity and force and effect of this Lease, in accordance with its tenor, as then constituted; (ii) the fact that this Lease is unmodified or, if there has been any modification thereof, as to the nature of the modification or modifications and the validity and force and effect of such modification; (iii) the existence of any default on the part of any party hereunder, as to the existence of any offsets, counterclaims, or defenses thereto; and (iv) any other matters which may be reasonably requested by Landlord. Any statement delivered pursuant to this section may be relied upon by any mortgagee or prospective mortgagee of the Premises or the fee interest herein or by any purchaser or prospective purchaser of the fee interest herein.

b. Landlord shall, without charge, at any time and from time to time hereafter, within twenty (20) days after receipt of a request therefor from Tenant, certify by written instrument duly executed and acknowledged to any mortgagee or prospective mortgagee of the Premises or to any purchaser or prospective purchaser as to (i) the validity and force and effect of this Lease, in accordance with its tenor, as then constituted; (ii) the fact that this Lease is unmodified or, if there has been any modification thereof, as to the nature of the modification or modifications and the validity and force and effect of such modification; (iii) the existence of any default on the part of any party hereunder, as to the existence of any offsets, counterclaims, or defenses thereto; and (iv) any other matters which may be reasonably requested by Tenant. Any statement delivered pursuant to this section may be relied upon by any mortgagee or prospective mortgagee of the Premises or the fee interest herein or by any purchaser or prospective purchaser.

22. SUBORDINATION. Tenant agrees that this Lease is and shall be, at all times, subject and subordinate to the lien of any mortgage, deed of trust, financing statement, or other security instrument (collectively "Mortgage") which Landlord or its assigns shall make covering the Premises and to any and all advances to be made thereunder and to the interest granted thereby; provided, however, regardless of any default under any Mortgage or any possession or sale of the Premises under such Mortgage, Tenant shall not be relieved of its obligations under this Lease; and so long as Tenant performs all covenants and conditions of this Lease and continues to pay rent to whomever may be lawfully entitled to same, this Lease and Tenant's possession thereunder shall not be disturbed by the holder of the Mortgage or anyone claiming under or through them. Tenant agrees to execute any and all instruments in writing which may be required by Landlord to subordinate Tenant's right to the lien of such Mortgage, subject to the terms of this section.

23. NOTICES. All notices, demands, requests, information, correspondence, or other documents or instruments required in this Lease to be given by Tenant to Landlord or Landlord to Tenant shall be in writing, hand delivered or sent by prepaid certified or registered mail of the United States at the address listed below or such other place as the parties may designate from time to time by written notice.

Landlord: Meyer Warehouse LLC
c/o Richard Meyer III
211 East York Street
Savannah, Georgia 31401

Copy to: Phillip C. Gans, Esq.
Phillip C. Gans, P.C.
2600 Colorado State Bank Building
1600 Broadway
Denver, Colorado 80202-4989

and to: Attorney Dolly Chisholm
Inglesby, Falligant, Horn, Courington & Chisholm, P.C.
17 West McDonough Street
Savannah, Georgia 31401-3949

Tenant: Citi Trends, Inc.
ATTN: REAL ESTATE DEPARTMENT
102 Fahm Street
Savannah, Georgia 31401

Copy to:

24. AUTHORITY OF PARTIES. Each individual executing this Lease on behalf of its principal represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said party.

25. LEASING COMMISSIONS OR BROKERAGE FEES. Landlord and Tenant warrant and represent to one another that they have not engaged any real estate broker or agent in connection with this Lease or its negotiation other than Clifford H. Dales and John Neely of Neely/Dales, LLC and that all Leasing Commissions or Brokerage Fees payable to Nelly/Dales, LLC will be paid by Landlord pursuant to the written agreement dated February 9, 2004 (the "Exclusive Right to Lease"). Neeley/Dales, LLC represents the Landlord.

26. LATE CHARGES. Tenant hereby acknowledges that late payment by Tenant to Landlord of rent and other sums due hereunder may cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Tenant shall not be received by Landlord or Landlord's agent within five (5) days after such amount shall be due, without any requirement for notice to Tenant, Tenant shall pay to Landlord a late charge equal to ten percent (10%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount nor prevent Landlord from exercising any of the other rights and remedies granted hereunder. Notwithstanding the foregoing, the late fee shall not be charged for the first late payment in any Lease term period as long as such payment is made within fifteen (15) days after written notice) but shall be charged for all late payments thereafter.

27. INTEREST ON PAST-DUE OBLIGATIONS. Notwithstanding any other provision, any amount due to Landlord or Tenant not paid when due shall bear interest at the lower of the rate of one and one-half percent (1-1/2%) per month, compounded monthly, or the highest rate allowed under Georgia law from the date due. Payment of such interest shall not excuse or cure any default by

Tenant under this Lease; provided, however, interest shall not be payable on late charges incurred by Tenant nor on any amounts upon which late charges are paid by Tenant.

28. RULES AND REGULATIONS. Tenant agrees that it will abide by, keep, and observe all reasonable rules and regulations which are attached hereto and incorporated herein by reference as Exhibit C for the management, safety, care, and cleanliness of the Building and grounds; the parking of vehicles; and the preservation of good order therein. Any violations of such rules and regulations shall be deemed a material breach of this Lease by Tenant.

29. SECURITY MEASURES. Tenant hereby acknowledges that the rental payable to Landlord hereunder does not include the cost of guard service or other security measures and that Landlord shall have no obligation whatsoever to provide the same. Tenant assumes all responsibility for the protection of Tenant and its agents and invitees from acts of third parties.

30. TENANT'S RESPONSIBILITY REGARDING HAZARDOUS SUBSTANCES.

a. HAZARDOUS SUBSTANCES. The term "Hazardous Substances," as used in this Lease, shall include, without limitation, flammables, explosives, radioactive materials, asbestos, polychlorinated biphenyls (PCBs), chemicals known to cause cancer or reproductive toxicity, pollutants, contaminants, hazardous wastes, toxic substances or related materials, petroleum and petroleum products (not to include propane or natural gas), and substances declared to be hazardous or toxic under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 USC Section 9601, et seq.; the Resource Conservation and Recovery Act, as amended, 42 USC Section 6901, et seq.; any state or local laws and any regulations adopted under those acts; or any law or regulation now or hereafter enacted or promulgated by any governmental authority.

b. TENANT'S RESTRICTIONS. Tenant shall not cause or permit to occur:

(1) Any violation of any federal, state, or local law, ordinance, or regulation, now or hereafter enacted, related to environmental conditions on, under, or about the Premises or arising from Tenant's use or occupancy of the Premises, including but not limited to air, soil, and ground water conditions; or

(2) The use, generation, release, manufacture, refining, production, processing, storage, or disposal of any Hazardous Substance in excess of legal limits on, under, or about the Premises or the transportation to or from the Premises of any Hazardous Substance, except the use and storage of petroleum and petroleum products.

c. ENVIRONMENTAL CLEAN-UP.

(1) Tenant shall, at Tenant's own expense, comply with all laws regulating the use, generation, storage, transportation, or disposal of Hazardous Substances ("Laws").

(2) Tenant shall, at Tenant's own expense, make all submissions to, provide all information required by, and comply with all requirements of all governmental authorities (the "Authorities") under the Laws.

(3) Should any Authority or any third party demand that a clean-up plan be prepared and that a clean-up be undertaken because of any deposit, spill, discharge, or other release of Hazardous Substances that occurs during the term of this Lease,

at or from the Premises, or which arises at any time from Tenant's use or occupancy of the Premises, Tenant shall, at Tenant's own expense, prepare and submit the required plans and all related bonds and other financial assurances; and Tenant shall carry out all such clean-up plans.

(4) Tenant shall promptly provide all information regarding the use, generation, storage, transportation, or disposal of Hazardous Substances that is requested by Landlord. If Tenant fails to fulfill any duty imposed under this section within a reasonable time, Landlord may do so; and in such case, Tenant shall cooperate with Landlord in order to prepare all documents Landlord deems necessary or appropriate to determine the applicability of the Laws to the Premises and Tenant's use thereof, and for compliance therewith; and Tenant shall execute all documents promptly upon Landlord's request. No such action by Landlord and no attempt made by Landlord to mitigate damages under any Law shall constitute a waiver of any of Tenant's obligations under this section.

(5) Landlord's and Tenant's obligations and liabilities under this section shall survive the expiration of this Lease.

d. TENANT'S INDEMNITY.

(1) Tenant shall indemnify, defend, and hold harmless Landlord, any manager of the property, and their respective officers, directors, beneficiaries, shareholders, partners, agents, and employees from any and all fines, suits, proceedings, claims, and actions of every kind and all costs associated therewith (including, without limitation, attorneys' and consultants' fees) arising out of or in any way connected with any deposit, spill, discharge, or other release of Hazardous Substances that occurs during the term of this Lease, at or from the Premises, or which arises at any time from Tenant's use or occupancy of the Premises or from Tenant's failure to provide all information, make all submissions, and take all steps required by all Authorities under the Laws and all other environmental laws.

(2) Tenant's obligations and liabilities under this section shall survive the expiration or termination of this Lease.

31. EASEMENTS AND COVENANTS. The Premises are subject to easements and covenants of record, including but not limited to those contained in the instruments described on the attached Exhibit D. Tenant shall not violate said easements and covenants or take any action, or fail to take any action, that causes or results in a violation of said easements and covenants.

32. LANDLORD'S LIABILITY. The term "Landlord" as used herein shall mean only the owner or owners, at the time in question, of the fee title of the Premises; and in the event of any transfer of such title or interest, Landlord herein named (and in case of any subsequent transfers, then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Landlord's obligations thereafter to be performed; provided, however, any funds in the hands of Landlord or the then grantor at the time of such transfer in which Tenant has an interest shall be delivered to the grantee. The obligations contained in this Lease to be performed by Landlord shall, subject as aforesaid, be binding on Landlord's successors and assigns, only during their respective periods of ownership.

33. FAIR DEALING; CONSENTS; ASSIGNMENT. In connection with the performance of their respective obligations under this Lease, Landlord and Tenant shall act in good faith and in a commercially reasonable manner.

34. PURCHASE OPTION. In consideration of this Lease, Tenant shall have the option (the "Purchase Option") to purchase the Premises described on Exhibit A attached hereto (collectively the "Demised Premises") for the sum of Two Million Six Hundred Thousand Dollars ($2,600,000), payable in good funds (with no credit for any rental amounts). Notwithstanding the foregoing, the option price of $2,600,000 shall be increased by any amounts Landlord has had to pay or has paid for maintenance or repairs under this Lease or otherwise from the time of Lease signing (the "Price"). Tenant's rights to exercise this option after notice of exercise shall cease if Tenant materially breaches this Lease. As long as Tenant is not in default hereunder beyond any applicable cure periods and as long as this Lease is in effect, such Purchase Option may be exercised in writing by Tenant (the "Optionee"). This Purchase Option may be exercised at any time up to ninety (90) days prior to the expiration of any terms or extensions (the "Option Date"). It cannot be exercised after ninety (90) days prior to Lease expiration. If the Purchase Option is exercised, Landlord shall convey by special warranty deed, subject to all matters of record, Landlord's interest in the real estate, to the extent owned by Landlord; and it shall be a condition of the sale that title to the real estate shall, except as provided herein below, be free from all tenancies (except Tenant) and occupants (except Tenant). The sale shall occur within one hundred twenty (120) days of the Option Date. In the exercise of such option, all monies shall be placed with a title company, as escrowee, of Optionee's designation; and the settlement of the purchase price and the conveyance to Optionee shall take place in escrow. At closing, Tenant will secure and pay for its own owner's policy, issued by a title insurance company licensed in the State of Georgia in its usual form, brought down to the date of closing, insuring Optionee against loss or damage to the extent of the purchase price by reason of defects in or liens upon Landlord's title. Taxes, utilities, rents, and other current expenses shall be paid by Tenant. Tenant shall pay all the costs of the transaction, including but not limited to the cost of the policy, recording fees, escrow fees, documentary transfer taxes, and sales and use taxes. The Demised Premises will be sold in its as-is condition, without any representation or warranty of Landlord. Seller will be responsible for paying a commission of $100,000 to Neely/Dales, LLC, payable only if the transaction closes. Time is of the essence.

Notwithstanding the foregoing, if Tenant purchases the Property pursuant to this clause at any time after the first extended term, the Price shall increase by the greater of (a) ten percent (10%) or (b) an amount based upon the Consumer Price Index. The index used shall be the Consumer Price Index for Savannah, Georgia, if available, or the area selected by Landlord near Savannah, Georgia. The amount shall be the Annual Base Rent multiplied by a fraction, the denominator (top) of which is the Consumer Price Index for the month which is six (6) months prior to closing and the numerator (bottom) of which is the same Consumer Price Index for the month which is six (6) months prior to the date of the initial term of this Lease. The real estate commission shall not change.

35. GENERAL PROVISIONS.

a. LEGAL COSTS AND EXPENSES. Landlord shall recover from Tenant all costs and expenses, including reasonable attorneys' fees, in any court action brought to recover any rent or other sums due and unpaid under the terms hereof, or for the breach of any of the terms and conditions herein contained, or to recover possession of the Premises, whether or not such court action shall proceed to judgment if Landlord is the prevailing party.

b. SEVERABILITY OF PROVISIONS. If any clause or provision of this Lease is illegal, invalid, or unenforceable under present or future laws effective during the term of this Lease, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby; and it is also the intention of the parties to this Lease that if any clause or provision is illegal, invalid, or unenforceable, there be added as a part of this Lease

a clause or provision as similar in terms to such illegal, invalid, or unenforceable clause or provision as may be possible and be legal, valid, and enforceable.

c. RIGHT-OF-WAY. Landlord reserves the right, with Tenant's prior written approval and consent, which approval and consent will not be unreasonably or untimely withheld, to grant or devise rights-of-way, easements, and rights of passage solely for utility and over, on, under, and to the Premises; provided, however, such grant shall not unreasonably interfere with Tenant's use and occupancy of the Premises. Tenant shall be given reasonable advance written notice prior to the start of any construction work in connection with such grant.

d. ANIMALS. Tenant shall not be permitted to keep any animals in or about the Premises.

e. AUCTIONS. Tenant shall not conduct or permit to be conducted any sale by auction in, upon, or from the Premises, whether said auction be voluntary or involuntary pursuant to any assignment for the benefit of credits or pursuant to any bankruptcy or insolvency proceedings.

f. DEFINITION OF TERMS. Whenever the words "Landlord" and "Tenant" are used in this Lease, they are applied to persons, both men and women, companies, partnerships, and corporations; and in reading this Lease, the necessary grammatical changes of words required to make the provisions hereof mean and apply as aforesaid shall be made in the same manner as if written into this Lease.

g. MARGINAL HEADINGS. The marginal headings and section titles to the sections of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

h. PRIOR AGREEMENT AND AMENDMENTS. This Lease and a side letter dated September 29, 2004, contain all the agreements, warranties, and representations of the parties hereto with respect to any matter covered or mentioned in this Lease; and no prior agreements or understandings pertaining to any such matters shall be effective for any purpose. No warranties or representations of Landlord, verbal or in writing, not contained in an agreement shall be binding upon Landlord unless contained herein or in certain related agreements in writing. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest. This Lease shall not be effective or binding on any party until fully executed by both parties hereto.

i. SUCCESSORS AND ASSIGNS. The obligations and rights under this Lease shall be binding upon and inure to the benefit of the heirs, administrators, executors, personal representatives, successors, and permitted assigns of the parties. Any assignment or subletting by Tenant in violation of the terms of this Lease shall not vest any rights whatsoever in the assignee or subtenant but will be a breach of this Lease.

j. TIME. Time is of the essence of this Lease and each and all of its provisions in which performance is a factor.

k. SHORT FORM LEASE. The parties agree, at the request of either of them, to execute a Short Form Lease for recording, containing the names of the parties, the legal description of the Premises, and the term of the Lease and the cost of recording will be paid

by the party requesting such recording. Landlord and Tenant agree to execute any releases requested by the other upon termination.

l. LAW GOVERNING. This Lease shall be construed and enforced in accordance with the laws of the State of Georgia. The parties hereto mutually consent to waive any right to a trial by jury.

m. EXPERIENCE. Tenant acknowledges that it is experienced in real estate matters; has had the opportunity to be represented by competent counsel, familiar with leasing transactions, in the negotiation, preparation, and review of this Lease; and that it has reviewed this Lease in its entirety before executing it. Landlord has recommended to Tenant to secure legal representation. This document has been prepared by Landlord's counsel but shall not be interpreted against Landlord.

n. FURTHER INSTRUMENTS. Each party, at the expense of the other party, shall execute, acknowledge, and deliver to the other party such instruments and take such other action, in addition to the instruments and action provided for herein, as the other party may request in order to effectuate the purpose or provisions of this Lease or any transaction contemplated herein or to protect or confirm any right created or transferred hereunder or pursuant to any such transaction.

o. RETURN OF THE PREMISES. At the end of the term of this Lease of when Tenant departs or upon any Tenant default, Tenant shall return the Premises to Landlord in a clean, well-kept order and in good condition, normal wear and tear excepted and subject to any events of casualty dealt with above.

p. COUNTERPARTS. This Lease may be executed in any number of counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one Lease.

[See signatures on following page]

IN WITNESS WHEREOF, this Lease is hereby executed the day and year first above written, in three (3) counterparts, each of which shall be deemed an original document.

LANDLORD:

MEYER WAREHOUSE LLC, a Georgia in limited liability company:

BY: /s/ Richard Meyer III

Its: MANAGER

TENANT:

CITI TRENDS, INC., a Delaware corporation:

BY: /s/ R. Edward Anderson

Its: CEO

EXHIBIT A

LEGAL DESCRIPTION

TRACT ONE: All that certain tract, parcel of land situate, lying and being in the 8th G.M. District, Chatham County, Georgia, and being known and designated on a plat as Lot 11, Phase 1, S.P.A. Industrial Park Subdivision as prepared by Hussey, Gay & Bell, dated November 1977 and recorded in Subdivision Map Book Q, folio 3, of the Chatham County records. Said lot as a whole being bounded as follows: On the North by Lot 12, said subdivision and phase; on the East by a 60 foot drainage right-of-way; on the South by Artley Road; and on the West by Coleman Boulevard. Express reference is hereby made to the above-mentioned plat for better determining the metes, bounds, and dimensions thereof.

TRACT TWO: All of that certain lot, tract, or parcel of land situate, lying, and being in the 8th G.M. District, County of Chatham, and State of Georgia, being known and designated as Lot Twelve (12), Savannah Port Authority Industrial Park Subdivision, Phase One (1), being a Subdivision of a portion of lands of the Savannah Port Authority, as shown on a map or plat prepared by Hussey, Gay & Bell, Consulting Engineers, for Savannah Port Authority recorded in the Office of the Clerk of the Superior Court of Chatham County, Georgia, in Subdivision Map Book "Q," Page 3. Express reference is hereby made to said Subdivision Map for better determining the metes, bounds, and dimensions of the property herein conveyed.

EXHIBIT B

SITE PLAN


[SITE PLAN FIGURE]

EXHIBIT C

RULES AND REGULATIONS

1. Tenant shall not obstruct or interfere with persons performing services for the Landlord or having business on the Premises and shall not injure or annoy such persons.

2. Canvassing, soliciting, and peddling on the Premises are prohibited; and Tenant shall cooperate to prevent such activities.

3. Tenant shall not cook or prepare food commercially or place or use any flammable, combustible, explosive, or hazardous fluid, chemical, device, substance or material (excepting only propane and natural gas) on the Premises without the prior written consent of Landlord. Tenant shall comply with the statutes, ordinances, rules, orders, regulations, and requirements imposed by governmental or quasi-governmental authorities in connection with fire and panic safety and fire prevention.

4. Tenant shall not move or install personal properly or fixtures on the Premises in such a fashion as to unreasonably increase the risk of injury or cost of insurance; and all such moving shall be at the sole expense, risk, and responsibility of Tenant.

5. Tenant shall not place within the Building any objects which exceed the floor weight specifications of the Building without the express prior written consent of Landlord. The placement and positioning of all such objects within the Building shall be prescribed by Landlord; and such objects shall, in all cases, be placed upon plates or footings of such size as shall be prescribed by Landlord.

6. Tenant shall not deposit any trash, refuse, cigarettes, or other substances of any kind on the Premises except in the refuse containers provided therefore. Tenant shall exercise its best efforts to keep the sidewalks, entrances, passages, courts, lobby areas, garages or parking areas, stairways, and vestibules on the Premises clean and free from rubbish.

7. Tenant shall permit no loitering by any persons on the Premises.

8. Tenant shall not use the washrooms, restrooms, and plumbing fixtures of the Building and appurtenances thereto for any other purpose than the purposes for which they were constructed; and Tenant shall not deposit any sweepings, rubbish, rags, or other improper substances therein. Tenant shall not waste water by interfering or tampering with the faucets or otherwise.

9. No signs, awning, showcases, advertising devices, or other projections or obstructions shall be attached to the outside walls of the Building without the express prior written consent of Landlord, which shall not unreasonably be withheld. In the event of the violation without any liability and Tenant shall reimburse Landlord for the expense incurred in such removal upon demand as additional Rent under the Lease.

10. Tenant shall not obstruct or in anyway impair the efficient operation of the Building's heating, ventilating, air conditioning, electrical, fire, safety, water, sewer, or lighting systems.

11. Access may be had by Tenant to the Premises at any time of the day or night, seven (7) days a week.

12. For purposes hereof, the terms "Landlord," "Tenant," "Building," and "Premises" are defined as those terms are defined in the Lease to which these Rules and Regulations are attached. Wherever Tenant is obligated under these Rules and Regulations to do or refrain from doing an act or thing, such obligation shall include the exercise by Tenant of its best efforts to secure compliance with such obligation by the servants, employees, contractors, jobbers, agents, invitees, licensees, guests, and visitors of Tenant.

EXHIBIT D

EASEMENTS AND COVENANTS

1. County ad valorem taxes and assessments for 2004 and subsequent years.

2. Any action by a municipal or governmental agency for the purpose of regulating the use, occupancy or zoning of the Property, or any building or structure thereon.

3. Unrecorded lien rights, mis-indexed documents, and other matters not disclosed by an examination of the public records of Chatham County, Georgia.

4. Easements for public utility services and facilities that serve the Properly or the improvements located thereon or are located along or within the boundaries of the Property.

5. Encroachments, overlaps, boundary line disputes, and any other matters which would be disclosed by an accurate survey and inspection of the premises.

6. Rights or claims of parties in possession not shown by the public records.

7. Easements, or claims of easements, not shown by the public records.

8. Any lien, or right to a lien, for services, labor, or material heretofore or hereafter furnished, imposed by law and not shown by the public records.

9. Taxes or special assessments which are not shown as existing liens by the public records.

10. Such state of facts as shown on subdivision plat recorded in Subdivision Map Book Q, Page 3, Chatham County Records.

11. Easement to Savannah Electric and Power Company dated December 22, 1930, and recorded in Deed Book 27-K, page 10, of aforesaid records.

12. Easement from Savannah Port Authority to Chatham County dated August 20,1976, and recorded in Deed Book 107-H, page 103, Chatham County records.

13. Easement from Savannah Port Authority to Savannah Electric and Power Company dated November 29, 1977, and recorded in Deed Book 109-S, page 534, Chatham County records.

14. Easement from Savannah Port Authority to Savannah Electric and Power Company dated November 23, 1977, and recorded in Deed Book 109-S, page 535, Chatham County records.

15. Declaration of Covenants, Conditions, and Restrictions for Phase I, Savannah Port Authority Industrial Park Subdivision, dated July 24, 1978 and recorded in Deed Book 111-C, page 114, Chatham County records; as amended by that certain Declaration of Amended Covenants, Conditions, and Restrictions for Phase I, Savannah Port Authority Industrial Park Subdivision, dated February 27, 1980, and recorded in Deed Book 114-M, page 295, aforesaid records; as extended by that certain Extension of Declaration of Covenants, Conditions and Restrictions for Phase I, Savannah Port Authority Industrial Park

Subdivision, dated June 1, 1998, and recorded in Deed Book 193-T, page 272, aforesaid records.

16. Rights of First Refusal of Savannah Port Authority contained in that certain Warranty Deed from Savannah Port Authority dated November 21,1985, and recorded in Deed Book 128- R, page 342, aforesaid records. (Release of Rights recorded on October_____, 2004.)

17. Easement from Frances and Richard Meyer to Savannah Electric and Power Company dated June 26, 1986, and recorded in Deed Book 131-X, page 179, Chatham County records.

EXHIBIT E

LANDLORD/MORTGAGEE WAIVER

WHEREAS, CONGRESS FINANCIAL CORPORATION (SOUTHWEST) ("Congress") has, or is about to enter into, certain financing agreements with Citi Trends, Inc. ("Debtor") pursuant to which Congress has been, or may be, granted a security interest in any or all of Debtor's personal property including, but not limited to, inventory, equipment, and signage (hereinafter "Personal Property"), but excluding fixtures; and,

WHEREAS, the Personal Property has or may become located on, wholly or in part, the certain real estate located at 104 Coleman Boulevard, Savannah, Georgia 31408, the legal description of which is (include metes and bounds, lot and block, range and section):

104 Coleman Boulevard, City of Savannah, County of Chatham, State of Georgia (hereinafter "Premises") and,

WHEREAS, the undersigned has an interest in the Premises as owner, mortgagee or lessor,

NOW, THEREFORE, in consideration of any financial accommodation extended by Congress to Debtor, at any time, and other good and valuable considerations, the undersigned agrees as follows:

(a) That it waives and relinquishes any landlord's lien, all rights of levy, security interest or other interest the undersigned may now or hereafter have in any of the Personal Property whether for rent or otherwise;

(b) That the Personal Property may be located on the Premises and is not and shall not be attached or be deemed a fixture or part of the real estate but shall at all times be considered personal property;

(c) That it disclaims any interest in the Personal Property (but not fixtures) and agrees to assert no claim to the Personal Property while Debtor is indebted to Congress;

(d) That as long as the Lease on the Premises is in effect and Tenant has occupancy rights, Congress or its representatives may enter upon the Premises to inspect or remove the Personal Property in the event that Debtor has not cured a default beyond any applicable cure period;

(e) That as long as the Lease on the Premises is in effect and Tenant has occupancy rights, Congress, at its option, may enter the Premises upon Debtor's default for the purpose of repossessing, removing, or selling said Personal Property, and such license shall be irrevocable and shall continue from the date Congress enters the Premises for as long as Congress deems necessary but not to exceed a period of sixty (60) days; provided that Congress timely pays rent at the then current rate stipulated in the lease, which rent shall be pro-rated for the period of such occupancy.

(f) That the undersigned does hereby consent to the acquisition by Congress, at Congress' option, of the absolute ownership of Debtor's interest in said Lease and does hereby agree that if Congress elects to acquire said leasehold estate, it will thereupon be recognized as the

Lessee under said Lease. If Congress shall become such Lessee, it may sublease or assign said Lease with Landlord's prior written consent, such consent shall not be unreasonably withheld, for the purpose outlined in the use clause of this lease, and the assignment of said Lease shall not release and relieve Congress of any obligations thereunder.

(g) The undersigned agrees to give notice in writing by certified or registered mail of any default (beyond any applicable cure period) by Debtor of any of the provisions of said Lease or the mortgage upon the premises held by the undersigned, as the case may be, to:

CONGRESS FINANCIAL CORPORATION (SOUTHWEST)
5001 LBJ Freeway, Suite 1050
Dallas, Texas 75244

Upon receipt of said notice, Congress shall thereupon have the right, but not the obligation, to cure said default within ten (10) days thereafter provided timely notice has been given to Congress by the undersigned. Any payment made or act done by Congress to cure any such default shall not constitute an assumption of the Lease or any obligations of Debtor.

This waiver may not be changed or terminated orally and is binding upon the undersigned and their heirs, personal representatives, successors and assigns of the undersigned and inures to the benefit of Congress and the successors and assigns of Congress.

Dated this 30th day of September 2004.

Witnessed By:

/s/ Clifford H. [illegible]
- ----------

_____

MEYER WAREHOUSE, LLC
("LANDLORD")

By: /s/ Richard Meyer, III

Landlord-Mortgagee (signature)

Richard Meyer, III, Manager

(printed name)

Exhibit 10.10

PROMISSORY NOTE

BORROWER:	Citi Trends, Inc. 102 Fahm Street Savannah, GA 31401	LENDER:	Bank of America, N.A. CCS-Commercial Banking FL9-100-03-15 600 Peachtree St. NE Atlanta, GA 30308

PRINCIPAL AMOUNT: $3,000,000.00 DATE OF NOTE: JUNE 21,2004

PROMISE TO PAY. Citi Trends, Inc. ("Borrower") promises to pay to Bank of America, N.A. ("Lender"), or order, in lawful money of the United States of America, the principal amount of Three Million & 00/100 Dollars ($3,000,000.00) or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance.

PAYMENT. Borrower will pay this loan in one payment of all outstanding principal plus all accrued unpaid interest on June 30, 2005. In addition, Borrower will pay regular monthly payments of all accrued unpaid interest due as of each payment date, beginning July 26,2004, with all subsequent interest payments to be due on the same day of each month after that. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any late charges; and then to any unpaid collection costs. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an independent index which is the "LIBOR Daily Floating Rate" which is the fluctuating rate of interest (rounded upwards, if necessary to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page) as the 1 month London interbank offered rate for deposits in United States Dollars at approximately 11:00 a.m. (London time) on the second preceding business day, as adjusted from time to time in Lender's sole discretion for then-applicable reserve requirements, deposit insurance assessment rates and other regulatory costs; if for any reason such rate is not available, the term "LIBOR Daily Floating Rate" shall mean the fluctuating rate of interest equal to the rate of interest (rounded upwards, if necessary to the nearest 1/100 of 1%) appearing on Reuters Screen LIBO Page as the 1 month London interbank offered rate for deposits in United States Dollars at approximately 11:00 a.m. (London time) on the second preceding day, as adjusted from time to time in Lender's sole discretion for then-applicable reserve requirements, deposit insurance assessment rates and other regulatory costs; provided, however, if more than one rate is specified on Reuters Screen LIBO page, the applicable rate shall be the arithmetic mean of all such rates (the "Index"). The Index is not necessarily the lowest rate charged by Lender on its loans. If the Index becomes unavailable during the term of this loan, Lender may designate a substitute index after notice to Borrower. Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each date of such change in the Index. Borrower understands that Lender may make loans based on other rates as well. The interest rate to be applied to the unpaid principal balance of this Note will be at a rate of 2.000 percentage points over the Index. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, early payments will reduce the principal balance due. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Bank of America, N.A.; CCS-Commercial Banking; FL9-100-03-15; 600 Peachtree St. NE; Atlanta, GA 30308.

LATE CHARGE. If a payment is 15 days or more late, Borrower will be charged 4.000% of the unpaid portion of the regularly scheduled payment, regardless of any partial payments Lender has received.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, Lender, at its option, may, if permitted under applicable law, increase the variable interest rate on this Note to 8.000 percentage points over the Index. The interest rate will not exceed the maximum rate permitted by applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

PAYMENT DEFAULT. Borrower fails to make any payment when due under this Note.

OTHER DEFAULTS. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

DEFAULT IN FAVOR OF THIRD PARTIES. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the related documents.

FALSE STATEMENTS. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

INSOLVENCY. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

CREDITOR OR FORFEITURE PROCEEDINGS. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

EVENTS AFFECTING GUARANTOR. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

CHANGE IN OWNERSHIP. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

ADVERSE CHANGE. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

INSECURITY. Lender in good faith believes itself insecure.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's costs of collection, including court costs and fifteen percent (15%) of the principal plus accrued interest as attorneys' fees, if any sums owing under this Note are collected by or through an attorney at law, whether or not there is a lawsuit, and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

GOVERNING LAW. This Note will be governed by, construed and enforced in accordance with federal law and the laws of the State of Georgia. This Note has been accepted by Lender in the State of Georgia.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of any County, State of Georgia.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the debt against any and all such accounts.

LINE OF CREDIT. This Note evidences a revolving line of credit. Advances under this Note, as well as directions for payment from Borrower's accounts, may be requested orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. Borrower agrees to be liable for all sums either: (A) advanced in accordance with the instructions of an authorized person or (B) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (A) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (B) Borrower or any guarantor ceases doing business or is insolvent; (C) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note in any other loan with Lender; (D) Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender; or (E) Lender in good faith believes itself insecure.

ARBITRATION. (a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals. extensions or modifications); or (ii) any document related to this agreement (collectively a "Claim"). For the purposes of this arbitration provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this agreement.

(b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U. S. Code) (the "Act"). The Act will apply even though this agreement provides that it is governed by the law of a specified state.

(c) Arbitration proceedings will be determined in accordance with the Act, the applicable rules and procedures for the arbitration of disputes of JAMS or any successor thereof ("JAMS"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.

(d) The arbitration shall be administered by JAMS and conducted, unless otherwise required by law, in any U. S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed $5,000,000, upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within 90 days of the demand for arbitration and close within 90 days of commencement and the award of the arbitrator(s) shall be issued within 30 days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional 60 days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.

(e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on JAMS under applicable JAMS rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitratable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.

(f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or nonjudicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.

(g) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.

ADDITIONAL DEFAULTS.

Each of the following shall constitute an additional event of default ("Event of Default") under this Note:

EVENT OF DEFAULT UNDER RELATED DOCUMENTS. A default or additional event of default occurs under the terms of any promissory note, guaranty, pledge agreement, security agreement or other agreement or instrument executed by Borrower or any guarantor, pledgor, accommodation party or other obligor in connection with or relating to this Note.

JUDGMENT. The entry of a judgment against any Borrower or guarantor, pledgor, accommodation party or other obligor which Lender deems to be of a material nature, in Lender's sole discretion.

RESIGNATION/WITHDRAWAL. The resignation or withdrawal of any partner or a material owner of Borrower or any guarantor, pledgor, accommodation

party or other obligor [or any substantial change in the present executive or management personnel of Borrower, any guarantor, pledgor, accommodation party or other obligor], as determined by Lender in its sole discretion.

CREDITOR OR FORFEITURE PROCEEDINGS. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any assets of Borrower and/or any guarantor, pledgor, accommodation party or other obligor. This includes a garnishment of: (1) any of Borrower's accounts, including deposit accounts, with Lender and/or (2) any account, including deposit accounts, with Lender of any guarantor, pledgor, accommodation party or other obligor. However, this Event of Default shall not apply if there is a good faith dispute by such Borrower and/or guarantor, pledgor, accommodation party or other obligor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if such Borrower and/or guarantor, pledgor, accommodation party or other obligor gives Lender written notice of the creditor of forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

ASSIGNMENT. Lender may sell or offer to sell this Note, together with any and all documents guaranteeing, securing or executed in connection with this Note, to one or more assignees without notice to or consent of Borrower. Lender is hereby authorized to share any information it has pertaining to the loan evidenced by this Note, including without limitation credit information on the undersigned, any of its principals, or any guarantors of this Note, to any such assignee or prospective assignee.

COUNTERPARTS. This Note may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

PRE BILLING. If the Borrower and Lender elect to use pre-billing calculation, for each payment date (the "Due Date") the amount of each payment debit will be determined as follows: On the "Billing Date" Lender will prepare and mail to Borrower an invoice of the amounts that will be due on that Due Date ("Billed Amount"). (The "Billing Date" will be a date that is a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by Lender and Borrower.) The calculation of the Billed Amount will be made on the assumption that no new extensions of credit or payments will be made between the Billing Date and the Due Date, and that there will be no changes in the applicable interest rate. On the Due Date Lender will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date ("Accrued Amount"). If the Due Date does not fall on a Business Day, Lender shall debit the Designated Account on the first Business Day following the Due Date. For purposes of this Agreement, "Business Day" means a day other than Saturday, Sunday or other day on which commercial banks are authorized to close or are in fact closed in the state where the Lender's lending office is located. If the Billed Amount debited to the Designated Amount differs from the Accrued Amount, the difference will be treated as follows: If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the underpayment. Borrower will not be in default by reason of any such underpayment. If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the overpayment. Regardless of any such difference, interest will continue to accrue based on the actual amount of principal outstanding without compounding. Lender will not pay interest on any overpayment.

AUTOMATIC PAYMENTS. Borrower hereby authorizes Lender automatically to deduct from Borrower's account numbered 003257772600 the amount of any loan payment. If the funds in the account are insufficient to cover any payment, Lender shall not be obligated to advance funds to cover the payment. At any time and for any reason, Borrower or Lender may voluntarily terminate Automatic Payments.

TERMINATION OF AUTOMATIC PAYMENTS. In the event that Borrower terminates the Automatic Payment arrangement with Lender, Borrower agrees that the interest rate under the Note will increase, at the discretion of the Lender, by one-half percentage point (0.50%) per annum over the rate of interest stated in the Note, and the amount of each interest installment will be increased accordingly. The effective rate of interest under the Note shall not in any event exceed the maximum rate permitted by law.

ADVANCES UNDER THE LINE OF CREDIT. Except as otherwise provided in this Note, advances under the line of credit provided under this Note will be available until the earlier of any event of default under this Note, or June 30, 2005 (the "Expiration Date"). Borrower may borrow, repay and re-borrow under this Note at any time until the Expiration Date. The total principal amount outstanding under this Note at any one time must not exceed the principal amount of this Note, provided that the amount advanced hereunder does not exceed any borrowing base or other limitation on borrowings by Borrower.

FINAL AGREEMENT. BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THIS DOCUMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF, (B) THIS DOCUMENT SUPERSEDES ANY COMMITMENT LETTER, TERM SHEET OR OTHER WRITTEN OUTLINE OF TERMS AND CONDITIONS RELATING TO THE SUBJECT MATTER HEREOF, UNLESS SUCH COMMITMENT LETTER, TERM SHEET OR OTHER WRITTEN OUTLINE OF TERMS AND CONDITIONS EXPRESSLY PROVIDES TO THE CONTRARY, (C) THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES, AND (D) THIS DOCUMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.

UNUSED COMMITMENT FEE. Borrower agrees to pay a fee on any difference between the maximum principal amount available under this Note and the amount of credit it actually uses, determined by the weighted average credit outstanding during the specified period. The fee will be calculated at .125% per year. This fee is due on September 26, 2004, and on the 26th day of each following quarter until the expiration of the availability of advances under this Note.

ADDRESS FOR NOTICES. Any notice required to be given under this Note shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed if to Borrower at the address shown near the beginning of this Note and if to Lender at the address set forth below. Any party may change its address for notices under this Note by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers. Notwithstanding anything to the contrary herein, all notices and communications to the Lender shall be directed to the following address:

Bank of America, N.A
Jacksonville CCS - Attn: Notice Address
9000 Southside Blvd., Bldg. 100, 3rd Floor
Jacksonville, FL 32256.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties waive any right to require Lender to take action against

any other party who signs this Note as provided in O.C.G.A. Section 10-7-24 and agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

THE NOTE IS GIVEN UNDER SEAL AND IT IS INTENDED THAT THE NOTE IS AND SHALL CONSTITUTE AND HAVE THE EFFECT OF A SEALED INSTRUMENT ACCORDING TO LAW.

BORROWER:

CITI TRENDS, INC.

By: /s/ Tom Stoltz (Seal)

Tom Stoltz,
Chief Financial Officer of Citi Trends, Inc.

Exhibit 10.11

CITI TRENDS

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.

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) "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 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) 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

(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 Georgia corporation.
(i) "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 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) "Option" means an option to purchase Stock granted or issued under the Plan.

(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.
(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 35,000 (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 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,

(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) except with respect to Awards made to nonemployee directors, 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 Committee shall take into consideration such factors as it deems relevant in promoting the purposes of the Plan.

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, will become exercisable with respect to one-third of the underlying shares on each of the first, second and third anniversaries of the

Grant Date, and will have a term of not more than ten years. If a nonemployee director ceases to serve as a director of the Company for any reason, any Nonqualified Stock Option granted to such nonemployee director shall be exercisable during its remaining term, to the extent that such Nonqualified Stock Option was exercisable on the date such nonemployee director ceased to be a director.

(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, as determined by the Committee 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.

(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

(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) 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) 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 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) 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.

(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, will become exercisable with respect to one-third of the underlying shares on each of the first, second and third anniversaries of the Grant Date, and will have a term of not more than ten years. If a nonemployee director ceases to serve as a director of the Company for any reason, any Stock Appreciation Rights granted to such nonemployee director shall be exercisable during its remaining term, to the extent that such Stock Appreciation Right was exercisable on the date such nonemployee director ceased to be a director.

(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 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, or

(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.

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,

(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, except for Awards granted to nonemployee directors, shall be as the Committee may, in its discretion, determine at the time the Award is granted or thereafter.

12. Securities Law Matters.

(a) 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.

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. Adjustments.

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

(a) the aggregate number and class of shares of Stock or other stock or securities available under Article 3,
(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) 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) 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.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Citi Trends, Inc.:

We consent to the use of our report dated April 15, 2004, with respect to the balance sheets of Citi Trends, Inc. as of January 31, 2004 and February 1, 2003, and the related statements of income, stockholders' equity, and cash flows for the years then ended, incorporated herein by reference and to the reference to our firm under the heading "Experts" in the prospectus. Our report refers to the adoption of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity".

KPMG LLP

Jacksonville, FL
February 25, 2005