

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended February 1, 2020

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 000-51315

CITI TRENDS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

52-2150697

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

104 Coleman Boulevard, Savannah, Georgia

(Address of principal executive offices)

31408

(Zip Code)

Registrant's telephone number, including area code **(912) 236-1561**

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$.01 Par Value	CTRN	NASDAQ Stock Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller Reporting Company Emerging growth company

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$166,153,095 as of August 3, 2019.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: Common Stock, par value \$.01 per share, 10,841,564 shares outstanding as of March 31, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information from the registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year covered by this Annual Report on Form 10-K, with respect to the Annual Meeting of Stockholders to be held on June 30, 2020.

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PART I

Some statements in, or incorporated by reference into, this Annual Report on Form 10-K (this “Report”) of Citi Trends, Inc. (“we,” “us,” or the “Company”) may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than historical facts contained in this Report, including statements regarding our future financial position, business policy and plans, objectives and expectations of management for future operations and capital allocation expectations, are forward-looking statements. The words “believe,” “anticipate,” “project,” “plan,” “expect,” “estimate,” “objective,” “forecast,” “goal,” “intend,” “could,” “will likely result,” or “will continue” and similar expressions, as they relate to us, are intended to identify forward-looking statements, although not all forward-looking statements contain such language. We have based these forward-looking statements largely on our current expectations and projections about future events, including, among other things: potential risks and uncertainties relating to the ultimate geographic spread of the coronavirus (COVID-19), the severity of the disease, the duration of the COVID-19 outbreak, actions that may be taken by governmental authorities to contain the COVID-19 outbreak or to treat its impact, the potential negative impacts of COVID-19 on the global economy and foreign sourcing, the impacts of COVID-19 on the Company’s financial condition, business operation and liquidity, including the reopening of the Company’s retail stores and distribution facilities, our ability to anticipate and respond to fashion trends, competition in our markets, consumer spending patterns, general economic conditions, actions of our competitors or anchor tenants in the strip shopping centers where our stores are located, anticipated fluctuations in our operating results and expected cash position.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Item 1A. Risk Factors and elsewhere in this Report and the other documents we file with the Securities and Exchange Commission (“SEC”), including our reports on Form 8-K and Form 10-Q, and any amendments thereto. 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. These forward-looking statements speak only as of the date of such statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements contained in this Report, whether as a result of any new information, future events or otherwise.

Information is provided herein with respect to our operations related to our fiscal years ended on February 1, 2020 (“fiscal 2019”), February 2, 2019 (“fiscal 2018”) and February 3, 2018 (“fiscal 2017”).

ITEM 1. BUSINESS

Overview and History

We are a value-priced retailer of fashion apparel, accessories and home goods for the entire family. Our merchandise offerings are designed to appeal to the fashion preferences of value-conscious consumers, particularly African-Americans. Our goal is to provide merchandise at discounts of 20% to 70% compared to department and specialty stores’ regular prices. Our stores average approximately 11,000 square feet of selling space and are typically located in neighborhood shopping centers that are convenient to low and moderate income customers. As of February 1, 2020, we operated 571 stores in both urban and rural markets in 33 states.

Our predecessor, Allied Department Stores, was founded in 1946 and grew into a chain of family apparel stores operating in the Southeast. In 1999, the Company, then consisting of 85 stores, was acquired by a private equity firm. Following this acquisition, management rebranded the stores to “Citi Trends” and implemented several strategies to focus on the growing urban fashion market and improve our operating and financial performance. After the successful implementation of these strategies and the successful growth of our chain from 85 stores to 212 stores, we completed an initial public offering of our common stock on May 18, 2005.

We are a Delaware corporation, and our executive offices are located at 104 Coleman Boulevard, Savannah, Georgia 31408 and our telephone number is (912) 236-1561. Our Internet address is <http://www.cititrends.com>. The reference to our web site address in this Report does not constitute the incorporation by reference of the information contained at the web site into this Report. We make available, free of charge through publication on our web site, copies of our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we have filed such materials with, or furnished such materials to, the SEC. In addition, you may read and print any materials we file with the SEC on the SEC’s web site at <http://www.sec.gov>.

Company Strengths and Strategies

Our goal is to be the leading value-priced retailer of fashion apparel, accessories and home goods for the African-American families we currently serve as our primary target market. We strive to provide our customers with a place to shop that is fashionable, fresh, friendly, fair and fun. We believe the following business strengths differentiate us from our competitors and are important to our success:

Focus on Fashionable Mix. We focus our merchandise on fashionable apparel that 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 for our target customer. Our merchandising staff tests new emerging merchandise trends before reordering and actively manages the mix of basic, fashion, trend and branded products in the stores to keep our offering fresh and minimize markdowns.

Superior Value Proposition. As a value-priced retailer, we seek to offer top quality, fashionable merchandise at compelling prices in relation to department and specialty stores. We offer branded product at tremendous value that appeals to our core customer.

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, women and children, as well as accessories and home goods. Our stores feature sportswear, dresses, outerwear, footwear, intimate apparel, accessories, scrubs, beauty and home. We believe that the breadth of our merchandise distinguishes our stores from many competitors that offer similar 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 approximately 1,700 vendors in the past 12 months. Purchasing is controlled by a buying team located in New York, New York. 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 lesser quantity held for sale in future seasons. To foster vendor relationships, we pay vendors promptly and do not ask for typical retail concessions, such as promotional and markdown allowances.

Attractive Fashion Presentation in a Friendly and Fun 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 are prominently displayed by style, rather than by size, on dedicated, four-way fixtures featuring multiple sizes and styles. The remaining merchandise is arranged on hanging racks. The stores are carpeted and well-lit, with most featuring a sound system that plays music appropriate for our target customer throughout the store. Our stores are neat, orderly and clean, offering a friendly and fun environment.

Friendly and Helpful Store Associates. Our store associates are trained to provide friendly and helpful customer service to deliver a positive shopping experience. Many of our store associates live in the neighborhoods where our stores are located and frequently shop our stores themselves. As a result, our store associates cultivate a unique culture at our stores that enables a high level of connectivity with our customers. We strive to make our stores a destination where everyone is welcome, and our store associates foster that vision every day through enriched customer engagement.

Cost-Effective Store Locations. 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 which enables us to obtain attractive rents. Similarly, advertising expenses are low as we do not rely on promotion-driven sales but rather, we seek to build our reputation for value through everyday low prices. At the same time, from an investment perspective, we seek to design stores that are inviting and easy to shop, while limiting startup and fixturing costs.

Product Merchandising and Pricing

Products. Our merchandising strategy is to offer fresh and fashionable apparel, accessories and home goods 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 20% of our net sales in fiscal 2019 were represented by nationally recognized brands. We also offer a wide variety of products from less recognized brands and a lesser amount representing private label products under our proprietary brands.

Our merchandise includes apparel, accessories and home. Within apparel, we offer fashion sportswear for men, women and children, including offerings for newborns, infants, toddlers, boys and girls. Accessories include handbags, jewelry, footwear, belts, intimate apparel, scrubs and sleepwear. Home includes décor and functional bedroom, bathroom and kitchen products, as well as beauty and toys.

The following table sets forth the merchandise assortment by classification as a percentage of net sales for fiscal 2019, 2018 and 2017.

	Percentage of Net Sales		
	2019	2018	2017
Accessories	32 %	32 %	32 %
Children's	23 %	23 %	23 %
Ladies'	22 %	22 %	23 %
Men's	16 %	17 %	17 %
Home	7 %	6 %	5 %

Pricing. We purchase our merchandise at attractive prices and mark prices up less than department or specialty stores. We seek to provide nationally recognized brands at prices that are 20% to 70% below regular retail prices available in department stores and specialty stores. Further, we consider the price-to-value relationships of our non-branded products to be exceptionally strong. Both branded and non-branded offerings validate our fashion positioning and value to our customers. 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

The merchandising department oversees the sourcing, planning 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 approximately 1,700 vendors, consisting of domestic manufacturers and importers. Our merchandising department consists of a buying team and a planning and allocation team.

The buyers on our buying team have, on average, 12 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. Our buyers, who are based in New York, travel regularly to the major United States markets, visiting major manufacturers and attending national and regional trade shows.

Our buyers purchase merchandise in styles, sizes and quantities to meet inventory levels developed by the planning staff. The buying staff utilizes several purchasing techniques that enable us to offer to customers branded and non-branded fashion merchandise at everyday low prices. The majority of the nationally recognized branded products we sell are purchased in-season, and 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 and purchase merchandise on an opportunistic basis near the end of the selling season, which we then store in our distribution centers 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 brand merchandise that we source to our specifications.

We allocate merchandise across our store base according to sales and merchandise plans that are created by our planning and allocation teams. The merchandising staff utilizes a centralized management system to monitor merchandise purchasing, planning and allocation in order to maximize inventory turnover, identify and respond to changing product demands and determine the timing of markdowns to our merchandise. A store-level planning system assists our team in their efforts to allocate merchandise to individual stores based on sales performance and planned inventory levels. The buyers also regularly review the age and performance of the merchandise and manage both the reordering and clearance processes. In addition, the merchandising team communicates with 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 overall value.

We accept payment from our customers for merchandise at time of sale. Payments are made to us by cash, check, Visa™, MasterCard™, American Express™, or Discover™. We do not extend credit terms to our customers; however, we do offer a layaway service.

Seasonality

The nature of our business is seasonal. Historically, sales in the first and fourth quarters have been higher than sales achieved in the second and third quarters of the fiscal year. Expenses and, to a greater extent, operating income, vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of our business may affect comparisons between periods.

Store Operations

Store Format. The average selling space of our 571 stores is approximately 11,000 square feet, which allows us the space and flexibility to departmentalize our stores and provide directed traffic patterns. We arrange most of our stores in a racetrack format with ladies' sportswear in the center of each store and complementary categories adjacent to those items. Men's and boy's apparel and footwear are displayed on one side of the store, while dresses, ladies' footwear and accessories are displayed on the other side. Merchandise for infants, toddlers, boys and girls, as well as home goods, are displayed along the back of the store. Impulse items, such as jewelry, beauty, sunglasses and consumables are featured near the checkout area. Products from nationally recognized brands and other current fashion styles are prominently displayed on four-way racks at the front of each department. The remaining merchandise is displayed on hanging racks and 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 to easily expand and contract departments in response to customer demand, seasonality and merchandise availability. Virtually all of our inventory is displayed on the selling floor. Our mission is to curate the best product at value prices for our core customers. We provide them a place to shop that is fashionable, fresh, friendly, fair and fun. A critical component of our success is to maintain an environment that is neat, clean and organized, where everyone is welcome.

Store Management. Store operations are managed by our Senior Vice President of Store Operations, four regional vice presidents and 52 district managers, each of whom manages eight to fifteen stores. The 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. Store managers and assistant store managers participate in a bonus program based on achieving predetermined levels of sales and inventory shrinkage. District managers participate in bonus programs based on achieving targeted levels of sales, profits, inventory shrinkage and payroll costs. Regional Vice Presidents participate in a bonus program based partly on a roll-up of the district managers' bonuses and partly on the Company's profit performance in relation to budget. Sales associates are compensated on an hourly basis with incentives. Moreover, we recognize individual performance through internal promotions and provide opportunities for career advancement.

We place significant emphasis on loss prevention in order to control inventory shrinkage. Initiatives include electronic tags on many 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 visually monitor the stores throughout the day using sophisticated camera systems, capture extensive point-of-sale data and maintain systems that monitor returns, voids and employee sales, and produce trend and exception reports to assist in identifying shrinkage issues. We also maintain an independent, third party administered, toll-free line for reporting shrinkage concerns and any other employee concerns.

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 30-day in-store training program for new store managers and assistant managers. Sales associates also participate in a 14-day customer service and store procedures training program, which is designed to enable them to assist customers in a friendly and helpful manner.

Layaway Program. We offer a layaway program that allows customers to purchase merchandise by initially paying a 20% deposit and a \$2 service charge, although at various times, we reduce the deposit requirement to 10% and waive the service charge in connection with promotional events. The customer then makes additional payments every two weeks and has 60 days to complete the purchase. If the purchase is not completed, the customer receives a Citi Trends gift card for amounts paid less a re-stocking and layaway service fee.

Site Selection. Cost-effective store locations are an important part of our store profitability model. Accordingly, we look for second and third use store locations that offer attractive rents, but also meet our demographic and economic criteria. We have a dedicated real estate management team responsible for new store site selection. In selecting a location, we target both major metropolitan 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 and rent-to-own stores. We will be the leading value-priced retailer within the neighborhoods we proudly serve. We will be an integral part of our customers' community by providing apparel, accessories, home furnishings and career opportunities.

Shortly after we sign a new store lease and complete the necessary leasehold improvements to the building, we prepare the store over a three to four week period by installing fixtures, signs, dressing rooms, checkout counters and cash register systems and merchandising the initial inventory.

Advertising and Marketing

Our marketing goals are to build the "Citi Trends" brand, promote customers' association of the "Citi Trends" brand with value, quality, fashion and everyday low prices, and drive traffic into our stores. We generally focus our advertising efforts during the first quarter

(Spring/Easter), back-to-school and Christmas through the use of hip-hop radio stations, social media and influencer marketing. In addition, we promote fashion trends and exciting deals in our window signage and through in-store announcements. Our Facebook page has nearly 600,000 followers, and our Instagram account has more than 80,000 followers. We use our social media channels to highlight our brand and engage our customers with compelling digital content on a regular basis. We also maintain a website at <http://www.cititrends.com> and a mobile app, both of which advertise our latest in-store products and provide information about our business, including a store locator.

Distribution

All merchandise sold in our stores is shipped directly from our distribution centers in Darlington, South Carolina and Roland, Oklahoma, utilizing various express package distributors. Our stores receive multiple shipments of merchandise each week from our distribution centers. The Darlington distribution center has 550,000 square feet of space, while the Roland distribution center has 565,000 square feet of space.

We engaged a consulting firm to help us identify more efficient and less costly distribution alternatives. We focused on leveraging the consultant's relationships with transportation service providers, expanding the number of in-bound trucking options, and evaluating the current out-bound to store model. This project began in the first quarter of 2019 and has continued into 2020.

Information Technology and Systems

We have information systems in place to support our core business functions, using a combination of industry-standard third party products and internally developed applications. These systems support purchase order management, price and markdown management, merchandise planning and allocation, general ledger, accounts payable, sales audit, loss prevention and supply chain functions.

Prior to the COVID-19 crisis, we were embarking on a systems transformation project with a leading consultant to provide a strategic roadmap for the future of our information systems. However, due to the negative economic effects of COVID-19, we have delayed this project. Our top priorities for this project were to reinvent and dramatically improve our planning and allocation systems, as well as provide robust analytical capabilities that extend visibility to granular levels of the business. We understand the competitive advantage data provides and will strive to leverage newer technologies such as artificial intelligence and machine learning as enablers for executing business operations. We will revisit next steps for this project later in 2020.

Aligned with our systems transformation project, we were also engaged in a point-of-sale replacement project which included new hardware, software and payment systems for our stores. The project was expected to improve our store operational processes, increase transactional efficiencies and provide enhanced visibility to the business. As an organization focused on being fashionable, friendly, fresh, fair and fun, we understand that our customer experience is paramount to our success and a new point-of-sale solution will provide the foundation to enhance our customer engagement journey. This project has also been temporarily suspended due to the uncertainty stemming from COVID-19.

Growth Strategy

Drive Comparable Store Sales Growth. We have a number of strategies in place that are focused on continuing to increase our comparable store sales, including the following:

- Continued push toward lines of business that have proven to be consistent sales drivers over extended periods of time, including, among other things, accessories and home merchandise,
- Improvement of our fashion assortments within apparel to meet the demands of our unique customer base,
- Recent addition of internal store planning resources and the implementation of a store-level planning system, which we expect will improve our ability to allocate inventory at each level of the merchandise hierarchy,
- Continued testing and introduction of new categories of merchandise that meet the needs of our customers,
- Continued evolution of our marketing strategies through the use of digital advertising and influencers, and
- Future execution of a systems transformation project and point-of-sale replacement project, as described above.

Increase Store Base. We believe that our store potential for the existing concept is up to 800 stores. This concept, which has historically done well in predominantly African-American markets, has proven to be portable across much of the country. In fact, of the 20 Citi Trends stores with the highest level of profit, 14 different metropolitan statistical areas are represented. Also, only six of our stores were not profitable on a four-wall basis in fiscal 2019.

We opened 16 new stores in fiscal 2019. We opened three new stores in fiscal 2020 before suspending our new store initiatives due to the negative economic effects of COVID-19.

Competition

The markets we serve are highly competitive. The principal methods of competition in the retail business are fashion, assortment, pricing and presentation. We believe we have a competitive advantage in our offering of fashionable merchandise at everyday low prices. 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 with which we compete include TJX Companies, Inc. (“TJX Companies”), Ross Stores, Inc. (“Ross Stores”), The Cato Corporation (“Cato”), and Burlington Stores, Inc. (“Burlington”). In particular, Ross Stores’ “d’s DISCOUNTS” stores, and Cato’s “It’s Fashion Metro” stores target lower and moderate income consumers. We believe our strategy of appealing to African-American consumers allows us to compete successfully with these retailers. We also believe we offer a more inviting store format than the traditional off-price retailers, including our use of carpeted floors and more prominently displayed brands. In addition, we compete with a group of smaller specialty retailers that sell only women’s products, such as Rainbow, as well as value-oriented retailers, such as Forman Mills and Variety Wholesalers. Our mass merchant competitors include Wal-Mart, Target and Kohl’s. These chains do not focus on fashion apparel and, within their apparel offering, lack the specialized focus on fashionable mix that 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. As a result, we believe there is significant demand for a value-priced retailer that addresses the market of low and moderate income consumers generally and, particularly, African-American and other consumers who seek extreme value for fashion apparel, accessories and home goods. See Item 1A. Risk Factors in this Report for additional information regarding competition in our markets.

Intellectual Property

We regard our trademarks and service marks as having significant value and as being important to our marketing efforts. We have registered “Citi Trends” as a trademark with the U.S. Patent and Trademark Office on the Principal Register for retail department store services. We have also registered the following trademarks with the U.S. Patent and Trademark Office on the Principal Register for various apparel: “Citi Steps,” “Citi Trends Fashion for Less,” “Lil Ms Hollywood,” “Red Ape,” and “Vintage Harlem.” Our policy is to pursue registration of our marks and to oppose vigorously infringement of our marks.

Employees

As of February 1, 2020, we had approximately 3,000 full-time and approximately 2,700 part-time employees. Of these employees, approximately 4,700 are employed in our stores and the remainder are employed in our distribution centers, buying offices and corporate office. We are not a party to any collective bargaining agreements, and none of our employees are represented by a labor union.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors, together with the other information contained or incorporated by reference into this Report. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we deem to be currently immaterial also may impair our business operations. The occurrence of any of the following risks could have a material adverse effect on our business, financial condition and results of operations.

Our financial and operating performance may be materially and adversely affected by the outbreak of the novel coronavirus (“COVID-19”).

The recent outbreak of COVID-19 in the U.S. has had an unfavorable impact on our business operations. Mandatory closures of businesses imposed by the federal, state and local governments to control the spread of the virus is disrupting the operations of our management, business and finance teams. In response to COVID-19, the Company temporarily closed all of its retail stores and distribution facilities as of March 20, 2020 and temporarily closed its corporate and buying offices with associates working remotely where possible. We cannot foresee whether the outbreak of COVID-19 will be effectively contained, nor can we predict the severity and duration of its impact on our business and our consolidated financial results. The prolonged closure of some or all of our retail stores and distribution facilities, disruptions in our supply chain and with our transportation providers, the slowdown in consumer spending and other factors resulting from the pandemic are expected to have an adverse impact on the financial condition, results of operations and liquidity of the Company in fiscal 2020. The extent to which COVID-19 will impact our business and our consolidated financial results will depend on future developments which are highly uncertain and cannot be predicted.

Our success depends on our ability to anticipate, identify and respond rapidly to changes in consumers' fashion tastes, and our failure to adequately evaluate fashion trends could have an 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. A failure on our part to anticipate, identify or react appropriately and timely 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.

If we are unsuccessful in competing with our retail apparel competitors, our market share could decline or our growth could be impaired and, as a result, our business, financial condition and results of operations could be negatively impacted.

The retail apparel and home fashion businesses are highly competitive with few barriers to entry. We compete against a diverse group of retailers, including national off-price apparel chains such as TJX Companies, Ross Stores, Cato, and Burlington; mass merchants such as Wal-Mart, Target and Kmart; smaller discount retail chains that sell only women's products, such as Rainbow; and general merchandise discount stores and dollar stores, which offer a variety of products, including apparel, home fashions and other merchandise we sell, for the value-conscious consumer. We also compete against local off-price and specialty retail stores, regional retail chains, traditional department stores, web-based retail stores and other direct retailers.

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 and exert greater pricing pressures on suppliers than we can. Many of these retailers have better name recognition among consumers than we do and purchase significantly more merchandise from vendors. These retailers may be able to purchase merchandise that we cannot purchase because of their name recognition and relationships with suppliers, or they may be able to purchase merchandise with better pricing concessions than we can. Our local and regional competitors have extensive knowledge of the consumer base and may be able to garner more loyalty from customers 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, we may have greater difficulty in competing effectively. As a result of this competition, we may experience pricing pressures, increased marketing expenditures, increased costs to open new stores, as well as loss of market share, which could materially and adversely affect 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 where our stores are located.

We locate our stores primarily in strip shopping centers 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 and from the volume of traffic generated by the other destination retailers and the anchor stores in the strip shopping centers where our stores are located. 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 could suffer. If one or more of the destination retailers or anchor stores located in the strip shopping centers 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 may be adversely affected.

We may not be able to sustain our growth plans or successfully implement our long-term strategic goals.

Our growth strategy includes successfully opening and operating new stores and expanding our value-priced model within our current markets and into new geographic regions, as well as shifting our merchandise mix more towards non-apparel merchandise and potentially branching out into some new store concepts. There are significant risks associated with our ability to continue to expand successfully and manage the implementation of this growth effectively. If any aspect of our expansion strategy does not achieve the success we expect, in whole or in part, we may fail to meet our financial performance expectations, slow our planned growth or close stores or operations. The success of opening new stores is dependent upon, among other things, the current retail environment, the identification of suitable markets and the availability of real estate that meets our criteria for traffic, square footage, co-tenancies, lease economics, demographics, and other factors, the negotiation of acceptable lease terms, construction costs, the hiring, training and retention of competent sales personnel, and the effective management of inventory to meet the needs of new and existing stores on a timely basis. We may not be able to execute our growth strategies successfully, on a timely basis, or at all. The extent of the impact from the COVID-19 pandemic on our business and

financial results could also impact our growth plans and long-term strategic goals. If we fail to implement these strategies successfully, or if these strategies do not yield the desired outcomes, our financial condition and results of operations would be adversely affected.

We could experience a reduction in sales if we are unable to fulfill our current and future merchandising needs.

We depend on our suppliers for the continued availability and satisfactory quality of our merchandise. Most of our suppliers could discontinue selling to us at any time. Additionally, if the manufacturers or other owners of brands or trademarks terminate the license agreements under which some of our suppliers sell our products, we may be unable to obtain replacement merchandise of comparable fashion appeal or quality, in the same quantities or at the same prices. In addition, a number of our suppliers are smaller, less capitalized companies and are more likely to be impacted by unfavorable general economic and market conditions, including economic downturns caused by natural disasters, acts of terror, or public health pandemics (including COVID-19), than larger and better capitalized companies. These smaller suppliers may not have sufficient liquidity during economic downturns to properly fund their businesses, and their ability to supply their products to us could be negatively impacted. If we lose the services of one or more of our significant suppliers or one or more of them fail to meet our merchandising needs, we may be unable to timely or adequately replace the merchandise we currently source with merchandise provided elsewhere, which could negatively impact our sales and results of operations.

Failure to properly manage and allocate our inventory could have an adverse effect on our business, sales, margins, financial condition, and results of operations.

In order to better serve our customers and maximize sales, we must properly execute our inventory management strategies by appropriately allocating merchandise among our stores, timely and efficiently distributing inventory to such locations, maintaining an appropriate mix and level of inventory in such locations, appropriately changing the allocation of floor space of stores among product categories to respond to customer demand, and effectively managing pricing and markdowns, and there is no assurance we will be able to do so. In addition, as we implement new inventory allocation initiatives, there could be disruptions in inventory flow and placement. Failure to effectively execute our opportunistic inventory buying and inventory management strategies could adversely affect our business, financial condition and results of operations.

If we are unable to provide frequent replenishment of fresh, quality, attractively priced merchandise in our stores, it could adversely affect traffic to our stores as well as our sales and margins. We base our purchases of inventory, in part, on our sales forecasts. If our sales forecasts do not match customer demand, we may experience higher inventory levels and need to markdown excess or slow-moving inventory, leading to decreased profit margins, or we may have insufficient inventory to meet customer demand, leading to lost sales, either of which could adversely affect our financial performance. We need to purchase inventory sufficiently below conventional retail to maintain our pricing differential to regular department and specialty store prices, and to attract customers and sustain our margins, which we may not achieve at various times and which could adversely affect our business, financial condition and results of operations.

Our sales could decline as a result of general economic and other factors outside of our control, such as changes in consumer spending patterns and declines in employment levels.

Downturns, or the expectation of a downturn, in general economic conditions, including the effects of unemployment levels, salaries and wage rates, interest rates, levels of consumer debt, inflation in food and energy prices, taxation (including delays in the distribution of tax refunds), government stimulus, consumer confidence, and other macroeconomic factors, could adversely affect consumer spending patterns, our sales and our results of operations. Consumer confidence may also be affected by domestic and international political unrest, acts of war or terrorism, natural disasters, public health emergencies like the COVID-19 pandemic, or other significant events outside of our control, any of which could lead to a decrease in spending by consumers. 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. In addition, since many 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 sales and results of operations than on retailers with a more geographically diversified store base.

We depend upon strong cash flows from our operations to supply capital to fund our operations, growth, stock repurchases and dividends and interest and debt repayment.

Our business depends upon our operations to continue to generate strong cash flow to supply capital to support our general operating activities, to fund our growth and our return of cash to stockholders through our stock repurchase programs and dividends, and to pay our interest and debt repayments. For example, as a result of the ongoing COVID-19 pandemic, we temporarily closed our stores beginning in March 2020. We also suspended both our share repurchase program and the payment of our quarterly cash dividends. Our inability to continue to generate sufficient cash flows to support these activities could adversely affect our growth plans, capital expenditures, operating expenses and financial performance, including our earnings per share. Changes in the capital and credit markets, including market disruptions, limited liquidity, and interest rate fluctuations may increase the cost of financing or restrict our access to these potential sources of liquidity. Our continued access to these liquidity sources on favorable terms depends on multiple factors, including our operating performance and maintaining strong credit ratings. In March 2020, we borrowed \$43.7 million from our revolving credit facility to add to our cash balances in order to provide enhanced financial flexibility due to uncertain market conditions arising from the impact of the COVID-19 pandemic. If our access to capital is restricted or our borrowing costs increase, our operations and financial condition could be adversely impacted.

We do not sell our products through the internet. As the retail industry experiences an increase in online sales, our sales could be adversely affected.

The retail landscape is changing with consumers' shopping habits shifting away from the traditional brick-and-mortar stores to online retailers. Internet sales have been obtaining an increasing percentage of retail sales over the past few years and this trend is expected to continue. Although we have tested the sale of products through the internet, we no longer have any items available on our company's website. The continued growth of online sales could have a negative impact on our sales, as our customers may decide to make purchases through online retailers.

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

We do not own or operate any manufacturing or production facilities. We purchase the products we sell directly from approximately 1,700 vendors, and a substantial portion of this merchandise is manufactured outside of the United States and imported by our vendors from countries such as China and other areas of the Far East. The countries in which our merchandise currently is manufactured or may be manufactured in the future could become subject to new trade restrictions imposed by the United States or other foreign governments. There is increased uncertainty with respect to trade relations between the United States and other countries, especially China. Trade restrictions, including increased customs restrictions and tariffs or quotas against apparel or home items, as well as United States or foreign labor strikes, work stoppages or boycotts, could increase the cost or reduce the supply or impede the timely delivery of merchandise available to us and have an adverse effect on our business. In addition, our merchandise supply could be impacted if our vendors' imports become subject to existing or future duties and quotas, or if our vendors face increased 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:

- political or labor instability, natural disasters, public health emergencies including the current COVID-19 pandemic, or the threat of terrorism, in particular in countries where our vendors source merchandise;
- increases in merchandise costs due to raw material price inflation or changes in purchasing power caused by fluctuations in currency exchange rates;
- enhanced security measures at United States and foreign ports, which could delay delivery of imports;
- imposition of new or supplemental duties, trade restrictions, sanctions, tariffs, quotas, taxes, and other charges on imports;
- compliance with new or changing import/export controls;
- delayed receipt or non-delivery of goods due to the failure of foreign-source suppliers to comply with import regulations, organized labor strikes or congestion at United States ports;

- concerns about human rights and working conditions in countries where merchandise is manufactured and produced; and
- local business practice and political issues, including issues relating to compliance with domestic or international labor and environmental standards.

We rely on numerous third parties in the supply chain to produce and deliver the products that we sell, and our business may be negatively impacted by their failure to comply with applicable law.

Merchandise we sell in our stores is subject to regulatory standards set by various governmental authorities with respect to quality and safety. Regulations in this area may change from time to time. We rely on numerous third parties to supply quality merchandise that complies with applicable product safety laws and other applicable laws, but they may not comply with their obligations to do so. Violations of law by our importers, suppliers, manufacturers or distributors could result in delays in shipments and receipt of goods or damage our reputation, thus causing our sales to decline. Although our arrangements with our vendors frequently provide for indemnification for product liabilities, the vendors may fail to honor those obligations to an extent we consider sufficient or at all. Issues with the quality and safety of merchandise we sell in our stores, regardless of our fault, or customer concerns about such issues, could result in damage to our reputation, lost sales, uninsured product liability claims or losses, merchandise recalls, increased costs, and regulatory, civil or criminal fines or penalties, any of which could have a material adverse effect on our financial results. Further, we are susceptible to the receipt of counterfeit brands, infringing products or unlicensed goods. We could incur liability with manufacturers or other owners of the brands or trademarked products if we receive and sell counterfeit brands, infringing products or unlicensed goods, even inadvertently, and, therefore, it is important that we establish relationships with reputable vendors to reduce the risk that we may inadvertently receive counterfeit brands, infringing products or unlicensed goods. Although we are careful in selecting our vendors, we may receive products that we are prohibited from selling or incur liability for selling counterfeit brands, infringing products or unlicensed goods, which could adversely impact our results of operations.

A significant disruption to our distribution process or southeastern retail locations could have an adverse effect on our business, financial condition and results of operations.

Our ability to distribute our merchandise to our store locations in a timely manner is essential to the efficient and profitable operation of our business. We have distribution centers located in Darlington, South Carolina and Roland, Oklahoma. Any natural disaster or other disruption to the operation of either of these facilities due to fire, accidents, public health emergency such as the current COVID-19 pandemic, weather conditions or any other cause could damage a significant portion of our inventory, impair our ability to stock our stores adequately and may result in increased supply chain costs or lost sales.

In addition, the southeastern United States, where the Darlington distribution center and many of our stores are located, is 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 an adverse effect on our business, financial condition and results of operations.

We rely upon third-party land-based and air freight carriers for merchandise shipments to our distribution centers and our retail stores. Accordingly, we are subject to the risks, including labor disputes, union organizing activity, inclement weather, public health emergencies, and increased transportation costs, associated with such carriers' ability to provide delivery services to meet outbound shipping needs. In addition, if the cost of fuel rises, the cost to deliver merchandise to our distribution centers and our retail stores may rise and such costs could have an adverse impact on our profitability. Failure to deliver merchandise to our distribution centers and our retail stores in a timely, effective and economically viable manner could adversely affect our business, financial condition and results of operations.

If we fail to protect our name and brand in the marketplace, there could be a negative effect on our business and limitations on 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 an adverse effect on our reputation, 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 since 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. Although we cannot currently estimate the likelihood of success of any such lawsuit or ultimate resolution of such a conflict, such a controversy could have an adverse effect on our business, financial condition and results of operations.

If we fail to implement and maintain effective internal controls in our business, there could be an adverse effect on our business, financial condition, results of operations and stock price.

Section 404 of the Sarbanes Oxley Act of 2002 requires annual management assessments of the effectiveness of our internal controls over financial reporting and an audit of such controls by our independent registered public accounting firm. If we fail to maintain the adequacy of our internal controls, we may be unable to conclude on an ongoing basis that we have effective internal controls over financial reporting. Moreover, effective internal controls, particularly those related to revenue recognition and accounting for inventory/cost of sales, 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.

Failure to attract, train, assimilate and retain skilled personnel could have an adverse effect on our financial condition.

Like most retailers, we experience significant employee turnover rates, particularly among store sales associates and managers. We therefore must continually attract, 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 cause us to be unable to service our customers effectively, thus reducing our ability to operate our stores as profitably as we have in the past.

In addition, we rely heavily on the experience and expertise of our senior management team and other key management associates, and accordingly, the loss of their services could have a material adverse effect on our business strategy and results of operations.

Our business could be negatively affected as a result of a proxy fight and the actions of activist shareholders.

If we become engaged in a proxy contest with activist shareholders in the future, our business could be adversely affected because:

- Responding to proxy contests, litigation and other actions by activist stockholders can be costly and time-consuming, disrupt our operations and divert the attention of management and our employees.
- Perceived uncertainties as to our future direction may result in the loss of potential business opportunities and harm our ability to attract new investors and to retain and attract experienced executives and employees.
- If individuals are elected to our board of directors with a specific agenda, it may adversely affect our ability to retain and attract experienced directors, executives and employees, to effectively and timely implement our business strategy and create additional value for stockholders.
- We may experience a significant increase in legal fees, administrative, advisor and associated costs incurred in connection with responding to a proxy contest or related action. For example, we incurred \$2.5 million in expenses as a result of the proxy contest in connection with our 2017 annual meeting and \$1.0 million in expense as a result of the proxy contest in connection with our 2019 annual meeting.

These factors could adversely impact our results of operations and could also cause our stock price to experience periods of volatility or stagnation.

Increases in the minimum wage could have an adverse effect on our operating costs, financial condition and results of operations.

Wage rates for many of our employees are slightly above the federal minimum wage. As federal and/or state minimum wage rates increase, we may need to increase not only our employees’ wage rates that are under the new minimum, but also the wages paid to our other hourly employees. Any increase in the cost of our labor could have a material adverse effect on our operating costs, financial condition and results of operations.

Failure to comply with legal requirements could have an adverse effect on our financial condition and results of operations.

Compliance risks in our business include areas such as employment law, taxation, securities laws, consumer protection laws, licensing, intellectual property, customer relations and personal injury claims, among others. If we fail to comply with these laws, rules and regulations, we may be subject to judgments, fines or other costs or penalties, which could have an adverse effect on our financial condition and results of operations.

Changes in government regulations could have an adverse effect on our financial condition and results of operations.

Our business is subject to numerous federal, state and local laws and regulations. New legal requirements in any number of areas could result in higher compliance costs. Changes in areas, such as workplace-regulation and other labor or employment benefits laws, supply chain, privacy and information security, or environmental regulation may require extensive structural and organizational changes that could be difficult to implement, disrupt our business, cause reputational harm and materially adversely affect our operations and financial results. Additionally, in response to the COVID-19 pandemic state and local governments have implemented measures to slow the spread of the virus, which resulted in the Company temporarily closing its stores on March 20, 2020. Extended closures required by law or additional restrictions on our operations may have adverse effects on our financial condition.

Any failure of our management information systems or the inability of third parties to continue to upgrade and maintain our systems could have an 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 the systems used to track our sales and facilitate inventory management. We also rely on our management information systems for point-of-sale, merchandise planning and allocation, replenishment and markdowns, as well as other key business functions. These functions enhance our ability to process and 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 an adverse effect on our business.

We depend on third-party suppliers to maintain and periodically upgrade our management information systems. Due to ever-evolving cybersecurity threats, we and our third-party service providers and vendors must continually evaluate and adapt our respective systems and processes and overall security environment. If any of these suppliers is unable to continue to maintain and upgrade these software programs and/or if we are unable to convert to alternate systems in an efficient and timely manner, it could result in an adverse effect on our business.

Failure to maintain the security of employee, customer or vendor information could expose us to litigation, government enforcement actions and materially impact our reputation and business operations.

Over the normal course of business operations, we obtain certain private or confidential information of our employees, customers, and vendors. This information may be stored within our internal information technology environments or hosted by third party service providers. We have implemented security procedures and technology that are intended to safeguard this information from cybersecurity attacks and data breaches. These safeguards include, but are not limited to, routine penetration and vulnerability testing, network segmentation, strong encryption protocols, virus and malware protection, email security scanning, simulation training, vendor assessments, and on-going monitoring and patching activities. There is no guarantee that these measures will be adequate to safeguard against all data security breaches, system compromises or misuses of data.

As we accept debit and credit card payments in our stores, we are subject to the Payment Card Industry's Data Security Standards ("PCI DSS") to which we attest compliance annually. For the protection of our customer's payment information, we utilize chip enabled pin pads with point-to-point encryption technology. In addition, we do not retain the customer's encrypted, hashed, or tokenized payment information within our internal systems. However, even as we comply with PCI DSS and employ point-to-point encryption technology, we may not be able to prevent or detect a compromise of cardholder data. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements, compliance with those requirements could also result in additional costs.

Cyberattacks continue to evolve and there can be no assurance that an attacker would be unable to gain access to the information we collect. These attacks can come in many forms, including computer hacking, acts of vandalism or theft, malware, computer viruses or other malicious codes, phishing, employee error or malfeasance, catastrophes, unforeseen events or other cyber-attacks. Additionally, a failure of a third party service provider to monitor and secure their environment could lead to unauthorized access of our private or confidential information. Any cyberattack or a breach of our data could expose us to costly fines, private litigation and response measures, credit card

brand assessments, government enforcement actions, disruption of business operations, negative publicity, erode customer confidence in the effectiveness of our data security measures, and decrease our current or potential customers' willingness to shop in our stores which could adversely affect our business and financial conditions. Furthermore, there can be no assurance that any limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. Our existing general liability insurance coverage and coverage for errors and omissions may not continue to be available on acceptable terms or may not be available in sufficient amounts to cover one or more large claims, or our insurers may deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceeds available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, operating results and financial condition.

We may be unable to negotiate future leases or renegotiate current leases on the same favorable terms as we had in the past.

Our strategic growth plan depends in part on our ability to renew current leases and enter into new leases for future stores. We currently lease all of our store locations and are subject to the risks associated with leasing real estate. If we decide to close stores, we may be required to continue to perform obligations under the applicable leases, including, among other things, paying rent and operating expenses for the balance of the lease term, or paying to exercise rights to terminate, and the performance of any of these obligations may be expensive. When the current lease terms for our stores expire, we may be unable to negotiate renewals which could lead to the closing or relocating stores on less favorable terms or in a less favorable location.

Our sales, inventory levels and earnings fluctuate on a seasonal basis, which makes our business more susceptible to adverse events that occur during the first and fourth quarters.

Our sales and earnings are significantly 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, public health pandemics like COVID-19, unfavorable economic conditions, reduced governmental assistance, and tax refund patterns for our customers, will have a greater adverse effect on our financial condition than if our business was less seasonal.

Seasonal fluctuations also affect our inventory levels. 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. Merchandise must be ordered well in advance of the applicable selling season and before trends are confirmed by sales. If we are not able to accurately predict customers' preferences for our fashion items, we may have too much inventory which may result in increased markdowns. If we are unable to accurately predict demand for our merchandise during these periods, we could also end up with inventory shortages resulting in missed sales. In either event, our sales may be lower and our cost of sales may be higher than historical levels, which could have a material adverse effect on our business, financial condition and results of operations.

If we fail to successfully implement our various marketing efforts or if our competitors are more effective with their programs than we are, our revenue or results of operations may be adversely affected.

Customer traffic and demand for our merchandise may be influenced by our marketing efforts. Although we use marketing to drive customer traffic through various media including radio, print, digital/social media and e-mail, some of our competitors expend more for their marketing programs than we do, or use different approaches than we do, which may provide them with a competitive advantage. Further, we may not effectively implement strategies with respect to rapidly evolving Internet-based and other digital or mobile communication channels, including social media. Our programs may not be or remain effective or could require increased expenditures, which could have a significant adverse effect on our revenue and results of operations.

We experience fluctuations and variability in our comparable store sales and quarterly results of operations and, as a result, the market price of our common stock may fluctuate substantially.

Our comparable store sales and quarterly results have fluctuated significantly in the past based on a number of economic, seasonal and competitive factors, as well as changes in our merchandise mix, and we expect them to continue to fluctuate in the future. Since the beginning of fiscal 2014, our quarter-to-quarter comparable store sales have ranged from a decrease of 7.0% to an increase of 13.9%. This variability could cause our comparable store sales and quarterly results to fall below the expectations of securities analysts or investors, which could result in a decline in the market price of our common stock.

Our stock price is subject to volatility.

Our stock price has been volatile in the past and may be influenced in the future by a number of factors, including:

- actual or anticipated fluctuations in our operating results;
- changes in securities analysts' recommendations or estimates of our financial performance;
- changes in market valuations or operating performance of our competitors or companies similar to ours;
- announcements by us, our competitors or other retailers;
- additions and departures of key personnel;
- changes in accounting principles;
- the passage of legislation or other developments affecting us;
- the trading volume of our common stock in the public market;
- changes in economic or financial market conditions;
- natural disasters, terrorist acts, acts of war or periods of civil unrest; 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 cannot provide any guaranty of future cash dividend payments or that we will continue to actively repurchase our common stock pursuant to a share repurchase program.

Any determination to declare and pay cash dividends on our common stock in the future (quarterly or otherwise) will be based, among other things, upon our financial condition, results of operations, business and cash requirements and our board of directors' conclusion in each instance that the declaration and payment of a cash dividend is in the best interest of our stockholders and is in compliance with all laws and agreements applicable to the dividend. As part of the actions the Company has taken to increase its cash position and preserve financial flexibility in light of current uncertainties resulting from the COVID-19 pandemic, the Company suspended the payment of dividends for the near-term. On March 13, 2020, the Company announced a share repurchase program, however, due in part to the COVID-19 pandemic and related economic downturn, no repurchases have been made under such program and the Company has suspended any future purchases and plans to continue to monitor the situation based on business conditions and regard for its financial liquidity needs. There can be no assurance that our existing share repurchase authorization will be completed or that our board of directors will approve another repurchase program in the future.

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

Our third amended and restated certificate of incorporation and our third 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, 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. Additionally, we are in the process of phasing out our classified board of directors, so only five directors will be up for election at the next annual meeting.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Store Locations

As of February 1, 2020, we operated 571 stores located in 33 states. Our stores average approximately 11,000 square feet of selling space and are typically located in neighborhood strip shopping centers that are convenient to low and moderate income customers.

We have no franchising relationships, and all of the stores are company operated. All existing 571 stores, totaling 7.7 million total square feet and 6.3 million selling square feet, are leased under operating leases. The typical store lease is for five years with options to extend the lease term for three additional five-year periods. Nearly all 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. The table below sets forth the number of stores in each of the 33 states in which we operated as of February 1, 2020:

Alabama	—31
Arkansas	—15
California	—8
Connecticut	—4
Delaware	—2
Florida	—52
Georgia	—63
Illinois	—21
Indiana	—17
Iowa	—2
Kansas	—1
Kentucky	—7
Louisiana	—34
Maryland	—6
Massachusetts	—3
Michigan	—23
Minnesota	—2
Mississippi	—27
Missouri	—7
Nebraska	—1
Nevada	—2
New Jersey	—1
New York	—9
North Carolina	—48
Ohio	—29
Oklahoma	—7
Pennsylvania	—8
Rhode Island	—2
South Carolina	—42
Tennessee	—18
Texas	—53
Virginia	—20
Wisconsin	—6

Support Center Facilities

We own a facility in Savannah, Georgia totaling approximately 70,000 square feet, which serves as our headquarters and, to a lesser extent, as a storage facility. We also own an approximately 550,000 square-foot distribution center in Darlington, South Carolina and a 565,000 square-foot distribution center in Roland, Oklahoma. In addition, we currently lease a 12,300 square-foot office in New York City which is used for buyer operations and meetings with vendors.

ITEM 3. LEGAL PROCEEDINGS

We are from time to time involved in various legal proceedings incidental to the conduct of our business, including claims by customers, employees or former employees. Once it becomes probable that we will incur costs in connection with a legal proceeding and such costs can be reasonably estimated, we establish appropriate reserves. While legal proceedings are subject to uncertainties and the outcome of any such matter is not predictable, we are not aware of any legal proceedings pending or threatened against us that we expect to have a material adverse effect on our financial condition, results of operations or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on The NASDAQ Stock Market under the symbol "CTRN." On April 14, 2020, there were 37 holders of record and approximately 2,700 beneficial holders of our common stock.

In 2019, we paid a quarterly dividend of \$0.08 per common share on March 19, 2019, June 18, 2019, September 17, 2019 and December 24, 2019.

On February 18, 2020, the Company's board of directors declared a quarterly dividend of \$0.08 per common share, which was paid on March 17, 2020 to stockholders of record as of March 3, 2020.

On March 20, 2020, as part of the actions the Company has taken to increase our cash position and preserve financial flexibility in light of current uncertainties resulting from the COVID-19 pandemic as described further below, the Company drew down \$43.7 million under its revolving credit facility. Pursuant to the terms of the revolving credit facility, the Company is restricted from paying cash dividends if there were any borrowings outstanding in the 30 days prior to the dividend payment or any borrowings are expected in the 30 days subsequent to the payment. The Company announced on April 28, 2020, the suspension of future cash dividends.

Determinations to declare and pay cash dividends on our common stock in the future (quarterly or otherwise) will be based, among other things, upon our financial condition, results of operations, business and cash requirements and our board of directors' conclusion in each instance that the declaration and payment of a cash dividend is in the best interest of our stockholders and is in compliance with all laws and agreements applicable to the dividend.

Recent Sales of Unregistered Securities.

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

The number of shares of common stock that we repurchased during the fourth quarter of fiscal 2019 and the average price paid per share are as follows:

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share (1)</u>	<u>Total number of shares purchased as part of publicly announced plans or programs (2)</u>	<u>Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (2)</u>
November (11/3/19 - 11/30/19)	—	\$ —	—	\$ —
December (12/1/19 - 1/4/20)	469,146	21.93	469,146	14,724,113
January (1/5/20 - 2/1/20)	372,097	22.81	372,097	6,246,529
Total	841,243		841,243	

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

(2) On November 22, 2019, the Company's board of directors approved a \$25.0 million stock repurchase program, under which approximately \$6.2 million of shares remained available as of February 1, 2020. This repurchase program was completed in February 2020.

On March 13, 2020, the Company announced that its board of directors approved a \$30.0 million stock repurchase program. Due to the current economic uncertainty stemming from the COVID-19 pandemic, the Company has temporarily suspended any repurchases as of March 23, 2020 and plans to continue to monitor the situation based on business conditions and regard for its financial liquidity needs.

Equity Compensation Plan Information.

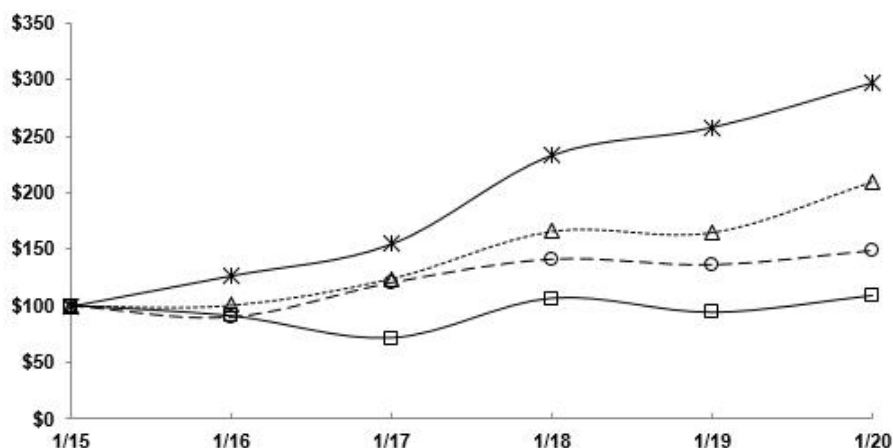
See Item 12 of this Report.

Stock Performance Graph

Set forth below is a line graph comparing the last five years' percentage change in the cumulative total stockholder return on shares of our common stock against (i) the cumulative total return of the Russell 2000 Index, (ii) the cumulative total return of companies listed on The NASDAQ Stock Market and (iii) the cumulative total return of the NASDAQ Retail Trade Index. We have elected to replace the NASDAQ Composite Index with the Russell 2000 Index because we believe that it is a more appropriate comparison. In this transition year, the stock performance graph below includes the comparative performance of the new index and the previously reported index. This graph assumes that \$100 was invested on January 31, 2015 in our common stock and in each of the market index and the industry index, and that all cash distributions were reinvested. Our common stock price performance shown on the graph is not indicative of future price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Citi Trends, Inc., the Russell 2000 Index, the NASDAQ Composite Index and the NASDAQ Retail Trade Index



—□— Citi Trends, Inc. —○— Russell 2000 —△— NASDAQ Composite —*— NASDAQ Retail Trade

*\$100 invested on 1/31/15 in stock or index, including reinvestment of dividends.
Fiscal year ending on or about January 31.

Total Return Analysis	1/15	1/16	1/17	1/18	1/19	1/20
Citi Trends, Inc.	100.00	90.73	71.43	106.25	93.80	108.55
Russell 2000 Index	100.00	90.08	120.28	140.95	135.98	148.51
NASDAQ Composite	100.00	100.70	124.09	165.58	164.45	208.91
NASDAQ Retail Trade	100.00	126.85	154.96	233.18	257.74	297.18

ITEM 6. SELECTED FINANCIAL DATA
Selected Financial and Operating Data

The following table provides selected consolidated financial and operating data for each of the fiscal years in the five-year period ended February 1, 2020. The selected consolidated financial and operating data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of this Report and our consolidated financial statements and related notes set forth in the financial pages of this Report. Historical results are not necessarily indicative of results to be expected for any future period.

	Fiscal Year Ended (1)				
	February 1, 2020	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016
(dollars in thousands, except per share amounts)					
Statement of Operations Data:					
Net sales	\$ 781,925	\$ 769,553	\$ 755,241	\$ 695,175	\$ 683,791
Cost of sales (exclusive of depreciation shown separately below)	(484,740)	(476,326)	(466,022)	(428,167)	(416,779)
Selling, general and administrative expenses	(259,629)	(247,938)	(247,062)	(230,666)	(224,218)
Depreciation	(18,535)	(18,886)	(18,883)	(17,090)	(18,577)
Asset impairment	(472)	(1,274)	(507)	(313)	—
Income from operations	18,549	25,129	22,767	18,939	24,217
Interest, net	1,419	1,199	733	412	97
Income before income taxes	19,968	26,328	23,500	19,351	24,314
Income tax expense	(3,465)	(4,954)	(8,926)	(6,020)	(8,787)
Net income	<u>\$ 16,503</u>	<u>\$ 21,374</u>	<u>\$ 14,574</u>	<u>\$ 13,331</u>	<u>\$ 15,527</u>
Net income per common share:					
Basic	<u>\$ 1.41</u>	<u>\$ 1.64</u>	<u>\$ 1.04</u>	<u>\$ 0.91</u>	<u>\$ 1.04</u>
Diluted	<u>\$ 1.41</u>	<u>\$ 1.64</u>	<u>\$ 1.03</u>	<u>\$ 0.91</u>	<u>\$ 1.03</u>
Weighted average shares used to compute net income per share:					
Basic	<u>11,673,887</u>	<u>13,030,063</u>	<u>14,058,008</u>	<u>14,656,753</u>	<u>14,996,496</u>
Diluted	<u>11,699,000</u>	<u>13,069,694</u>	<u>14,115,895</u>	<u>14,662,272</u>	<u>15,055,538</u>
Cash dividends per common share	<u>\$ 0.32</u>	<u>\$ 0.32</u>	<u>\$ 0.30</u>	<u>\$ 0.24</u>	<u>\$ 0.12</u>
Additional Operating Data:					
Number of stores:					
Opened during period	16	19	20	18	13
Closed during period	7	6	4	6	3
Open at end of period	571	562	549	533	521
Selling square footage at end of period	6,329,597	6,219,745	6,052,753	5,839,232	5,683,032
Comparable store sales increase (decrease) (2)	(0.1)%	1.6 % (3)	4.5 % (3)	(0.4)%	(0.1)%
Average sales per store (4)	\$ 1,380	\$ 1,385	\$ 1,396	\$ 1,319	\$ 1,325
Balance Sheet Data:					
Cash and cash equivalents	\$ 19,923	\$ 17,863	\$ 48,451	\$ 49,253	\$ 39,116
Short-term investments	27,562	50,350	31,500	38,026	32,671
Long-term investments	15,675	8,883	25,451	26,691	30,890
Total assets	459,145	297,989	327,071	332,514	314,508
Total liabilities	288,101	110,564	117,603	108,923	102,274
Total stockholders’ equity	171,044	187,425	209,468	223,591	212,234

- (1) Our fiscal year ends on the Saturday closest to January 31 of each year. The years ended February 1, 2020, February 2, 2019, February 3, 2018, January 28, 2017 and January 30, 2016 are referred to as fiscal 2019, 2018, 2017, 2016 and 2015, respectively. Fiscal 2017 is comprised of 53 weeks, while fiscal years 2019, 2018, 2016 and 2015 are each comprised of 52 weeks.
- (2) 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.
- (3) The Company is reporting comparable store sales on a comparable store and comparable weeks basis; for fiscal 2018, the 52 weeks ended February 2, 2019 were compared to the 52 weeks ended February 3, 2018; for fiscal 2017, the 53 weeks ended February 3, 2018 were compared to the 53 weeks ended February 4, 2017.
- (4) Average sales per store is defined as net sales divided by the average number of stores open at the end of the prior fiscal year and stores open at the end of the current fiscal year.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the section entitled "Selected Financial and Operating Data" and our audited consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. 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 section entitled "Risk Factors" and elsewhere in this Report, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We are a value-priced retailer of fashion apparel, accessories and home goods for the entire family. Our merchandise offerings are designed to appeal to the preferences of fashion conscious consumers, particularly African-Americans. As of February 1, 2020, we operated 571 stores in both urban and rural markets in 33 states.

Current Material Development

In December 2019, a novel coronavirus ("COVID-19") emerged and has subsequently spread worldwide. The World Health Organization has declared COVID-19 a pandemic resulting in federal, state and local governments and private entities mandating various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. After closely monitoring and taking into consideration the guidance from federal, state and local governments, in an effort to mitigate the spread of COVID-19, along with other retailers, we initially temporarily closed all of our retail store locations effective March 20, 2020 through April 3, 2020. However, this closure was further extended on March 26 for an indefinite period as a result of federal, state and local level requirements and recommendations. We also closed our buying and corporate offices, and our distribution centers, and we instituted "work from home" measures for certain of our associates. The Company continues to monitor developments, including government requirements and recommendations at the federal, state and local level to evaluate when we will reopen our stores, offices and facilities. We expect the cadence of store reopenings to vary by state and locality in the U.S. On April 28, 2020, the Company announced that it has started to re-open stores in some markets in accordance with state and local guidelines. The temporary closure of our stores is having a significant negative impact on the Company's financial performance.

We have taken several proactive measures to increase our cash position and preserve financial flexibility in light of current uncertainties resulting from the COVID-19 pandemic. On March 20, 2020, we borrowed \$43.7 million in principal amount under our revolving credit facility. We also implemented a number of other measures to help mitigate the operating and financial impact of the pandemic, including (i) furloughing substantially all of our store and distribution center personnel, as well as about 40% of our corporate staff, starting April 3, 2020; (ii) implementing temporary tiered salary reductions for management level corporate employees, including executive officers; (iii) temporarily reducing the cash portion of the fees payable to our non-employee board members; (iv) extending payment terms with vendors and suppliers; (v) abating payments of rent as appropriate; (vi) deferring certain merit based awards; (vii) suspending the 401(k) company matching program; (viii) executing substantial reductions in operating expenses, store occupancy costs, capital expenditures and other costs, including through reduced inventory purchases; (ix) suspending any repurchases of shares under our stock repurchase program; and (x) suspending the payment of dividends. On May 12, 2020, we entered into an amendment to our revolving credit facility to, among other things, extend the maturity date (which had been set to expire August 18, 2020) to August 18, 2021. For discussion of our revolving credit facility, see "Liquidity Sources and Requirements and Contractual Cash Requirements and Commitments."

Due to the developing situation, the results of the first quarter ending May 2, 2020 and the full fiscal year ending January 30, 2021 could be impacted in ways we are not able to predict today. As a result, we withdrew our first quarter and full year fiscal 2020 financial guidance issued on March 13, 2020.

Given the unprecedented uncertainty of this situation and the unknown impact on consumer demand, the Company cannot reasonably estimate the full impact of this pandemic on its business. However, the Company expects the impact from the pandemic and the related economic disruption will have a material adverse effect on its financial condition, results of operations and liquidity in fiscal 2020.

Basis of Presentation

Net sales consist of store sales and layaway fees, net of returns by customers. Cost of sales consists of the cost of products we sell and associated freight costs. Depreciation is not considered a component of cost of sales and is included as a separate line item in the consolidated statements of operations. Selling, general and administrative expenses are comprised of store costs, including payroll and occupancy 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 to the fourth

quarter every five to six years. The years ended February 1, 2020, February 2, 2019 and February 3, 2018 are referred to as fiscal 2019, 2018 and 2017, respectively. Fiscal years 2019 and 2018 are each comprised of 52 weeks, while fiscal 2017 is comprised of 53 weeks.

Results of Operations

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

Net Sales and Additional Operating Data

The following table provides selected consolidated statement of operations data expressed both in dollars and as a percentage of net sales:

	Fiscal Year Ended					
	February 1, 2020		February 2, 2019		February 3, 2018	
	(dollars in thousands)					
Statement of Operations Data						
Net sales	\$ 781,925	100.0 %	\$ 769,553	100.0 %	\$ 755,241	100.0 %
Cost of sales (exclusive of depreciation shown separately below)	(484,740)	(62.0)%	(476,326)	(61.9)%	(466,022)	(61.7)%
Selling, general and administrative expenses	(259,629)	(33.2)%	(247,938)	(32.2)%	(247,062)	(32.7)%
Depreciation	(18,535)	(2.3)%	(18,886)	(2.4)%	(18,883)	(2.5)%
Asset impairment	(472)	(0.1)%	(1,274)	(0.2)%	(507)	(0.1)%
Income from operations	18,549	2.4 %	25,129	3.3 %	22,767	3.0 %
Interest income	1,577	0.2 %	1,353	0.2 %	883	0.1 %
Interest expense	(158)	(0.0)%	(154)	(0.0)%	(150)	(0.0)%
Income before income taxes	19,968	2.6 %	26,328	3.4 %	23,500	3.1 %
Income tax expense	(3,465)	(0.5)%	(4,954)	(0.6)%	(8,926)	(1.2)%
Net income	\$ 16,503	2.1 %	\$ 21,374	2.8 %	\$ 14,574	1.9 %

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

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
Total stores open, beginning of year	562	549	533
New stores	16	19	20
Closed stores	(7)	(6)	(4)
Total stores open, end of year	571	562	549
Comparable store sales (decrease) increase (1)	(0.1)%	1.6 % (2)	4.5 % (2)

- (1) Stores included in the comparable store sales calculation for any year are those stores that were opened prior to the beginning of the preceding fiscal year and were still open at the end of such year. Relocated stores and expanded stores are included in the comparable store sales results.
- (2) The Company is reporting comparable store sales on a comparable weeks basis; for fiscal 2018, the 52 weeks ended February 2, 2019 were compared to the 52 weeks ended February 3, 2018; for fiscal 2017, the 53 weeks ended February 3, 2018 were compared to the 53 weeks ended February 4, 2017.

Key Operating Statistics

We measure performance using key operating statistics. One of the main performance measures we use is comparable store sales growth. We define a comparable store as a store that has been 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 until its 24th month at the latest. As an example, stores opened in fiscal 2018 and fiscal 2019 were not considered comparable stores in fiscal 2019. Relocated and expanded stores are included in the comparable store sales results. We also use other operating statistics, most notably average sales per store, to measure our performance. As we typically occupy existing space in established shopping centers rather than sites built specifically for our stores, store square footage (and therefore sales per square foot) varies by store. We focus on overall store sales volume as the critical driver of profitability.

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

Although non-GAAP measures such as EBITDA and Adjusted EBITDA provide useful information on an operating cash flow basis, they are limited measures in that they exclude the impact of cash requirements for capital expenditures, income taxes and interest expense and should not be regarded as comparable to similarly titled measures used by other companies. Therefore, EBITDA and Adjusted EBITDA should be used as supplements to results of operations and cash flows as reported under generally accepted accounting principles (“GAAP”) and should not be used as the only measures of operating performance or as a substitute for GAAP results.

Provided below is a reconciliation of net income to EBITDA and to Adjusted EBITDA for fiscal years ended February 1, 2020, February 2, 2019 and February 3, 2018:

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
	(dollars in thousands)		
Net income	\$ 16,503	\$ 21,374	\$ 14,574
Plus:			
Interest expense	158	154	150
Income tax expense	3,465	4,954	8,926
Depreciation	18,535	18,886	18,883
Less:			
Interest income	(1,577)	(1,353)	(883)
EBITDA	<u>37,084</u>	<u>44,015</u>	<u>41,650</u>
Plus:			
Asset impairment	472	1,274	507
Interim CEO related expenses	571	—	—
Proxy contest expenses	1,042	—	2,516
Adjusted EBITDA	<u>\$ 39,169</u>	<u>\$ 45,289</u>	<u>\$ 44,673</u>

Provided below is a reconciliation of net income (the closest comparable GAAP measure) to (i) net income adjusted for non-cash asset impairment expenses, interim CEO related expenses, proxy contest expenses and the effect of the Tax Cuts and Jobs Act (“Adjusted net income”) and (ii) diluted Adjusted net income per common share. We believe that excluding these expenses and their related tax effects and the effect of the Tax Cuts and Jobs Act from our financial results reflects operating results that are more indicative of our ongoing operating performance while improving comparability to prior periods, and as such, may provide investors with an enhanced understanding of our past financial performance and prospects for the future. These non-GAAP measures should be used as a supplement to net income and diluted net income per common share as reported under GAAP and should not be used as the only measures of operating performance or as a substitute for GAAP results.

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
	(in thousands, except per share data)		
Net income	\$ 16,503	\$ 21,374	\$ 14,574
Asset impairment and related tax effects	390	1,035	314
Interim CEO related expenses and related tax effects	472	—	—
Proxy contest expenses and related tax effects	861	—	1,560
Tax Cuts and Jobs Act effect	—	—	1,609
Adjusted net income	<u>\$ 18,226</u>	<u>\$ 22,409</u>	<u>\$ 18,057</u>
Diluted Adjusted net income per common share	<u>\$ 1.56</u>	<u>\$ 1.71</u>	<u>\$ 1.28</u>
Diluted shares outstanding	<u>11,699</u>	<u>13,070</u>	<u>14,116</u>

Fiscal 2019 Compared to Fiscal 2018

Net Sales. Net sales increased \$12.3 million, or 1.6%, to \$781.9 million in fiscal 2019 from \$769.6 million in fiscal 2018. The increase in net sales was due primarily to 16 new store openings in 2019 and 19 new store openings in 2018 for which there was not a full year of sales in 2018. These sales increases were partially offset by the closing of seven stores in 2019 and six stores in 2018, and a 0.1% decrease in comparable store sales. The decrease in comparable store sales was reflected in a 1.2% decrease in customer transactions, partially offset by a 1.1% increase in the average ticket size. Comparable store sales changes, by major merchandise class, were as follows: Home +10%; Accessories +6%; Men’s -3%; Children’s -4%; and Ladies’ -5%.

Store opening and closing activity resulted in a net increase of \$13.2 million in sales in fiscal 2019, while the 0.1% decrease in comparable store sales in the 536 comparable stores caused sales to decrease \$0.9 million.

Cost of Sales (exclusive of depreciation). Cost of sales (exclusive of depreciation) increased \$8.4 million, or 1.8%, to \$484.7 million in fiscal 2019 from \$476.3 million in fiscal 2018 due to the effect of the increase in sales discussed above and an increase in cost of sales as a percentage of sales to 62.0% in 2019 from 61.9% in 2018. The increase in cost of sales as a percentage of sales was due primarily to a 20 basis points increase in freight costs as a result of pressures in the trucking industry, partially offset by a 10 basis points increase in the core merchandise margin (initial mark-up, net of markdowns).

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$11.7 million, or 4.7% to \$259.6 million in fiscal 2019 from \$247.9 million in fiscal 2018 due to the opening of 16 new stores in 2019 and 19 stores in 2018, along with normal inflationary pressure on expenses such as payroll and rent, \$2.1 million in costs associated with the CEO transition and changes to the Company’s board of directors, and \$1.0 million of expenses incurred in connection with a proxy contest in 2019. These factors that caused the increase in selling, general and administrative expenses were partially offset by a \$1.3 million decrease in incentive compensation expense resulting from unfavorable operating results in relation to budget, as well as a \$1.2 million gain on insurance claims received in fiscal 2019. Selling, general and administrative expenses as a percentage of sales increased to 33.2% in 2019 from 32.2% in 2018.

Depreciation. Depreciation expense decreased \$0.4 million to \$18.5 million in 2019 from \$18.9 million in fiscal 2018 due to the slowing of our store opening pace in relation to previous years.

Asset Impairment. Impairment charges related to an underperforming store totaled \$0.5 million in fiscal 2019, comprised of \$0.3 million for leasehold improvements and fixtures and equipment, and \$0.2 million for an operating lease right-of-use asset. In fiscal 2018, impairment charges related to underperforming stores totaled \$1.3 million, comprised of leasehold improvements and fixtures and equipment.

Income Tax Expense. Income tax expense decreased \$1.5 million to \$3.5 million in fiscal 2019 from \$5.0 million in fiscal 2018 due primarily to pretax income decreasing \$6.4 million.

Net Income. Net income decreased \$4.9 million to \$16.5 million in fiscal 2019 compared to \$21.4 million in fiscal 2018, due to the factors discussed above.

Fiscal 2018 Compared to Fiscal 2017

Net Sales. Net sales increased \$14.4 million, or 1.9%, to \$769.6 million in the 52-week fiscal 2018 from \$755.2 million in the 53-week fiscal 2017. The increase in net sales was due primarily to nineteen new store openings in 2018 and twenty new store openings in 2017 for which there was not a full year of sales in 2017, together with a 1.6% increase in comparable store sales on a 52-week versus 52-week basis. These sales increases were partially offset by the closing of six stores in 2018 and four stores in 2017, along with the extra week in fiscal 2017 which contributed \$10.9 million in sales. The increase in comparable store sales on a 52-week basis was reflected in a 2.5% increase in the average ticket size, partially offset by a 0.9% decrease in the number of customer transactions. Comparable store sales changes on a 52-week basis, by major merchandise class, were as follows: Home +13%; Accessories +4%; Men's +1%; Children's less than +1%; and Ladies' -2%.

Store opening and closing activity resulted in a net increase of \$13.8 million in sales in fiscal 2018, and the 1.6% comparable store sales increase in the 523 comparable stores totaled \$11.5 million, while the aforementioned extra week last year accounted for a decrease of \$10.9 million in sales.

Cost of Sales (exclusive of depreciation). Cost of sales (exclusive of depreciation) increased \$10.3 million, or 2.2%, to \$476.3 million in fiscal 2018 from \$466.0 million in fiscal 2017 due to the effect of the increase in sales discussed above and an increase in cost of sales as a percentage of sales to 61.9% in 2018 from 61.7% in 2017. The increase in cost of sales as a percentage of sales was due primarily to a 40 basis points increase in freight costs as a result of pressures in the trucking industry and higher fuel surcharges. The core merchandise margin (initial mark-up, net of markdowns) for the year was flat with last year, while shrinkage was 20 basis points lower.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$0.8 million, or 0.4%, to \$247.9 million in fiscal 2018 from \$247.1 million in fiscal 2017 due to the opening of nineteen new stores in 2018 and twenty stores in 2017, along with normal inflationary pressure on expenses such as payroll and rent. These factors that caused the increase in selling, general and administrative expenses were partially offset by a \$3.9 million decrease in incentive compensation expense resulting from unfavorable operating results in relation to budget, together with \$3.5 million to \$4.0 million of expenses attributable to the extra week in fiscal 2017 and \$2.5 million of expenses incurred in connection with a proxy contest in 2017. Selling, general and administrative expenses as a percentage of sales decreased to 32.2% in 2018 from 32.7% in 2017 due primarily to the leveraging effect resulting from higher comparable store sales and the 2017 proxy contest.

Depreciation. Depreciation expense of \$18.9 million in fiscal 2018 was unchanged from fiscal 2017, attributable to the acceleration of our store opening pace in relation to previous years being entirely offset by distribution center additions and expansions in prior years becoming fully depreciated during 2018.

Asset Impairment. Impairment charges related to property and equipment at underperforming stores totaled \$1.3 million and \$0.5 million in fiscal 2018 and 2017, respectively.

Income Tax Expense. Income tax expense decreased \$3.9 million to \$5.0 million in fiscal 2018 from \$8.9 million in fiscal 2017 as the impact of a \$2.8 million increase in pretax income was more than offset by a decrease in the effective income tax rate to 18.8% from 38.0%. The decrease in the effective tax rate was due primarily to the full-year impact of the reduction in the federal income tax rate from 35% to 21% in the Tax Cuts and Jobs Act tax reform legislation ("TCJA") which was enacted in December 2017, as well as last year's \$1.9 million write-down of net deferred tax assets resulting from the revaluation of deferred tax assets and liabilities to reflect the TCJA's reduced federal income tax rate.

Net Income. Net income increased \$6.8 million to \$21.4 million in fiscal 2018 compared to \$14.6 million in fiscal 2017, due to the factors discussed above.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital and for capital expenditures for our stores, distribution infrastructure and information systems. We also use cash to repurchase stock under our stock repurchase program and to pay dividends. Historically, we have met these cash requirements using cash flow from operations and short-term trade credit. As further noted below, due to the COVID-19

pandemic and related economic disruptions, and with the temporary closure of all store locations for an extended period of time, we anticipate that we will be required to rely far more heavily on our existing balances of cash and investment securities and borrowings under our revolving credit facility (described below), and we expect to carefully monitor and manage our cash position in light of ongoing conditions and results of operations.

Cash Flows

Fiscal 2019 Compared to Fiscal 2018

As of February 1, 2020, we had total cash and cash equivalents of \$19.9 million, compared with \$17.9 million as of February 2, 2019. Additionally, we had \$27.6 million and \$15.7 million of short-term and long-term investment securities, respectively, as of February 1, 2020, compared with \$50.4 million and \$8.9 million, respectively, as of February 2, 2019. These securities are comprised of bank certificates of deposit and obligations of the U.S. Treasury, states and municipalities.

Inventory represented 30.1% of our total assets as of February 1, 2020, compared with 46.9% as of February 2, 2019. Management's ability to manage our inventory can have a significant impact on our cash flows from operations during a given interim period or fiscal year. In addition, inventory purchases can be seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise.

Cash Flows Provided by Operating Activities. Net cash provided by operating activities was \$42.6 million in fiscal 2019 compared with \$30.4 million in fiscal 2018. Net income, adjusted for non-cash expenses such as depreciation, non-cash operating lease costs, asset impairment, loss on disposal of property and equipment, insurance proceeds from operating activities, deferred income taxes and stock-based compensation expense, provided cash of \$84.0 million in fiscal 2019 (compared with \$44.0 million in fiscal 2018). Other significant sources of cash in fiscal 2019 included (1) a \$5.6 million increase in account payable (compared to a \$2.8 million decrease in fiscal 2018) due to improved inventory turns in the fourth quarter of 2019 as reflected in higher sales and lower inventory, which resulted in more merchandise purchases in January 2020; since this higher level of purchases occurred in the last month of the fiscal year, all such purchases were still in accounts payable at the end of the fiscal year; and (2) a \$1.2 million decrease in inventory (compared to a \$2.3 million increase in fiscal 2018) due to efforts to improve inventory turns and maintain as much inventory liquidity as possible in order to take advantage of opportunistic deals and trend changes.

Significant uses of cash from operating activities in fiscal 2019 included (1) a \$1.6 million change in the income tax payable/receivable (compared to a \$1.5 million change in fiscal 2018) due to estimated tax payments made during the year; and (2) a \$1.6 million increase in prepaid and other current assets (compared to a \$2.1 million increase in fiscal 2018) due primarily to increases in tenant improvement allowances for new stores that opened in the fourth quarter of fiscal 2019.

Cash Flows Used in Investing Activities. Cash used in investing activities was \$7.6 million in fiscal 2019 compared with \$15.3 million in fiscal 2018. Cash used for the purchase of property and equipment was \$24.2 million in fiscal 2019 and \$13.3 million in fiscal 2018, with the increase due primarily to (1) purchases of equipment for our point-of-sale replacement project, (2) capital expenditures to complete major remodels in 20 of our stores; and (3) purchases of store fixtures needed to facilitate a shift towards more home merchandise and enhanced holiday merchandise presentation. Sales/redemptions of investment securities, net of purchases, provided cash of \$16.0 million in fiscal 2019 and used cash of \$2.3 million in fiscal 2018.

Cash Flows Used in Financing Activities. Cash used in financing activities was \$32.9 million in fiscal 2019 compared with \$45.7 million in fiscal 2018. Cash used for the repurchase of common stock totaled \$28.4 million in fiscal 2019 and \$40.4 million in fiscal 2018. Dividends paid to stockholders used cash of \$3.8 million in fiscal 2019 and \$4.2 million in fiscal 2018.

Until required for other purposes, we maintain cash and cash equivalents in deposit or money market accounts.

Fiscal 2018 Compared to Fiscal 2017

As of February 2, 2019, we had total cash and cash equivalents of \$17.9 million, compared with \$48.5 million as of February 3, 2018. Additionally, we had \$50.3 million and \$8.9 million of short-term and long-term investment securities, respectively, as of February 2, 2019, compared with \$31.5 million and \$25.5 million, respectively, as of February 3, 2018. These securities are comprised of bank certificates of deposit and obligations of the U.S. Treasury, states and municipalities.

Inventory represented 46.9% of our total assets as of February 2, 2019, compared with 42.1% as of February 3, 2018. Management's ability to manage our inventory can have a significant impact on our cash flows from operations during a given interim period or fiscal year. In addition, inventory purchases can be seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise.

Cash Flows Provided by Operating Activities. Net cash provided by operating activities was \$30.4 million in fiscal 2018 compared with \$42.3 million in fiscal 2017. Net income, adjusted for non-cash expenses such as depreciation, asset impairment, loss on disposal of property and equipment, insurance proceeds from operating activities, deferred income taxes and stock-based compensation expense, provided cash of \$44.0 million in fiscal 2018 (compared with \$39.8 million in fiscal 2017). Significant uses of cash included (1) a \$4.3 million decrease in accrued compensation (compared with an \$8.1 million increase in fiscal 2017) primarily as a result of lower incentive compensation accruals due to unfavorable financial performance relative to budget in fiscal 2018; (2) a \$2.8 million decrease in accounts payable (compared with a \$0.2 million increase in fiscal 2017) due to significant sales increases in the fourth quarter of 2017 which required an increase in merchandise purchases in January 2018; since this higher level of purchases occurred in the last month of the fiscal year, all such purchases were still in accounts payable as of February 3, 2018; (3) a \$2.3 million increase in inventory (compared with a \$3.9 million increase in fiscal 2017) due primarily to having thirteen more stores than at the previous year end; (4) a \$2.1 million increase in prepaid and other current assets (compared with a \$2.4 million increase in fiscal 2017) due primarily to increases in tenant improvement allowances for new and expanded stores that opened in the fourth quarter of fiscal 2018 and prepaid insurance as the renewal of the Company's insurance policies on December 1, 2018 included higher property insurance premiums; and (5) a \$1.5 million decrease in income tax payable (compared with a \$3.6 million increase in fiscal 2017) due to higher prepayments of estimated taxes during 2018.

Cash Flows Used in Investing Activities. Cash used in investing activities was \$15.3 million in fiscal 2018 compared with \$12.8 million in fiscal 2017. Cash used for the purchase of property and equipment was \$13.3 million in fiscal 2018 and \$21.0 million in fiscal 2017, with the decrease resulting primarily from capital expenditures made in fiscal 2017 for store fixtures needed to facilitate a shift towards more home merchandise, together with the completion of the Roland distribution center expansion in fiscal 2017 and opening one fewer store and relocating two fewer stores in fiscal 2018. Sales/redemptions of investment securities, net of purchases, used cash of \$2.3 million in fiscal 2018 and provided cash of \$7.8 million in fiscal 2017.

Cash Flows Used in Financing Activities. Cash used in financing activities was \$45.7 million in fiscal 2018 compared with \$30.3 million in fiscal 2017. Cash used for the repurchase of common stock totaled \$40.4 million in fiscal 2018 and \$25.0 million in fiscal 2017. Dividends paid to stockholders used cash of \$4.2 million in fiscal 2018 and fiscal 2017.

Until required for other purposes, we maintain cash and cash equivalents in deposit or money market accounts.

Liquidity Sources and Requirements and Contractual Cash Requirements and Commitments

Our principal sources of liquidity consist of: (i) cash and cash equivalents (which equaled \$19.9 million as of February 1, 2020); (ii) short-term and long-term investment securities (which equaled \$27.5 million and \$15.7 million, respectively, as of February 1, 2020); (iii) short-term trade credit; (iv) cash generated from operations on an ongoing basis as we sell our merchandise inventory; and (v) a \$50 million revolving credit facility. Trade credit represents a significant source of financing for inventory purchases and arises from customary payment terms and trade practices with our vendors. Historically, our principal liquidity requirements have been for working capital and capital expenditure needs.

As part of the actions we have taken to increase our cash position and preserve financial flexibility in light of current uncertainties resulting from the COVID-19 pandemic, as described above in "Current Material Developments," on March 20, 2020, we borrowed \$43.7 million in principal amount under our revolving credit facility. In addition, on May 12, 2020, we entered into an amendment to our revolving credit facility to, among other things, extend the maturity date to August 18, 2021. See "Indebtedness" below for more information.

In addition to the drawdown on our credit facility, we have reduced our operating expenses, capital expenditure plans and inventory receipts, as appropriate. Additionally, we previously announced a share repurchase program on March 13, 2020, but no repurchases have been made under such program as of the date of this filing and the Company does not intend to repurchase any shares for the time being. The Company has also suspended the payment of quarterly dividends.

We believe that our existing sources of liquidity will be sufficient to fund our operations for at least the next 12 months. Should the reopening of our stores and recovery of our sales fall materially below our expectations, we may be required to take other actions that could include material changes in our operations and seeking additional debt or equity capital. We plan to continue to monitor the rapidly developing situation and to take further action to reduce our expenses and preserve our financial flexibility, as necessary

The following table discloses aggregate information about our contractual obligations as of February 1, 2020 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:					
Operating leases (1)	\$ 195,089	\$ 48,182	\$ 76,588	\$ 42,817	\$ 27,502
Purchase obligations	114,003	114,003	—	—	—
Total contractual cash obligations	<u>\$ 309,092</u>	<u>\$ 162,185</u>	<u>\$ 76,588</u>	<u>\$ 42,817</u>	<u>\$ 27,502</u>

(1) Represents fixed minimum rents in stores and does not include incremental rents which are computed as a percentage of net sales. For example, in fiscal 2019 incremental percentage rent was approximately \$0.3 million, which represented 0.6% of total rent expense.

Indebtedness. On October 27, 2011, we entered into a five-year, \$50 million credit facility with Bank of America. The facility was amended on August 18, 2015, extending the maturity date to August 18, 2020. On March 20, 2020, in response to the COVID-19 pandemic, we borrowed \$43.7 million on our revolving credit facility to enhance our liquidity position. Such borrowings accrued interest ranging from 1.625% to 3.5%.

On May 12, 2020, the Company entered into a Second Amendment to Credit Agreement and Waiver (the “Second Amendment”) with Bank of America and the Company’s wholly-owned subsidiary, Citi Trends Marketing Solutions, Inc., as guarantor (the “Second Amendment”) to amend the credit facility (as amended, the “Revolving Credit Facility”) as described below.

The Revolving Credit Facility provides a \$50 million credit commitment and a \$25 million uncommitted “accordion” feature that under certain circumstances could allow us to increase the size of the facility to \$75 million. The Revolving Credit Facility is secured by our inventory, accounts receivable and related assets, but not our real estate, fixtures and equipment, and it contains one financial covenant, a fixed charge coverage ratio, which is applicable and tested only in certain circumstances. The facility has an unused commitment fee of 0.25% and permits the payment of cash dividends subject to certain limitations, including a requirement that there were no borrowings outstanding in the 30 days prior to the dividend payment and no borrowings are expected in the 30 days subsequent to the payment.

The Second Amendment amends the Revolving Credit Facility to, among other things, extend the maturity date (which had been set to expire August 18, 2020) to August 18, 2021, increase the pricing for the loans and modify certain covenant and reporting terms. Following the effective date of the Second Amendment, borrowings under the Revolving Credit Facility will bear interest (a) for Eurodollar Loans, at a rate equal to LIBOR plus either 2.25% or 2.5%, or (b) for Base Rate Loans, at a rate equal to the highest of (i) the prime rate, (ii) the Federal Funds Rate plus 0.5%, or (iii) LIBOR for a period of one month plus 1.0%, plus, in each case either 1.25% or 1.5%, based in any such case on the average daily availability for borrowings under the facility.

Operating Leases. We lease our stores under operating leases, which generally have an initial term of five years with renewal options. The typical store lease requires a combination of both fixed monthly rents and contingent rents computed as a percentage of net sales after a certain sales threshold has been met. For fiscal 2019, rent expense was \$58.1 million compared with \$55.3 million in fiscal 2018 (including contingent rent of \$0.3 million and \$0.5 million in fiscal 2019 and 2018, respectively).

Purchase Obligations. As of February 1, 2020, we had purchase obligations of \$114.0 million, all of which were for less than one year. These purchase obligations consist of outstanding merchandise orders.

Critical Accounting Policies and Estimates

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

Inventory

Inventory is stated at the lower of cost (first-in, first-out basis) or net realizable value as determined by the retail inventory method for store inventory and the average cost method for distribution center inventory. Under the retail inventory method, the cost of inventory is determined by calculating a cost-to-retail ratio and applying it to the retail value of inventory. Inherent in the retail inventory calculation are

certain management judgments and estimates, including, among others, merchandise markups, markdowns and shrinkage, which impact the ending inventory valuation at cost as well as resulting cost of sales. Merchandise markdowns are reflected in the inventory valuation when the price of an item is lowered in the stores. As a result, we believe the retail inventory method results in a more conservative inventory valuation than other accounting methods. We estimate and record an allowance for shrinkage for the period between the last physical count and the balance sheet date. The estimate of shrinkage can be affected by changes in actual shrinkage trends. Inventory shrinkage as a percentage of sales was 1.3% in fiscal 2019, compared to 1.3% in fiscal 2018 and 1.5% in fiscal 2017. The allowance for estimated inventory shrinkage was \$3.0 million as of February 1, 2020 and \$3.1 million as of February 2, 2019. Many retailers have arrangements with vendors that provide for rebates and allowances under certain conditions, which ultimately affect the value of the inventory. We do not generally enter into such arrangements with our vendors. There were no material changes in the estimates or assumptions related to the valuation of inventory during fiscal 2019.

Impairment of Long-Lived Assets

We continually evaluate whether events and changes in circumstances warrant revised estimates of the useful lives or recognition of an impairment loss for long-lived assets. If facts and circumstances indicate that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. Non-cash impairment losses related to operating lease right-of-use assets, leasehold improvements and fixtures and equipment at underperforming stores totaled \$0.5 million, \$1.3 million and \$0.5 million in fiscal 2019, 2018 and 2017, respectively. Impairment losses in the future are dependent on a number of factors such as site selection and general economic trends on a localized, regional, or national basis, and thus could be significantly different from historical results. To the extent our estimates for net sales, cost of sales and store expenses are not realized, future assessments of recoverability could result in impairment charges. There were no changes in our impairment loss methodology during fiscal 2019.

Insurance Liabilities

We are largely self-insured for workers' compensation costs and employee medical claims. Our self-insurance liabilities are based on the total estimated costs of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims. We use current and historical claims data, together with information from actuarial studies, in developing our estimates. The insurance liabilities we record are primarily influenced by the frequency and severity of claims and the Company's growth. If the underlying facts and circumstances related to the claims change, then we may be required to record more or less expense which could be material in relation to our results of operations. Our self-insurance liabilities totaled \$2.6 million (\$1.5 million current and \$1.1 million noncurrent) as of February 1, 2020 and \$2.4 million (\$1.4 million current and \$1.0 million noncurrent) as of February 2, 2019. There were no material changes in the estimates or assumptions related to insurance liabilities during fiscal 2019.

Operating Leases

We lease all of our retail store locations and certain office space and equipment. All leases are classified as operating leases. We record right-of-use assets and lease liabilities based on the present value of future minimum lease payments over the lease term. In determining the present value of lease payments, we use an incremental borrowing rate that approximates the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term. Our lessors do not provide an implicit rate, nor is one readily available, therefore we determine an incremental borrowing rate based on a buildup approach which utilizes rates and terms from the Company's existing borrowing facility with adjustments to bridge for impacts to the rate due to differences in collateral, terms and payments. We record operating lease cost over the estimated term of the lease, which includes options to extend lease terms that are reasonably certain of being exercised, starting when possession of the property is taken from the landlord. Lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. In addition, certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of net sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount can be reasonably estimated. If an operating lease asset is impaired, the remaining operating lease asset will be amortized on a straight-line basis over the remaining lease term.

Accounting for Income Taxes

We account for income taxes under the asset and liability method. The computation of income taxes is subject to estimation due to the judgment required and the uncertainty related to the recoverability of deferred tax assets or the outcome of tax audits. We adjust our income tax provision in the period it is determined that actual results will differ from our estimates. Tax law and rate changes are reflected in the income tax provision in the year in which such changes are enacted. 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 an assessment as to the

realization of these assets. 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 and income tax credits and net operating losses may be utilized, management may determine that some or all of the Company's deferred tax assets may not ultimately be deductible and income tax credits and net operating losses may expire unused. Should such an assessment be made, a valuation allowance against some or all of the Company's \$6.7 million in deferred tax assets would have to be recorded with a resulting charge to income tax expense. During the fourth quarter of fiscal 2017, the Company revalued its deferred tax assets and liabilities to reflect the reduced federal income tax rate expected to be in effect at the time of future reversals. Such reduction was the result of the Tax Cuts and Jobs Act tax reform legislation enacted in December 2017 which reduced the federal statutory rate from 35% to 21%. Such revaluation resulted in the reduction of net deferred tax assets and a charge to income tax expense of \$1.9 million. There were no material changes in the estimates or assumptions related to income taxes during fiscal 2019.

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 U.S. GAAP, 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.

Recent Accounting Pronouncements

See Note 2 to our consolidated financial statements included in this Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to financial market risks related to changes in interest rates earned on our investments. We cannot predict market fluctuations in interest rates. As a result, future results may differ materially from estimated results due to changes in interest rates. A hypothetical 100 basis point change in prevailing market interest rates would not have materially impacted our financial position, results of operations or cash flows for fiscal 2019. We do not engage in financial transactions for trading or speculative purposes and have not entered into any interest rate hedging contracts. Interest rates on our credit facility did not impact us in fiscal 2019 because we did not borrow during the year. As described in Item 7 above in "Current Material Development," on March 20, 2020, we borrowed \$43.7 million in principal amount under our revolving credit facility.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item and the report of the independent accountant thereon required by Item 14(a)(2) appear beginning on page F-2 of this Report. See accompanying Index to the consolidated financial statements on page F-1. The supplementary financial data required by Item 302 of Regulation S-K appears in note 12 to the consolidated financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended February 1, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting

For the Report of Management on Internal Control over Financial Reporting and the report of our independent registered public accounting firm on Internal Control over Financial Reporting, see “Management’s Annual Report on Internal Control Over Financial Reporting” on page F-2 of this Report and “Report of Independent Registered Public Accounting Firm” on page F-4 of this Report.

ITEM 9B. OTHER INFORMATION

On May 12, 2020, the Company entered into a Second Amendment to Credit Agreement and Waiver (the “Second Amendment”) among the Company, as Borrower, the Company’s wholly-owned subsidiary, Citi Trends Marketing Solutions, Inc., as Guarantor, and Bank of America, N.A., as Lender. The Second Amendment amends that certain Credit Agreement, dated as of October 27, 2011, among the Company, the Guarantor and the Lender, as amended by that certain First Amendment to Credit Agreement dated as of August 18, 2015, (as amended, the “Credit Facility”) to, among other things, extend the maturity date (which had been set to expire August 18, 2020) to August 18, 2021, increase the pricing for the loans by 1.0% (which rate varies depending on availability under the Credit Facility), waive certain events of default that occurred on May 1, 2020 related to delivery of our audited financials and the related compliance certificate, and modify certain covenant and reporting terms.

The foregoing description of the Credit Facility, including the Second Amendment, is only a summary of, and does not purport to be a complete statement of, the Credit Facility and the rights and obligations of the parties thereunder, and is qualified in its entirety by reference to the full text of the Credit Facility, including the Second Amendment, which are filed as exhibits to this Report and incorporated herein by this reference.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item with respect to our executive officers and directors, compliance by our directors, executive officers and certain beneficial owners of our common stock with Section 16(a) of the Exchange Act, the committees of our board of directors, our audit committee financial expert and our code of ethics is incorporated herein by reference to information under the captions entitled “Board of Directors and Committees of the Board of Directors,” “Executive Officers,” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive proxy statement (to be filed hereafter) in connection with our 2020 Annual Meeting of Stockholders and possibly elsewhere in the proxy statement (or will be filed by amendment to this Report).

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to information under the captions entitled “Executive Compensation,” “Board of Directors and Committees of the Board of Directors” and “Compensation Committee Report” in our definitive proxy statement (to be filed hereafter) in connection with our 2020 Annual Meeting of Stockholders and possibly elsewhere in the proxy statement (or will be filed by amendment to this Report).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item with respect to ownership of our common stock is incorporated herein by reference to the information under the caption entitled “Security Ownership of Certain Beneficial Owners and Management” in our definitive proxy statement (to be filed hereafter) in connection with our 2020 Annual Meeting of Stockholders and possibly elsewhere in the proxy statement (or will be filed by amendment to this Report).

Equity Compensation Plan Information. The following table represents those securities authorized for issuance as of February 1, 2020 under our existing equity compensation plans.

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)</u> (a)	<u>Weighted average exercise price of outstanding options, warrants and rights (2)</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (3) (c)</u>
Equity compensation plans approved by security holders	—	\$ —	775,541
Equity compensation plans not approved by security holders	—	—	—
Total	—	\$ —	775,541

- (1) The Citi Trends, Inc. 2012 Incentive Plan (the “2012 Plan”) became effective in May 2012 as a successor to the 2005 Plan. The 2012 Plan provides for the issuance of up to 1,600,000 shares of common stock, plus a number of additional shares (not to exceed 300,000) underlying awards outstanding under prior plans that later terminate or expire unexercised. Such shares will be issued upon the exercise of stock options or as awards of nonvested restricted stock and other performance awards vest. Does not include nonvested restricted stock grants issued under the 2012 Plan totaling 171,979 shares. No options were outstanding as of February 1, 2020.
- (2) The weighted average exercise price is for options only and does not include nonvested restricted stock.
- (3) Consists of shares available for awards of options, restricted stock and other performance awards under the 2012 Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the information under the captions entitled “Certain Relationships and Related Party Transactions” and “Board of Directors and Committees of the Board of Directors” in our definitive proxy statement (to be filed hereafter) in connection with our 2020 Annual Meeting of Stockholders and possibly elsewhere in the proxy statement (or will be filed by amendment to this Report).

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the information under the caption entitled “Ratification of Independent Registered Public Accounting Firm” in our definitive proxy statement (to be filed hereafter) in connection with our 2020 Annual Meeting of Stockholders and possibly elsewhere in the proxy statement (or will be filed by amendment to this Report).

PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a)(1) Financial Statements

See accompanying Financial Statements beginning on page F-1.

(a)(2) Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, are inapplicable or the information is included in the Financial Statements, and therefore, have been omitted.

(a)(3) Exhibits

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
3.1	Third Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 7, 2018)
3.2	Third Amended and Restated By-laws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on June 7, 2018)
4.1	Specimen certificate for shares of common stock, \$.01 par value (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-123028) filed with the SEC on April 29, 2005)
+4.2	Description of Registrant's Securities
10.1	Credit Agreement, dated October 27, 2011 among Citi Trends, Inc., as Borrower, its wholly owned subsidiary, as Guarantor, and Bank of America, N.A., as Lender (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2011)
10.2	First Amendment to Credit Agreement, dated as of August 18, 2015, by and among Citi Trends, Inc., as Borrower, Citi Trends Marketing Solutions, Inc., as Guarantor, and Bank of America, N.A., as Lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 19, 2015)
*10.3	Citi Trends, Inc. Annual Incentive Bonus Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2009)
*10.4	Citi Trends, Inc. 2012 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 28, 2012)
*10.5	Form of Restricted Stock Award Agreement for Employees under the Citi Trends, Inc. 2012 Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 29, 2017)
*10.6	Form of Restricted Stock Award Agreement for Directors under the Citi Trends, Inc. 2012 Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 28, 2012)
*10.7	Form of Restricted Stock Unit Award Agreement for Employees under the Citi Trends, Inc. 2012 Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 29, 2017)

Exhibit No.	Description
*10.8	Amendment to the Citi Trends, Inc. 2012 Incentive Plan, effective as of February 7, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 29, 2017)
*10.9	Form of Restricted Stock Unit Award Agreement for Employees under the Citi Trends, Inc. 2012 Incentive Plan (Performance Based Vesting – Average Stock Price) (incorporated by reference to Exhibit 10.41 to the Company's Annual Report on Form 10-K filed with the SEC on April 17, 2019)
*10.10	Form of Restricted Stock Unit Award Agreement for Employees under the Citi Trends, Inc. 2012 Incentive Plan (Performance Based Vesting – EBITDA Target) (incorporated by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K filed with the SEC on April 17, 2019)
*10.11	Employment Non-Compete, Non-Solicit and Confidentiality Agreement between the Company and Stuart C. Clifford dated March 15, 2018 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on March 16, 2018)
*10.12	Severance Agreement between the Company and Stuart C. Clifford dated March 15, 2018 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on March 16, 2018)
*10.13	Employment Non-Compete, Non-Solicit and Confidentiality Agreement between the Company and Ivy D. Council dated March 26, 2018 (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A filed with the SEC on March 15, 2019)
*10.14	Severance Agreement between the Company and Ivy D. Council dated March 26, 2018 (incorporated by reference to Exhibit 10.6 to Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A filed with the SEC on March 15, 2019)
*10.15	Employment Non-Compete, Non-Solicit and Confidentiality Agreement between the Company and James A. Dunn dated March 27, 2018 (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A filed with the SEC on March 15, 2019)
*10.16	Severance Agreement between the Company and James A. Dunn dated March 27, 2018 (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A filed with the SEC on March 15, 2019)
*10.17	Employment Non-Compete, Non-Solicit and Confidentiality Agreement between the Company and Christina Short dated April 6, 2018 (incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A filed with the SEC on March 15, 2019)
*10.18	Severance Agreement between the Company and Christina Short dated April 6, 2018 (incorporated by reference to Exhibit 10.14 to Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A filed with the SEC on March 15, 2019)
*10.19	Separation Agreement between the Company and Bruce D. Smith dated June 11, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 11, 2019)
+*10.20	Employment Non-Compete, Non-Solicit and Confidentiality Agreement between the Company and Lisa Powell dated August 16, 2019
+*10.21	Severance Agreement between the Company and Lisa Powell dated August 16, 2019
+*10.22	Employment Non-Compete, Non-Solicit and Confidentiality Agreement between the Company and Charles Hynes dated October 25, 2019
+*10.23	Severance Agreement between the Company and Charles Hynes dated October 25, 2019

<u>Exhibit No.</u>	<u>Description</u>
*10.24	Employment Non-Compete, Non-Solicit and Confidentiality Agreement between the Company and David N. Makuen dated February 17, 2020 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 21, 2020)
*10.25	Severance Agreement between the Company and David N. Makuen dated February 17, 2020 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on February 21, 2020)
*10.26	Agreement by and among the Company, Macellum SPV III, LP, Macellum Management, LP, Macellum Advisors GP, LLC, and Jonathan Duskin dated April 11, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2019)
+10.28	Second Amendment to Credit Agreement and Waiver, dated as of May 12, 2020, by and among Citi Trends, Inc., as Borrower, Citi Trends Marketing Solutions, Inc., as Guarantor, and Bank of America, N.A., as Lender
+21.1	Subsidiary of the Registrant
+23.1	Consent of KPMG LLP
+31.1	Certification of Principal Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
+31.2	Certification of Principal Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
+32.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
+32.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from Citi Trends, Inc.'s Annual Report on Form 10-K for the year ended February 1, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Stockholders' Equity and (v) Notes to Consolidated Financial Statements.

+ Filed herewith

* Indicates management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITI TRENDS, INC.
(Registrant)

Date: May 14, 2020

By /s/ David N. Makuen
David N. Makuen
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David N. Makuen</u> David N. Makuen	Chief Executive Officer (Principal Executive Officer) and Director	May 14, 2020
<u>/s/ Jason B. Moschner</u> Jason B. Moschner	Vice President of Finance (Principal Financial and Accounting Officer)	May 14, 2020
<u>/s/ Peter R. Sachse</u> Peter R. Sachse	Executive Chairman of the Board of Directors	May 14, 2020
<u>/s/ Brian P. Carney</u> Brian P. Carney	Director	May 14, 2020
<u>/s/ Jonathan Duskin</u> Jonathan Duskin	Director	May 14, 2020
<u>/s/ Laurens M. Goff</u> Laurens M. Goff	Director	May 14, 2020
<u>/s/ Margaret L. Jenkins</u> Margaret L. Jenkins	Director	May 14, 2020
<u>/s/ Kenneth D. Seipel</u> Kenneth D. Seipel	Director	May 14, 2020

Citi Trends, Inc.
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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we assessed the effectiveness of our internal control over financial reporting as of February 1, 2020, based on the criteria described in *Internal Control—Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, our management concluded that our internal control over financial reporting was effective based on those criteria as of February 1, 2020.

Our independent registered public accounting firm, KPMG LLP, audited the effectiveness of our internal control over financial reporting as of February 1, 2020, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Citi Trends, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Citi Trends, Inc. and subsidiary (the Company) as of February 1, 2020 and February 2, 2019, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years ended February 1, 2020, February 2, 2019, and February 3, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 1, 2020 and February 2, 2019, and the results of its operations and its cash flows for each of the years ended February 1, 2020, February 2, 2019, and February 3, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 1, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated May 14, 2020 an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2(q) to the consolidated financial statements, the Company has changed its method of accounting for leases as of February 3, 2019 due to the adoption of Accounting Standards Update No. 2016-02, Leases (Topic 842), as amended.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Jacksonville, Florida
May 14, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Citi Trends, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Citi Trends, Inc. and subsidiary's (the Company) internal control over financial reporting as of February 1, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 1, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of February 1, 2020 and February 2, 2019, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years ended February 1, 2020, February 2, 2019, and February 3, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated May 14, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Jacksonville, Florida
May 14, 2020

Citi Trends, Inc.
Consolidated Balance Sheets
February 1, 2020 and February 2, 2019
(in thousands, except share data)

	February 1, 2020	February 2, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,923	\$ 17,863
Short-term investment securities	27,562	50,350
Inventory	138,258	139,841
Prepaid and other current assets	14,278	17,544
Income tax receivable	1,186	—
Total current assets	201,207	225,598
Property and equipment, net of accumulated depreciation	64,985	56,224
Operating lease right of use assets	169,854	—
Long-term investment securities	15,675	8,883
Deferred tax asset	6,669	6,539
Other assets	755	745
Total assets	<u>\$ 459,145</u>	<u>\$ 297,989</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 79,596	\$ 73,391
Operating lease liabilities	42,944	—
Accrued expenses	14,755	15,311
Accrued compensation	13,013	12,746
Income tax payable	—	395
Layaway deposits	554	526
Total current liabilities	150,862	102,369
Noncurrent operating lease liabilities	135,316	—
Other long-term liabilities	1,923	8,195
Total liabilities	<u>288,101</u>	<u>110,564</u>
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 32,000,000 shares; 15,907,666 shares issued as of February 1, 2020 and 15,827,713 shares issued as of February 2, 2019; 10,834,134 shares outstanding as of February 1, 2020 and 12,158,237 shares outstanding as of February 2, 2019	157	157
Paid in capital	93,180	91,794
Retained earnings	186,772	176,094
Treasury stock, at cost; 5,073,532 shares held as of February 1, 2020 and 3,669,476 shares held as of February 2, 2019	(109,065)	(80,620)
Total stockholders' equity	<u>171,044</u>	<u>187,425</u>
Commitments and contingencies (note 9)		
Total liabilities and stockholders' equity	<u>\$ 459,145</u>	<u>\$ 297,989</u>

See accompanying notes to consolidated financial statements

Citi Trends, Inc.
Consolidated Statements of Operations
Years Ended February 1, 2020, February 2, 2019, and February 3, 2018
(in thousands, except per share data)

	<u>Fiscal 2019</u>	<u>Fiscal 2018</u>	<u>Fiscal 2017</u>
Net sales	\$ 781,925	\$ 769,553	\$ 755,241
Cost of sales (exclusive of depreciation shown separately below)	(484,740)	(476,326)	(466,022)
Selling, general and administrative expenses	(259,629)	(247,938)	(247,062)
Depreciation	(18,535)	(18,886)	(18,883)
Asset impairment	(472)	(1,274)	(507)
Income from operations	18,549	25,129	22,767
Interest income	1,577	1,353	883
Interest expense	(158)	(154)	(150)
Income before income taxes	19,968	26,328	23,500
Income tax expense	(3,465)	(4,954)	(8,926)
Net income	<u>\$ 16,503</u>	<u>\$ 21,374</u>	<u>\$ 14,574</u>
Basic net income per common share	<u>\$ 1.41</u>	<u>\$ 1.64</u>	<u>\$ 1.04</u>
Diluted net income per common share	<u>\$ 1.41</u>	<u>\$ 1.64</u>	<u>\$ 1.03</u>
Weighted average number of shares outstanding			
Basic	11,674	13,030	14,058
Diluted	<u>11,699</u>	<u>13,070</u>	<u>14,116</u>

See accompanying notes to consolidated financial statements

Citi Trends, Inc.
Consolidated Statements of Cash Flows
Years Ended February 1, 2020, February 2, 2019, and February 3, 2018
(in thousands)

	<u>Fiscal 2019</u>	<u>Fiscal 2018</u>	<u>Fiscal 2017</u>
Operating activities:			
Net income	\$ 16,503	\$ 21,374	\$ 14,574
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	18,535	18,886	18,883
Non-cash operating lease costs	45,463	—	—
Asset impairment	472	1,274	507
Loss on disposal of property and equipment	23	471	130
Deferred income taxes	(130)	(762)	2,729
Insurance proceeds related to operating activities	1,012	475	1,349
Non-cash stock-based compensation expense	2,121	2,238	1,632
Changes in assets and liabilities:			
Inventory	1,216	(2,330)	(3,948)
Prepaid and other current assets	(1,588)	(2,135)	(2,398)
Other assets	(10)	(25)	5
Accounts payable	5,560	(2,844)	230
Accrued expenses and other long-term liabilities	(45,282)	(418)	(3,093)
Accrued compensation	267	(4,267)	8,092
Income tax payable/receivable	(1,581)	(1,521)	3,551
Layaway deposits	28	(6)	61
Net cash provided by operating activities	<u>42,609</u>	<u>30,410</u>	<u>42,304</u>
Investing activities:			
Sales/redemptions of investment securities	59,836	41,600	45,420
Purchases of investment securities	(43,840)	(43,882)	(37,654)
Purchases of property and equipment	(24,175)	(13,256)	(20,986)
Insurance proceeds related to investing activities	573	195	443
Net cash used in investing activities	<u>(7,606)</u>	<u>(15,343)</u>	<u>(12,777)</u>
Financing activities:			
Cash used to settle withholding taxes on the vesting of nonvested restricted stock	(733)	(1,048)	(1,062)
Dividends paid to stockholders	(3,765)	(4,207)	(4,232)
Repurchase of common stock	(28,445)	(40,400)	(25,035)
Net cash used in financing activities	<u>(32,943)</u>	<u>(45,655)</u>	<u>(30,329)</u>
Net increase (decrease) in cash and cash equivalents	2,060	(30,588)	(802)
Cash and cash equivalents:			
Beginning of year	17,863	48,451	49,253
End of year	<u>\$ 19,923</u>	<u>\$ 17,863</u>	<u>\$ 48,451</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 127	\$ 127	\$ 127
Cash payments of income taxes	\$ 4,477	\$ 7,237	\$ 2,646
Supplemental disclosures of non-cash investing activities:			
Accrual for purchases of property and equipment	\$ 4,000	\$ 2,017	\$ 1,474

See accompanying notes to consolidated financial statements

Citi Trends, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended February 1, 2020, February 2, 2019, and February 3, 2018
(in thousands, except share amounts)

	Common Stock		Paid in Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balances — January 28, 2017	15,732,339	\$ 155	\$ 90,036	\$ 148,585	833,188	\$ (15,185)	\$ 223,591
Vesting of nonvested shares and restricted stock units	12,982	2	—	—	—	—	2
Issuance of nonvested shares to employees and directors under incentive plan	118,676	—	—	—	—	—	—
Forfeiture of nonvested shares by employees and directors	(31,303)	—	—	—	—	—	—
Stock-based compensation expense	—	—	1,632	—	—	—	1,632
Net share settlement of nonvested shares	(54,748)	(1)	(1,063)	—	—	—	(1,064)
Repurchase of common stock	—	—	—	—	1,200,982	(25,035)	(25,035)
Dividends paid to stockholders	—	—	—	(4,232)	—	—	(4,232)
Net income	—	—	—	14,574	—	—	14,574
Balances — February 3, 2018	15,777,946	156	90,605	158,927	2,034,170	(40,220)	209,468
Vesting of nonvested shares	10,663	1	—	—	—	—	1
Issuance of nonvested shares to employees and directors under incentive plan	80,045	—	—	—	—	—	—
Stock-based compensation expense	—	—	2,238	—	—	—	2,238
Net share settlement of nonvested shares and restricted stock units	(40,941)	—	(1,049)	—	—	—	(1,049)
Repurchase of common stock	—	—	—	—	1,635,306	(40,400)	(40,400)
Dividends paid to stockholders	—	—	—	(4,207)	—	—	(4,207)
Net income	—	—	—	21,374	—	—	21,374
Balances — February 2, 2019	15,827,713	157	91,794	176,094	3,669,476	(80,620)	187,425
Adoption of lease accounting standard (See Note 10)	—	—	—	(2,060)	—	—	(2,060)
Vesting of nonvested restricted stock units	18,851	1	—	—	—	—	1
Issuance of nonvested shares to employees and directors under incentive plan	122,816	—	—	—	—	—	—
Forfeiture of nonvested shares by employees and directors	(24,359)	—	—	—	—	—	—
Stock-based compensation expense	—	—	2,121	—	—	—	2,121
Net share settlement of nonvested shares and restricted stock units	(37,355)	(1)	(735)	—	—	—	(736)
Repurchase of common stock	—	—	—	—	1,404,056	(28,445)	(28,445)
Dividends paid to stockholders	—	—	—	(3,765)	—	—	(3,765)
Net income	—	—	—	16,503	—	—	16,503
Balances—February 1, 2020	15,907,666	\$ 157	\$ 93,180	\$ 186,772	5,073,532	\$ (109,065)	\$ 171,044

See accompanying notes to consolidated financial statements

Citi Trends, Inc.
Notes to Consolidated Financial Statements
February 1, 2020, February 2, 2019 and February 3, 2018

(1) Organization and Business

Citi Trends, Inc. and its subsidiary (the “Company”) operate as a value-priced retailer of fashion apparel, accessories and home goods for the entire family. As of February 1, 2020, the Company operated 571 stores in 33 states.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany transactions and balances have been eliminated in consolidation.

(b) Fiscal Year

The Company’s fiscal year ends on the Saturday closest to January 31 of each year. The years ended February 1, 2020, February 2, 2019 and February 3, 2018 are referred to as fiscal 2019, fiscal 2018 and fiscal 2017, respectively, in the accompanying consolidated financial statements. Fiscal years 2019 and 2018 are each comprised of 52 weeks, while fiscal 2017 is comprised of 53 weeks.

(c) Use of Estimates

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

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

(d) Cash and Cash Equivalents/Concentration of Credit Risk

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

(e) Inventory

Inventory is stated at the lower of cost (first-in, first-out basis) or net realizable value as determined by the retail inventory method for store inventory and the average cost method for distribution center inventory. Under the retail inventory method, the cost of inventory is determined by calculating a cost-to-retail ratio and applying it to the retail value of inventory. Merchandise markdowns are reflected in the inventory valuation when the retail price of an item is lowered in the stores. Inventory is recorded net of an allowance for shrinkage based on the most recent physical inventory counts.

(f) Property and Equipment, net

Property and equipment, net are stated at cost less accumulated depreciation. Depreciation is 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, seven years for major purchased software systems, and fifteen to twenty years for buildings and building improvements) of the related assets or the relevant lease term.

(g) Impairment of Long-Lived Assets

If facts and circumstances indicate that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. Non-cash impairment expense related primarily to leasehold improvements and fixtures and equipment at underperforming stores totaled \$0.5 million, \$1.3 million and \$0.5 million in fiscal 2019, 2018 and 2017, respectively.

(h) Insurance Liabilities

The Company is largely self-insured for workers' compensation costs and employee medical claims. The Company's self-insured retention or deductible, as applicable, for each claim involving workers' compensation and employee medical is limited to \$250,000 and \$100,000, respectively. Self-insurance liabilities are based on the total estimated costs of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims. Current and historical claims data, together with information from actuarial studies, are used in developing the estimates. The insurance liabilities that are recorded are primarily influenced by the frequency and severity of claims and the Company's growth. If the underlying facts and circumstances related to the claims change, then the Company may be required to record more or less expense which could be material in relation to results of operations.

(i) Stock-Based Compensation

The Company recognizes compensation expense associated with all nonvested restricted stock and restricted stock units based on an estimate of the grant-date fair value of each equity award. Grants of time-based and earnings target-based nonvested restricted stock are valued based on the closing stock price on the grant date, while grants of stock price performance-based restricted stock units are valued at an estimate of fair market value using a lattice model. See Note 8 for additional information on the Company's stock-based compensation plans.

(j) Revenue Recognition

The Company's primary source of revenue is derived from the sale of clothing and accessories to its customers with the Company's performance obligations satisfied at the point of sale when the customer pays for their purchase and receives the merchandise. Sales taxes collected by the Company from customers are excluded from revenue. Revenue from layaway sales is recognized at the point in time when the merchandise is paid for and control of the goods is transferred to the customer, thereby satisfying the Company's performance obligation. The Company defers revenue from the sale of gift cards and recognizes the associated revenue upon the redemption of the cards by customers to purchase merchandise. Breakage on gift cards is minimal as the cards are generally subject to escheat regulations of the state in which the gift card subsidiary is located.

Sales Returns

The Company allows customers to return merchandise for up to thirty days after the date of sale. Expected refunds to customers are recorded based on estimated margin using historical return information. The refund liability for merchandise returns is included in the line item "Accrued expenses" on the consolidated balance sheet and totaled \$0.3 million as of both February 1, 2020 and February 2, 2019. The corresponding asset for the recoverable cost of expected refunds is included in "Prepaid and other current assets" and totaled \$0.1 million and \$0.2 million as of February 1, 2020 and February 2, 2019 respectively.

Disaggregation of Revenue

The Company's retail operations represent a single operating segment based on the way the Company manages its business.

In the following table, the Company's revenue is disaggregated by major product line. The percentage of net sales related to each classification of its merchandise assortment for fiscal 2019, 2018 and 2017 was as follows:

	<u>Percentage of Net Sales</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accessories	32 %	32 %	32 %
Children's	23 %	23 %	23 %
Ladies'	22 %	22 %	23 %
Men's	16 %	17 %	17 %
Home	7 %	6 %	5 %

(k) Cost of Sales

Cost of sales includes the cost of inventory sold during the period and transportation costs, including inbound freight related to inventory sold and freight from the distribution centers to the stores, net of discounts and allowances. Distribution center costs, store occupancy expenses and advertising expenses are not considered components of cost of sales and are included as part of selling, general and administrative expenses. Depreciation is also not considered a component of cost of sales and is included as a separate line item in the consolidated statements of operations. Distribution center costs (exclusive of depreciation) for fiscal 2019, 2018 and 2017 were \$20.8 million, \$17.6 million and \$17.4 million, respectively.

(l) Earnings per Share

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

The following table provides a reconciliation of the number of average common shares outstanding used to calculate basic earnings per share to the number of common shares and common stock equivalents outstanding used in calculating diluted earnings per share for fiscal 2019, 2018 and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Weighted average number of common shares outstanding	11,673,887	13,030,063	14,058,008
Incremental shares from assumed vesting of nonvested restricted stock	25,113	39,631	57,887
Average number of common shares and common stock equivalents outstanding	<u>11,699,000</u>	<u>13,069,694</u>	<u>14,115,895</u>

The dilutive effect of stock-based compensation arrangements is accounted for using the treasury stock method. The Company includes as assumed proceeds the amount of compensation costs attributed to future services and not yet recognized. For fiscal 2019, 2018 and 2017, respectively, there were 128,000, 124,000 and 125,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution.

(m) Advertising

The Company expenses advertising as incurred. Advertising expense for fiscal 2019, 2018 and 2017 was \$1.8 million, \$1.7 million and \$2.0 million, respectively.

(n) Operating Leases

The Company leases all of its retail store locations and certain office space and equipment. All leases are classified as operating leases. The Company records right-of-use assets and lease liabilities based on the present value of future minimum lease payments over the lease term. In determining the present value of lease payments, the Company uses an incremental borrowing rate that approximates the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term. The Company's lessors do not provide an implicit rate, nor is one readily available, therefore the incremental borrowing rate is determined based on a buildup approach which utilizes rates and terms from the Company's existing borrowing facility with adjustments to bridge for impacts to the rate due to differences in collateral, terms and payments. The Company records operating lease cost over the estimated term of the lease, which includes options to extend lease terms that are reasonably certain of being exercised, starting when possession of the property is taken from the landlord. Lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. In addition, certain leases provide for contingent rents that are not measurable at inception. These contingent rents

are primarily based on a percentage of net sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount can be reasonably estimated. If an operating lease asset is impaired, the remaining operating lease asset will be amortized on a straight-line basis over the remaining lease term.

(o) 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.

(p) Business Reporting Segments

The Company is a value-priced retailer of fashion apparel, accessories and home goods for the entire family. The retail operations represent a single operating segment based on the way the Company manages its business. Operating decisions and resource allocation decisions are made at the Company level in order to maintain a consistent retail store presentation. The Company's retail stores sell similar products, use similar processes to sell those products, and sell their products to similar classes of customers. All sales and assets are located within the United States.

(q) Recent Accounting Pronouncements

Recently Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases (Topic 842), as amended. The new standard established a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The Company adopted ASU 2016-02 on February 3, 2019 using the optional transition method, which allows for the prospective application of the standard. In addition, the Company elected the package of practical expedients for transition, which permitted it to not reassess prior conclusions regarding lease classification, identification or initial direct costs. Further, the Company elected a short-term lease exception policy which permitted it to not apply the recognition requirements of the new standard to short-term leases (leases with terms of 12 months or less). The Company also elected an accounting policy to account for lease and non-lease components as a single component for certain classes of assets. The Company did not elect an optional hindsight practical expedient. Operating lease ROU assets and lease liabilities are recognized based on the present value of lease payments over the lease term. The present value of lease payments was determined using the Company's incremental borrowing rate. Our lessors do not provide an implicit rate, nor is one readily available, therefore we determined an incremental borrowing rate based on a buildup approach which utilizes rates and terms from the Company's existing borrowing facility with adjustments to bridge for impacts to the rate due to differences in collateral, terms and payments. Adoption of the new standard resulted in the recording of operating lease right-of-use assets and operating lease liabilities of approximately \$133.6 million and \$141.0 million, respectively, as of February 3, 2019. The difference between the lease assets and lease liabilities was primarily due to reclassification of lease incentives, as well as impairment of operating lease right-of-use assets for stores previously impaired as of the effective date. Lease impairment, net of the related deferred taxes, totaled approximately \$2.1 million and is reflected as an adjustment to retained earnings at the transition date.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. The Company adopted ASU 2014-09 on February 4, 2018 using the modified retrospective approach. The Company's primary source of revenue is derived from the sale of clothing and accessories to its customers with the Company's performance obligations satisfied immediately when the customer pays for their purchase and receives the merchandise. As such, adoption of the new standard did not have a material impact on the Company's consolidated balance sheet, results of operations or cash flows. Additionally, the adoption of the ASU did not result in significant changes to the Company's business processes, controls or systems.

(3) Property and Equipment, net

The components of property and equipment as of February 1, 2020 and February 2, 2019 are as follows (in thousands):

	February 1, 2020	February 2, 2019
Land	\$ 479	\$ 479
Buildings	31,158	30,779
Leasehold improvements	103,919	97,825
Furniture, fixtures and equipment	142,953	132,067
Computer equipment	40,096	38,039
Construction in progress	8,950	2,993
	<u>327,555</u>	<u>302,182</u>
Accumulated depreciation	(262,570)	(245,958)
	<u>\$ 64,985</u>	<u>\$ 56,224</u>

(4) Fair Value Measurements

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

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

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

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

As of February 1, 2020, the Company's investment securities are classified as held-to-maturity since the Company has the intent and ability to hold the investments to maturity. Such securities are carried at amortized cost plus accrued interest and consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Obligations of the U.S. Treasury and U.S. government agencies (Level 1)	\$ 17,277	\$ 8	\$ (2)	\$ 17,283
Bank certificates of deposit (Level 2)	10,285	—	—	10,285
	<u>\$ 27,562</u>	<u>\$ 8</u>	<u>\$ (2)</u>	<u>\$ 27,568</u>
Long-term:				
Obligations of the U.S. Treasury and U.S. government agencies (Level 1)	\$ 1,908	\$ —	\$ (1)	\$ 1,907
Bank certificates of deposit (Level 2)	13,767	—	—	13,767
	<u>\$ 15,675</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ 15,674</u>

The amortized cost and fair market value of investment securities as of February 1, 2020 by contractual maturity are as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	\$ 27,562	\$ 27,568
Mature after one year through five years	15,675	15,674
	<u>\$ 43,237</u>	<u>\$ 43,242</u>

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

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

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

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

There were no changes among the levels in the two fiscal years ended February 1, 2020.

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

(5) Revolving Line of Credit

On October 27, 2011, the Company entered into a five-year, \$50 million credit facility with Bank of America. The facility was amended on August 18, 2015, extending the maturity date to August 18, 2020. On March 20, 2020, in response to the COVID-19 pandemic, the Company borrowed \$43.7 million on the credit facility to enhance its liquidity position. Such borrowings accrued interest ranging from 1.625% to 3.5%.

On May 12, 2020, the Company entered into a Second Amendment to Credit Agreement and Waiver (the "Second Amendment") with Bank of America and the Company's wholly-owned subsidiary, Citi Trends Marketing Solutions, Inc., as guarantor (the "Second Amendment") to amend the credit facility (as amended, the "Revolving Credit Facility") as described below.

The Revolving Credit Facility provides a \$50 million credit commitment and a \$25 million uncommitted "accordion" feature that under certain circumstances could allow the Company to increase the size of the facility to \$75 million. The Revolving Credit Facility is secured by the Company's inventory, accounts receivable and related assets, but not its real estate, fixtures and equipment, and it contains one financial covenant, a fixed charge coverage ratio, which is applicable and tested only in certain circumstances. The facility has an unused commitment fee of 0.25% and permits the payment of cash dividends subject to certain limitations, including a requirement that there were no borrowings outstanding in the 30 days prior to the dividend payment and no borrowings are expected in the 30 days subsequent to the payment.

The Second Amendment amends the Revolving Credit Facility to, among other things, extend the maturity date (which had been set to expire August 18, 2020) to August 18, 2021, increase the pricing for the loans and modify certain covenant and reporting terms. Following the effective date of the Second Amendment, borrowings under the Revolving Credit Facility will bear interest (a) for Eurodollar Loans, at a rate equal to LIBOR plus either 2.25% or 2.5%, or (b) for Base Rate Loans, at a rate equal to the highest of (i) the prime rate, (ii) the Federal Funds Rate plus 0.5%, or (iii) LIBOR for a period of one month plus 1.0%, plus, in each case either 1.25% or 1.5%, based in any such case on the average daily availability for borrowings under the facility.

(6) Income Taxes

Income tax expense for fiscal 2019, 2018 and 2017 consists of the following (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current:			
Federal	\$ (2,650)	\$ (4,326)	\$ (5,249)
State	(945)	(1,390)	(948)
Total current	<u>(3,595)</u>	<u>(5,716)</u>	<u>(6,197)</u>
Deferred:			
Federal	104	619	(3,078)
State	26	143	349
Total deferred	<u>130</u>	<u>762</u>	<u>(2,729)</u>
Total income tax expense	<u>\$ (3,465)</u>	<u>\$ (4,954)</u>	<u>\$ (8,926)</u>

Income tax expense computed using the federal statutory rate is reconciled to the reported income tax expense as follows for fiscal 2019, 2018 and 2017 (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutory rate applied to income before income taxes	\$ (4,193)	\$ (5,529)	\$ (7,924)
Revaluation of net deferred tax assets due to the Tax Cuts and Jobs Act	—	—	(1,925)
State income taxes, net of federal benefit	(791)	(1,250)	(549)
State tax credits	308	276	252
State tax credits - valuation allowance (net of federal benefit)	(99)	10	(79)
Tax exempt interest	34	16	24
General business credits	1,456	1,409	1,273
(Deficit) Excess tax benefits from stock based compensation	(83)	140	70
Other	(97)	(26)	(68)
Income tax expense	<u>\$ (3,465)</u>	<u>\$ (4,954)</u>	<u>\$ (8,926)</u>

The components of deferred tax assets and deferred tax liabilities as of February 1, 2020 and February 2, 2019 are as follows (in thousands):

	<u>February 1, 2020</u>	<u>February 2, 2019</u>
Deferred tax assets:		
Deferred rent amortization	\$ —	\$ 652
Inventory capitalization	2,176	1,953
Book and tax depreciation differences	—	853
Vacation liability	705	653
Operating lease liabilities	46,595	—
State tax credits	3,038	2,863
Stock compensation	796	843
Legal expense reserve	128	178
Insurance liabilities	541	319
Other	659	412
Subtotal deferred tax assets	<u>54,638</u>	<u>8,726</u>
Less: State tax credits valuation allowance - net	<u>(1,714)</u>	<u>(1,615)</u>
Total deferred tax assets	<u>52,924</u>	<u>7,111</u>
Deferred tax liabilities:		
Right of use asset	(45,095)	—
Book and tax depreciation differences	(373)	—
Prepaid expenses	(787)	(572)
Total deferred tax liabilities	<u>(46,255)</u>	<u>(572)</u>
Net deferred tax asset	<u>\$ 6,669</u>	<u>\$ 6,539</u>

The Company files income tax returns in U.S. federal and state jurisdictions where it does business and is subject to examinations by the Internal Revenue Service (“IRS”) and other taxing authorities. With a few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to fiscal 2014. The Company reviews and assesses uncertain tax positions, if any, with recognition and measurement of tax benefit based on a “more-likely-than-not” standard with respect to the ultimate outcome, regardless of whether this assessment is favorable or unfavorable. As of February 1, 2020, there were no benefits taken on the Company’s income tax returns that do not qualify for financial statement recognition. If a tax position does not meet the minimum statutory threshold to avoid payment of penalties and interest, a company is required to recognize an expense for the amount of the interest and penalty in the period in which the company claims or expects to claim the position on its tax return. For financial statement purposes, companies are allowed to elect whether to classify such charges as either income tax expense or another expense classification. Should such expense be incurred in the future, the Company will classify such interest as a component of interest expense and penalties as a component of income tax expense.

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 and income tax credits may be utilized, management believes it is more likely than not that the Company will realize the benefits of these deductible differences with the exception of certain tax credits available in one state. Beginning in 2011, the Company concluded that its ability to utilize a portion of such state’s tax credits was no longer more likely than not. Such recognition resulted in the establishment of a valuation allowance which necessitated a charge to income tax expense and a reduction in deferred tax assets. Subsequent to 2011, the Company has continued to earn such state credits and has further adjusted the related valuation allowance. At February 1, 2020, the valuation allowance, net of federal tax benefit, totaled \$2.1 million.

The effective income tax rate for fiscal 2019, 2018 and 2017 included the recognition of benefits arising from various federal and state tax credits. Under current IRS and state income tax regulations, these credits may be carried back for one year or carried forward for periods up to 20 years. The income tax benefit included \$1.7 million related to such credits in fiscal 2019, \$1.7 million related to such credits in fiscal 2018 and \$1.3 million related to such credits in fiscal 2017.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation. The legislation was effective January 1, 2018 and made significant changes to U.S. tax law including a reduction in the corporate income tax rate, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The legislation reduced the federal statutory tax rate from 35% to 21% and required corporations with fiscal years spanning periods before and after the effective date to use a blended federal tax rate for fiscal years which include January 1, 2018. As a result of the provision requiring a blended rate, the Company’s federal statutory rate was reduced from 35% to 33.7% with a commensurate reduction in income tax expense of \$0.3 million for fiscal 2017. In addition, the Company was required to revalue its deferred tax assets and liabilities to reflect the reduced federal income tax rate expected to be in effect at the time of future reversals. Such revaluation resulted in the reduction of net deferred tax assets and a charge to income tax expense in the fourth quarter of 2017 of \$1.9 million. The other provisions of the Tax Cuts and Jobs Act did not have a material impact on the fiscal 2017 consolidated financial statements. In 2018 and 2019, the Company’s effective income tax rate was significantly lower than previous years due to the reduction in the federal statutory tax rate.

(7) Other Long-Term Liabilities

The components of other long-term liabilities as of February 1, 2020 and February 2, 2019 are as follows (in thousands):

	February 1, 2020	February 2, 2019
Deferred rent (1)	\$ —	\$ 2,344
Tenant improvement allowances (1)	—	4,037
Other	1,923	1,814
	<u>\$ 1,923</u>	<u>\$ 8,195</u>

(1) Commencing February 3, 2019, deferred rent and tenant improvement allowances are included as part of the Company’s operating lease right of use assets (see Note 10 regarding the Company’s adoption of the lease accounting standard).

(8) Stockholders' Equity*Repurchases of common stock*

In November 2018, the Company's board of directors approved a program that authorized the repurchase of up to \$25.0 million in shares of the Company's common stock. Under this program in fiscal 2018, the Company repurchased 768,558 shares of its common stock in the open market at an aggregate cost of \$15.4 million. During the first three quarters of fiscal 2019, the Company repurchased 562,813 shares of its common stock in the open market at an aggregate cost of \$9.6 million.

In November 2019, the Company's board of directors approved a new program that authorized the purchase of up to \$25.0 million in shares of the Company's common stock. During the thirteen weeks ended February 1, 2020, the Company repurchased 841,243 shares of its common stock in the open market at an aggregate cost of \$18.8 million. At February 1, 2020, \$6.2 million of shares remained available for purchase under this program.

Dividends

In fiscal 2019, the Company paid four quarterly dividends of \$0.08 per common share on March 19, 2019, June 18, 2019, September 17, 2019 and December 24, 2019. On February 18, 2020, the Company's board of directors declared a dividend of \$0.08 per common share, which was paid on March 17, 2020 to stockholders of record as of March 3, 2020. Any determination to declare and pay cash dividends for future quarters will be made by the Company's board of directors. The Company announced on April 28, 2020, the suspension of future cash dividends.

Stock-Based Compensation

On April 6, 2012, the Company adopted the Citi Trends, Inc. 2012 Incentive Plan (the "2012 Plan"), which became effective upon approval by the Company's stockholders on May 23, 2012. The 2012 Plan is a successor plan to the 2005 Citi Trends, Inc. Long-Term Incentive Plan (the "2005 Plan"), which became effective upon the consummation of the Company's initial public offering in May 2005.

The 2005 Plan provided for the grant of incentive and nonqualified options, nonvested restricted stock and other forms of stock-based compensation to key employees and directors. The 2012 Plan provides for the grant of incentive and nonqualified options, nonvested restricted stock and other forms of stock-based and cash-based compensation to key employees and directors.

Shares of time-based nonvested restricted stock granted to employees vest in equal installments over three years from the date of grant. Shares issued to directors vest one year from the date of grant. The Company records compensation expense for grants of time-based nonvested restricted stock on a straight line basis over the requisite service period of the stock recipients which is equal to the vesting period of the stock. Total compensation cost for such stock is calculated based on the closing market price on the date of grant multiplied by the number of shares granted. The Company expects to recognize \$1.8 million in future compensation expense from the grants of time-based restricted stock over the requisite service period of up to three years. Compensation costs for grants of stock price performance-based restricted stock units ("RSUs") are recorded in full on the date of grant using a lattice model to estimate fair market value. In March 2019, the Company granted 51,490 RSUs to 19 employees. The RSUs had performance vesting criteria which were based upon the Company achieving adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") of \$63.0 million for the Company's fiscal year ending January 29, 2022. The number of units earned and vested will be increased by 20% if the Company's EBITDA for the same period equals or exceeds \$69.0 million. The award will be forfeited upon the termination of employment by the recipient prior to January 29, 2022. During 2019, no expense was attributable to the grants. During fiscal 2019, 2018 and 2017, compensation expense arising from nonvested restricted stock grants and performance-based RSUs totaled \$2.1 million, \$2.2 million and \$1.6 million, respectively.

A summary of activity related to time-based nonvested restricted stock grants during fiscal 2019 is as follows:

	Nonvested Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding as of February 2, 2019	163,220	\$ 24.09
Granted	122,816	18.60
Vested	(89,698)	23.11
Forfeited	(24,359)	21.42
Outstanding as of February 1, 2020	171,979	\$ 21.06

In March 2018, the Company granted 8,400 RSUs to one employee. The RSUs had performance vesting criteria which were based upon the closing price of the Company's stock achieving certain thresholds. The shares vest one-third upon achieving an average closing stock price for a 20 consecutive day period of \$30.44; \$35.01; and \$40.26, respectively. The awards expire three years from the date of grant or upon the termination of employment of the recipient. On the date of grant, the Company expensed \$137,000 which was the estimated fair market value. One of these thresholds was achieved in 2018. No vesting targets were achieved in 2019 and the grant expired January 31, 2020, the date the recipient left the Company.

In March 2018, the Company granted 8,401 RSUs to one employee. The RSUs had performance vesting criteria which were based upon the Company achieving certain thresholds of adjusted EBITDA. The shares vest one-third upon achieving trailing 12-month adjusted EBITDA levels of \$51.4 million, \$59.1 million, and \$67.9 million, respectively. The awards expire three years from the date of grant or upon the termination of employment of the recipient. During 2018, the Company expensed \$78,000 which was the estimated fair market value. None of these thresholds were achieved in 2018 or in 2019 and the grant expired January 31, 2020, the date the recipient left the Company. No expense was incurred in 2019 related to this grant.

In March 2017, the Company granted 23,551 RSUs to two employees. The RSUs had performance vesting criteria which were based upon the closing price of the Company's stock achieving certain thresholds. The shares vest one-fourth upon achieving a closing stock price for a 20 consecutive day period of \$19.10; \$21.70; \$24.30; and \$26.90, respectively. The awards expire three years from the date of grant or upon the termination of employment of the recipient. On the date of grant, the Company expensed \$306,000 which was the estimated fair market value. One of the two employees resigned after the date of grant and forfeited his shares prior to vesting. For one recipient, three of these thresholds were achieved in 2017 and the final threshold was achieved in 2018.

Income tax benefits or deficiencies arising from the fair market value of restricted stock shares at vesting versus the cumulative compensation cost of such shares are recorded as a component of income tax expense in the Company's consolidated statement of operations. Such income tax expense (benefits) totaled \$83,000, (\$140,000) and (70,000) in fiscal 2019, 2018 and 2017, respectively.

(9) Commitments and Contingencies

The Company from time to time is involved in various legal proceedings incidental to the conduct of its business, including claims by customers, employees or former employees. Once it becomes probable that the Company will incur costs in connection with a legal proceeding and such costs can be reasonably estimated, it establishes appropriate reserves. While legal proceedings are subject to uncertainties and the outcome of any such matter is not predictable, the Company is not aware of any legal proceedings pending or threatened against it that it expects to have a material adverse effect on its financial condition, results of operations or liquidity.

(10) Leases

The Company leases its retail store locations and certain office space and equipment. The Company analyzes all leases at inception to determine if a right-of-use asset and lease liability should be recognized. Leases with an initial term of 12 months or less and leases with mutual termination clauses are not included on the consolidated balance sheet. The lease liability is measured at the present value of future lease payments as of the lease commencement date, or as of the date of adoption of ASU 2016-02 for leases existing at the adoption date. Leases for store locations are typically for a term of five years with options to extend for one or more five-year periods.

Total lease cost is comprised of operating lease costs, short-term lease costs and variable lease costs, which include rent paid as a percentage of sales, common area maintenance, real estate taxes and insurance for the Company's real estate leases. Lease expense for the fiscal year ended February 1, 2020 is as follows (in thousands):

	2019
Operating lease cost	\$ 51,213
Variable lease cost	5,791
Short term lease cost	1,061
Total lease cost	<u>\$ 58,065</u>

Future minimum lease payments as of February 1, 2020 are as follows (in thousands):

Fiscal Year	Lease Costs
2020	\$ 48,182
2021	43,766
2022	32,822
2023	25,276
2024	17,541
Thereafter	27,502
Total future minimum lease payments	195,089
Less: imputed interest	(16,829) ⁽¹⁾
Total present value of lease liabilities	\$ 178,260 ⁽²⁾

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

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

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

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

Supplemental cash flow and other information related to operating leases for the fiscal year ended February 1, 2020 is as follows (in thousands, except for weighted average amounts):

	2019
Cash paid for operating leases	\$ 49,704
Right of use assets obtained in exchange for new operating lease liabilities	\$ 82,954
Weighted average remaining lease term (years) - operating leases	5.13
Weighted average discount rate - operating leases	3.49%

(11) Valuation and Qualifying Accounts

The following table summarizes the allowances for inventory shrinkage and deferred tax assets (in thousands):

	Allowance for Inventory Shrinkage	Allowance for Deferred Tax Assets
Balance as of January 28, 2017	\$ 3,099	\$ 1,272
Additions charged to costs and expenses	11,103	79
Impact of tax reform	—	273
Deductions	(10,698)	—
Balance as of February 3, 2018	3,504	1,624
Additions charged to costs and expenses	9,643	—
Deductions	(10,033)	(9)
Balance as of February 2, 2019	3,114	1,615
Additions charged to costs and expenses	9,759	99
Deductions	(9,919)	—
Balance as of February 1, 2020	<u>\$ 2,954</u>	<u>\$ 1,714</u>

For the allowance for inventory shrinkage, additions charged to costs and expenses are the result of estimated inventory shrinkage, while deductions represent actual inventory shrinkage incurred from physical inventories taken during the fiscal year.

For the deferred tax asset valuation allowance, additions charged to costs and expenses represent the establishment of a valuation allowance when management determines that its ability to utilize certain tax credits included in deferred tax assets is no longer more likely than not. In fiscal 2017, the Company revalued its deferred tax assets and liabilities to reflect the reduced federal income tax rate expected to be in effect at the time of future reversals including the future utilization of tax credits. Such reduction was the result of the Tax Cuts and Jobs Act tax reform legislation enacted in December 2017 which reduced the federal statutory rate from 35% to 21%. The revaluation necessitated an increase in the valuation allowance related to the future realization of state income tax credits due to the reduction of the associated federal income tax benefit.

(12) Unaudited Quarterly Results of Operations

	Quarter Ended							
	Feb. 1 2020	Nov. 2 2019	Aug. 3 2019	May 4 2019	Feb. 2 2019	Nov. 3 2018	Aug. 4 2018	May 5 2018
	(in thousands, except per share and share amounts)							
Statement of Operations Data:								
Net sales	\$ 211,013	\$ 183,050	\$ 182,830	\$ 205,032	\$ 201,158	\$ 175,364	\$ 181,999	\$ 211,032
Cost of sales (exclusive of depreciation shown separately below)	(127,311)	(114,579)	(114,612)	(128,238)	(126,095)	(110,420)	(110,398)	(129,413)
Selling, general and administrative expenses	(67,654)	(65,539)	(62,989)	(63,447)	(61,459)	(61,189)	(62,285)	(63,005)
Depreciation	(4,794)	(4,520)	(4,607)	(4,614)	(4,636)	(4,600)	(4,676)	(4,974)
Asset impairment	—	—	(472)	—	(152)	(180)	(942)	—
Income (loss) from operations	11,254	(1,588)	150	8,733	8,816	(1,025)	3,698	13,640
Interest, net	322	382	374	341	334	282	325	258
Income (loss) before income taxes	11,576	(1,206)	524	9,074	9,150	(743)	4,023	13,898
Income tax (expense) benefit	(2,154)	122	(147)	(1,286)	(1,802)	237	(788)	(2,601)
Net income (loss)	<u>\$ 9,422</u>	<u>\$ (1,084)</u>	<u>\$ 377</u>	<u>\$ 7,788</u>	<u>\$ 7,348</u>	<u>\$ (506)</u>	<u>\$ 3,235</u>	<u>\$ 11,297</u>
Net income (loss) per common share: (1)								
Basic	\$ 0.84	\$ (0.09)	\$ 0.03	\$ 0.65	\$ 0.59	\$ (0.04)	\$ 0.24	\$ 0.83
Diluted	<u>\$ 0.84</u>	<u>\$ (0.09)</u>	<u>\$ 0.03</u>	<u>\$ 0.65</u>	<u>\$ 0.59</u>	<u>\$ (0.04)</u>	<u>\$ 0.24</u>	<u>\$ 0.83</u>
Weighted average shares used to compute net income (loss) per common share:								
Basic	11,201,804	11,635,707	11,881,896	11,976,142	12,447,209	12,780,472	13,314,470	13,578,100
Diluted	<u>11,270,762</u>	<u>11,635,707</u>	<u>11,881,896</u>	<u>12,006,306</u>	<u>12,470,560</u>	<u>12,780,472</u>	<u>13,351,321</u>	<u>13,631,266</u>

(1) Net income (loss) per share is computed independently for each period presented. As a result, the total of net income (loss) per share for the four quarters may not equal the annual amount.

(13) Subsequent Events

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a pandemic and recommended containment and mitigation measures. In response, federal, state and local governments and private entities have implemented travel restrictions, restrictions on public gatherings, stay at home orders and quarantining of people exposed to the virus. The Company temporarily closed all of its store locations and distribution centers effective March 20, 2020. Other measures taken to mitigate the operating and financial impact of the pandemic include (i) furloughing substantially all store and distribution center personnel and a significant portion of the corporate staff; (ii) implementing temporary tiered salary reductions for management level corporate employees and reducing the cash portion of non-employee director fees; (iii) extending payment terms with vendors and suppliers; (iv) abating payments of rent as appropriate; (v) executing substantial reductions in operating expenses, store occupancy costs, capital expenditures and other costs, including through reduced inventory purchases and eliminating the 401(k) plan match; and (vi) suspending repurchases of shares and payment of dividends.

In March 2020, the Company drew down \$43.7 million on its revolving credit facility as a proactive measure taken by the Company to increase its cash position and preserve financial flexibility in light of current uncertainties resulting from COVID-19. The interest rate for such borrowings accrued interest ranging from 1.625% to 3.5%. The proceeds from such borrowing may in the future be used for working capital, general corporate purposes or other purposes permitted by the credit facility.

On May 12, 2020, the Company entered into a Second Amendment to Credit Agreement and Waiver (the "Second Amendment"), with Bank of America and the Company's wholly-owned subsidiary, Citi Trends Marketing Solutions, Inc., as guarantor (the "Second Amendment") to amend the credit facility (as amended, the "Revolving Credit Facility") to, among other things, extend the maturity date (which had been set to expire August 18, 2020) to August 18, 2021, increase the pricing for the loans by 1.0% (which rate varies depending on availability under the Revolving Credit Facility), waive certain events of default that occurred on May 1, 2020 related to delivery of our audited financials and the related compliance certificate, and modify certain covenant and reporting terms. Following the effective date of the Second Amendment, borrowings under the Revolving Credit Facility will bear interest (a) for Eurodollar Loans, at a rate equal to LIBOR plus either 2.25% or 2.5%, or (b) for Base Rate Loans, at a rate equal to the highest of (i) the prime rate, (ii) the Federal Funds Rate plus 0.5%, or (iii) LIBOR for a period of one month plus 1.0%, plus, in each case either 1.25% or 1.5%, based in any such case on the average daily availability for borrowings under the facility.

The Company continues to monitor developments, including government requirements and recommendations at the federal, state and local level to evaluate when it will reopen its stores, offices and facilities. On April 28, 2020, the Company announced that it has started to reopen stores in some markets in accordance with state and local guidelines. Given the unprecedented uncertainty of this situation and the unknown impact on consumer demand, the Company cannot reasonably estimate the full impact of this pandemic on its business. However, the Company expects the impact from the pandemic and the related economic disruption will have a material adverse effect on its financial condition, results of operations and liquidity in fiscal 2020.

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

Citi Trends, Inc. ("Citi Trends") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): our common stock, par value \$0.01 per share (the "common stock"). As of March 31, 2020, 10,841,564 shares of our common stock were issued and outstanding.

The following description of our common stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Third Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") and our Third Amended and Restated By-laws (the "Bylaws"), each of which are incorporated by reference as an exhibit to our Annual Report on Form 10-K of which this Exhibit 4.2 is a part. We encourage you to read our Certificate of Incorporation, our Bylaws and the applicable provisions of Delaware General Corporation Law ("DGCL"), for additional information.

DESCRIPTION OF COMMON STOCK

General

Our authorized capital stock consists of 32,000,000 shares of common stock, \$0.01 par value per share, and shares of 5,000 undesignated preferred stock, \$0.01 par value per share.

Common Stock

Our common stock is listed on the Nasdaq National Market under the symbol "CTRN." American Stock Transfer and Trust Company ("AST") is the transfer agent and registrar for our 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; No Cumulative Voting

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 the 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 fully paid and nonassessable.

Anti-Takeover Effects of Certain Provisions of Delaware Law and the Certificate of Incorporation and the Bylaws

Provisions of the DGCL, the Certificate of Incorporation and the Bylaws 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.

Section 203 of the DGCL provides that, subject to certain exceptions, a publicly held Delaware corporation may not engage in any "business combination" with any "interested stockholder" for a three-year period following the time that such stockholder became an interested stockholder, unless:

- " the corporation has elected in its certificate of incorporation not to be governed by Section 203 (which we have not done);
- " prior to that time, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- " upon consummation of the transaction which 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 specified shares; or
- " at or subsequent to that time, the business combination is approved by the board of directors of the corporation and by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

The three-year prohibition also does not apply to business combinations proposed by an interested stockholder following the announcement or notification of extraordinary transactions involving the corporation and a person who had not been an interested stockholder during the previous three years or who became an interested stockholder with the approval of a majority of the corporation's directors.

The term "business combination" is defined generally to include mergers or consolidations resulting in a financial benefit to the interested stockholder. The term "interested stockholder" is defined to include any person, other than the corporation and any direct or indirect majority-owned subsidiary of the corporation, who, together with affiliates and associates, owns (or owned within three years prior to the determination of interested stockholder status) 15% or more of the outstanding voting stock of the corporation.

Section 203 makes it more difficult for a person who would be an interested stockholder to effect various business combinations with a corporation for a three-year period. The provisions of Section 203 may encourage companies interested in acquiring the Company to negotiate in advance with our board of directors, because the stockholder approval requirement would be avoided if our board of directors approves either the business combination or the transaction which results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in our board of directors and may make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

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.

Classification of the Board of Directors; Term of Office; Vacancies

The Board of Directors, until the election of directors at the annual meeting of stockholders to be held in 2021, is divided into three classes, designated Classes I, II and III, which shall be as nearly equal in number of directors per class as possible.

Commencing at the 2019 annual meeting of stockholders, directors succeeding those whose terms are then expired shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the year following the year of their election and until their successors are elected and qualified.

Commencing with the election of directors at the 2021 annual meeting of stockholders, the classification of the directors shall terminate and all directors shall be elected annually and serve until the next annual meeting of stockholders or until their earlier death, resignation, removal or disqualification.

Vacancies in the Board of Directors and newly-created directorships resulting from any increase in the authorized number of directors may be filled as provided in the By-Laws of the Corporation.

Removal

Subject to the By-Laws, (a) until the election of directors at the 2021 annual meeting of stockholders, 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, and (b) from and after the election of directors at the 2021 annual meeting of stockholders, a director may be removed, with or without 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.

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.

Advance Notice Requirements for Director Nominations and Stockholder Proposals

The Bylaws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary in order for the matter to be properly brought before a meeting. These provisions may impede stockholders' ability to bring matters before an annual meeting of stockholders or to make nominations for directors at an annual meeting of stockholders.

EMPLOYMENT NON-COMPETE, NON-SOLICIT AND CONFIDENTIALITY AGREEMENT

This EMPLOYMENT NON-COMPETE, NON-SOLICIT AND CONFIDENTIALITY AGREEMENT (“Agreement”) is entered into between Citi Trends, Inc., including its subsidiaries, affiliates, divisions, successors, and related entities (“Company”), and Lisa Powell (“Employee”), effective as of the date signed by Employee below.

For and in consideration of the mutual covenants and agreements contained herein, including, but not limited to, Company agreeing to employ and/or continuing to employ Employee, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree:

1. Employment; Scope of Services. Company shall employ and/or continue to employ Employee, and Employee shall be employed and/or continue to be employed by Company, as Executive Vice President, Chief Merchandising Officer. Employee shall use his/her best efforts and shall devote his/her full time, attention, knowledge and skills to the faithful performance of his/her duties and responsibilities as a Company employee. Employee shall have such authority and such other duties and responsibilities as assigned by the Board of Directors as are consistent with her position as EVP CMO. Employee shall comply with Company’s policies and procedures, shall conduct him/herself as an ethical business professional, and shall comply with federal, state and local laws.

2. At-Will Employment. Nothing in this Agreement alters the at-will employment relationship between Employee and Company or limits Company’s right to alter or modify Employee’s job title or job duties and responsibilities any time at Company’s discretion. Employment with Company is “at-will” which means that either Employee or Company may terminate the employment relationship at any time, with or without notice, with or without cause. The date of Employee’s cessation of employment for any reason is the “**Separation Date.**”

3. Confidentiality.

(a) Employee acknowledges and agrees that: (1) the retail sale of value-priced/off- price family apparel is an extremely competitive industry; (2) Company has an ongoing strategy for expansion of its business in the United States; (3) Company’s major competitors operate throughout the United States and some internationally; and (4) because of Employee’s position as Executive Vice President, CMO he/she will have access to, knowledge of, and be entrusted with, highly sensitive and competitive Confidential Information and Trade Secrets (as defined in subsection (b) below) of Company, including without limitation information regarding sales margins, purchasing and pricing strategies, marketing strategies, vendors and suppliers, plans for expansion and placement of stores, and also specific information about Company’s districts and stores, such as staffing, budgets, profits and the financial success of individual districts and stores, which Company has developed and will continue to develop and the disclosure or use of which would cause Company great and irreparable harm.

(b) As used herein, “**Confidential Information**” means and includes any and all Company data and information in any form whatsoever (tangible or intangible) which: (1) relates to the business of Company, irrespective of whether the data or information constitutes a “trade secret” (as defined below); (2) is disclosed to Employee or which Employee obtains or becomes aware of as a consequence of Employee’s relationship with Company; (3) has value to Company; and (4) is not generally known to the public or Company’s competitors. “Confidential Information” includes (but is not limited to) technical or sales data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data and statements, financial plans and strategies, product plans, sales or advertising information and plans, marketing information and plans, pricing information, the identity or lists of employees, vendors and suppliers of Company, and confidential or proprietary information of such employees, vendors and suppliers. “**Trade Secret**” means any and all information, knowledge or data in any form whatsoever, tangible or intangible, that is considered a trade secret under applicable law. Employee acknowledges and agrees that all Confidential Information and Trade Secrets are and remain the sole and exclusive property of Company.

(c) Employee agrees that he/she shall hold all Confidential Information and Trade Secrets in strictest confidence, and that he/she shall protect such Confidential Information and Trade Secrets from disclosure by or to others. Employee further agrees that he/she shall not at any time (except as authorized by Company in connection with Employee’s duties and responsibilities as an employee): (1) disclose, publish, transfer, or communicate Confidential Information or Trade Secrets to any person or entity, other than authorized Company personnel; (2) use or reproduce Confidential Information or Trade Secrets for personal benefit or for any purpose or reason other than furthering the legitimate business interest of Company within the scope of Employee’s duties with Company; or (3) remove or transfer any Confidential Information or Trade Secrets from Company’s premises or systems (by any method or means) except for use in Company’s business and consistent with Employee’s duties with the Company. The foregoing covenants and obligations are in addition to, and do not limit, any common law or statutory rights and/or protections afforded to Company.

(d) Employee acknowledges that Company has provided or will provide Employee with Company property, including without limitation, employee handbooks, policy manuals, price lists, financial reports, and vendor and supplier information, among other items. Upon the Separation Date, or upon the request of Company, Employee shall immediately deliver to Company all property belonging to Company, including without limitation, all Confidential Information, Trade Secrets, and any property related to Company, whether in electronic or other format, as well as any copies thereof, then in Employee’s custody, control, or possession. Upon the Separation Date, Employee shall provide Company with a declaration certifying that all Confidential Information and any other Company property have been returned to Company, that Employee has not kept any copies of such items or distributed such items to any third party, and that Employee has otherwise complied with the terms of Section 3 of this Agreement.

(e) Employee shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret (as defined in section 1839 of title 18, United States Code) that (A) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or

investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. If Employee files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Employee may disclose the trade secret to the attorney of Employee and use the trade secret information in the court proceeding if Employee (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except as permitted by court order.

4. Covenant Not to Compete. Employee acknowledges and agrees that Company has invested a great deal of time and money in developing relationships with its employees, customers, and “Merchandise Vendors” (as defined below). Employee further acknowledges and agrees that in rendering services to Company, Employee has been, will be and will continue to be exposed to and learn much information about Company’s business, including valuable Confidential Information and Trade Secrets, the Company’s employees, and the Company’s “Merchandise Vendors,” to which Employee would not have access if not for Employee’s employment with Company and which it would be unfair to disclose to others, or to use to Company’s disadvantage.

Employee acknowledges and agrees that the restrictions contained in this Agreement are necessary and reasonable to protect Company’s legitimate business interests in its Trade Secrets, valuable Confidential Information and relationships and goodwill with its employees, customers, and “Merchandising Vendors.” Employee further acknowledges that Employee’s skills, education and training qualify Employee to work and obtain employment which does not violate this Agreement and that the restrictions in this Agreement have been crafted as narrowly as reasonably possible to protect Company’s legitimate business interests in its Trade Secrets, valuable Confidential Information and relationships and goodwill with its employees, customers, and “Merchandising Vendors.”

In light of the foregoing, Employee agrees that he/she will not, at any point during his/her employment with Company, work for or engage or participate in any business, enterprise, or endeavor that in any way competes with any aspect of Company’s business or that otherwise conflicts with Company’s interests. In addition, for a period of one (1) year following the Separation Date, and regardless of the reason for separation, Employee shall not, within any geographic area in which Company does business at any time during Employee’s employment with Company: (a) become employed by or work for a “Competitor” (as defined below) in any position or capacity involving duties and/or responsibilities which are the same as or substantially similar to any of the duties and/or responsibilities Employee had with and/or performed for Company; or (b) perform or provide any services which are the same as or substantially similar to any of the services which Employee performed or provided for the Company, for or on behalf of any Competitor. For purposes of this Section 4, the term “**Competitor**” shall mean only the following businesses, commonly known as: Cato, TJX (including without limitation TJMAXX and Marshalls), Burlington Stores, Gabe’s/Rugged Warehouse, and Ross Stores.

5. Covenant Not to Solicit. During Employee’s employment with Company, and for a period of eighteen (18) months following the Separation Date, and regardless of the reason for separation, Employee agrees not to solicit any “Merchandise Vendors” (as defined below) for the

purpose of obtaining merchandise and/or inventory for or on behalf of any “Competitor” (as defined in Section 4 of this Agreement). As used herein, “**Merchandise Vendors**” means and includes any person or entity who/that has been a vendor or supplier of merchandise and/or inventory to Company during the eighteen (18) months immediately preceding the Separation Date or to whom/which Company is actively soliciting for the provision of merchandise and/or inventory, and with whom/which Employee had “material contact.” For purposes of this agreement, “**material contact**” means contact between Employee and an existing or prospective Merchandise Vendor: (a) with whom Employee dealt on behalf of Company within two years prior to the date of Employee’s termination; (b) whose dealings with Company were coordinated or supervised by Employee within two years prior to the date of Employee’s termination; (c) about whom Employee obtained Confidential Information in the ordinary course of business as a result of Employee’s association with Company within two years prior to the date of Employee’s termination; or, (d) who provides merchandise and/or inventory to Company, the provision of which results or resulted in compensation, commissions, or earnings for Employee within two years prior to the date of Employee’s termination.

Employee specifically acknowledges and agrees that, as Senior Vice President, General Merchandise Manager, his/her duties include, without limitation, establishing purchasing and pricing strategies and policies, managing sales margins, involvement in establishing and maintaining vendor relationships, and having contact with and confidential and/or proprietary information regarding Merchandise Vendors.

6. Covenant Not to Recruit Personnel. During Employee’s employment with Company, and for a period of two (2) years following the Separation Date, and regardless of the reason for separation, Employee will not: (a) recruit or solicit to hire or assist others in recruiting or soliciting to hire, any employee or independent contractor of Company; or (b) cause or assist others in causing any employee or independent contractor of Company to terminate his/her relationship with Company.

7. Severability. If any provision of this Agreement is held invalid, illegal, or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially enforceable provisions to the extent enforceable, shall be binding and remain in full force and effect. Further, each particular prohibition or restriction set forth in any Section of this Agreement shall be deemed a severable unit, and if any court of competent jurisdiction determines that any portion of such prohibition or restriction is against the policy of the law in any respect, but such restraint, considered as a whole, is not so clearly unreasonable and overreaching in its terms as to be unconscionable, the court shall enforce so much of such restraint as is determined to be reasonably necessary to protect the legitimate interests of Company. Employee and Company expressly agree that, should any court of competent jurisdiction find or determine that any of the covenants contained herein are overly-broad or otherwise unenforceable, the court may “blue- pencil,” modify, and/or reform any such covenant (in whole or in part) so as to cure the over- breadth or to otherwise render the covenant enforceable.

8. Survival of Covenants. All rights and covenants contained in Sections 3, 4, 5, and 6 of this Agreement, and all remedies relating thereto, shall survive the termination of this Agreement for any reason.

9. Binding Effect. The covenants, terms, and provisions set forth in this Agreement shall inure to the benefit of and be enforceable by Company and its successors, assigns, and successors-in-interest, including, without limitation, any corporation, partnership, or other entity with which Company may be merged or by which it may be acquired. Employee may not assign Employee's rights or obligations under this Agreement to any other party.

10. Governing Law. All matters affecting this Agreement, including the validity thereof, are to be subject to, and interpreted and construed in accordance with, the laws of the State of Georgia applicable to contracts executed in and to be performed in that State. Any action to enforce or for breach of this agreement shall be brought exclusively in the state or federal courts of New York, New York.

11. No Interference with Rights. Employee understands, agrees and acknowledges that nothing contained in this Agreement will prevent Employee from filing a charge or complaint with, reporting possible violations of any law or regulation, making disclosures to, and/or participating in any investigation or proceeding conducted by, the National Labor Relations Board, Equal Employment Opportunity Commission, the Securities and Exchange Commission, and/or any governmental authority charged with the enforcement of any laws.

12. Acknowledgment of Reasonableness/Remedies/Enforcement.

(a) Employee acknowledges that: (1) Company has valid interests to protect pursuant to Sections 3, 4, 5, and 6 of this Agreement; (2) the breach of the provisions of Sections 3, 4, 5, or 6 of this Agreement would result in irreparable injury and permanent damage to Company; and (3) such restrictions are reasonable and necessary to protect the interests of Company, are critical to the success of Company's business, and do not cause undue hardship on Employee.

(b) Employee agrees that determining damages in the event of a breach of Sections 3, 4, 5, or 6 by Employee would be difficult and that money damages alone would be an inadequate remedy for the injuries and damages which would be suffered by Company from such breach. Therefore, Employee agrees that Company shall be entitled (in addition to any other remedies it may have under this Agreement, at law, or otherwise) to immediate injunctive and other equitable relief to prevent or curtail any such breach or threatened breach by Employee. Employee and Company waive any requirement that a bond or any other security be posted. Nothing in this Agreement shall prohibit Company from seeking or recovering any legal or monetary damages to which it may be entitled if Employee breaches any provision in this Agreement.

(c) In the event Employee breaches this Agreement, Employee shall be liable to Company for all costs of enforcement, including attorneys' fees and court costs, in addition to all other damages and redress available to Company in equity or in law.

13. Miscellaneous. This Agreement constitutes the entire agreement between the parties and supersedes any and all prior contracts, agreements, or understandings between the parties which

may have been entered into by Company and Employee relating to the subject matter hereof (including, without limitation, the Prior Confidentiality Agreement), except for any severance agreements or certain restricted stock award and stock option agreements, which are to remain in full force and effect. This Agreement may not be amended or modified in any manner except by an instrument in writing signed by both Company and Employee. The failure of either party to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision or the right of such party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach. All remedies are cumulative, including the right of either party to seek equitable relief in addition to money damages.

EMPLOYEE ACKNOWLEDGES AND AGREES THAT HE/SHE HAS CAREFULLY READ THIS AGREEMENT AND KNOWS AND UNDERSTANDS ITS CONTENTS, THAT HE/SHE ENTERS INTO THIS AGREEMENT KNOWINGLY AND VOLUNTARILY, AND THAT HE/SHE INDICATES HIS/HER CONSENT BY SIGNING THIS FINAL PAGE.

(SIGNATURES TO FOLLOW ON NEXT PAGE)

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under seal as of the day and year set forth below.

Citi Trends, Inc.

/s/ Lisa Powell

Employee Signature

By: /s/ Bruce D. Smith

Date: 8/16/19

Bruce D. Smith

Chief Executive Officer

Employee Residence Address:

Date: 8/16/19

SEVERANCE AGREEMENT

This SEVERANCE AGREEMENT ("Agreement") is entered into between Citi Trends, Inc., a Delaware corporation, including its subsidiaries, affiliates, divisions, successors, and related entities (the "Company"), and Lisa Powell, an individual (the "Executive"), effective as of the date signed by Executive below.

WHEREAS, the Company and the Executive are also parties to an Employment Non-Compete, Non-Solicit and Confidentiality Agreement (the "Confidentiality Agreement") and certain restricted stock award and stock option agreements (collectively, the "Equity Agreements"), which are to remain in full force and effect;

NOW, THEREFORE, in consideration of the mutual agreements set forth herein, the parties agree as follows:

1. **Termination Payments and Benefits.** Regardless of the circumstances of the Executive's termination, Executive shall be entitled to payment when due of any earned and unpaid base salary, expense reimbursements and vacation days accrued prior to the termination of Executive's employment, and other unpaid vested amounts or benefits under Company retirement and health benefit plans, and, as applicable, under Equity Agreements in accordance with their terms, and to no other compensation or benefits.

(a) If (i) the Company terminates the Executive's employment without Cause, or (ii) the Executive terminates employment with the Company for Good Reason as defined below or (iii) the Executive terminates employment with the Company within twelve (12) months following the occurrence of a Change in Control, provided that within such period, (a) either Executive's job duties have been materially and permanently diminished or the Executive's compensation has been materially decreased and (b) Executive provides written notice to the Company within ninety (90) days of the occurrence of an aforementioned event and the Company fails to cure the event within thirty (30) days following the Company's receipt of the Executive's written notice, then, in the case of either (i) or (ii) above, the Company will provide the Executive with separation payments of twelve (12) months base salary at Executive's base salary rate at the time of Executive's termination or if greater, the Executive's base rate in effect on the Change of Control Date; to be paid in twenty-six (26) regular bi-weekly pay periods beginning on the first pay period occurring after the sixtieth (60th) day following the Executive's termination, provided the Executive executes and does not subsequently revoke the Separation and General Release Agreement referenced below within such sixty (60) day period. For purposes hereof, "Good Reason" shall mean, (a) a material diminution of Executive's duties and responsibilities; (b) a reduction in Executive's base salary; or (c) the relocation of Executive's principal office by more than 20 miles.

(b) For a period of twelve (12) months from the Executive's separation from service, the Company will pay to the Executive an amount, minus all applicable taxes and withholdings, equal to the full monthly cost (including any portion of the cost previously paid by the employee) to provide the same level of group health benefits maintained by Executive as of Executive's separation from service, provided the Executive executes and does not subsequently revoke the Separation and General Release Agreement referenced below within such sixty (60) day period.

(c) For purposes of this Agreement, “Change in Control” shall mean the occurrence of any one of the following events:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “1934 Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 50% or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (1), the following acquisitions shall not constitute a Change of Control: (i) any acquisition by a Person who is on the date of this Agreement the beneficial owner of 50% or more of the Outstanding Company Voting Securities, (ii) any acquisition directly from the Company, (iii) any acquisition by the Company, (iv) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (v) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (3) of this definition; or

(ii) individuals who, as of the date of this Agreement, constitute the Board of Directors of the Company (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board of Directors of the Company; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors of the Company; or

(iii) consummation of a reorganization, merger, consolidation or share exchange or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Voting Securities, and (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(d) The separation payments and benefits described in Sections 1(a) and 1(b), above, are conditioned upon Executive executing a Separation and General Release Agreement at the time of termination, which releases and waives any and all claims against the Company and its affiliated persons and companies, and is acceptable to the Company.

(e) In all other circumstances of separation, including if the Executive resigns, retires or is terminated for Cause, the Executive shall not be entitled to receive any separation payments or benefits. For purposes of this Agreement, "Cause" shall mean the Executive's:

(i) commission of an act of fraud or dishonesty, the purpose or effect of which, in the CEO and/or Board's sole determination, adversely affects the Company;

(ii) conviction of a felony or a crime involving embezzlement, conversion of property or moral turpitude (whether by plea of nolo contendere or otherwise);

(iii) engaging in willful or reckless misconduct or gross negligence in connection with any property or activity of the Company, the purpose or effect of which, in the CEO and/or Board's sole determination, adversely affects the Company;

(iv) material breach of any of the Executive's obligations as an employee or stockholder as set forth in the Company's Information Security Policies and Code of Business Conduct, the Confidentiality Agreement or any other agreement in effect between the Company and the Executive; provided that, in the event such breach is susceptible to cure, the Executive has been given written notice by the CEO and/or Board of such breach and 30 days from such notice fails to cure the breach; or

(v) failure or refusal to perform any material duty or responsibility under this Agreement or a determination that the Executive has breached his fiduciary obligations to the Company; provided that, in the event such failure, refusal or breach is susceptible to cure, the Executive has been given written notice by the CEO and/or Board of such failure, refusal or breach and 30 days from such notice fails to cure such failure, refusal or breach.

2. **Notice.** The Executive will send all communications to the Company in writing, to: Executive Vice President of Human Resources, Citi Trends, Inc., 104 Coleman Blvd., Savannah, Georgia 31408, Fax: (912) 443-3663. All communications from the Company to the Executive relating to this Agreement shall be sent to the Executive in writing at his office and home address as reflected in the Company's records.

3. **Amendment.** No provisions of this Agreement may be modified, waived, or discharged except by a written document signed by a duly authorized Company officer and the Executive.

A waiver of any conditions or provisions of this Agreement in a given instance shall not be deemed a waiver of such conditions or provisions at any other time in the future.

4. **Choice of Law and Venue.** The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of Georgia (excluding any that mandate the use of another jurisdiction's laws). Any action to enforce or for breach of this Agreement shall be brought exclusively in the state or federal courts of New York, New York.

5. **Successors.** This Agreement shall be binding upon, and shall inure to the benefit of, the Executive and Executive's estate, but the Executive may not assign or pledge this Agreement or any rights arising under it, except to the extent permitted under the terms of the benefit plans in which Executive participates. Without the Executive's consent, the Company may assign this Agreement to any affiliate or to a successor to substantially all the business and assets of the Company.

6. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute the same instrument.

7. **Entire Agreement.** This Agreement and the Confidentiality Agreement between the parties constitute the entire agreement between the parties and supersede any and all prior contracts, agreements, or understandings between the parties which may have been entered into by Company and the Executive relating to the subject matter hereof (including, without limitation, the Prior Severance Agreement), except for the Equity Agreements, which are to remain in full force and effect. This Agreement may not be amended or modified in any manner except by an instrument in writing signed by both the Company and the Executive. The failure of either party to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision or the right of such party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach. All remedies are cumulative, including the right of either party to seek equitable relief in addition to money damages.

8. **Employment At-Will Relationship.** Executive and the Company agree that nothing in this Agreement alters the at-will nature of Executive's employment relationship with the Company.

9. **Internal Revenue Code Section 409A.** Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute non-exempt "deferred compensation" for purposes of Section 409A of the Internal Revenue Code ("Section 409A") would otherwise be payable or distributable hereunder by reason of a Participant's termination of employment, such amount or benefit will not be payable or distributable to the Participant by reason of such circumstance unless the circumstances giving rise to such termination of employment meet any description or definition of "separation from service" in Section 409A of the Code and applicable regulations (without giving effect to any elective

provisions that may be available under such definition). For purposes of Section 409A, each installment payable under Section 1(a) and 1(b) of this Agreement shall be deemed to be a separate payment.

IN WITNESS WHEREOF, the parties hereto have set their hands as of the day and year set forth below.

CITI TRENDS, INC.

By: /s/ Bruce D. Smith

Name: Bruce D. Smith

Title: Chief Executive Officer

Dated: 8/16/2019

/s/ Lisa Powell

Employee Name

Dated: 8/16/2019

**EMPLOYMENT NON-COMPETE, NON-SOLICIT AND
CONFIDENTIALITY AGREEMENT**

This EMPLOYMENT NON-COMPETE, NON-SOLICIT AND CONFIDENTIALITY AGREEMENT (“Agreement”) is entered into between Citi Trends, Inc., including its subsidiaries, affiliates, divisions, successors, and related entities (“Company”), and Charles Hynes (“Employee”), effective as of the date signed by Employee below.

For and in consideration of the mutual covenants and agreements contained herein, including, but not limited to, Company agreeing to employ and/or continuing to employ Employee, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree:

1. Employment; Scope of Services. Company shall employ and/or continue to employ Employee, and Employee shall be employed and/or continue to be employed by Company, as Senior Vice President, Supply Chain. Employee shall use his/her best efforts and shall devote his/her full time, attention, knowledge and skills to the faithful performance of his/her duties and responsibilities as a Company employee. Employee shall have such authority and such other duties and responsibilities as assigned by the Board of Directors. Employee shall comply with Company’s policies and procedures, shall conduct him/herself as an ethical business professional, and shall comply with federal, state and local laws.

2. At-Will Employment. Nothing in this Agreement alters the at-will employment relationship between Employee and Company or limits Company’s right to alter or modify Employee’s job title or job duties and responsibilities any time at Company’s discretion. Employment with Company is “at-will” which means that either Employee or Company may terminate the employment relationship at any time, with or without notice, with or without cause. The date of Employee’s cessation of employment for any reason is the “**Separation Date.**”

3. Confidentiality.

(a) Employee acknowledges and agrees that: (1) the retail sale of value-priced/off-price family apparel is an extremely competitive industry; (2) Company has an ongoing strategy for expansion of its business in the United States; (3) Company’s major competitors operate throughout the United States and some internationally; and (4) because of Employee’s position as Senior Vice President, Supply Chain, he/she will have access to, knowledge of, and be entrusted with, highly sensitive and competitive Confidential Information and Trade Secrets (as defined in subsection (b) below) of Company, including without limitation information regarding sales margins, purchasing and pricing strategies, marketing strategies, vendors and suppliers, plans for expansion and placement of stores, and also specific information about Company’s districts and stores, such as staffing, budgets, profits and the financial success of individual districts and stores, which Company has developed and will continue to develop and the disclosure or use of which would cause Company great and irreparable harm.

(b) As used herein, “**Confidential Information**” means and includes any and all

Company data and information in any form whatsoever (tangible or intangible) which: (1) relates to the business of Company, irrespective of whether the data or information constitutes a "trade secret" (as defined below); (2) is disclosed to Employee or which Employee obtains or becomes aware of as a consequence of Employee's relationship with Company; (3) has value to Company; and (4) is not generally known to Company's competitors. "Confidential Information" includes (but is not limited to) technical or sales data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data and statements, financial plans and strategies, product plans, sales or advertising information and plans, marketing information and plans, pricing information, the identity or lists of employees, vendors and suppliers of Company, and confidential or proprietary information of such employees, vendors and suppliers. "**Trade Secret**" means any and all information, knowledge or data in any form whatsoever, tangible or intangible, that is considered a trade secret under applicable law. Employee acknowledges and agrees that all Confidential Information and Trade Secrets are and remain the sole and exclusive property of Company.

(c) Employee agrees that he/she shall hold all Confidential Information and Trade Secrets in strictest confidence, and that he/she shall protect such Confidential Information and Trade Secrets from disclosure by or to others. Employee further agrees that he/she shall not at any time (except as authorized by Company in connection with Employee's duties and responsibilities as an employee): (1) disclose, publish, transfer, or communicate Confidential Information or Trade Secrets to any person or entity, other than authorized Company personnel; (2) use or reproduce Confidential Information or Trade Secrets for personal benefit or for any purpose or reason other than furthering the legitimate business interest of Company within the scope of Employee's duties with Company; or (3) remove or transfer any Confidential Information or Trade Secrets from Company's premises or systems (by any method or means) except for use in Company's business and consistent with Employee's duties with the Company. The foregoing covenants and obligations are in addition to, and do not limit, any common law or statutory rights and/or protections afforded to Company.

(d) Employee acknowledges that Company has provided or will provide Employee with Company property, including without limitation, employee handbooks, policy manuals, price lists, financial reports, and vendor and supplier information, among other items. Upon the Separation Date, or upon the request of Company, Employee shall immediately deliver to Company all property belonging to Company, including without limitation, all Confidential Information, Trade Secrets, and any property related to Company, whether in electronic or other format, as well as any copies thereof, then in Employee's custody, control, or possession. Upon the Separation Date, Employee shall provide Company with a declaration certifying that all Confidential Information and any other Company property have been returned to Company, that Employee has not kept any copies of such items or distributed such items to any third party, and that Employee has otherwise complied with the terms of Section 3 of this Agreement.

(e) Employee shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret (as defined in section 1839 of title 18, United States Code) that (A) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed

in a lawsuit or other proceeding, if such filing is made under seal. If Employee files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Employee may disclose the trade secret to the attorney of Employee and use the trade secret information in the court proceeding if Employee (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except as permitted by court order.

4. Covenant Not to Compete. Employee acknowledges and agrees that Company has invested a great deal of time and money in developing relationships with its employees, customers, and “Merchandise Vendors” (as defined below). Employee further acknowledges and agrees that in rendering services to Company, Employee has been, will be and will continue to be exposed to and learn much information about Company’s business, including valuable Confidential Information and Trade Secrets, the Company’s employees, and the Company’s “Merchandise Vendors,” to which Employee would not have access if not for Employee’s employment with Company and which it would be unfair to disclose to others, or to use to Company’s disadvantage.

Employee acknowledges and agrees that the restrictions contained in this Agreement are necessary and reasonable to protect Company’s legitimate business interests in its Trade Secrets, valuable Confidential Information and relationships and goodwill with its employees, customers, and “Merchandising Vendors.” Employee further acknowledges that Employee’s skills, education and training qualify Employee to work and obtain employment which does not violate this Agreement and that the restrictions in this Agreement have been crafted as narrowly as reasonably possible to protect Company’s legitimate business interests in its Trade Secrets, valuable Confidential Information and relationships and goodwill with its employees, customers, and “Merchandising Vendors.”

In light of the foregoing, Employee agrees that he/she will not, at any point during his/her employment with Company, work for or engage or participate in any business, enterprise, or endeavor that in any way competes with any aspect of Company’s business or that otherwise conflicts with Company’s interests. In addition, for a period of one (1) year following the Separation Date, and regardless of the reason for separation, Employee shall not, within any geographic area in which Company does business at any time during Employee’s employment with Company: (a) become employed by or work for a “Competitor” (as defined below) in any position or capacity involving duties and/or responsibilities which are the same as or substantially similar to any of the duties and/or responsibilities Employee had with and/or performed for Company; or (b) perform or provide any services which are the same as or substantially similar to any of the services which Employee performed or provided for the Company, for or on behalf of any Competitor. For purposes of this Section 4, the term “**Competitor**” shall mean only the following businesses, commonly known as: Cato, TJX (including without limitation TJMAXX and Marshalls), Burlington Stores, Gabe’s/Rugged Warehouse, and Ross Stores.

5. Covenant Not to Solicit. During Employee’s employment with Company, and for a period of eighteen (18) months following the Separation Date, and regardless of the reason for separation, Employee agrees not to solicit any “Merchandise Vendors” (as defined below) for the purpose of obtaining merchandise and/or inventory for or on behalf of any “Competitor” (as

defined in Section 4 of this Agreement). As used herein, “**Merchandise Vendors**” means and includes any person or entity who/that has been a vendor or supplier of merchandise and/or inventory to Company during the eighteen (18) months immediately preceding the Separation Date or to whom/which Company is actively soliciting for the provision of merchandise and/or inventory, and with whom/which Employee had “material contact.” For purposes of this agreement, “**material contact**” means contact between Employee and an existing or prospective Merchandise Vendor: (a) with whom Employee dealt on behalf of Company within two years prior to the date of Employee’s termination; (b) whose dealings with Company were coordinated or supervised by Employee within two years prior to the date of Employee’s termination; (c) about whom Employee obtained Confidential Information in the ordinary course of business as a result of Employee’s association with Company within two years prior to the date of Employee’s termination; or, (d) who provides merchandise and/or inventory to Company, the provision of which results or resulted in compensation, commissions, or earnings for Employee within two years prior to the date of Employee’s termination.

Employee specifically acknowledges and agrees that, as Senior Vice President, Supply Chain, his/her duties include, without limitation, establishing purchasing and pricing strategies and policies, managing sales margins, involvement in establishing and maintaining vendor relationships, and having contact with and confidential and/or proprietary information regarding Merchandise Vendors.

6. Covenant Not to Recruit Personnel. During Employee’s employment with Company, and for a period of two (2) years following the Separation Date, and regardless of the reason for separation, Employee will not: (a) recruit or solicit to hire or assist others in recruiting or soliciting to hire, any employee or independent contractor of Company; or (b) cause or assist others in causing any employee or independent contractor of Company to terminate his/her relationship with Company.

7. Severability. If any provision of this Agreement is held invalid, illegal, or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially enforceable provisions to the extent enforceable, shall be binding and remain in full force and effect. Further, each particular prohibition or restriction set forth in any Section of this Agreement shall be deemed a severable unit, and if any court of competent jurisdiction determines that any portion of such prohibition or restriction is against the policy of the law in any respect, but such restraint, considered as a whole, is not so clearly unreasonable and overreaching in its terms as to be unconscionable, the court shall enforce so much of such restraint as is determined to be reasonably necessary to protect the legitimate interests of Company. Employee and Company expressly agree that, should any court of competent jurisdiction find or determine that any of the covenants contained herein are overly-broad or otherwise unenforceable, the court may “blue- pencil,” modify, and/or reform any such covenant (in whole or in part) so as to cure the over- breadth or to otherwise render the covenant enforceable.

8. Survival of Covenants. All rights and covenants contained in Sections 3, 4, 5, and 6 of this Agreement, and all remedies relating thereto, shall survive the termination of this Agreement for any reason.

9. Binding Effect. The covenants, terms, and provisions set forth in this Agreement shall inure to the benefit of and be enforceable by Company and its successors, assigns, and successors-in-interest, including, without limitation, any corporation, partnership, or other entity with which Company may be merged or by which it may be acquired. Employee may not assign Employee's rights or obligations under this Agreement to any other party.

10. Governing Law. All matters affecting this Agreement, including the validity thereof, are to be subject to, and interpreted and construed in accordance with, the laws of the State of Georgia applicable to contracts executed in and to be performed in that State.

11. No Interference with Rights. Employee understands, agrees and acknowledges that nothing contained in this Agreement will prevent Employee from filing a charge or complaint with, reporting possible violations of any law or regulation, making disclosures to, and/or participating in any investigation or proceeding conducted by, the National Labor Relations Board, Equal Employment Opportunity Commission, the Securities and Exchange Commission, and/or any governmental authority charged with the enforcement of any laws.

12. Acknowledgment of Reasonableness/Remedies/Enforcement.

(a) Employee acknowledges that: (1) Company has valid interests to protect pursuant to Sections 3, 4, 5, and 6 of this Agreement; (2) the breach of the provisions of Sections 3, 4, 5, or 6 of this Agreement would result in irreparable injury and permanent damage to Company; and (3) such restrictions are reasonable and necessary to protect the interests of Company, are critical to the success of Company's business, and do not cause undue hardship on Employee.

(b) Employee agrees that determining damages in the event of a breach of Sections 3, 4, 5, or 6 by Employee would be difficult and that money damages alone would be an inadequate remedy for the injuries and damages which would be suffered by Company from such breach. Therefore, Employee agrees that Company shall be entitled (in addition to any other remedies it may have under this Agreement, at law, or otherwise) to immediate injunctive and other equitable relief to prevent or curtail any such breach or threatened breach by Employee. Employee and Company waive any requirement that a bond or any other security be posted. Nothing in this Agreement shall prohibit Company from seeking or recovering any legal or monetary damages to which it may be entitled if Employee breaches any provision in this Agreement.

(c) In the event Employee breaches this Agreement, Employee shall be liable to Company for all costs of enforcement, including attorneys' fees and court costs, in addition to all other damages and redress available to Company in equity or in law.

13. Miscellaneous. This Agreement constitutes the entire agreement between the parties and supersedes any and all prior contracts, agreements, or understandings between the parties which may have been entered into by Company and Employee relating to the subject matter hereof (including, without limitation, the Prior Confidentiality Agreement), except for any severance agreements or certain restricted stock award and stock option agreements, which are to remain in full force and effect. This Agreement may not be amended or modified in any manner except by

an instrument in writing signed by both Company and Employee. The failure of either party to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision or the right of such party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach. All remedies are cumulative, including the right of either party to seek equitable relief in addition to money damages.

EMPLOYEE ACKNOWLEDGES AND AGREES THAT HE/SHE HAS CAREFULLY READ THIS AGREEMENT AND KNOWS AND UNDERSTANDS ITS CONTENTS, THAT HE/SHE ENTERS INTO THIS AGREEMENT KNOWINGLY AND VOLUNTARILY, AND THAT HE/SHE INDICATES HIS/HER CONSENT BY SIGNING THIS FINAL PAGE.

(SIGNATURES TO FOLLOW ON NEXT PAGE)

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under seal as of the day and year set forth below.

Citi Trends, Inc.

/s/ Charles Hynes
Employee Signature

By: /s/ Bruce D. Smith
Bruce D. Smith
Chief Executive Officer

Date: 10/25/2019

Date: 10/25/2019

Employee Residence Address:



SEVERANCE AGREEMENT

This SEVERANCE AGREEMENT ("Agreement") is entered into between Citi Trends, Inc., a Delaware corporation, including its subsidiaries, affiliates, divisions, successors, and related entities (the "Company"), and Charles Hynes, an individual (the "Executive"), effective as of the date signed by Executive below.

WHEREAS, the Company and the Executive are also parties to an Employment Non-Compete, Non-Solicit and Confidentiality Agreement (the "Confidentiality Agreement") and certain restricted stock award and stock option agreements (collectively, the "Equity Agreements"), which are to remain in full force and effect;

NOW, THEREFORE, in consideration of the mutual agreements set forth herein, the parties agree as follows:

1. **Termination Payments and Benefits.** Regardless of the circumstances of the Executive's termination, Executive shall be entitled to payment when due of any earned and unpaid base salary, expense reimbursements and vacation days accrued prior to the termination of Executive's employment, and other unpaid vested amounts or benefits under Company retirement and health benefit plans, and, as applicable, under Equity Agreements in accordance with their terms, and to no other compensation or benefits.

(a) If (i) the Company terminates the Executive's employment without Cause, or (ii) the Executive terminates employment with the Company within twelve (12) months following the occurrence of a Change in Control, provided that within such period, (a) either Executive's job duties have been materially and permanently diminished or the Executive's compensation has been materially decreased and (b) Executive provides written notice to the Company within ninety (90) days of the occurrence of an aforementioned event and the Company fails to cure the event within thirty (30) days following the Company's receipt of the Executive's written notice, then, in the case of either (i) or (ii) above, the Company will provide the Executive with separation payments of twelve (12) months base salary at Executive's base salary rate at the time of Executive's termination or if greater, the Executive's base rate in effect on the Change of Control Date; to be paid in twenty-six (26) regular bi-weekly pay periods beginning on the first pay period occurring after the sixtieth (60th) day following the Executive's termination, provided the Executive executes and does not subsequently revoke the Separation and General Release Agreement referenced below within such sixty (60) day period.

(b) For a period of twelve (12) months from the Executive's separation from service, the Company will pay to the Executive an amount, minus all applicable taxes and withholdings, equal to the full monthly cost (including any portion of the cost previously paid by the employee) to provide the same level of group health benefits maintained by Executive as of Executive's separation from service, provided the Executive executes and does not subsequently revoke the Separation and General Release Agreement referenced below within such sixty (60) day period.

(c) For purposes of this Agreement, “Change in Control” shall mean the occurrence of any one of the following events:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “1934 Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 50% or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (1), the following acquisitions shall not constitute a Change of Control: (i) any acquisition by a Person who is on the date of this Agreement the beneficial owner of 50% or more of the Outstanding Company Voting Securities, (ii) any acquisition directly from the Company, (iii) any acquisition by the Company, (iv) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (v) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (3) of this definition; or

(ii) individuals who, as of the date of this Agreement, constitute the Board of Directors of the Company (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board of Directors of the Company; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors of the Company; or

(iii) consummation of a reorganization, merger, consolidation or share exchange or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Voting Securities, and (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of

the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(d) The separation payments and benefits described in Sections 1(a) and 1(b), above, are conditioned upon Executive executing a Separation and General Release Agreement at the time of termination, which releases and waives any and all claims against the Company and its affiliated persons and companies, and is acceptable to the Company.

(e) In all other circumstances of separation, including if the Executive resigns, retires or is terminated for Cause, the Executive shall not be entitled to receive any separation payments or benefits. For purposes of this Agreement, "Cause" shall mean the Executive's:

(i) commission of an act of fraud or dishonesty, the purpose or effect of which, in the CEO and/or Board's sole determination, adversely affects the Company;

(ii) conviction of a felony or a crime involving embezzlement, conversion of property or moral turpitude (whether by plea of nolo contendere or otherwise);

(iii) engaging in willful or reckless misconduct or gross negligence in connection with any property or activity of the Company, the purpose or effect of which, in the CEO and/or Board's sole determination, adversely affects the Company;

(iv) material breach of any of the Executive's obligations as an employee or stockholder as set forth in the Company's Information Security Policies and Code of Business Conduct, the Confidentiality Agreement or any other agreement in effect between the Company and the Executive; provided that, in the event such breach is susceptible to cure, the Executive has been given written notice by the CEO and/or Board of such breach and 30 days from such notice fails to cure the breach; or

(v) failure or refusal to perform any material duty or responsibility under this Agreement or a determination that the Executive has breached his fiduciary obligations to the Company; provided that, in the event such failure, refusal or breach is susceptible to cure, the Executive has been given written notice by the CEO and/or Board of such failure, refusal or breach and 30 days from such notice fails to cure such failure, refusal or breach.

2. **Notice.** The Executive will send all communications to the Company in writing, to: Executive Vice President of Human Resources, Citi Trends, Inc., 104 Coleman Blvd., Savannah, Georgia 31408, Fax: (912) 443-3663. All communications from the Company to the Executive relating to this Agreement shall be sent to the Executive in writing at his office and home address as reflected in the Company's records.

3. **Amendment.** No provisions of this Agreement may be modified, waived, or discharged except by a written document signed by a duly authorized Company officer and the Executive. A waiver of any conditions or provisions of this Agreement in a given instance shall not be deemed a waiver of such conditions or provisions at any other time in the future.

4. **Choice of Law and Venue.** The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of Georgia (excluding any that mandate the use of another jurisdiction's laws). Any action to enforce or for breach of this Agreement shall be brought exclusively in the state or federal courts of the County of Chatham, City of Savannah.

5. **Successors.** This Agreement shall be binding upon, and shall inure to the benefit of, the Executive and Executive's estate, but the Executive may not assign or pledge this Agreement or any rights arising under it, except to the extent permitted under the terms of the benefit plans in which Executive participates. Without the Executive's consent, the Company may assign this Agreement to any affiliate or to a successor to substantially all the business and assets of the Company.

6. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute the same instrument.

7. **Entire Agreement.** This Agreement and the Confidentiality Agreement between the parties constitute the entire agreement between the parties and supersede any and all prior contracts, agreements, or understandings between the parties which may have been entered into by Company and the Executive relating to the subject matter hereof (including, without limitation, the Prior Severance Agreement), except for the Equity Agreements, which are to remain in full force and effect. This Agreement may not be amended or modified in any manner except by an instrument in writing signed by both the Company and the Executive. The failure of either party to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision or the right of such party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach. All remedies are cumulative, including the right of either party to seek equitable relief in addition to money damages.

8. **Employment At-Will Relationship.** Executive and the Company agree that nothing in this Agreement alters the at-will nature of Executive's employment relationship with the Company.

9. **Internal Revenue Code Section 409A.** Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute non-exempt “deferred compensation” for purposes of Section 409A of the Internal Revenue Code (“Section 409A”) would otherwise be payable or distributable hereunder by reason of a Participant’s termination of employment, such amount or benefit will not be payable or distributable to the Participant by reason of such circumstance unless the circumstances giving rise to such termination of employment meet any description or definition of “separation from service” in Section 409A of the Code and applicable regulations (without giving effect to any elective provisions that may be available under such definition). For purposes of Section 409A, each installment payable under Section 1(a) and 1(b) of this Agreement shall be deemed to be a separate payment.

IN WITNESS WHEREOF, the parties hereto have set their hands as of the day and year set forth below.

CITI TRENDS, INC.

By: /s/ Bruce D. Smith
Name: Bruce D. Smith
Title: Chief Executive Officer
Dated: 10/25/2019

/s/ Charles Hynes
Employee Name
Dated: 10/25/2019

SECOND AMENDMENT TO CREDIT AGREEMENT AND WAIVER

SECOND AMENDMENT TO CREDIT AGREEMENT AND WAIVER (this "Second Amendment") dated as of May 12, 2020 by and among

CITI TRENDS, INC., a corporation organized under the laws of the State of Delaware, (the "Borrower");

The GUARANTORS party hereto; and

BANK OF AMERICA, N.A., a national banking association (the "Lender")

in consideration of the mutual covenants herein contained and benefits to be derived herefrom.

W I T N E S S E T H:

WHEREAS, the Loan Parties and the Lender have entered into a certain Credit Agreement dated as of October 27, 2011 (as amended, amended and restated, restated, supplemented or modified to the date hereof, the "Credit Agreement");

WHEREAS, the Loan Parties have failed to comply with (i) Section 6.01(a) of the Credit Agreement by failing to deliver to the Lender the documents required by such Section for the Fiscal Year ending February 1, 2020 within the timeframe required by such Section, (ii) Section 6.02(a) of the Credit Agreement by failing to deliver the Compliance Certificate for the Fiscal Year ending February 1, 2020 within the timeframe required by such Section and (iii) Section 6.03(a) of the Credit Agreement as a result of the failure to give notice (or timely notice) of any or all of the Events of Default described in clauses (i) and (ii) above (clauses (i), (ii) and (iii) collectively, the "Specified Events of Default");

WHEREAS, as a result of the Specified Events of Default, Events of Default have occurred and are currently continuing under Section 8.01(b) of the Credit Agreement;

WHEREAS, in connection with the foregoing, the Loan Parties have requested that the Lender waive (i) the Specified Events of Default and (ii) any Default or Event of Default arising solely from the making, or deemed making, of any inaccurate representation or warranty in the Credit Agreement or the other Loan Documents solely as a result of the existence of the Specified Events of Default (collectively, the "Designated Events of Default"); and

WHEREAS, the Lender is willing to waive the Designated Events of Default on the terms and conditions set forth herein; and

WHEREAS, the Loan Parties and the Lender have agreed to amend the Credit Agreement as set forth herein.

NOW THEREFORE, in consideration of the mutual promises and agreements herein contained, the parties hereto hereby agree as follows:

1. Incorporation of Terms and Conditions of Credit Agreement. All of the terms and conditions of the Credit Agreement as amended by this Second Amendment (including, without limitation, all definitions set forth therein) are specifically incorporated herein
-

by reference. All capitalized terms not otherwise defined herein shall have the same meaning as in the Credit Agreement as amended by this Second Amendment, as applicable.

2. Representations and Warranties. Each Loan Party hereby represents and warrants that after giving effect to this Second Amendment, (i) no Default or Event of Default exists under the Credit Agreement as amended by this Second Amendment or under any other Loan Document, (ii) all representations and warranties contained in the Credit Agreement as amended by this Second Amendment and in the other Loan Documents are true and correct in all material respects (except in the case of any representation and warranty qualified by “materiality” or “Material Adverse Effect”, which is true and correct in all respects) as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date and (iii) no event has occurred since February 2, 2019 that could reasonably be expected to have a Material Adverse Effect on the Loan Parties, taken as a whole; provided that, as of the Second Amendment Effective Date, the temporary closure of the Loan Parties’ store locations and other operational disruptions affecting the Loan Parties, in each case as a direct result of the COVID-19 pandemic, shall not be deemed to have resulted in a Material Adverse Effect.
 3. Limited Waiver. Subject to the satisfaction of each of the conditions to effectiveness set forth in Section 6 below, the Lender hereby waives the Designated Events of Default; provided that such waiver shall not waive or amend (or be deemed to be or constitute an amendment to or waiver of) any other covenant, term or provision in the Credit Agreement or hinder, restrict or otherwise modify the rights and remedies of the Lender following the occurrence of any other present or future Default or Event of Default (whether or not related to the requirements of Section 6.01(a), 6.02(a) or 6.03(a) of the Credit Agreement) under the Credit Agreement or any other Loan Document.
 4. Amendment to Credit Agreement. The Credit Agreement is hereby amended in its entirety to reflect the modifications identified in the document annexed hereto as Annex A.
 5. Extension of Time. Notwithstanding Section 6.01(a) and Section 6.02(a) of the Credit Agreement, with respect to the Fiscal Year of the Borrower ending February 1, 2020, the Borrower shall have an extension of time until one hundred (120) days after the end of such Fiscal Year to deliver the items specified in Section 6.01(a) and Section 6.02(a) of the Credit Agreement for such Fiscal Year.
 6. Ratification of Loan Documents.
 - a. The Credit Agreement, as hereby amended, and all other Loan Documents are hereby ratified and re-affirmed in all respects and shall continue in full force and effect.
 - b. Without limiting the foregoing, each of the Loan Parties hereby acknowledges, confirms and agrees that any and all Collateral previously pledged to the Lender
-

pursuant to the Loan Documents shall continue to secure all Obligations of the Loan Parties at any time outstanding, as such Obligations have been, and may hereafter be, amended, restated, supplemented, increased or otherwise modified from time to time.

7. Conditions to Effectiveness. This Second Amendment shall be effective (the “Second Amendment Effective Date”) when each of the following conditions precedent has been fulfilled (or waived) to the reasonable satisfaction of the Lender:
 - a. This Second Amendment shall have been duly executed and delivered by the Loan Parties and the Lender.
 - b. All action on the part of the Loan Parties necessary for the valid execution, delivery and performance by the Loan Parties of this Second Amendment shall have been duly and effectively taken. The Lender shall have received such customary corporate resolutions, certificates and other customary corporate documents as the Lender shall reasonably request.
 - c. The Loan Parties shall have paid to the Lender the fees set forth in that certain Amendment Fee Letter dated as of the date hereof between the Loan Parties and the Lender, and shall have reimbursed the Lender for all reasonable costs and expenses, including, reasonable attorneys’ fees, in connection with or relating to this Second Amendment.
 - d. The Lender shall have received all documentation and other information required by regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations, including without limitation the Act and a Beneficial Ownership Certification in relation to any Loan Party that qualifies as a “legal entity customer” under the Beneficial Ownership Regulation.
 8. Binding Effect. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their heirs, representatives, successors and assigns. This Second Amendment is a Loan Document.
 9. Multiple Counterparts; Effectiveness. This Second Amendment may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of any executed counterpart of a signature page of this Second Amendment by telecopy, pdf or other electronic transmission shall be as effective as delivery of a manually executed counterpart of this Second Amendment.
 10. Governing Law. THIS SECOND AMENDMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS SECOND AMENDMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.
-

IN WITNESS WHEREOF, this Second Amendment has been duly executed and delivered by each of the parties hereto as of the date first above written.

CITI TRENDS, INC., as Borrower

By: /s/ David N. Makuen

Name: David N. Makuen

Title: Chief Executive Officer

CITI TRENDS MARKETING
SOLUTIONS, INC., as a Guarantor

By: /s/ Henry Thompson

Name: Henry Thompson

Title: President

BANK OF AMERICA, N.A., as Lender

By: /s/ Matthew Potter

Name: Matthew Potter

Title: Vice President

Annex A

Amendments to Credit Agreement

CREDIT AGREEMENT

Dated as of October 27, 2011

among

CITI TRENDS, INC.,
as the Borrower

THE SUBSIDIARIES OF THE BORROWER IDENTIFIED HEREIN,
as the Guarantors

and

BANK OF AMERICA, N.A.,
as the Lender

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 - C Compliance Certificate
 - D Assignment and Assumption
 - E Borrowing Base Certificate
-

CREDIT AGREEMENT

This CREDIT AGREEMENT (“Agreement”) is entered into as of October 27, 2011, among CITI TRENDS, INC., a Delaware corporation (the “Borrower”), the Guarantors parties hereto, and BANK OF AMERICA, N.A., as Lender (the “Lender”) (as amended by that certain First Amendment to Credit Agreement dated as of August 18, 2015 and that certain Second to Credit Agreement, dated as of May 12, 2020, and as may be further amended, restated, amended and restated, supplemented or otherwise modified from time to time);

The Borrower has requested that the Lender provide a revolving credit facility, and the Lender has indicated its willingness to lend and the L/C Issuer has indicated its willingness to issue Letters of Credit, in each case on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I. DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

“Accelerated Borrowing Base Delivery Event” means either (i) the occurrence and continuance of any Event of Default, or (ii) the failure of the Borrower to maintain Availability at least equal to twenty percent (20%) of the Loan Cap. For purposes of this Agreement, the occurrence of an Accelerated Borrowing Base Delivery Event shall be deemed continuing (i) so long as such Event of Default has not been waived, and/or (ii) if the Accelerated Borrowing Base Delivery Event arises as a result of the Borrower’s failure to achieve Availability as required hereunder, until Availability has exceeded twenty percent (20%) of the Loan Cap for sixty (60) consecutive calendar days, in which case an Accelerated Borrowing Base Delivery Event shall no longer be deemed to be continuing for purposes of this Agreement. The termination of an Accelerated Borrowing Base Delivery Event as provided herein shall in no way limit, waive or delay the occurrence of a subsequent Accelerated Borrowing Base Delivery Event in the event that the conditions set forth in this definition again arise.

“Acceptable Credit Card Issuer” means any major credit or debit card issuer approved by the Lender (including, but not limited to, Visa, MasterCard, Discover and American Express).

“ACH” means automated clearing house transfers. “Accommodation Payment” as defined in Section 9.20(d).

“Account” means “accounts” as defined in the UCC, and also means a right to payment of a monetary obligation, whether or not earned by performance, (a) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (b) for services rendered or to be rendered, or (c) arising out of the use of a credit or charge card or information contained on or for use with the card.

“Acquisition” means, with respect to any Person (a) a purchase of a Controlling interest in, the Equity Interests of any other Person, (b) a purchase or other acquisition of all or substantially all of the assets or properties of, another Person or of any business unit of another Person, (c) any merger or consolidation of such Person with any other Person or other transaction or series of transactions resulting in the acquisition of all or substantially all of the assets, or a Controlling interest in the Equity Interests, of such other Person, or (d) any acquisition of any Store locations of any Person, in each case in any transaction or group of transactions which are part of a common plan.

“Act” shall have the meaning provided in Section 9.16.

~~["Adjusted LIBOR Rate" means, with respect to any LIBOR Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next one-sixteenth of one percent (1%)) equal to the LIBOR Rate for such Interest Period multiplied by the Statutory Reserve Rate. The Adjusted LIBOR Rate will be adjusted automatically as to all LIBOR Borrowings then outstanding as of the effective date of any change in the Statutory Reserve Rate.]~~

“Adjustment Date” means the first day of each Fiscal Quarter, commencing November 1, 2015.

“Affiliate” means, with respect to any Person, (i) another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified, (ii) any director, officer, managing member, partner, trustee, or beneficiary of that Person, (iii) any other Person directly or indirectly holding ten percent (10%) or more of any class of the Equity Interests of that Person, and (iv) any other Person ten percent (10%) or more of any class of whose Equity Interests is held directly or indirectly by that Person.

“Agreement” means this Credit Agreement.

“Allocable Amount” has the meaning specified in Section 9.20(d).

“Applicable Margin” means

(a) From and after the ~~Effective~~ Closing Date until the first Adjustment Date, the percentages set forth in Level I of the pricing grid below; and

(b) From and after the first Adjustment Date and on each Adjustment Date thereafter, the Applicable Margin shall be determined from the following pricing grid based upon the Average Daily Availability for the Fiscal Quarter most recently ended immediately preceding such Adjustment Date; provided that notwithstanding anything to the contrary set forth herein, upon the occurrence of an Event of Default, the Lender may immediately increase the Applicable Margin to that set forth in Level II (even if the Average Daily Availability requirements for a different Level have been met) and interest shall accrue at the Default Rate; provided further if any Borrowing Base Certificates are at any time restated or otherwise revised (including as a result of an audit) or if the information set forth in such financial statements or any Borrowing Base Certificates otherwise proves to be false or incorrect such that the Applicable Margin would have been

higher than was otherwise in effect during any period, without constituting a waiver of any Default or Event of Default arising as a result thereof, interest due under this Agreement shall be immediately recalculated at such higher rate for any applicable periods and shall be due and payable on demand.

From the Closing Date to but excluding the Second Amendment Effective Date:

Level	<i>Average Daily Availability</i>	LIBOR Eurodollar Margin	Base Rate Margin
I	<i>Greater than or equal to \$25,000,000</i>	1.25%	0.25%
II	<i>Less than \$25,000,000</i>	1.50%	0.50%

From and after the Second Amendment Effective:

<u>Level</u>	<u><i>Average Daily Availability</i></u>	<u>Eurodollar Margin</u>	<u>Base Rate Margin</u>
<u>I</u>	<u><i>Greater than or equal to \$25,000,000</i></u>	<u>2.25%</u>	<u>1.25%</u>
<u>II</u>	<u><i>Less than \$25,000,000</i></u>	<u>2.50%</u>	<u>1.50%</u>

; provided that notwithstanding anything to the contrary set forth herein, from and after the Second Amendment Effective Date until the first Adjustment Date thereafter, Applicable Margin shall mean the percentages set forth in Level I of the pricing grid immediately set forth above.

“Applicable Rate” means (i) with respect to each Commercial Letter of Credit issued hereunder, [~~one~~ two] percent (~~[1.00]~~ 2.00%) and (ii) with respect to each Standby Letter of Credit issued hereunder, a per annum rate equal to the Applicable Margin for Loans which are [~~LIBOR~~ Eurodollar] Rate Loans.

“Appraisal Percentage” means ninety percent (90%).

“Appraised Value” means (a) with respect to Eligible Inventory, the appraised orderly liquidation value, net of costs and expenses to be incurred in connection with any such liquidation, which value is expressed as a percentage of Cost of Eligible Inventory as set forth in the inventory stock ledger of the Borrower, which value shall be determined from time to time by the most recent appraisal undertaken by an independent appraiser engaged by the Lender.

“Approved Fund” means any Fund that is administered or managed by (a) the Lender, (b) an Affiliate of the Lender (c) an entity or an Affiliate of an entity that administers or manages the Lender, or (d) the same investment advisor or an advisor under common control with the Lender, Affiliate or advisor, as applicable.

“Assignee Group” means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

“Assignment and Assumption” means an assignment and assumption entered into by the Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 9.06(b)), and accepted by the Lender, in substantially the form of Exhibit D or any other form approved by the Lender.

“Attributable Indebtedness” means, on any date, (a) in respect of any Capital Lease Obligation of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease or similar payments under the relevant lease or other applicable agreement or instrument that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease, agreement or instrument were accounted for as a capital lease.

“Audited Financial Statements” means the audited consolidated balance sheet of the Borrower and its Subsidiaries for the Fiscal Year ended January 29, 2011, and the related consolidated statements of income or operations, Shareholders’ Equity and cash flows for such Fiscal Year of the Borrower and its Subsidiaries, including the notes thereto.

“Auto-Extension Letter of Credit” shall have the meaning specified in Section 2.03(b)(iii).

“Availability” means, as of any date of determination thereof by the Lender, the result, if a positive number, of:

(a) the Loan Cap,

minus

(b) the Total Outstandings.

“Availability Period” means the period from and including the Closing Date to the earliest of (a) the Maturity Date, (b) the date of termination of the Commitments pursuant to Section 2.05, and (c) the date of termination of the commitment of the Lender to make Loans and of the obligation of the L/C Issuer to make L/C Credit Extensions pursuant to Section 8.02.

“Availability Reserves” means, without duplication of any other Reserves or items that are otherwise addressed or excluded through eligibility criteria, such reserves as the Lender from time to time reasonably determines as being appropriate (a) to reflect the impediments to the Lender’s ability to realize upon the Collateral, (b) to reflect claims and liabilities that the Lender determines will need to be satisfied in connection with the realization upon the Collateral, (c) to reflect criteria, events, conditions, contingencies or risks which adversely affect any component of the Borrowing Base, or the assets, business, financial performance or financial condition of any Loan Party, or (d) to reflect that a Default or an Event of Default then exists. Without limiting the generality of the foregoing, Availability Reserves may include, but are not limited to, as the Lender reasonably determines, reserves based on: (i) rent; (ii) customs duties, and other costs to release Inventory which is being imported into the United States; (iii) outstanding Taxes and other governmental charges, including, without limitation, ad valorem, real estate, personal property, sales, claims of the PBGC and other Taxes which may have priority over the interests of the Lender in the Collateral; (iv) salaries, wages and benefits due to employees of the Borrower, (v) Customer Credit Liabilities; (vi) customer deposits; (viii) reserves for reasonably anticipated changes in the Appraised Value of Eligible Inventory between appraisals; (viii) warehousemen’s or bailee’s charges and other Permitted Encumbrances which may have priority over the interests of the Lender in the Collateral; (ix) amounts due to vendors on account of consigned goods, if any (x) Cash Management Reserves, (xi) Bank Product Reserves, and (xii) royalties payable in respect of licensed merchandise.

“Average Daily Availability” means, for any Fiscal Quarter, an amount equal to the sum of Availability for each day of such Fiscal Quarter divided by the actual number of days in such Fiscal Quarter, as determined by the Lender, which determination shall be conclusive absent manifest error.

“Bank of America” means Bank of America, N.A. and its successors.

“Bank Products” means any services or facilities provided to any Loan Party by the Lender or any of its Affiliates, including, without limitation, on account of (a) Swap Contracts, (b) purchase cards, (c) leasing, (d) factoring, and (e) supply chain finance services (including, without limitation, trade payable services and supplier accounts receivable purchases), but excluding Cash Management Services.

“Bank Product Reserves” means such reserves as the Lender from time to time determine in its discretion as being appropriate to reflect the liabilities and obligations of the Loan Parties with respect to Bank Products then provided or outstanding.

“Banker’s Acceptance” means a time draft or bill of exchange or other deferred payment obligation relating to a Commercial Letter of Credit which has been accepted by the Issuing Lender.

“Base Rate” means for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate plus 1/2 of 1% (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate” [~~;~~ ~~(b) the Federal Funds Rate for such day, plus one-half of one percent (0.50%);~~], and (c) the [~~LIBOR~~ Eurodollar Rate [~~for a one (1) month interest period as determined on such day;~~] plus [~~one percent (1.0)~~ 1.00%]. The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such prime rate announced by Bank of America [~~’s prime rate, the Federal Funds Rate or the LIBOR Rate, respectively;~~] shall take effect at the opening of business on the day specified in the public announcement of such change. If the Base Rate is being used as an alternate rate of interest pursuant to Section 3.03 hereof, then the Base Rate shall be the greater of clauses (a) and (b) above and shall be determined without reference to clause (c) above.

“Base Rate Loan” means a Loan that bears interest based on the Base Rate.

“Beneficial Ownership Certification” means a certification regarding beneficial ownership required by the Beneficial Ownership Regulation.

“Beneficial Ownership Regulation” means 31 C.F.R. § 1010.230.

“Benefit Plan” means any of (a) an “employee benefit plan” (as defined in ERISA) that is subject to Title I of ERISA, (b) a “plan” as defined in and subject to Section 4975 of the Code or (c) any Person whose assets include (for purposes of ERISA Section 3(42) or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) the assets of any such “employee benefit plan” or “plan”.

“BHC Act Affiliate” of a party means an “affiliate” (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such party.

“Blocked Account” has the meaning provided in Section 6.12(a)(ii).

“Blocked Account Agreement” means with respect to an account established by a Loan Party, an agreement, in form and substance satisfactory to the Lender, establishing control (as defined in the UCC) of such account by the Lender and whereby the bank maintaining such account agrees, upon the occurrence and during the continuance of a Cash Dominion Event, to comply only with the instructions originated by the Lender without the further consent of any Loan Party.

“Blocked Account Bank” means each bank with whom deposit accounts are maintained in which any funds of any of the Loan Parties from one or more DDAs are concentrated and with

whom a Blocked Account Agreement has been, or is required to be, executed in accordance with the terms hereof.

“Borrower” has the meaning specified in the introductory paragraph hereto.

“Borrowing Base” means, at any time of calculation, an amount equal to:

(a) the face amount of Eligible Credit Card Receivables multiplied by the Credit Card Advance Rate;

plus

(b) (i) until the Lender completes an inventory appraisal, the Cost of Eligible Inventory, net of Inventory Reserves, multiplied by the Inventory Advance Rate, and (ii) after the Lender completes an inventory appraisal, the Cost of Eligible Inventory, net of Inventory Reserves, multiplied by the product of Appraisal Percentage multiplied by the Appraised Value of Eligible Inventory;

minus

(c) the then amount of all Availability Reserves.

“Borrowing Base Certificate” means a certificate substantially in the form of Exhibit E hereto (with such changes therein as may be required by the Lender to reflect the components of and reserves against the Borrowing Base as provided for hereunder from time to time), executed and certified as accurate and complete by a Responsible Officer of the Borrower which shall include appropriate exhibits, schedules, supporting documentation, and additional reports as reasonably requested by the Lender.

“Business” means the operation of a retail business with stores and other sales channels, which offers for sale urban fashion apparel, footwear, intimate apparel, accessories and home decor items, and ancillary businesses related thereto.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Lender’s Office is located and, if such day relates to any [~~LIBOR~~ Eurodollar Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank market.

“Capital Expenditures” means, with respect to any Person for any period, (a) all expenditures made (whether made in the form of cash or other property) or costs incurred for the acquisition or improvement of fixed or capital assets of such Person (excluding normal replacements and maintenance which are properly charged to current operations), in each case that are (or should be) set forth as capital expenditures in a Consolidated statement of cash flows of such Person for such period, in each case prepared in accordance with GAAP, and (b) Capital Lease Obligations incurred by a Person during such period.

“Capital Lease Obligations” means, with respect to any Person for any period, the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as liabilities on a balance sheet of such Person under GAAP and the amount of which obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“Cash Collateral Account” means a non-interest bearing account established by one or more of the Loan Parties with Bank of America, and in the name of, the Lender (or as the Lender shall otherwise direct) and under the sole and exclusive dominion and control of the Lender, in which deposits are required to be made in accordance with Section 2.03(f) or 8.02(c).

“Cash Collateralize” has the meaning specified in Section 2.03(f). Derivatives of such term have corresponding meanings.

“Cash Dominion Event” means either (i) the occurrence and continuance of any Event of Default, or (ii) the failure of the Borrower at any time to maintain Availability of at least twelve and one-half percent (12.5%) of the Loan Cap. For purposes of this Agreement, the occurrence of a Cash Dominion Event shall be deemed continuing (i) so long as such Event of Default has not been waived, and/or (ii) if the Cash Dominion Event arises as a result of the Borrower’s failure to achieve Availability as required hereunder, until Availability has exceeded twelve and one-half percent (12.5%) of the Loan Cap for sixty (60) consecutive Business Days, in which case a Cash Dominion Event shall no longer be deemed to be continuing for purposes of this Agreement; provided that a Cash Dominion Event shall be deemed continuing (even if an Event of Default is no longer continuing and/or Availability exceeds the required amount for sixty (60) consecutive Business Days) at all times after a Cash Dominion Event has occurred and been discontinued on three (3) occasion(s) after the Closing Date. The termination of a Cash Dominion Event as provided herein shall in no way limit, waive or delay the occurrence of a subsequent Cash Dominion Event in the event that the conditions set forth in this definition again arise.

“Cash Management Reserves” means such reserves as the Lender, from time to time, reasonably determines as being appropriate to reflect the reasonably anticipated liabilities and obligations of the Loan Parties with respect to Cash Management Services then provided or outstanding.

“Cash Management Services” means any cash management services provided to any Loan Party by the Lender or any of its Affiliates, including, without limitation, (a) ACH transactions, (b) controlled disbursement services, treasury, depository, overdraft, and electronic funds transfer services, (c) credit card processing services, and (d) credit or debit cards.

“CERCLA” means the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 9601 et seq.

“CERCLIS” means the Comprehensive Environmental Response, Compensation, and Liability Information System maintained by the United States Environmental Protection Agency.

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority, [~~provided however, for purposes of this Agreement~~]provided that notwithstanding anything to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith or in the implementation thereof and (ii) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or [~~Canadian~~]foreign regulatory authorities, in each case pursuant to Basel III, [~~are~~]shall in each case be deemed to [~~have gone into effect and been adopted after the Closing Date~~]be a “Change in Law” regardless of the date enacted, adopted, issued or implemented.

“Change of Control” means an event or series of events by which:

(a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and excluding any person or entity acting in its capacity as trustee, Lender or other fiduciary or administrator of any such plan) becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have “beneficial ownership” of all securities that such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time (such right, an “option right”), directly or indirectly, of twenty-five percent (25%) or more of the Equity Interests of the Borrower entitled to vote for members of the board of directors or equivalent governing body of the Borrower on a fully-diluted basis (and taking into account all such Equity Interests that such “person” or “group” has the right to acquire pursuant to any option right); or

(b) during any period of twelve (12) consecutive months, a majority of the members of the board of directors or other equivalent governing body of the Borrower cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of the members of that board or equivalent governing body then continuing to serve thereon or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of the members of that board or equivalent governing body then continuing to serve thereon; or

(c) any “change in control” in any document governing Material Indebtedness of any Loan Party; or

(d) the Borrower fails at any time to own, directly or indirectly, one hundred percent (100%) of the Equity Interests of each other Loan Party free and clear of all Liens (other than the Liens in favor of the Lender), except where such failure is as a result of a transaction permitted by the Loan Documents.

“Closing Date” means [~~the first date all the conditions precedent in Section 4.01 are satisfied or waived in accordance with Section 9.01~~]October 27, 2011.

“Code” means the Internal Revenue Code of 1986, and the regulations promulgated thereunder, as amended and in effect.

“Collateral” means any and all “Collateral” as defined in any applicable Security Document and all other property that is or is intended under the terms of the Security Documents to be subject to Liens in favor of the Lender.

“Collateral Access Agreement” means an agreement reasonably satisfactory in form and substance to the Lender executed (to the extent required by this Agreement) by (a) a bailee or other Person in possession of Collateral, and (b) a landlord of Real Estate leased by any Loan Party, pursuant to which such Person (i) acknowledges the Lender’s Lien on the Collateral, (ii) releases or subordinates such Person’s Liens in the Collateral held by such Person or located on such Real Estate, (iii) provides the Lender with access to the Collateral held by such bailee or other Person or located in or on such Real Estate, (iv) as to any landlord, provides the Lender with a reasonable time to sell and dispose of the Collateral from such Real Estate, and (v) makes such other agreements with the Lender as the Lender may reasonably require.

“Collection Account” has the meaning provided in Section 6.12(c).

“Commercial Letter of Credit” means any letter of credit or similar instrument (including, without limitation, Bankers’ Acceptances) issued for the purpose of providing the primary payment mechanism in connection with the purchase of any materials, goods or services by a Loan Party in the ordinary course of business of such Loan Party.

“Commitment” means, as to the Lender, its obligation to (a) make Committed Loans to the Borrower pursuant to Section 2.01 and (b) issue Letters of Credit, in an aggregate principal amount at any one time outstanding not to exceed \$50,000,000, as such amount may be adjusted from time to time in accordance with this Agreement.

“Commitment Fee Percentage” means one-fourth of one percent (0.25%) per annum.

“Committed Borrowing” means a borrowing consisting of simultaneous Committed Loans of the same Type and, in the case of [~~LIBOR~~]Eurodollar Rate Loans, having the same Interest Period made by the Lender pursuant to Section 2.01.

“Committed Loan” has the meaning specified in Section 2.01.

“Committed Loan Notice” means a notice of (a) a Committed Borrowing, (b) a Conversion of Committed Loans from one Type to the other, or (c) a continuation of [~~LIBOR~~]Eurodollar Rate Loans, pursuant to Section 2.02(b), which, if in writing, shall be

substantially in the form of Exhibit A or such other form as may be approved by the Lender, including any form on an electronic platform or electronic transmission system as shall be approved by the Lender, appropriately completed and signed by a Responsible Officer of the Borrower.

“Commodity Exchange Act” means the Commodity Exchange Act (7 U.S.C. § 1 et seq.).

“Compliance Certificate” means a certificate substantially in the form of Exhibit C.

“Connection Income Taxes” means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profits Taxes.

“Consolidated” means, when used to modify a financial term, test, statement, or report of a Person, the application or preparation of such term, test, statement or report (as applicable) based upon the consolidation, in accordance with GAAP, of the financial condition or operating results of such Person and its Subsidiaries.

“Consolidated EBITDA” means, at any date of determination, an amount equal to Consolidated Net Income of the Borrower and its Subsidiaries on a Consolidated basis for the most recently completed Measurement Period, plus (a) the following to the extent deducted in calculating such Consolidated Net Income: (i) Consolidated Interest Charges, (ii) the provision for federal, state, local and foreign income Taxes, (iii) depreciation and amortization expense, (iv) asset impairment expense, loss on disposal of property and equipment, stock-based compensation expense, and other expenses reducing such Consolidated Net Income, in each case which do not represent a cash item in such period or any future period (in each case of or by the Borrower and its Subsidiaries for such Measurement Period), minus (b) the following to the extent included in calculating such Consolidated Net Income: (i) federal, state, local and foreign income tax credits and (ii) all non-cash items increasing Consolidated Net Income (in each case of or by Borrower and its Subsidiaries for such Measurement Period), all as determined on a Consolidated basis in accordance with GAAP.

“Consolidated Fixed Charge Coverage Ratio” means, at any date of determination, the ratio of (a) (i) Consolidated EBITDA for such period minus (ii) Capital Expenditures made during such period, minus (iii) the aggregate amount of federal, state, local and foreign income taxes paid in cash during such period (but not less than zero) to (b) the sum of (i) Debt Service Charges plus (ii) the aggregate amount of all Restricted Payments, in each case, of or by Borrower and its Subsidiaries for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP.

“Consolidated Interest Charges” means, for any Measurement Period, the sum of (a) all interest, premium payments, debt discount, fees, charges and related expenses in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, including, without limitation, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers’ acceptance financing and net costs under Swap Contracts and (b)

the portion of rent expense with respect to such period under Capital Lease Obligations that is treated as interest in accordance with GAAP, in each case of or by the Borrower and its Subsidiaries for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP. .

“Consolidated Net Income” means, as of any date of determination, the net income of the Borrower and its Subsidiaries for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP, provided, however, that there shall be excluded (a) extraordinary gains and extraordinary losses for such Measurement Period, (b) the income (or loss) of any Subsidiary during such Measurement Period in which any other Person has a joint interest, except to the extent of the amount of cash dividends or other distributions actually paid in cash to the Borrower during such period, (c) the income (or loss) of such Subsidiary during such Measurement Period and accrued prior to the date it becomes a Subsidiary of the Borrower or any of its Subsidiaries or is merged into or consolidated with Borrower or any of its Subsidiaries or that Person’s assets are acquired by the Borrower or any of its Subsidiaries, and (d) the income of any direct or indirect Subsidiary of Borrower to the extent that the declaration or payment of dividends or similar distributions by that Subsidiary of that income is not at the time permitted by operation of the terms of its Organization Documents or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Subsidiary, except that the Borrower’s equity in any net loss of any such Subsidiary for such Measurement Period shall be included in determining Consolidated Net Income.

“Contractual Obligation” means, as to any Person, any provision of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Convert”, “Conversion” and “Converted” each refers to a conversion of Committed Loans of one Type into Committed Loans of the other Type.

“Cost” means the lower of cost or market value of Inventory, based upon the Borrower’s accounting practices, known to the Lender, which practices are in effect on the Closing Date as such calculated cost is determined from invoices received by the Borrower, the Borrower’s purchase journals or the Borrower’s stock ledger. “Cost” does not include inventory capitalization costs or other non-purchase price charges (such as freight) used in the Borrower’s calculation of cost of goods sold.

“Covenant Compliance Event” means either (a) that an Event of Default has occurred and is continuing, or (b) Availability at any time is less than the greater of (i) twelve and one-half percent (12.5%) of the Loan Cap ~~or~~ **and** (ii) \$5,000,000. For purposes hereof, the occurrence of a Covenant Compliance Event shall be deemed continuing (i) so long as such Event of Default has not been waived, and/or (ii) if the Covenant Compliance Event arises as a result of the Borrower’s failure to achieve Availability as required hereunder, until Availability has exceeded the greater of

(i) twelve and one-half percent (12.5%) of the Loan Cap [~~or~~and (ii) \$5,000,000 for sixty (60) consecutive Business Days, in which case a Covenant Compliance Event shall no longer be deemed to be continuing for purposes of this Agreement; provided that a Covenant Compliance Event shall be deemed continuing (even if an Event of Default is no longer continuing and/or Availability exceeds the required amount for sixty (60) consecutive Business Days) at all times after a Covenant Compliance Event has occurred and been discontinued on three (3) occasion(s) after the Closing Date. The termination of a Covenant Compliance Event as provided herein shall in no way limit, waive or delay the occurrence of a subsequent Covenant Compliance Event in the event that the conditions set forth in this definition again arise.

“Covered Entity” means any of the following: (i) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b); (ii) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or (iii) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Credit Card Advance Rate” means ninety percent (90%).

“Credit Card Notifications” has the meaning provided in Section 6.12(a)(i).

“Credit Card Receivables” means each “payment intangible” (as defined in the UCC) together with all income, payments and proceeds thereof, owed by an Acceptable Credit Card Issuer to a Loan Party resulting from charges by a customer of a Loan Party on credit or debit cards issued by such Acceptable Credit Card Issuer in connection with the sale of goods by a Loan Party, or services performed by a Loan Party, in each case in the ordinary course of its business.

“Credit Extensions” mean each of the following: (a) a Committed Borrowing and (b) an L/C Credit Extension.

“Credit Party” or “Credit Parties” means (a) individually, (i) the Lender and its Affiliates, (ii) the L/C Issuer, (iii) each beneficiary of each indemnification obligation undertaken by any Loan Party under any Loan Document, (iv) any other Person to whom Obligations under this Agreement and other Loan Documents are owing, and (v) the successors and assigns of each of the foregoing, and (b) collectively, all of the foregoing.

“Credit Party Expenses” means (a) all reasonable out-of-pocket expenses incurred by the Lender and its Affiliates, in connection with this Agreement and the other Loan Documents, including without limitation (i) the reasonable fees, charges and disbursements of (A) counsel for the Lender, (B) outside consultants for the Lender, (C) appraisers, (D) commercial finance examiners, and (E) all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of the Obligations, (ii) in connection with (A) the preparation, negotiation, administration, management, execution and delivery of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (B) the enforcement or protection of their rights in connection with this Agreement or the Loan Documents or efforts to preserve, protect, collect, or enforce the Collateral or in connection with any proceeding under

any Debtor Relief Laws, or (C) any workout, restructuring or negotiations in respect of any Obligations, and (iii) all customary fees and charges (as adjusted from time to time) of the Lender with respect to the disbursement of funds (or the receipt of funds) to or for the account of Borrower (whether by wire transfer or otherwise), together with any out-of-pocket costs and expenses incurred in connection therewith, and (b) with respect to the L/C Issuer, and its Affiliates, all reasonable out-of-pocket expenses incurred in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder.

“Customer Credit Liabilities” means at any time, the aggregate remaining value at such time of (a) outstanding gift certificates and gift cards of the Borrower entitling the holder thereof to use all or a portion of the certificate or gift card to pay all or a portion of the purchase price for any Inventory, (b) outstanding merchandise credits of the Borrower, and (c) layaway obligations of the Borrower.

“DDA” means each checking, savings or other demand deposit account maintained by any of the Loan Parties. All funds in each DDA shall be conclusively presumed to be Collateral and proceeds of Collateral and the Lender shall have no duty to inquire as to the source of the amounts on deposit in any DDA.

“Debt Service Charges” means for any Measurement Period, the sum of (a) Consolidated Interest Charges paid or required to be paid for such Measurement Period, plus (b) principal payments made or required to be made on account of Indebtedness (excluding the Obligations and any Synthetic Lease Obligations but including, without limitation, Capital Lease Obligations) for such Measurement Period, in each case determined on a Consolidated basis in accordance with GAAP.

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means (a) when used with respect to Loans, an interest rate equal to the interest rate (including the Applicable Margin) otherwise applicable to such Loan plus two percent (2%) per annum, (b) when used with respect to Letter of Credit Fees, a rate equal to the Applicable Rate for Standby Letters of Credit or Commercial Letters of Credit, as applicable, plus two percent (2%) per annum, and (c) with respect to all other Obligations, an interest rate equal to the Base Rate, plus the then Applicable Margin, plus two percent (2%) per annum.

“Default Right” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“Designated Jurisdiction” means any country or territory to the extent that such country or territory itself is the subject of any Sanction.

“Disclosure Schedule” means that certain Disclosure Schedule, dated as of the date hereof, executed and delivered by the Borrower to the Lender.

“Disposition” or “Dispose” means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction), whether in one transaction or in a series of transactions **and whether effected pursuant to a Division or otherwise**, of any property (including, without limitation, in the case of any Loan Party, any Equity Interests owned by such Loan Party, but excluding Equity Interests issued by such Loan Party, in each case as long as no Change of Control results therefrom) by any Person (or the granting of any option or other right to do any of the foregoing), including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith .

“Disqualified Stock” means any Equity Interest that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is ninety-one (91) days after the date on which the Loans mature; provided, however, that (i) only the portion of such Equity Interests which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date shall be deemed to be Disqualified Stock, (ii) with respect to any Equity Interests issued to any employee or to any plan for the benefit of employees of the Borrower or its Subsidiaries or by any such plan to such employees, such Equity Interest shall not constitute Disqualified Stock solely because it (A) may be required to be repurchased by the Borrower or one of its Subsidiaries in order to satisfy applicable statutory or regulatory obligations or as a result of such employee’s termination, resignation, death or disability or (B) includes provisions that allow employees, at their option, to settle their tax obligations in respect thereof with a tender of a portion of such Equity Interests back to the Borrower or a Subsidiary thereof, and (iii) any class of Equity Interest that by its terms authorizes the Borrower or a Subsidiary thereof to satisfy its obligations thereunder solely by delivery of an Equity Interest that is not Disqualified Stock shall not be deemed to be Disqualified Stock. Notwithstanding the preceding sentence, any Equity Interest that would constitute Disqualified Stock solely because the holders thereof have the right to require a Loan Party to repurchase such Equity Interest upon the occurrence of a change of control or an asset sale shall not constitute Disqualified Stock. The amount of Disqualified Stock deemed to be outstanding at any time for purposes of this Agreement will be the maximum amount that the Borrower and its Subsidiaries may become obligated to pay upon maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock or portion thereof, plus accrued dividends.

“Dividing Person” has the meaning provided in the definition of “Division”.

“Division” means the division of the assets, liabilities and/or obligations of a Person (the “Dividing Person”) among two or more Persons (whether pursuant to a “plan of

division” or similar arrangement), which may or may not include the Dividing Person and pursuant to which the Dividing Person may or may not survive.

“Division Successor” means any Person that, upon the consummation of a Division of a Dividing Person, holds all or any portion of the assets, liabilities and/or obligations previously held by such Dividing Person immediately prior to the consummation of such Division. A Dividing Person which retains any of its assets, liabilities and/or obligations after a Division shall be deemed a Division Successor upon the occurrence of such Division.

“Dollars” and “\$” mean lawful money of the United States.

“EEA Financial Institution” means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a Subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any Person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“Eligible Assignee” means (a) the Lender or any of its Affiliates; (b) a bank, insurance company, or company engaged in the business of making commercial loans, which Person, together with its Affiliates, has a combined capital and surplus in excess of \$250,000,000; (c) an Approved Fund; (d) any Person to whom a Credit Party assigns its rights and obligations under this Agreement as part of an assignment and transfer of such Credit Party’s rights in and to a material portion of such Credit Party’s portfolio of asset based credit facilities, and (e) any other Person (other than a natural Person) satisfying the requirements of Section 9.06(b) hereof; provided that notwithstanding the foregoing, “Eligible Assignee” shall not include a Loan Party or any of its respective Affiliates or Subsidiaries.

“Eligible Credit Card Receivables” means at the time of any determination thereof, each Credit Card Receivable that satisfies the following criteria: such Credit Card Receivable (i) has been earned by performance and represents the bona fide amounts due to the Borrower from an Acceptable Credit Card Issuer or a credit card payment processor, and in each case is originated in the ordinary course of business of the Borrower, and (ii) is not ineligible for inclusion in the calculation of the Borrowing Base pursuant to any of clauses (a) through (j) below as determined by the Lender in its reasonable discretion. Without limiting the foregoing, to qualify as an Eligible Credit Card Receivable, an Account shall indicate no Person other than the Borrower as payee or remittance party. In determining the amount to be so included, the face amount of an Account shall be reduced by, without duplication, to the extent not reflected in such face amount, (i) the amount

of all accrued and actual discounts, claims, credits or credits pending, promotional program allowances, price adjustments, finance charges or other allowances (including any amount that the Borrower may be obligated to rebate to a customer, a credit card payment processor, or credit card issuer pursuant to the terms of any agreement or understanding (written or oral)) and (ii) the aggregate amount of all cash received in respect of such Account but not yet applied by the Loan Parties to reduce the amount of such Credit Card Receivable. Except as otherwise agreed by the Lender, any Credit Card Receivable included within any of the following categories shall not constitute an Eligible Credit Card Receivable:

- (a) Credit Card Receivable which do not constitute an "Account" (as defined in the UCC);
- (b) Credit Card Receivables that have been outstanding for more than five (5) Business Days from the date of sale;
- (c) Credit Card Receivables (i) that are not subject to a perfected first-priority security interest in favor of the Lender, or (ii) with respect to which the Borrower does not have good and valid title thereto, free and clear of any Lien (other than Liens granted to the Lender pursuant to the Security Documents);
- (d) Credit Card Receivables which are disputed, are with recourse, or with respect to which a claim, counterclaim, offset or chargeback has been asserted (to the extent of such claim, counterclaim, offset or chargeback);
- (e) Credit Card Receivables as to which a credit card issuer or a credit card payment processor has the right under certain circumstances to require a Loan Party to repurchase the Accounts from such credit card issuer or credit card payment processor;
- (f) Credit Card Receivables due from a credit card issuer or credit card payment processor of the applicable credit card which is the subject of any bankruptcy or insolvency proceedings;
- (g) Credit Card Receivables which are not a valid, legally enforceable obligation of the applicable credit card issuer with respect thereto;
- (h) Credit Card Receivables which do not conform to all representations, warranties or other provisions in the Loan Documents relating to Credit Card Receivables;
- (i) Credit Card Receivables which are evidenced by "chattel paper" or an "instrument" of any kind unless such "chattel paper" or "instrument" is in the possession of the Lender, and to the extent necessary or appropriate, endorsed to the Lender; or
- (j) Credit Card Receivables which the Lender reasonably determines to be uncertain of collection or which do not meet such other reasonable eligibility criteria for Credit Card Receivables as the Lender may determine.

"Eligible Inventory" means, as of the date of determination thereof, without duplication, items of Inventory of the Borrower that are finished goods, merchantable and readily saleable to

the public in the ordinary course of the Borrower's business meeting the criteria to be eligible for inclusion in the calculation of the Borrowing Base, in each case that, except as otherwise agreed by the Lender, (A) complies with each of the representations and warranties respecting Inventory made by the Borrower in the Loan Documents, and (B) is not excluded as ineligible for inclusion in the calculation of the Borrowing Base by virtue of one or more of the criteria set forth below as determined by the Lender in its reasonable discretion. Except as otherwise agreed by the Lender, in its discretion, the following items of Inventory shall not be included in Eligible Inventory:

(a) Inventory that is not solely owned by the Borrower or the Borrower does not have good and valid title thereto free and clear of any Lien (other than Liens granted to the Lender pursuant to the Security Documents);

(b) Inventory that is leased by or is on consignment to the Borrower or which is consigned by the Borrower to a Person which is not a Loan Party;

(c) Inventory that is not located in the United States (excluding territories or possessions of the United States) or is at a location in the United States that is not owned or leased by the Borrower except (i) Inventory in transit between such owned or leased locations, (ii) to the extent that the Borrower has furnished the Lender with (A) any UCC financing statements or other documents that the Lender may determine to be necessary to perfect its security interest in such Inventory at such location, and (B) a Collateral Access Agreement executed by the Person owning any such location, or (iii) Inventory in the possession of a consolidator retained by and acting for and on behalf of the Borrower for the handling and delivery of Inventory to the Borrower's locations in the ordinary course of business, subject to (A) verification thereof as determined to be necessary by the Lender or as requested by the Borrower from time to time and (B) the Borrower furnishing the Lender with a Collateral Access Agreement executed by the consolidator;

(d) Inventory that is located in a distribution center (but, for clarity, not Store locations) leased by Borrower unless the applicable lessor has delivered to the Lender a Collateral Access Agreement;

(e) Inventory that is comprised of goods which (i) are damaged,

(f) defective, "seconds," or otherwise unmerchantable, (ii) are to be returned to the vendor, (iii) are custom items, work-in-process, raw materials, or that constitute samples, spare parts, promotional, marketing, labels, bags and other packaging and shipping materials or supplies used or consumed in the Borrower's business, (iv) are not in compliance with all standards imposed by any Governmental Authority having regulatory authority over such Inventory, its use or sale, (v) are bill and hold goods, or (vi) without duplication of the foregoing, are in locations 98, 861, 864, 867, 868, 869, 871, 874, 877, 878, or 879 of the Borrower's stock ledger;

(g) Inventory that is not subject to a perfected first-priority security interest in favor of the Lender;

(h) Inventory that is not insured in compliance with the provisions of Section 5.10 hereof;

(i) Inventory that is subject to any licensing, patent, royalty, trademark, trade name or copyright agreement with any third party from which the Borrower or any of its Subsidiaries has received notice of a dispute in respect of any such agreement; or

(j) Inventory acquired in a Permitted Acquisition or which is not of the type usually sold in the ordinary course of the Borrower's business, unless and until the Lender has completed or received (A) an appraisal of such Inventory from appraisers satisfactory to the Lender and establishes Inventory Reserves (if applicable) therefor, and otherwise agrees that such Inventory shall be deemed Eligible Inventory, and (B) such other due diligence as the Lender may require, all of the results of the foregoing to be reasonably satisfactory to the Lender.

“Environment” means ambient air, indoor air, surface water, groundwater, drinking water, soil, surface and subsurface strata, and natural resources such as wetland, flora and fauna.

“Environmental Laws” means any and all [~~federal~~ **Federal**], state, local, and foreign statutes, laws (**including common law**), regulations, **standards**, ordinances, rules, judgments, **interpretations**, orders, decrees, permits, [~~concessions, grants, franchises, licenses,~~] agreements or governmental restrictions relating to pollution [~~and~~ **or**] the protection of the [~~environment~~ **Environment**] or **human health (to** the [~~release of any~~ **extent related to exposure to hazardous** materials [~~into the environment~~]), including those [~~related~~ **relating**] to [~~hazardous substances or wastes~~ **the manufacture, generation, handling, transport, storage, treatment, Release or threat of Release of Hazardous Materials**], air emissions and discharges to waste or public systems.

“Environmental Liability” means any liability [~~, obligation, damage, loss, claim, action, suit, judgment, order, fine, penalty, fee, expense, or cost~~], contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities) [~~, of the Borrower, any other Loan Party or any of their respective Subsidiaries~~] **whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law**, directly or indirectly [~~resulting from or based upon~~ **relating to**] (a) [~~violation of~~] any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal [~~or presence~~] of any Hazardous Materials, (c) [~~the release~~ **exposure to any Hazardous Materials, (d) Release**] or threatened [~~release~~ **Release**] of any Hazardous Materials [~~into the environment~~] or (d) **e**] any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Environmental Permit” means any permit, certification, registration, approval, identification number, license or other authorization required under any Environmental Law.

“Equipment” has the meaning set forth in the UCC.

“Equity Interests” means, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or

profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and all of the other ownership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or non-voting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) ~~[a]~~ the withdrawal [by] of the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which ~~[it]~~ such entity was a “substantial employer” ~~[c]~~ [as defined in Section 4001(a)(2) of ERISA] or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Pension Plan amendment as a termination under [Sections] Section 4041 or 4041A of ERISA, ~~[-or];~~ (e) the [commencement] institution by the PBGC of proceedings [by the PBGC] to terminate a Pension Plan ~~[-or Multiemployer Plan];~~ (e) [an] any event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan ~~[-or Multiemployer Plan];~~ (g) the determination that any Pension Plan is considered an at-risk plan or a plan in endangered or critical status within the meaning of Sections 430, 431 and 432 of the Code or Sections 303, 304 and 305 of ERISA; ~~[-or]~~ (f) h) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate; or (i) a failure by the Borrower or any ERISA Affiliate to meet all applicable requirements under the Pension Funding Rules in respect of a Pension Plan, whether or not waived, or the failure by the Borrower or any ERISA Affiliate to make any required contribution to a Multiemployer Plan.

“Eurodollar Borrowing” means a Committed Borrowing comprised of Eurodollar Rate Loans.

“Eurodollar Rate” means:

(k) for any Interest Period with respect to a Eurodollar Rate Loan, the rate per annum equal to the London Interbank Offered Rate as administered by ICE Benchmark Administration (or any other Person that takes over the administration of such rate for U.S. Dollars for a period equal in length to such Interest Period) (“LIBOR”) as published on the applicable Bloomberg screen page (or such other commercially available source providing such quotations as may be designated by the Lender from time to time) at approximately 11:00 a.m., London time, two Business Days

prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period;

(l) for any interest calculation with respect to a Base Rate Loan on any date, the rate per annum equal to LIBOR, at or about 11:00 a.m., London time determined two London Banking Days prior to such date for U.S. Dollar deposits with a term of one month commencing that day; and

(m) if the Eurodollar Rate shall be less than one percent (1.00%), such rate shall be deemed one percent (1.00%) for purposes of this Agreement.

“Eurodollar Rate Loan” means a Committed Loan that bears interest at a rate based on clause (a) of the definition of the Eurodollar Rate.

“Event of Default” has the meaning specified in Section 8.01. An Event of Default shall be deemed to be continuing unless and until that Event of Default has been duly waived as provided in Section 9.01 hereof.

“Excluded Swap Obligation” means, with respect to any Loan Party, any Swap Obligation if, and to the extent that, all or a portion of the guaranty of such Loan Party under the Facility Guaranty of, or the grant under a Loan Document by such Loan Party of a security interest to secure, such Swap Obligation (or any guaranty thereof) is or becomes illegal under the Commodity Exchange Act (or the application or official interpretation thereof) by virtue of such Loan Party’s failure for any reason to constitute an “eligible contract participant” as defined in the Commodity Exchange Act (determined after giving effect to Section 9.23 hereof and any and all guarantees of such Loan Party’s Swap Obligations by other Loan Parties) at the time the guaranty of such Loan Party, or grant by such Loan Party of a security interest, becomes effective with respect to such Swap Obligation. If a Swap Obligation arises under a Master Agreement governing more than one Swap Contract, such exclusion shall apply only to the portion of such Swap Obligation that is attributable to Swap Contracts for which such guaranty or security interest becomes illegal.

“Excluded Taxes” means, with respect to the Lender, the L/C Issuer or any other recipient of any payment to be made by or on account of any obligation of the Loan Parties hereunder any of the following Taxes imposed on or with respect to any such Person or required to be withheld or deducted from a payment to such Person, (a) ~~[taxes]~~Taxes imposed on or measured by ~~[its overall]~~ net income (however denominated), ~~[and]~~ ~~franchise~~ ~~[taxes imposed on it (in lieu of net income taxes), by the jurisdiction]~~ ~~(or any political subdivision thereof)~~Taxes, and branch profits Taxes, in each case, (i) imposed as a result of such Person being organized under the laws of~~[which such recipient is organized]~~, or ~~[in which]~~having its principal office ~~[is]~~or, in the case of the Lender, the Lender’s Office being located in, ~~[(b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which any Loan Party is located, (c) any United States federal, state or local backup withholding tax]~~the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) in the case of the Lender, U.S. federal withholding Taxes imposed on amounts payable to or for the account of the Lender with respect to an applicable interest in a Loan or Commitment pursuant to a law in effect on the date on which (i) the Lender acquires such interest in the Loan or Commitment or (ii) the Lender changes the Lender’s Office, except

in each case to the extent that, pursuant to Section 3.01(b) or (c), amounts with respect to such Taxes were payable either to the Lender's assignor immediately before the Lender became a party hereto or to the Lender immediately before it changed the Lender's Office,~~[-and] ([d]c) any [United States]U.S. federal withholding [tax]Taxes imposed [under]pursuant to FATCA.~~

"Executive Order" has the meaning set forth in Section 9.17.

"Existing Credit Agreement" means that certain Credit Agreement dated as of March 26, 2008 among the Borrower, the Guarantors, and Bank of America, N.A., as Lender, as the same has been amended, from time to time thereafter prior to the date hereof.

"Extraordinary Receipt" means any cash received by or paid to or for the account of any Person not in the ordinary course of business.

"Facility Guaranty" means the Guaranty made by the Guarantors in favor of the Lender and the other Credit Parties, in form reasonably satisfactory to the Lender.

"FATCA" means ~~[current Section]~~Sections 1471 through 1474 of the Code , as of the date of this Agreement (or any amended ~~[version]~~ or successor ~~[provision]~~version that is substantively ~~[similar]~~comparable and~~[-in each case,]~~ not materially more onerous to comply with) and any current or future regulations ~~promulgated thereunder~~~~[-and any interpretation and other guidance issued in connection therewith]~~or official interpretations thereof and any agreements entered into pursuant to Section 1471(b)(1) of the Code.

"Federal Funds Rate" means, for any day, the rate per annum ~~[equal to]~~calculated by the ~~[weighted average of the rates]~~Federal Reserve Bank of New York based on ~~[overnight]~~such day's federal funds transactions ~~[with members of]~~by depository institutions (as determined in such manner as the Federal Reserve ~~[System arranged by federal funds brokers on such day, as]~~Bank of New York shall set forth on its public website from time to time) and published ~~[by the Federal Reserve Bank of New York]~~ on the ~~[Business Day]~~ next succeeding ~~[such day]~~Business Day by the Federal Reserve Bank of New York as the federal funds effective rate; provided that ~~[(a)]if~~ ~~[-such day is not a Business Day,]~~ the Federal Funds Rate ~~[for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for]~~as so determined would be less than zero, such ~~[day]~~rate shall be ~~[the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by the Lender]~~deemed to be zero for purposes of this Agreement.

"Fee Letter" means the letter agreement, dated October 27, 2011, among the Borrower and the Lender.

"Fiscal Month" means any fiscal month of any Fiscal Year, which month shall generally end on the Saturday closest to the end of each calendar month in accordance with the fiscal accounting calendar of the Loan Parties.

“Fiscal Quarter” means any fiscal quarter of any Fiscal Year, which quarters shall generally end on the Saturday closest to the end of each April, July, October and January of such Fiscal Year in accordance with the fiscal accounting calendar of the Loan Parties.

“Fiscal Year” means any period of twelve (12) consecutive months ending on the Saturday closest to January 31 of any calendar year.

“Foreign [~~Asset~~Assets Control Regulations” has the meaning set forth in Section 9.17.

“FRB” means the Board of Governors of the Federal Reserve System of the United States.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

“GAAP” means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Guarantee” means, as to any Person, (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if

not stated or determinable, the maximum reasonably anticipated liability in respect thereof. The term “Guarantee” as a verb has a corresponding meaning.

“Guarantor” means (a) each Subsidiary of the Borrower existing on the Closing Date and each other Subsidiary of the Borrower that shall be required to execute and deliver a Facility Guaranty pursuant to Section 6.11 and (b) with respect to any Swap Obligation of a Specified Loan Party (determined before giving effect to Section 9.23 under the Facility Guaranty), the Borrower.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants~~[-]~~ including petroleum or petroleum distillates, natural gas, natural gas liquids, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, toxic mold, infectious or medical wastes and all other substances~~[-or]~~, wastes, chemicals, pollutants, contaminants or compounds of any nature in any form regulated pursuant to any Environmental Law.

“Honor Date” has the meaning specified in Section 2.03(c)(i).

“Increase Effective Date” shall have the meaning provided therefor in Section 2.12(b).

“Indebtedness” means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

- (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;
 - (b) the maximum amount of all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments;
 - (c) net obligations of such Person under any Swap Contract;
 - (d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business and, in each case, not past due for more than sixty (60) days);
 - (e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;
 - (f) all Attributable Indebtedness of such Person;
 - (g) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any Equity Interest in such Person or any other Person (including, without limitation, Disqualified Stock), or any warrant, right or option to acquire such Equity Interest, valued, in the case of a redeemable preferred interest, at
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the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; and

(h) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Indemnitees” has the meaning specified in [Section 9.04\(b\)](#).

“Information” has the meaning specified in [Section 9.07](#).

“Intellectual Property” means all present and future: trade secrets, know-how and other proprietary information; trademarks, trademark applications, internet domain names, service marks, trade dress, trade names, business names, designs, logos, slogans (and all translations, adaptations, derivations and combinations of the foregoing) indicia and other source and/or business identifiers, and all registrations or applications for registrations which have heretofore been or may hereafter be issued thereon throughout the world; copyrights and copyright applications; (including copyrights for computer programs) and all tangible and intangible property embodying the copyrights, unpatented inventions (whether or not patentable); patents and patent applications; industrial design applications and registered industrial designs; license agreements related to any of the foregoing and income therefrom; books, records, writings, computer tapes or disks, flow diagrams, specification sheets, computer software, source codes, object codes, executable code, data, databases and other physical manifestations, embodiments or incorporations of any of the foregoing; all other intellectual property; and all common law and other rights throughout the world in and to all of the foregoing.

“Interest Payment Date” means, (a) as to any [~~LIBOR~~][Eurodollar](#) Rate Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date; provided, however, that if any Interest Period for a [~~LIBOR~~][Eurodollar](#) Rate Loan exceeds three (3) months, the respective dates that fall every three (3) months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan, the first day of each calendar month, or if such day is not a Business Day, on the next succeeding Business Day, and the Maturity Date.

“Interest Period” means, as to each [~~LIBOR~~][Eurodollar](#) Rate Loan, the period commencing on the date such [~~LIBOR~~][Eurodollar](#) Rate Loan is disbursed or Converted to or continued as a [~~LIBOR~~][Eurodollar](#) Rate Loan and ending on the date one, two, three or six months thereafter [\(in each case, subject to availability\)](#), as selected by the Borrower in its Committed Loan Notice; provided that:

(i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such

Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period;

(iii) no Interest Period shall extend beyond the Maturity Date; and

(iv) notwithstanding the provisions of clause (iii), no Interest Period shall have a duration of less than one (1) month, and if any Interest Period applicable to a [~~LIBOR~~ Eurodollar Borrowing would be for a shorter period, such Interest Period shall not be available hereunder.

For purposes hereof, the date of a Committed Borrowing initially shall be the date on which such Committed Borrowing is made and thereafter shall be the effective date of the most recent Conversion or continuation of such Committed Borrowing.

“Internal Control Event” means (i) a material weakness in the Borrower’s and/or its Subsidiaries’ internal controls over financial reporting that could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect, or (ii) fraud related to the business of the Borrower and its Subsidiaries that involves management or other employees who have a significant role in the Borrower’s and/or its Subsidiaries’ internal controls over financial reporting.

“Inventory” has the meaning given that term in the UCC, and shall also include, without limitation, all: (a) goods which (i) are leased by a Person as lessor, (ii) are held by a Person for sale or lease or to be furnished under a contract of service, (iii) are furnished by a Person under a contract of service, or (iv) consist of raw materials, work in process, or materials used or consumed in a business; (b) goods of said description in transit; (c) goods of said description which are returned, repossessed or rejected; and (d) packaging, advertising, and shipping materials related to any of the foregoing.

“Inventory Advance Rate” means sixty percent (60%).

“Inventory Reserves” means such reserves as may be established from time to time by the Lender in its reasonable discretion with respect to the determination of the saleability, at retail, of the Eligible Inventory, which reflect such other factors as affect the market value of the Eligible Inventory or which reflect claims and liabilities that the Lender determines will need to be satisfied in connection with the realization upon the Inventory. Without limiting the generality of the foregoing, Inventory Reserves may, in the Lender’s reasonable discretion, include (but are not limited to) reserves based on:

- (a) Obsolescence;
 - (b) Seasonality;
-

- (c) Shrink;
- (d) Imbalance;
- (e) Change in Inventory character;
- (f) Change in Inventory composition;
- (g) Change in Inventory mix;
- (h) Mark-downs (both permanent and point of sale); and
- (i) Retail mark-ons and mark-ups inconsistent with prior period practice and performance, industry standards, current business plans or advertising calendar and planned advertising events.

“Investment” means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of Equity Interests of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or interest in, another Person, or (c) any Acquisition, or (d) any other investment of money or capital. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“IRS” means the United States Internal Revenue Service.

“ISP” means, with respect to any Letter of Credit, the “International Standby Practices 1998” published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

“Issuer Documents” means with respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by the L/C Issuer and the Borrower (or any Subsidiary) or in favor of the L/C Issuer and relating to any such Letter of Credit.

“Joinder Agreement” means an agreement, in form satisfactory to the Lender pursuant to which, among other things, a Person becomes a party to, and bound by the terms of, this Agreement and/or the other Loan Documents in the same capacity and to the same extent as either the Borrower or a Guarantor, as the Lender may determine.

“Landlord Lien State” means such state(s) in which a landlord’s claim for rent may have priority over the Lien of the Lender in any of the Collateral.

“Laws” means ~~each~~, collectively, all international, foreign, ~~federal~~ Federal, state and local ~~statute, treaty~~ statutes, treaties, ~~rule~~ rules, ~~guideline, regulation, ordinance~~ guidelines, regulations, ordinances, ~~code~~ codes and administrative or judicial ~~precedent~~ precedents or ~~authority~~ authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and ~~each~~ all

applicable administrative [~~order~~ orders], directed [~~duty, request, license, authorization~~ duties, requests, licenses, authorizations] and [~~permit~~ permits] of, and [~~agreement~~ agreements] with, any Governmental Authority, in each case whether or not having the force of law.

“L/C Borrowing” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Committed Borrowing.

“L/C Credit Extension” means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

“L/C Issuer” means the Lender, in its capacity as issuer of Letters of Credit hereunder. The L/C Issuer may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the L/C Issuer, in which case the term “L/C Issuer” shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

“L/C Obligations” means, as at any date of determination, the aggregate undrawn amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For purposes of computing the amounts available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06. For all purposes of this Agreement, if on any date of determination, a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of any Rule under the ISP or any Article of UCP 600, such Letter of Credit shall be deemed to be “outstanding” in the amount so remaining available to be drawn.

“Lease” means any agreement, whether written or oral, no matter how styled or structured, pursuant to which a Loan Party is entitled to the use or occupancy of any real property for any period of time.

“Lender” has the meaning specified in the introductory paragraph hereto.

“Lender’s Office” means the Lender’s address and, as appropriate, account as set forth on Schedule 9.02 hereto, or such other address or account as the Lender may from time to time notify the Borrower, which office may include any Affiliate of the Lender or any domestic or foreign branch of the Lender or such Affiliate. Unless the context otherwise requires each reference to the Lender shall include its applicable Lending Office.

“Letter of Credit” means each Banker’s Acceptance, each Standby Letter of Credit and each Commercial Letter of Credit issued hereunder.

“Letter of Credit Application” means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by the L/C Issuer.

“Letter of Credit Expiration Date” means the day that is seven (7) days prior to the Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

“Letter of Credit Fee” has the meaning specified in Section 2.03(h).

“Letter of Credit Sublimit” means an amount equal to \$5,000,000. The Letter of Credit Sublimit is part of, and not in addition to, the Commitment. A permanent reduction of the Commitment shall not require a corresponding pro rata reduction in the Letter of Credit Sublimit; provided, however, that if the Commitment is reduced to an amount less than the Letter of Credit Sublimit, then the Letter of Credit Sublimit shall be reduced to an amount equal to (or, at Borrower’s option, less than) the Commitment.

“LIBOR ~~Borrowing~~ means a ~~Committed Borrowing comprised~~” has the meaning specified in the definition of [LIBOR]Eurodollar Rate[Loans].

“LIBOR Screen Rate” means [~~(a) for any Interest Period with respect to a~~ the LIBOR [~~Rate Loan,~~ quote on the [~~rate per annum equal to the London interbank offered rate~~] ~~administered by ICE Benchmark Administration [Limited (“ICE]~~ applicable screen page the Lender designates to determine LIBOR⁽²⁾], ~~as published by Reuters~~] (or such other commercially available source providing such quotations [~~of ICE LIBOR as~~] designated by the Lender from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period [~~. If such rate is not available at such time for any reason, then the “LIBOR Rate” for such Interest Period shall be the rate per annum determined by the Lender to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the LIBOR Rate Loan being made, continued or converted and with a term equivalent to such Interest Period would be offered by Bank of America’s London Branch to major~~] ~~banks in the London interbank eurodollar market~~ [~~at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.; and~~]

[~~(a) —~~] ~~for any interest calculation with respect to a Base Rate Loan on any date, the rate per annum equal to~~ [(i) ICE LIBOR, at approximately 11:00 a.m., London time ~~determined two London Banking Days prior to such date for Dollar deposits being delivered in the London interbank market for a term of one month commencing that day or~~ (ii) if such ~~published rate is not available at such time for any reason, the rate per annum determined by the~~ Lender to be the rate at which deposits in Dollars for delivery on the date of determination in same day funds in the approximate amount of the Base Rate Loan being made or maintained and with a term equal to one month would be offered by Bank of America’s London Branch to major ~~banks in the London interbank Eurodollar market at their request at the date and time of determination.~~]

[~~“LIBOR] Rate Loan” means a Committed Loan that bears interest at a rate based on [the Adjusted LIBOR Rate.~~

as may be designated by the Lender from time to time).

“LIBOR Successor Rate” has the meaning specified in Section 3.03(c).

“LIBOR Successor Rate Conforming Changes” means, with respect to any proposed LIBOR Successor Rate, any conforming changes to the definition of Base Rate, Interest Period, timing and frequency of determining rates and making payments of interest and other technical, administrative or operational matters as may be appropriate, in the discretion of the Lender, to reflect the adoption and implementation of such LIBOR Successor Rate and to permit the administration thereof by the Lender in a manner substantially consistent with market practice (or, if the Lender determines that adoption of any portion of such market practice is not administratively feasible or that no market practice for the administration of such LIBOR Successor Rate exists, in such other manner of administration as the Lender determines is reasonably necessary in connection with the administration of this Agreement).

“Lien” means (a) any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale, Capital Lease Obligation, Synthetic Lease Obligation, or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing) and (b) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Liquidation” means the exercise by the Lender of those rights and remedies accorded to the Lender under the Loan Documents and applicable Laws as a creditor of the Loan Parties with respect to the realization on the Collateral, including (after the occurrence and during the continuation of an Event of Default) the conduct by the Loan Parties acting with the consent of the Lender, of any public, private or “going-out-of-business”, “store closing” or other similar sale or any other disposition of the Collateral for the purpose of liquidating the Collateral. Derivations of the word “Liquidation” (such as “Liquidate”) are used with like meaning in this Agreement.

“Loan” means an extension of credit by the Lender to the Borrower under Article II in the form of a Committed Loan.

“Loan Account” has the meaning assigned to such term in Section 2.10(a).

“Loan Cap” means, at any time of determination, the lesser of (a) the Commitment or (b) the Borrowing Base.

“Loan Documents” means this Agreement, each Note, each Issuer Document, the Fee Letter, all Borrowing Base Certificates, the Blocked Account Agreements, the Credit Card Notifications, the Security Documents, the Facility Guaranty and any other instrument or agreement now or hereafter executed and delivered in connection herewith, or in connection with any transaction arising out of any Cash Management Services and Bank Products provided by the Lender or any of its Affiliates, each as amended and in effect from time to time.

“Loan Parties” means, collectively, the Borrower and each Guarantor.

“London Banking Day” means any day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent), condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole; provided that on the Second Amendment Effective Date, the temporary closure of the Loan Parties’ store locations and other operational disruptions affecting the Loan Parties, in each case as a direct result of the COVID-19 pandemic, shall not be deemed to have resulted in a Material Adverse Effect under this clause (a); (b) a material impairment of the ability of the Borrower and its Subsidiaries taken as a whole to perform their obligations under the Loan Documents; or (c) a material impairment of the rights and remedies of the Lender under the Loan Documents or a material adverse effect upon the legality, validity, binding effect or enforceability of the Loan Documents against the Borrower and its Subsidiaries taken as a whole. In determining whether any individual event would result in a Material Adverse Effect, notwithstanding that such event in and of itself does not have such effect, a Material Adverse Effect shall be deemed to have occurred if the cumulative effect of such event and all other then existing events would result in a Material Adverse Effect.

“Material Contract” means, with respect to any Person, each contract to which such Person is a party if the failure to maintain such contract in full force and effect would be reasonably likely to result in a Material Adverse Effect.

“Material Indebtedness” means Indebtedness (other than the Obligations) of the Loan Parties in an aggregate principal amount exceeding \$5,000,000. For purposes of determining the amount of Material Indebtedness at any time, (a) the amount of the obligations in respect of any Swap Contract at such time shall be calculated at the Swap Termination Value thereof, (b) undrawn committed or available amounts shall be included, and (c) all amounts owing to all creditors under any combined or syndicated credit arrangement shall be included, without duplication.

“Maturity Date” means August 18, ~~2020~~2021.

“Maximum Rate” has the meaning provided therefor in Section 9.09.

“Measurement Period” means, at any date of determination, the most recently completed twelve (12) Fiscal Months of the Borrower.

“Moody’s” means Moody’s Investors Service, Inc. and any successor thereto.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Multiple Employer Plan” means a Plan which has two or more contributing sponsors (including the Borrower or any ERISA Affiliate) at least two of whom are not under common control, as such a plan is described in Section 4064 of ERISA.

“Net Proceeds” means (a) with respect to any Disposition by any Loan Party or any of its Subsidiaries, or any Extraordinary Receipt received or paid to the account of any Loan Party or any of its Subsidiaries, the excess, if any, of (i) the sum of cash and cash equivalents received in connection with such transaction (including any cash or cash equivalents received by way of deferred payment pursuant to, or by monetization of, a note receivable or otherwise, but only as and when so received) over (ii) the sum of (A) any Indebtedness that is secured by the applicable asset by a Lien permitted hereunder which is senior to the Lender’s Lien on such asset and that is required to be repaid (or to establish an escrow for the future repayment thereof) in connection with such transaction (other than Indebtedness under the Loan Documents), and (B) the reasonable and customary out-of-pocket expenses incurred by such Loan Party or such Subsidiary in connection with such transaction (including, without limitation, appraisals, and brokerage, legal, title and recording or transfer tax expenses and commissions) paid by any Loan Party to third parties (other than Affiliates)); and ~~(b)~~ **(b)** with respect to the sale or issuance of any Equity Interest by any Loan Party or any of its Subsidiaries, or the incurrence or issuance of any Indebtedness by any Loan Party or any of its Subsidiaries, the excess of (i) the sum of the cash and cash equivalents received in connection with such transaction over (ii) the underwriting discounts and commissions, and other reasonable and customary out-of-pocket expenses, incurred by such Loan Party or such Subsidiary in connection therewith.

“Non-Extension Notice Date” has the meaning specified in Section 2.03(b)(iii).

“Note” means (a) a promissory note made by the Borrower in favor of the Lender evidencing Committed Loans made by the Lender, substantially in the form of Exhibit B, as amended, supplemented or modified from time to time.

“NPL” means the National Priorities List under CERCLA.

“Obligations” means (a) all advances to, and debts (including principal, interest, fees, costs, and expenses), liabilities, obligations, covenants, indemnities, and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit (including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral therefor), whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest, fees, costs, expenses and indemnities that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest, fees costs, expenses and indemnities are allowed claims in such proceeding, and (b) any Other Liabilities; provided that Obligations of a Loan Party shall exclude any Excluded Swap Obligations with respect to such Loan Party.

“OFAC” means the Office of Foreign Assets Control of the United States Department of the Treasury.

“Organization Documents” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; (c) with respect to any

partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity, and (d) in each case, all shareholder or other equity holder agreements, voting trusts and similar arrangements to which such Person is a party or which is applicable to its Equity Interests and all other arrangements relating to the Control or management of such Person.

“Other Connection Taxes” means, with respect to the Lender, the L/C Issuer or any other recipient of any payment to be made by or on account of any obligation of the Loan Parties hereunder, Taxes imposed as a result of a present or former connection between such Person and the jurisdiction imposing such Tax (other than connections arising from such Person having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Documents).

“Other Liabilities” means any obligation on account of (a) any Cash Management Services furnished to any of the Loan Parties or any of their Subsidiaries and/or (b) any Bank Product furnished to any of the Loan Parties and/or any of their Subsidiaries.

“Other Taxes” means all present or future stamp, court or documentary [~~taxes or any other excise or property taxes, charges~~], intangible, recording, filing or similar [~~levies arising~~]Taxes that arise from any payment made [~~hereunder or~~] under [~~any other Loan Document or~~], from the execution, delivery [~~or~~], performance, enforcement [~~of~~]or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, [~~this Agreement or~~] any [~~other~~] Loan Document, [~~excluding, however,~~]except any such [~~amounts~~]Taxes that are Other Connection Taxes imposed [~~as a result of~~]with respect to an assignment [~~by the Lender of its Loan or Commitment; provided that “Other Taxes” shall not include any Excluded Taxes~~].

“Outstanding Amount” means (i) with respect to Committed Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Loans occurring on such date; and (ii) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements by the Borrower of Unreimbursed Amounts.

“Overadvance” means a Credit Extension to the extent that, immediately after its having been made, Availability is less than zero.

“Participant” has the meaning specified in Section 9.06(c).

“Payment Conditions” means, at the time of determination with respect to any specified transaction or payment, that (a) no Default or Event of Default then exists or would arise as a result of entering into such transaction or the making of such payment, (b) after giving effect to such

transaction or payment, the Pro Forma Availability Condition has been satisfied and the Consolidated Fixed Charge Coverage Ratio, as calculated on a pro-forma basis for the applicable Measurement Period (as if such transaction or payment had been made on the first day of the applicable Measurement Period), is equal to or greater than 1.0:1.0, immediately preceding, and on a pro forma basis on the date thereof, after giving effect to such transaction or payment; provided, that compliance with the Consolidated Fixed Charge Coverage Ratio shall not be required if after giving effect to such transaction or payment and projected for the succeeding six (6) months following such transaction or payment, Pro Forma Availability shall be no less than 30% of the Loan Cap. Prior to undertaking any transaction or payment which is subject to the Payment Conditions, the Loan Parties shall deliver to the Lender evidence of satisfaction of the conditions contained in clause (b) above on a basis (including, without limitation, giving due consideration to results for prior periods) reasonably satisfactory to the Lender.

“PBGC” means the Pension Benefit Guaranty Corporation.

“PCAOB” means the Public Company Accounting Oversight Board.

“Pension Funding Rules” means the rules of the Code and ERISA regarding minimum funding standards with respect to Pension Plans and set forth in Sections 412, 430, 431, 432 and 436 of the Code and Sections 302, 303, 304 and 305 of ERISA.

“Pension Plan” means any [“employee pension benefit plan”] (~~as such term is defined in Section 3(2) of ERISA), other than~~ **including a Multiple Employer Plan or** a Multiemployer Plan[;] that is [~~subject to Title IV of ERISA and is sponsored or~~] **maintained or is contributed to** by the Borrower [~~or~~] **and** any ERISA Affiliate or **with respect** to which the Borrower or any ERISA Affiliate [~~contributes or~~] has [~~an~~] ~~obligation to contribute~~ [~~, or in the case of a multiple employer or other plan~~] ~~described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years~~ **any liability and is either covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Code.**

“Permitted Acquisition” means a Permitted Store Acquisition or an Acquisition in which all of the following conditions are satisfied:

(a) Such Acquisition shall have been approved by the Board of Directors of the Person (or similar governing body if such Person is not a corporation) which is the subject of such Acquisition and such Person shall not have announced that it will oppose such Acquisition or shall not have commenced any action which alleges that such Acquisition shall violate applicable Law;

(b) The Borrower shall have furnished the Lender with thirty (30) days’ prior written notice of such intended Acquisition and shall have furnished the Lender with a current draft of the Acquisition documents (and final copies thereof as and when executed), appropriate financial statements of the Person which is the subject of such Acquisition, pro forma projected financial statements giving effect to such Acquisition, and if such Acquisition is for a purchase price of \$10,000,000 or more, pro forma projected financial statements for the twelve (12) month period following such Acquisition after giving effect to such Acquisition (including balance sheets, cash flows and income statements by month

for the acquired Person, individually, and on a Consolidated basis with all Loan Parties), and such other information as the Lender may reasonably require, all of which shall be in form reasonably satisfactory to the Lender;

(c) The legal structure of the Acquisition shall be reasonably satisfactory to the Lender;

(d) After giving effect to the Acquisition, if the Acquisition is an Acquisition of Equity Interests, a Loan Party shall acquire and own, directly or indirectly, a majority of the Equity Interests in the Person being acquired and shall Control a majority of any voting interests or shall otherwise Control the governance of the Person being acquired;

(e) Any assets acquired shall be utilized in, and if the Acquisition involves a merger, consolidation or acquisition of Equity Interests, the Person which is the subject of such Acquisition shall be engaged in, a business otherwise permitted to be engaged in by the Borrower under this Agreement;

(f) If the Person which is the subject of such Acquisition will be maintained as a Subsidiary of a Loan Party, or if the assets acquired in an Acquisition will be transferred to a Subsidiary which is not then a Loan Party, such Subsidiary shall have been joined as a "Borrower" hereunder or as a Guarantor, as the Lender shall determine and the Lender shall have received a first priority security interest in such property of such Subsidiary of the same nature as constitutes Collateral under the Security Agreement; and

(g) The Loan Parties shall have satisfied the Payment Conditions.

"Permitted Disposition" means any of the following:

(a) Dispositions of inventory in the ordinary course of business;

(b) Bulk sales or other dispositions of the Inventory of a Loan Party not in the ordinary course of business in connection with Permitted Store Closings, at arm's length;

(c) Non-exclusive licenses of Intellectual Property of a Loan Party or any of its Subsidiaries in the ordinary course of business;

(d) Licenses for the conduct of licensed departments within the Loan Parties' Stores in the ordinary course of business; provided that, if requested by the Lender, the Loan Parties shall have entered into an intercreditor agreement with the Person operating such licensed department on terms and conditions reasonably satisfactory to the Lender;

(e) Dispositions of Equipment in the ordinary course of business that is substantially worn, damaged, obsolete or, in the judgment of a Loan Party, no longer useful or necessary in its business or that of any Subsidiary;

(f) Sales, transfers and dispositions among the Loan Parties or by any Subsidiary to a Loan Party;

(g) Sales, transfers and dispositions by any Subsidiary which is not a Loan Party to another Subsidiary that is not a Loan Party; and

(h) Dispositions constituting sale and leaseback transactions for an aggregate consideration not to exceed \$20,000,000 from and after the Closing Date.

Notwithstanding anything to the contrary in the foregoing, if any Permitted Disposition includes the Disposition of Intellectual Property used or useful in connection with the Collateral, the purchaser, assignee or other transferee thereof shall agree in writing to be bound by a royalty-free, non-exclusive license of such Intellectual Property in favor of the Lender for use in connection with the exercise of its rights and remedies under the Loan Documents in the Collateral, which license shall be in form and substance reasonably satisfactory to the Lender; provided that in the case of a Disposition of Intellectual Property by the Loan Parties or any Subsidiary to a third party, the transferee thereof shall be required to provide such a license only to the extent to which the applicable license gives it a right to do so.

“Permitted Encumbrances” means:

(a) Liens imposed by law for Taxes that are not yet due or are being contested in compliance with Section 6.04;

(b) Carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s and other like Liens imposed by applicable Laws, arising in the ordinary course of business and securing obligations that are not overdue by more than thirty (30) days or are being contested in compliance with Section 6.04;

(c) Pledges and deposits made in the ordinary course of business in compliance with workers’ compensation, unemployment insurance and other social security laws or regulations, other than any Lien imposed by ERISA;

(d) Deposits to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(e) Liens in respect of judgments that would not constitute an Event of Default hereunder;

(f) Easements, covenants, conditions, restrictions, building code laws, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or materially interfere with the ordinary conduct of business of a Loan Party and such other minor title defects or survey matters that are disclosed by current surveys that, in each case, do not materially interfere with the current use of the real property;

- (g) Liens existing on the Closing Date listed on Schedule 7.01 to the Disclosure Schedule and any Permitted Refinancings thereof;
- (h) Liens on fixed or capital assets or on Real Estate of any Loan Party which secure Indebtedness permitted under clauses (c) and/or (d) of the definition of Permitted Indebtedness so long as (i) such Liens and the Indebtedness secured thereby are incurred prior to or within ninety (90) days after such acquisition, (ii) the Indebtedness secured thereby does not exceed the cost of acquisition of the applicable assets, and (iii) such Liens shall attach only to the assets or Real Estate acquired, improved or refinanced with such Indebtedness and shall not extend to any other property or assets of the Loan Parties;
- (i) Liens in favor of the Lender;
- (j) Landlords' and lessors' statutory Liens in respect of rent not in default;
- (k) Possessory Liens in favor of brokers and dealers arising in connection with the acquisition or disposition of Investments owned as of the Closing Date and other Permitted Investments, provided that such liens (a) attach only to such Investments and (b) secure only obligations incurred in the ordinary course and arising in connection with the acquisition or disposition of such Investments and not any obligation in connection with margin financing;
- (l) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, Liens in favor of securities intermediaries, rights of setoff or similar rights and remedies as to deposit accounts or securities accounts or other funds maintained with depository institutions or securities intermediaries;
- (m) Liens arising from precautionary UCC filings regarding "true" operating leases or, to the extent permitted under the Loan Documents, the consignment of goods to a Loan Party;
- (n) Voluntary Liens on property (other than property of the type included in the Borrowing Base) in existence at the time such property is acquired pursuant to a Permitted Acquisition or on such property of a Subsidiary of a Loan Party in existence at the time such Subsidiary is acquired pursuant to a Permitted Acquisition; provided, that such Liens are not incurred in connection with or in anticipation of such Permitted Acquisition and do not attach to any other assets of any Loan Party or any Subsidiary; and
- (o) Liens in favor of customs and revenues authorities imposed by applicable Laws arising in the ordinary course of business in connection with the importation of goods and securing obligations (i) that are not overdue by more than thirty (30) days, or (ii)(A) that are being contested in good faith by appropriate proceedings, (B) the applicable Loan Party or Subsidiary has set aside on its books adequate reserves with respect thereto, if and to the extent required in accordance with GAAP and (C) such contest effectively suspends collection of the contested obligation and enforcement of any Lien securing such obligation.

"Permitted Indebtedness" means each of the following:

(a) Indebtedness outstanding on the Closing Date listed on Schedule 7.03 to the Disclosure Schedule and any Permitted Refinancing thereof;

(b) Indebtedness of any Loan Party to any other Loan Party;

(c) Purchase money Indebtedness of any Loan Party to finance the acquisition of any personal property consisting solely of fixed or capital assets, including Capital Lease Obligations, and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and Permitted Refinancings thereof, provided, however, that the aggregate principal amount of Indebtedness permitted by this clause (c) shall not exceed \$10,000,000 at any time outstanding and further provided that, if requested by the Lender, the Loan Parties shall cause the holders of such Indebtedness to enter into a Collateral Access Agreement on terms reasonably satisfactory to the Lender;

(d) Indebtedness incurred for the construction or acquisition or improvement of, or to finance or to refinance, any Real Estate owned by any Loan Party (including therein any Indebtedness incurred in connection with sale-leaseback transactions permitted hereunder and any Synthetic Lease Obligations), provided that, the Loan Parties shall cause the holders of such Indebtedness and the lessors under any sale-leaseback transaction to enter into a Collateral Access Agreement on terms reasonably satisfactory to the Lender;

(e) Contingent liabilities under surety bonds or similar instruments incurred in the ordinary course of business in connection with the construction or improvement of Stores;

(f) obligations (contingent or otherwise) of any Loan Party or any Subsidiary thereof existing or arising under any Swap Contract, provided that such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with fluctuations in commodity prices, interest rates or foreign exchange rates, and not for purposes of speculation or taking a “market view;”

(g) Indebtedness with respect to the deferred purchase price for any Permitted Acquisition;

(h) Indebtedness of any Person that becomes a Subsidiary of a Loan Party in a Permitted Acquisition, which Indebtedness is existing at the time such Person becomes a Subsidiary of a Loan Party (other than Indebtedness incurred solely in contemplation of such Person’s becoming a Subsidiary of a Loan Party); and

(i) The Obligations.

“Permitted Investments” means each of the following:

(a) Readily marketable obligations issued or directly and fully guaranteed or insured by the United States or any agency or instrumentality thereof having maturities of

not more than 180 days from the date of acquisition thereof; provided that the full faith and credit of the United States is pledged in support thereof;

(b) Commercial paper issued by any Person organized under the laws of any state of the United States and at the time of the making of such Investment by the Borrower, is rated at least “Prime-1” (or the then equivalent grade) by Moody’s or at least “A-1” (or the then equivalent grade) by S&P, in each case with maturities of not more than 180 days from the date of acquisition thereof;

(c) Time deposits with, or insured certificates of deposit or bankers’ acceptances of, any commercial bank that (i) (A) is the Lender or (B) is organized under the laws of the United States, any state thereof or the District of Columbia or is the principal banking subsidiary of a bank holding company organized under the laws of the United States, any state thereof or the District of Columbia, and is a member of the Federal Reserve System, (ii) issues (or the parent of which issues) commercial paper rated as described in clause (b) of this definition and (iii) has combined capital and surplus of at least \$1,000,000,000, in each case with maturities of not more than 180 days from the date of acquisition thereof;

(d) Fully collateralized repurchase agreements with a term of not more than thirty (30) days for securities described in clause (a) above (without regard to the limitation on maturity contained in such clause) and entered into with a financial institution satisfying the criteria described in clause (c) above or with any primary dealer and having a market value at the time that such repurchase agreement is entered into of not less than one hundred percent (100%) of the repurchase obligation of such counterparty entity with whom such repurchase agreement has been entered into;

(e) Investments by the Borrower consistent with the Borrower’s investment policy, which investment policy is approved by the Lender from time to time, such approval not to be unreasonably withheld;

(f) Investments existing on the Closing Date set forth on Schedule 7.02 to the Disclosure Schedule, but not any increase in the amount thereof or any other modification of the terms thereof if such modified Investment would not otherwise be a Permitted Investment in accordance with the provisions of (a) through (m) of this definition;

(g) (i) Investments by any Loan Party and its Subsidiaries in their respective Subsidiaries outstanding on the Closing Date, (ii) additional Investments by any Loan Party and its Subsidiaries in Loan Parties, and (iii) additional Investments by Subsidiaries of the Loan Parties that are not Loan Parties in other Subsidiaries that are not Loan Parties;

(h) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(i) Guarantees constituting Permitted Indebtedness;

(j) So long as no Default or Event of Default has occurred and is continuing or would result from such Investment, Investments by any Loan Party in Swap Contracts permitted hereunder;

(k) Investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with suppliers, in each case in the ordinary course of business;

(l) Advances to officers, directors and employees of the Loan Parties and Subsidiaries in the ordinary course of business in an amount not to exceed \$100,000 to any individual at any time or in an aggregate amount not to exceed \$300,000 at any time outstanding, for travel, entertainment, relocation and analogous ordinary business purposes; and

(m) Investments constituting Permitted Acquisitions; provided, however, that (i) such Investments shall be pledged to the Lender as additional collateral for the Obligations pursuant to such agreements as may be reasonably required by the Lender, and (ii) notwithstanding the foregoing, after the occurrence and during the continuance of a Cash Dominion Event, Borrower shall not be permitted to enter into Investments of the types specified in clauses (a) through (e) unless either (A) no Loans or, if then required to be Cash Collateralized, Letters of Credit are then outstanding, or (B) the Investment is a temporary Investment pending expiration of an Interest Period for a [~~LIBOR~~ Eurodollar] Rate Loan, the proceeds of which Investment will be applied to the Obligations after the expiration of such Interest Period.

Notwithstanding anything to the contrary contained in the foregoing, to the extent any Permitted Investment includes Intellectual Property material and necessary for the operation of the assets of the Loan Parties and their Subsidiaries, taken as a whole, which constitutes Collateral, such Intellectual Property shall be subject to a royalty-free, non-exclusive license in favor of the Lender for the purpose of the Lender's exercise of rights and remedies under the Loan Documents in connection with the Collateral.

“Permitted Refinancing” means, with respect to any Person, any Indebtedness issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund (collectively, to “Refinance”), the Indebtedness being Refinanced (or previous refinancings thereof constituting a Permitted Refinancing); provided, that (a) the principal amount (or accreted value, if applicable) of such Permitted Refinancing does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness so Refinanced (plus unpaid accrued interest and premiums thereon and underwriting discounts, defeasance costs, fees, commissions and expenses), (b) the weighted average life to maturity of such Permitted Refinancing is greater than or equal to the weighted average life to maturity of the Indebtedness being Refinanced, (c) such Permitted Refinancing shall not require any scheduled principal payments due prior to the Maturity Date in excess of, or prior to, the scheduled principal payments due prior to such Maturity Date for the Indebtedness being Refinanced, (d) if the Indebtedness being Refinanced is subordinated in right of payment to the Obligations under this Agreement, such Permitted

Refinancing shall be subordinated in right of payment to such Obligations on terms at least as favorable to the Credit Parties as those contained in the documentation governing the Indebtedness being Refinanced (e) no Permitted Refinancing shall have direct or indirect obligors who were not also obligors of the Indebtedness being Refinanced, or greater guarantees or security, than the Indebtedness being Refinanced, (f) such Permitted Refinancing shall be otherwise on terms not materially less favorable to the Credit Parties than those contained in the documentation governing the Indebtedness being Refinanced, including, without limitation, with respect to financial and other covenants and events of default, (g) the interest rate applicable to any such Permitted Refinancing shall not exceed the then applicable market interest rate, and (h) at the time thereof, no Default or Event of Default shall have occurred and be continuing .

“Permitted Store Acquisition” means an Acquisition of, or opening by the Borrower of, up to ten (10) Store locations in any transaction or group of related transactions (including, but not limited to, by means of a lease or sublease of property from any Person), in the ordinary course of business.

“Permitted Store Closings” means (a) Store closures and related Inventory dispositions which do not exceed (i) in any Fiscal Year of the Borrower and its Subsidiaries, ten percent (10%) of the number of the Borrower’s Stores as of the beginning of such Fiscal Year (net of new Store openings) and (ii) in the aggregate from and after the Closing Date, thirty percent (30%) of the number of the Borrower’s Stores in existence as of the Closing Date (net of new Store openings), and (b) the related Inventory is either moved to a distribution center or another retail location of the Borrower for future sale in the ordinary course of business or is disposed of at such Stores in accordance with liquidation agreements and with professional liquidators reasonably acceptable to the Lender.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, limited partnership, Governmental Authority or other entity.

“Plan” means any [“employee benefit plan” ~~(as such term is defined in~~ within the meaning of Section 3(3) of ERISA ~~established by~~ (including a Pension Plan), maintained for employees of the Borrower or ~~with respect to~~ any ERISA Affiliate or any such ~~plan that is subject to Section 412 of~~ Plan to which the ~~[Code]Borrower~~ or ~~[Title IV of ERISA,~~ any ERISA Affiliate is required to contribute on behalf of any of its employees.

“Prepayment Event” means:

(a) Any Disposition (including pursuant to a sale and leaseback transaction) of any property or asset of a Loan Party; provided that any Permitted Disposition prior to the occurrence of a Cash Dominion Event shall not be deemed a Prepayment Event;

(b) Any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of (and payments in lieu thereof), any property or asset of a Loan Party, unless (i) the proceeds therefrom are required to be paid to the holder of a Lien on such property or asset having priority over

the Lien of the Lender or (ii) other than during the continuance of a Cash Dominion Event, Availability is greater than twenty percent (20%) of the Loan Cap;

(c) The issuance by a Loan Party of any Equity Interests, other than any such issuance of Equity Interests (i) to a Loan Party, (ii) as consideration for a Permitted Acquisition or (iii) as a compensatory issuance to any employee, director, or consultant (including, without limitation, under the Borrower's 2005 Amended and Restated Long-Term Incentive Plan);

(d) The incurrence by a Loan Party of any Indebtedness for borrowed money other than Permitted Indebtedness; or

(e) The receipt by any Loan Party of any Extraordinary Receipts.

"Pro Forma Availability Condition" shall mean, as of any date of calculation, Pro Forma Availability will be greater than 17.5% of the Loan Cap.

"Pro Forma Availability" shall mean, as of any date of calculation, after giving pro forma effect to the transaction then to be consummated or payment to be made, projected Availability as of the date of such transaction or payment and as of the end of each Fiscal Month during the subsequent projected six (6) Fiscal Months.

"QFC" has the meaning assigned to the term "qualified financial contract" in, and shall be interpreted in accordance with, 12 U.S.C. 5390(c)(8)(D).

"Qualified ECP Guarantor" means, at any time, each Loan Party with total assets exceeding \$10,000,000 or that qualifies at such time as an "eligible contract participant" under the Commodity Exchange Act and can cause another Person to qualify as an "eligible contract participant" at such time under Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

"Real Estate" means all Leases and all land, together with the buildings, structures, parking areas, and other improvements thereon, now or hereafter owned by any Loan Party, including all easements, rights-of-way, and similar rights relating thereto and all leases, tenancies, and occupancies thereof.

"Registered Public Accounting Firm" has the meaning specified by the Securities Laws and shall be independent of the Borrower and its Subsidiaries as prescribed by the Securities Laws.

"Related Parties" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents~~[-and]~~, **trustees, administrators, managers,** advisors, **consultants, service providers and representatives** of such Person and of such Person's Affiliates.^[22]

"Release" means any release, spill, emission, discharge, deposit, disposal, leaking, pumping, pouring, dumping, emptying, injection or leaching into the Environment, or into, from or through any building, structure or facility.

“Relevant Governmental Body” means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York for the purpose of recommending a benchmark rate to replace LIBOR in loan agreements similar to this Agreement.

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

“Request for Credit Extension” means (a) with respect to a Committed Borrowing, Conversion or continuation of Committed Loans, a Committed Loan Notice, and (b) with respect to an L/C Credit Extension, a Letter of Credit Application.

“Reserves” means all Inventory Reserves and Availability Reserves. The Lender shall have the right, at any time and from time to time after the Closing Date in its discretion to establish, modify or eliminate Reserves.

“Responsible Officer” means the chief executive officer, president, chief financial officer, treasurer or assistant treasurer of a Loan Party or any of the other individuals designated in writing to the Lender by an existing Responsible Officer of a Loan Party as an authorized signatory of any certificate or other document to be delivered hereunder. Any document delivered hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other Equity Interest of any Person or any of its Subsidiaries, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, defeasance, acquisition, cancellation or termination of any such capital stock or other Equity Interest, or on account of any return of capital to such Person’s stockholders, partners or members (or the equivalent of any thereof), or any option, warrant or other right to acquire any such dividend or other distribution or payment; provided, however, that transactions pursuant to provisions in Equity Interests of the Borrower that allow employees, at their option, to settle their tax obligations in respect thereof with a tender of a portion of such Equity Interests back to the Borrower, and tax payments made by the Borrower pursuant thereto, shall not be a Restricted Payment hereunder. Without limiting the foregoing, “Restricted Payments” with respect to any Person shall also include all payments made by such Person with any proceeds of a dissolution or liquidation of such Person.

“RP Conditions” means, at the time of determination with respect to any specified transaction or payment, that (a) no Default or Event of Default then exists or would arise as a result of entering into such transaction or the making of such payment, (b) after giving effect to such transaction or payment, Pro Forma Availability is, and is projected to be, greater than 20% of the Loan Cap and the Consolidated Fixed Charge Coverage Ratio, as calculated on a pro-forma basis for the applicable Measurement Period (as if such transaction or payment had been made on the

first day of the applicable Measurement Period), is equal to or greater than 1.1:1.0, immediately preceding, and on a pro forma basis on the date thereof, after giving effect to such dividend or repurchase. Prior to undertaking any transaction or payment which is subject to the RP Conditions, the Loan Parties shall deliver to the Lender evidence of satisfaction of the conditions contained in clause (b) above on a basis (including, without limitation, giving due consideration to results for prior periods) reasonably satisfactory to the Lender.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. and any successor thereto.

“Sanction(s)” means any sanction administered or enforced by the United States Government (including without limitation, OFAC), the United Nations Security Council, the European Union, Her Majesty’s Treasury (“HMT”) or other relevant sanctions authority.

“Sarbanes-Oxley” means the Sarbanes-Oxley Act of 2002.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“Second Amendment Effective Date” means May 12, 2020.

“Securities Laws” means the Securities Act of 1933, the Securities Exchange Act of 1934, Sarbanes-Oxley, and the applicable accounting and auditing principles, rules, standards and practices promulgated, approved or incorporated by the SEC or the PCAOB.

“Security Agreement” means the Security Agreement dated as of the Closing Date among the Loan Parties and the Lender.

“Security Documents” means the Security Agreement, the Blocked Account Agreements, the Credit Card Notifications, any Collateral Access Agreement, and each other security agreement or other instrument or document executed and delivered to the Lender pursuant to this Agreement or any other Loan Document granting a Lien to secure any of the Obligations.

“Shareholders’ Equity” means, as of any date of determination, consolidated shareholders’ equity of the Borrower and its Subsidiaries as of that date determined in accordance with GAAP.

“Shrink” means Inventory which has been lost, misplaced, stolen, or is otherwise unaccounted for.

“SOFR” with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark (or a successor administrator) on the Federal Reserve Bank of New York’s website (or any successor source) and, in each case, that has been selected or recommended by the Relevant Governmental Body.

“SOFR-Based Rate” means SOFR or Term SOFR.

“Solvent” and “Solvency” means, with respect to any Person on a particular date, that on such date (a) at fair valuation, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair saleable value of the properties and assets of such Person is not less than the amount that would be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person’s ability to pay as such debts mature, and (e) such Person is not engaged in a business or a transaction, and is not about to engage in a business or transaction, for which such Person’s properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. The amount of all guarantees at any time shall be computed as the amount that, in light of all the facts and circumstances existing at the time, can reasonably be expected to become an actual or matured liability.

“Specified Loan Party” means any Loan Party that is not then an “eligible contract participant” under the Commodity Exchange Act (determined prior to giving effect to Section 9.23).

“Standby Letter of Credit” means any Letter of Credit that is not a Commercial Letter of Credit and that (a) is used in lieu or in support of performance guaranties or performance, surety or similar bonds (excluding appeal bonds) arising in the ordinary course of business, (b) is used in lieu or in support of stay or appeal bonds, (c) supports the payment of insurance premiums for reasonably necessary casualty insurance carried by any of the Loan Parties, or (d) supports payment or performance for identified purchases or exchanges of products or services in the ordinary course of business.

“Stated Amount” means at any time the maximum amount for which a Letter of Credit may be honored.

~~["Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the FRB to which the Lender is subject with respect to the Adjusted LIBOR Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. LIBOR Rate Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to the Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.]~~

“Store” means any retail store (including any real property, fixtures, equipment, inventory and other property related thereto) operated, or to be operated, by any Loan Party.

“Subordinated Indebtedness” means Indebtedness which is expressly subordinated in right of payment to the prior payment in full of the Obligations and which is in form and on terms approved in writing by the Lender.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the Equity Interests having ordinary voting power for the election of directors or other governing body are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of a Loan Party.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“Swap Obligations” means with respect to any Loan Party any obligation to pay or perform under any agreement, contract or transaction that constitutes a “swap” within the meaning of Section 1a(47) of the Commodity Exchange Act.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include the Lender or any Affiliate of the Lender).

“Synthetic Lease Obligation” means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property (including sale and leaseback transactions), in each case, creating obligations that do not appear on the balance sheet of such Person but which, upon the application of any Debtor Relief Laws to such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Term SOFR” means the forward-looking term rate for any period that is approximately (as determined by the Lender) as long as any of the Interest Period options set forth in the definition of “Interest Period” and that is based on SOFR and that has been selected or recommended by the Relevant Governmental Body, in each case as published on an information service as selected by the Lender from time to time in its reasonable discretion.

“Termination Date” means the earliest to occur of (i) the Maturity Date, (ii) the date on which the maturity of the Obligations is accelerated (or deemed accelerated) and the Commitments are irrevocably terminated (or deemed terminated) in accordance with Article VIII, or (iii) the termination of the Commitments in accordance with the provisions of Section 2.06 hereof.

“Total Outstandings” means the aggregate Outstanding Amount of all Loans and all L/C Obligations.

“Trading with the Enemy Act” has the meaning set forth in Section 9.17.

“Trigger Event” has the meaning provided in Section 6.10(b).

“Type” means, with respect to a Committed Loan, its character as a Base Rate Loan or a [~~LIBOR~~]Eurodollar Rate Loan.

“UCC” or “Uniform Commercial Code” means the Uniform Commercial Code as in effect from time to time in the State of New York; provided, however, that if a term is defined in Article 9 of the Uniform Commercial Code differently than in another Article thereof, the term shall have the meaning set forth in Article 9; provided further that, if by reason of mandatory provisions of law, perfection, or the effect of perfection or non-perfection, of a security interest in any Collateral or the availability of any remedy hereunder is governed by the Uniform Commercial Code as in effect in a jurisdiction other than State of New York, “Uniform Commercial Code” means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection or availability of such remedy, as the case may be.

“UCP 600” means the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce and dated as of July 1, 2007 (or such later version thereof as may be in effect at the time of issuance).

“UFCA” has the meaning specified in Section 9.20(d).

“UFTA” has the meaning specified in Section 9.20(d).

“Unfunded Pension Liability” means the excess of a Pension Plan’s benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan’s assets, determined in

accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

“United States” and “U.S.” mean the United States of America.

“Unreimbursed Amount” means the amount of any drawing under a Letter of Credit for which the Borrower has failed to reimburse the L/C Issuer.

“Unrestricted Cash” means when referring to cash or cash equivalents of the Borrower or any of its Subsidiaries, that such cash or cash equivalents (i) does not appear (or would not be required to appear) as “restricted” on a consolidated balance sheet of the Borrower or of any such Subsidiary or (ii) is from time to time deposited in a DDA, which DDA is subject to no Liens other than those in favor of the Lender, but excluding any amounts on deposit in any escrow, restricted special purpose or restricted account, such as an account specifically designated for payroll or sales taxes.

“U.S. Person” means any Person that is a “United States Person” as defined in Section 7701(a)(30) of the Code.

“Withholding Agent” means the Borrower and the Lender.

1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, restated, supplemented or otherwise modified (subject to any restrictions on such amendments, restatements, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (iii) the words “hereto,” “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law, rule, or regulation shall, unless otherwise specified, refer to such law, rule, or regulation as amended, modified or supplemented from time to time, and (vi) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including,” the words “to” and “until” each mean “to but excluding,” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

(d) Any reference herein or in any other Loan Document to the satisfaction, repayment, or payment in full of the Obligations shall mean the repayment in Dollars in full in cash or immediately available funds (or, in the case of contingent reimbursement obligations with respect to Letters of Credit and Bank Products (other than Swap Contracts), providing Cash Collateralization) of all of the Obligations (including the payment of any termination amount then applicable (or which would or could become applicable as a result of the repayment of the other Obligations) under Swap Contracts) other than (i) unasserted contingent indemnification Obligations, (ii) any Obligations relating to Bank Products (including Swap Contracts) that, at such time, are allowed by the applicable Bank Product provider to remain outstanding without being required to be repaid or Cash Collateralized, and (iii) any Obligations relating to Cash Management Services that, at such time, are allowed by the applicable provider of such Cash Management Services to remain outstanding without being required to be repaid.

(e) Any reference herein to a merger, transfer, consolidation, amalgamation, consolidation, assignment, sale, disposition or transfer, or similar term, shall be deemed to apply to a division of or by a limited liability company, or an allocation of assets to a series of a limited liability company (or the unwinding of such a division or allocation), as if it were a merger, transfer, consolidation, amalgamation, consolidation, assignment, sale, disposition or transfer, or similar term, as applicable, to, of or with a separate Person. Any division of a limited liability company shall constitute a separate Person hereunder (and each division of any limited liability company that is a Subsidiary, joint venture or any other like term shall also constitute such a Person or entity).

1.03 Accounting Terms.

(a) Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein; provided that all leases that would be treated as operating leases for purposes of GAAP on the Closing Date shall continue to be accounted for as operating leases for purposes of all financial definitions and calculations hereunder regardless of any change to GAAP following the Closing Date that would otherwise require such leases to be treated as Capital Lease Obligations or the equivalent thereof.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Lender shall so request, the Lender and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrower shall provide to the Lender financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

1.04 Rounding. Any financial ratios required to be maintained by the Loan Parties pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

1.06 Letter of Credit Amounts. Unless otherwise specified, all references herein to the amount of a Letter of Credit at any time shall be deemed to be the Stated Amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms of any Issuer Documents related thereto, provides for one or more automatic increases in the Stated Amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum Stated Amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum Stated Amount is in effect at such time.

1.07 Currency Equivalents Generally. Any amount specified in this Agreement (other than in Articles II and IX) or any of the other Loan Documents to be in Dollars shall also include the equivalent of such amount in any currency other than Dollars, such equivalent amount thereof in the applicable currency to be determined by the Lender at such time on the basis of the Spot Rate (as defined below) for the purchase of such currency with Dollars. For purposes of this Section 1.07, the “Spot Rate” for a currency means the rate determined by the Lender to be the rate quoted by the Person acting in such capacity as the spot rate for the purchase by such Person of such currency with another currency through its principal foreign exchange trading office at approximately 11:00 a.m. on the date two Business Days prior to the date of such determination; provided that the Lender may obtain such spot rate from another financial institution designated by the Lender if the Person acting in such capacity does not have as of the date of determination a spot buying rate for any such currency.

1.08 Interest Rates. The Lender does not warrant, nor accept responsibility, nor shall the Lender have any liability with respect to the administration, submission or any other matter related to the rates in the definition of “Eurodollar Rate” or with respect to any rate that is an alternative or replacement for or successor to any of such rate (including, without limitation, any LIBOR Successor Rate) or the effect of any of the foregoing, or of any LIBOR Successor Rate Conforming Changes.

ARTICLE II.
THE COMMITMENTS AND CREDIT EXTENSIONS

2.01 Committed Loans; Reserves. Subject to the terms and conditions set forth herein, the Lender agrees to make loans (each such loan, a “Committed Loan”) to the Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the amount of the Lender’s Commitment; subject in each case to the following limitations:

- (a) after giving effect to any Committed Borrowing, the Total Outstandings shall not exceed the Loan Cap,
- (b) after giving effect to any Committed Borrowing, the aggregate Outstanding Amount of the Committed Loans of the Lender, plus the Outstanding Amount of all L/C Obligations shall not exceed the Commitment, and
- (c) the Outstanding Amount of all L/C Obligations shall not at any time exceed the Letter of Credit Sublimit.

Within the limits of the Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01, prepay under Section 2.04, and reborrow under this Section 2.01.

2.02 Committed Borrowings, Conversions and Continuations of Committed Loans.

(a) Committed Loans shall be either Base Rate Loans or [~~LIBOR~~ Eurodollar] Rate Loans as the Borrower may request subject to and in accordance with this Section 2.02. Subject to the other provisions of this Section 2.02, Committed Borrowings of more than one Type may be incurred at the same time.

(b) Each Committed Borrowing, each Conversion of Committed Loans from one Type to the other, and each continuation of [~~LIBOR~~ Eurodollar] Rate Loans shall be made upon the Borrower’s irrevocable notice to the Lender, which may be given by telephone. Each such notice must be received by the Lender not later than 11:00 a.m. (i) three (3) Business Days prior to the requested date of any Committed Borrowing of, Conversion to or continuation of [~~LIBOR~~ Eurodollar] Rate Loans or of any Conversion of [~~LIBOR~~ Eurodollar] Rate Loans to Base Rate Loans, and (ii) one Business Day prior to the requested date of any Committed Borrowing of Base Rate Loans. Each telephonic notice by the Borrower pursuant to this Section 2.02(b) must be confirmed promptly by delivery to the Lender of a written Committed Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Each Committed Borrowing of, Conversion to or continuation of [~~LIBOR~~ Eurodollar] Rate Loans shall be in a principal amount of \$1,000,000 or a whole multiple of \$1,000,000 in excess thereof. Except as provided in Section 2.03(c), each Committed Borrowing of or Conversion to Base Rate Loans shall be in such minimum amounts as the Lender may require. Each Committed Loan Notice (whether telephonic or written) shall specify (i) whether the Borrower is requesting a Committed Borrowing, a Conversion of Committed Loans from one Type to the other, or a continuation of [~~LIBOR~~ Eurodollar] Rate Loans, (ii) the requested date of

the Committed Borrowing, Conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Committed Loans to be borrowed, Converted or continued, (iv) the Type of Committed Loans to be borrowed or to which existing Committed Loans are to be Converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of Committed Loan in a Committed Loan Notice or if the Borrower fails to give a timely notice requesting a Conversion or continuation, then the applicable Committed Loans shall be made as, or Converted to, Base Rate Loans. Any such automatic Conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable [~~LIBOR~~ Eurodollar] Rate Loans. If the Borrower requests a Committed Borrowing of, Conversion to, or continuation of [~~LIBOR~~ Eurodollar] Rate Loans in any such Committed Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one (1) month. Upon satisfaction of the applicable conditions set forth in Section 4.02 (and, if such Committed Borrowing is on the Closing Date, Section 4.01), the Lender shall use reasonable efforts to make all funds available to the Borrower no later than 4:00 p.m. either by (i) crediting the account of the Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Lender by the Borrower; provided, however, that if, on the date the Committed Loan Notice with respect to such Committed Borrowing is given by the Borrower, there are L/C Borrowings outstanding, then the proceeds of such Committed Borrowing, first, shall be applied to the payment in full of any such L/C Borrowings, and second, shall be made available to the Borrower as provided above.

(c) The Lender, without the request of the Borrower, may advance any interest, fees, service charge (including direct wire fees), and if an Event of Default is then continuing, expenses or other payment to which any Credit Party is entitled from the Loan Parties pursuant hereto or any other Loan Document, and may charge the same to the Loan Account notwithstanding that an Overadvance may result thereby. The Lender shall advise the Borrower of any such advance or charge promptly after the making thereof. Such action on the part of the Lender shall not constitute a waiver of the Lender's rights and the Borrower's obligations under Section 2.04(b). Any amount which is added to the principal balance of the Loan Account as provided in this Section 2.02(c) shall bear interest at the interest rate then and thereafter applicable to Base Rate Loans.

(d) Except as otherwise provided herein, a [~~LIBOR~~ Eurodollar] Rate Loan may be continued or Converted only on the last day of an Interest Period for such [~~LIBOR~~ Eurodollar] Rate Loan. During the existence of a Default or an Event of Default, no Loans may be requested as, Converted to or continued as [~~LIBOR~~ Eurodollar] Rate Loans without the consent of the Lender.

(e) The Lender shall promptly notify the Borrower of the interest rate applicable to any Interest Period for [~~LIBOR~~ Eurodollar] Rate Loans upon determination of such interest rate. At any time that Base Rate Loans are outstanding, the Lender shall notify the Borrower of any change in Bank of America's prime rate used in determining the Base Rate promptly following the public announcement of such change.

(f) After giving effect to all Committed Borrowings, all Conversions of Committed Loans from one Type to the other, and all continuations of Committed Loans as the same Type, there shall not, at any time, be more than five (5) Interest Periods in effect with respect to Committed Loans.

(g) The Lender and the L/C Issuer shall have no obligation to make any Loan or to provide any Letter of Credit if an Overadvance would result. The Lender may, in its discretion, make Overadvances without the consent of the Borrower and the L/C Issuer and the Borrower and the L/C Issuer shall be bound thereby. An Overadvance is for the account of the Borrower and shall constitute a Base Rate Loan and an Obligation and shall be repaid by the Borrower in accordance with the provisions of Section 2.04(b). The making of any such Overadvance on any one occasion shall not obligate the Lender to make or permit any Overadvance on any other occasion or to permit such Overadvances to remain outstanding.

2.03 Letters of Credit

(a) The Letter of Credit Commitment.

(i) Subject to the terms and conditions set forth herein, the L/C Issuer agrees (1) from time to time on any Business Day during the period from the Closing Date until the Letter of Credit Expiration Date, to issue Letters of Credit for the account of the Borrower and the other Loan Parties or their respective Subsidiaries, and to amend or extend Letters of Credit previously issued by it, in accordance with Section 2.03(b) below, and (2) to honor drawings under the Letters of Credit; provided that after giving effect to any L/C Credit Extension with respect to any Letter of Credit, (x) the Total Outstandings shall not exceed the Loan Cap and (y) the Outstanding Amount of the L/C Obligations shall not exceed the Letter of Credit Sublimit. Each request by the Borrower for the issuance or amendment of a Letter of Credit shall be deemed to be a representation by the Borrower that the L/C Credit Extension so requested complies with the conditions set forth in the proviso to the preceding sentence. Within the foregoing limits, and subject to the terms and conditions hereof, the Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed.

(ii) The L/C Issuer shall not issue any Letter of Credit, if:

(A) subject to Section 2.03(b)(iii), the expiry date of such requested Standby Letter of Credit would occur more than twelve (12) months after the date of issuance or last extension; or

(B) the expiry date of such requested Commercial Letter of Credit would occur more than one hundred twenty (120) days after the date of issuance; or

(C) the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless such Letter of Credit is Cash

Collateralized on or prior to the date of issuance of such Letter of Credit (or such later date as the Lender may agree); or

(D) any order, judgment or decree of any Governmental

(E) Authority or arbitrator shall by its terms purport to enjoin or restrain the L/C Issuer from issuing such Letter of Credit, or any Law applicable to the L/C Issuer or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the L/C Issuer shall prohibit, or request that the L/C Issuer refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the L/C Issuer with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the L/C Issuer is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon the L/C Issuer any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the L/C Issuer in good faith deems material to it; or

(F) the issuance of such Letter of Credit would violate one or more policies of the L/C Issuer applicable to letters of credit generally; or

(G) such Letter of Credit is to be denominated in a currency other than Dollars; or

(H) such Letter of Credit contains any provisions for automatic reinstatement of the Stated Amount after any drawing thereunder.

(iii) The L/C Issuer shall not amend any Letter of Credit if the L/C Issuer would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof or if the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the L/C Issuer in the form of a Letter of Credit Application, appropriately completed and signed by a Responsible Officer of the Borrower. Such Letter of Credit Application may be sent by facsimile, by United States mail, by overnight courier, by electronic transmission using the system provided by the L/C Issuer, by personal delivery or by any other means acceptable to the L/C Issuer. Such Letter of Credit Application must be received by the L/C Issuer not later than 11:00 a.m. at least two (2) Business Days (or such other date and time as the L/C Issuer may agree in a particular instance in its sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D)

the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the L/C Issuer may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the L/C Issuer may require. Additionally, the Borrower shall furnish to the L/C Issuer such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the L/C Issuer may require.

(ii) Unless one or more applicable conditions contained in Article IV shall not then be satisfied or unless the L/C Issuer would not be permitted, or would have no obligation, at such time to issue such Letter of Credit under the terms hereof (by reason of the provisions of Section 2.03(a)(ii) or otherwise), then, subject to the terms and conditions hereof, the L/C Issuer shall, on the requested date, issue a Letter of Credit for the account of the applicable Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the L/C Issuer's usual and customary business practices.

(iii) If the Borrower so requests in any applicable Letter of Credit Application, the L/C Issuer may, in its sole and absolute discretion, agree to issue a Standby Letter of Credit that has automatic extension provisions (each, an "Auto-Extension Letter of Credit"); provided that any such Auto-Extension Letter of Credit must permit the L/C Issuer to prevent any such extension at least once in each twelve-month period (commencing with the date of issuance of such Standby Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Extension Notice Date") in each such twelve-month period to be agreed upon at the time such Standby Letter of Credit is issued. Unless otherwise directed by the L/C Issuer, the Borrower shall not be required to make a specific request to the L/C Issuer for any such extension. Once an Auto-Extension Letter of Credit has been issued, the L/C Issuer may permit the extension of such Standby Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the L/C Issuer shall not permit any such extension if (A) the L/C Issuer has determined that it would not be permitted, or would have no obligation, at such time to issue such Standby Letter of Credit in its revised form (as extended) under the terms hereof (by reason of the provisions of Section 2.03(a)(ii) or otherwise), or (B) one or more of the applicable conditions specified in Section 4.02 is not then satisfied.

(c) Drawings and Reimbursements.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the L/C Issuer shall notify the Borrower thereof not less than two (2) Business Days prior to the Honor Date (as

defined below; provided, however, that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the L/C Issuer. On the date of any payment by the L/C Issuer under a Letter of Credit (each such date, an "Honor Date"), the Borrower shall be deemed to have requested a Committed Borrowing of Base Rate Loans to be disbursed on the Honor Date in an amount equal to the amount of such payment, without regard to the minimum and multiples specified in Section 2.02(b) for the principal amount of Base Rate Loans, but subject to the amount of the unutilized portion of the Loan Cap and the conditions set forth in Section 4.02 (other than the delivery of a Committed Loan Notice). Any notice given by the L/C Issuer pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice. In the event that such Committed Borrowing cannot be made pursuant to the terms hereof, then not later than 11:00 a.m. on the Honor Date, the Borrower shall reimburse the L/C Issuer in an amount equal to the amount of such drawing. With respect to any Unreimbursed Amount that is not fully refinanced by a Committed Borrowing of Base Rate Loans because the conditions set forth in Section 4.02 cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the L/C Issuer an L/C Borrowing in the amount of any Unreimbursed Amount, which L/C Borrowing shall be due and payable on demand and shall bear interest at the Default Rate for Base Rate Loans.

(d) Obligations Absolute. The obligation of the Borrower to reimburse the L/C Issuer for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower or any Subsidiary may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the L/C Issuer or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) waiver by the L/C Issuer of any requirement that exists for the L/C Issuer's protection and not the protection of the Borrower or any waiver by the L/C Issuer which does not in fact materially prejudice the Borrower;

(v) any honor of a demand for payment presented electronically even if such Letter of Credit requires that demand be in the form of a draft;

(vi) any payment made by the L/C Issuer in respect of an otherwise complying item presented after the date specified as the expiration date of, or the date by which documents must be received under, such Letter of Credit if presentation after such date is authorized by the UCC, the ISP or the UCP, as applicable;

(vii) any payment by the L/C Issuer under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the L/C Issuer under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law;

(viii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower or any of its Subsidiaries; or

(ix) the fact that any Default or Event of Default shall have occurred and be continuing.

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of non-compliance with the Borrower's instructions or other irregularity, the Borrower will immediately notify the L/C Issuer. The Borrower shall be conclusively deemed to have waived any such claim against the L/C Issuer and its correspondents unless such notice is given as aforesaid.

(e) Role of L/C Issuer. The Borrower agrees that, in paying any drawing under a Letter of Credit, the L/C Issuer shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. Except as provided in the final sentence of this clause (e), none of the Lender, the L/C Issuer nor any of their respective Related Parties nor any correspondent, participant or assignee of the L/C Issuer shall be liable to any Loan Party for (i) any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit or any error in interpretation of technical terms; (ii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Issuer Document, or (iii) for any action, neglect or omission under or in connection with any Letter of Credit or Issuer Documents, including, without limitation, the issuance or amendment of any Letter of Credit, the failure to issue or amend any Letter of Credit, or the honoring or dishonoring of any demand under any Letter of Credit, and such action or neglect or omission will be binding upon the Loan Parties. The Borrower hereby

assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement, In furtherance and not in limitation of the foregoing, the L/C Issuer may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary (or the L/C Issuer may refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit and may disregard any requirement in a Letter of Credit that notice of dishonor be given in a particular manner and any requirement that presentation be made at a particular place or by a particular time of day), and the L/C Issuer shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason. The L/C Issuer shall not be responsible for the wording of any Letter of Credit (including, without limitation, any drawing conditions or any terms or conditions that are ineffective, ambiguous, inconsistent, unduly complicated or reasonably impossible to satisfy), notwithstanding any assistance the L/C Issuer may provide to the Borrower with drafting or recommending text for any Letter of Credit Application or with the structuring of any transaction related to any Letter of Credit, and the Borrower hereby acknowledges and agrees that any such assistance will not constitute legal or other advice by the L/C Issuer or any representation or warranty by the L/C Issuer that any such wording or such Letter of Credit will be effective. Without limiting the foregoing, the L/C Issuer may, as it deems appropriate, modify or alter and use in any Letter of Credit the terminology contained on the Letter of Credit Application for such Letter of Credit. Notwithstanding anything to the contrary herein contained in this clause (e), the Borrower may have a claim against the L/C Issuer, and the L/C Issuer may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to punitive, consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by the L/C Issuer's willful misconduct or gross negligence. The L/C Issuer may send a Letter of Credit or conduct any communication to or from the beneficiary via the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") message or overnight courier, or any other commercially reasonable means of communicating with a beneficiary.

(f) Cash Collateral. If, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Borrower shall, in each case, immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations. Sections 2.04, 2.05(c) and 8.02(c) set forth certain additional requirements to deliver Cash Collateral hereunder. For purposes of this Section 2.03, Section 2.04, Section 2.05(c) and Section 8.02(c), "Cash Collateralize" means to pledge and deposit with or deliver to the Lender, for the benefit of the Credit Parties, as collateral for the L/C Obligations, cash or deposit account balances in an amount equal to one hundred and three (103%) of the Outstanding Amount of all L/C Obligations, pursuant to documentation in form and substance satisfactory to the Lender and the L/C Issuer. The Borrower hereby grants to the Lender a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing to secure all Obligations. Such cash collateral shall be maintained in blocked, non-interest bearing deposit accounts at Bank of America under the sole and

exclusive dominion and control of the Lender. If at any time the Lender determines that any funds held as cash collateral are subject to any right or claim of any Person other than the Lender or that the total amount of such funds is less than the aggregate Outstanding Amount of all L/C Obligations, the Borrower will, forthwith upon demand by the Lender, pay to the Lender, as additional funds to be deposited as cash collateral, an amount equal to the excess of (x) such aggregate Outstanding Amount over (y) the total amount of funds, if any, then held as cash collateral that the Lender determines to be free and clear of any such right and claim. Upon the drawing of any Letter of Credit for which funds are on deposit as cash collateral, such funds shall be applied to reimburse the L/C Issuer and, to the extent not so applied, shall thereafter be applied to satisfy other Obligations, as and to the extent such other Obligations shall then be due and payable.

(g) Applicability of ISP and UCP. Unless otherwise expressly agreed by the L/C Issuer and the Borrower when a Letter of Credit is issued, (i) the rules of the ISP shall apply to each Standby Letter of Credit and (ii) the rules of the UCP shall apply to each Commercial Letter of Credit. Notwithstanding the foregoing, the L/C Issuer shall not be responsible to the Borrower for, and the L/C Issuer's rights and remedies against the Borrower shall not be impaired by, any action or inaction of the L/C Issuer required or permitted under any law, order, or practice that is required or permitted to be applied to any Letter of Credit or this Agreement, including the Law or any order of a jurisdiction where the L/C Issuer or the beneficiary is located, the practice stated in the ISP or UCP, as applicable, or in the decisions, opinions, practice statements, or official commentary of the ICC Banking Commission, the Bankers Association for Finance and Trade - International Financial Services Association (BAFT-IFSA), or the Institute of International Banking Law & Practice, whether or not any Letter of Credit chooses such law or practice.

(h) Letter of Credit Fees. The Borrower shall pay to the Lender for its own account a Letter of Credit fee (the "Letter of Credit Fee") for each Letter of Credit equal to the Applicable Rate times the average daily Stated Amount under each such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit). For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of the Letter of Credit shall be determined in accordance with Section 1.06. Letter of Credit Fees shall be (i) due and payable on the first day after the end of each March, June, September and December, or if such day is not a Business Day, on the next succeeding Business Day, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand, and (ii) computed on a quarterly basis in arrears. Notwithstanding anything to the contrary contained herein, while any Event of Default exists, all Letter of Credit Fees shall accrue at the Default Rate as provided in Section 2.07(b) hereof.

(i) Documentary and Processing Charges Payable to L/C Issuer. The Borrower shall pay directly to the L/C Issuer for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the L/C Issuer relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(j) Conflict with Issuer Documents. In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

2.04 Prepayments.

(a) The Borrower may, upon irrevocable notice to the Lender, at any time or from time to time voluntarily prepay Committed Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Lender not later than 11:00 a.m. (A) three (3) Business Days prior to any date of prepayment of [~~LIBOR~~]Eurodollar Rate Loans and (B) on the date of prepayment of Base Rate Loans; (ii) any prepayment of [~~LIBOR~~]Eurodollar Rate Loans shall be in a principal amount of \$1,000,000 or a whole multiple of \$1,000,000 in excess thereof; and (iii) any prepayment of Base Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof or, in the case of either (ii) or (iii) above, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid and, if [~~LIBOR~~]Eurodollar Rate Loans, the Interest Period(s) of such Loans. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a [~~LIBOR~~]Eurodollar Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05.

(b) If for any reason the Total Outstandings at any time exceed the Loan Cap as then in effect, the Borrower shall immediately prepay the Loans and L/C Borrowings and Cash Collateralize the L/C Obligations (other than L/C Borrowings) in an aggregate amount equal to such excess; provided, however, that the Borrower shall not be required to Cash Collateralize the L/C Obligations (other than L/C Borrowings) pursuant to this Section 2.04(b) unless after the prepayment in full of the Loans the Total Outstandings exceed the Loan Cap as then in effect.

(c) The Borrower shall prepay the Loans and, after the occurrence and during the continuance of an Event of Default or to the extent required by the provisions of Section 2.05(c), Cash Collateralize the L/C Obligations to the extent required pursuant to the provisions of Section 6.12 hereof.

(d) The Borrower shall prepay the Loans (including L/C Borrowings) and, after the occurrence and during the continuance of an Event of Default or to the extent required by the provisions of Section 2.05(c), Cash Collateralize the other L/C Obligations in an amount equal to the Net Cash Proceeds received by a Loan Party on account of a Prepayment Event, irrespective of whether a Cash Dominion Event then exists and is continuing.

(e) Prepayments made pursuant to Section 2.04(b), (c) and (d) above, first, shall be applied ratably to the L/C Borrowings, second, shall be applied ratably to the outstanding Committed Loans, third, after the occurrence and during the continuance of an Event of Default, shall be used to Cash Collateralize the remaining L/C Obligations; and,

fourth, the amount remaining, if any, after the prepayment in full of all L/C Borrowings and Committed Loans outstanding at such time and the Cash Collateralization of the remaining L/C Obligations (to the extent required hereunder) in full shall be deposited by the Lender in a deposit account of the Borrower and may be utilized by the Borrower in the ordinary course of its business to the extent otherwise permitted hereunder. Upon the drawing of any Letter of Credit that has been Cash Collateralized, the funds held as Cash Collateral shall be applied (without any further action by or notice to or from the Borrower or any other Loan Party) to reimburse the L/C Issuer or the Lender, as applicable, and, to the extent not so applied, shall thereafter be applied to satisfy other Obligations, as and to the extent such other Obligations shall then be due and payable.

2.05 Termination or Reduction of Commitments.

(a) The Borrower may, without penalty or premium, upon irrevocable notice to the Lender, terminate the Commitment or from time to time permanently reduce the Commitment; provided that (i) any such notice shall be received by the Lender not later than 11:00 a.m. five (5) Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of \$5,000,000 or any whole multiple of \$1,000,000 in excess thereof, (iii) the Borrower shall not terminate or reduce the Commitment if, after giving effect thereto and to any concurrent prepayments hereunder, the Total Outstandings would exceed the Commitment.

(b) If, after giving effect to any reduction of the Commitment, the Letter of Credit Sublimit exceeds the amount of the Commitment, such Letter of Credit Sublimit shall be automatically reduced by the amount of such excess.

(c) Upon any reduction of the Commitment, the Commitment of the Lender shall be reduced by such reduction amount. If, as a result of such termination or reduction, (i) the Outstanding Amount of L/C Obligations not fully Cash Collateralized hereunder would exceed the Letter of Credit Sublimit, the Borrower shall contemporaneously with such reduction or termination, Cash Collateralize such excess amount, and (ii) the Committed Loans would exceed the Commitment, the Borrower shall contemporaneously with such reduction or termination, pay the Lender an amount equal to such excess.

2.06 Repayment of Obligations.

Except as provided in Section 9.11 with respect to the collateralization of the Other Liabilities, the Borrower shall repay to the Lender on the Termination Date all Obligations outstanding on such date (other than contingent indemnification claims for which a claim has not been asserted) and shall cause each Letter of Credit to be returned to the L/C Issuer undrawn or shall Cash Collateralize all L/C Obligations (to the extent not previously Cash Collateralized as required herein).

2.07 Interest.

(a) Subject to the provisions of Section 2.07(b) below, (i) each [~~LIBOR~~ Eurodollar] Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the [~~Adjusted LIBOR~~ Eurodollar] Rate for such Interest Period plus

the Applicable Margin for [~~LIBOR~~ Eurodollar Rate Loans; and (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Margin for Base Rate Loans.

(a) (i) any amount payable under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(ii) If any other Event of Default exists, then the Lender may notify the Borrower that all outstanding Obligations shall bear interest retroactively from the date such Default arose at a fluctuating interest rate per annum at all times equal to the Default Rate and such Obligations shall bear interest retroactively from the date such Default arose at the Default Rate to the fullest extent permitted by Law.

(iii) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(b) Except as provided in Section 2.07(b)(iii) interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.08 Fees. In addition to certain fees described in subsections (h) and (i) of Section 2.03:

(a) Commitment Fee. The Borrower shall pay to the Lender a commitment fee equal to the Commitment Fee Percentage *multiplied by* the actual daily amount by which the Commitment exceeds the Total Outstandings during the immediately preceding Fiscal Quarter. The commitment fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Article IV is not met, and shall be due and payable [~~quarterly~~] in arrears on the [~~last Business Day of each Fiscal Quarter, commencing with the first such date to occur after the Closing Date~~ first day after the end of each March, June, September and December, or if such day is not a Business Day, on the next succeeding Business Day], and on the last day of the Availability Period.

(b) Other Fees. The Borrower shall pay to the Lender for its own account fees in the amounts and at the times specified in the Fee Letter. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

2.09 Computation of Interest and Fees. All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America's "prime rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed. Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid,

provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.11(a), bear interest for one day. Each determination by the Lender of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

2.10 Evidence of Debt.

(a) The Credit Extensions made by the Lender shall be evidenced by one or more accounts or records maintained by the Lender (the "Loan Account") in the ordinary course of business. In addition, the Lender may record in the Lender's internal records, an appropriate notation evidencing the date and amount of each Loan from the Lender, each payment and prepayment of principal of any such Loan, and each payment of interest, fees and other amounts due in connection with the Obligations due to the Lender. The accounts or records maintained by the Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by the Lender to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Obligations. Upon the request of the Lender, the Borrower shall execute and deliver to the Lender a Note, which shall evidence the Lender's Loans in addition to such accounts or records. The Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto. Upon receipt of an affidavit and indemnity of the Lender as to the loss, theft, destruction or mutilation of the Lender's Note and upon cancellation of such Note, the Borrower will issue, in lieu thereof, a replacement Note in favor of the Lender, in the same principal amount thereof and otherwise of like tenor.

2.11 Payments Generally; Lender's Clawback.

(a) General. All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Lender, at the Lender's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. All payments received by the Lender after 2:00 p.m. shall, at the option of the Lender, be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day (other than with respect to payment of a [~~LIBOR~~ Eurodollar Loan), and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) Funding Source. Nothing herein shall be deemed to obligate the Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by the Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.12 Increase in Commitments.

(a) Request for Increase. Provided no Default or Event of Default then exists or would arise therefrom, upon notice to the Lender, the Borrower may from time to time, request an increase in the Commitment by an amount (for all such requests) not exceeding \$25,000,000; provided that (i) any such request for an increase shall be in a minimum amount of \$5,000,000, and (ii) the Borrower may make a maximum of two (2) such requests. At the time of sending such notice, the Borrower shall specify the time period within which the Lender is requested to respond (which shall in no event be less than ten (10) Business Days from the date of delivery of such notice to the Lender). The Lender shall notify the Borrower of its willingness (or that it is not willing) to increase its Commitment within the time specified above.

(b) Effective Date and Allocations. If the Commitment is increased in accordance with this Section, the Lender, in consultation with the Borrower, shall determine the effective date (the “Increase Effective Date”) of such increase.

(c) Conditions to Effectiveness of Increase. As a condition precedent to such increase, (i) the Borrower shall deliver to the Lender a certificate of each Loan Party dated as of the Increase Effective Date signed by a Responsible Officer of such Loan Party (A) certifying and attaching the resolutions adopted by such Loan Party approving or consenting to such increase, and (B) in the case of the Borrower, certifying that, before and after giving effect to such increase, (1) the representations and warranties contained in Article V and the other Loan Documents are true and correct on and as of the Increase Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 2.12, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01, and (2) no Default or Event of Default exists or would arise therefrom, (ii) the Borrower shall have paid such fees to the Lender in respect of such increase as the Borrower and the Lender may agree; (iii) if requested by the Lender, the Borrower shall deliver an opinion or opinions, in form and substance reasonably satisfactory to the Lender, from counsel to the Borrower reasonably satisfactory to the Lender and dated such date; (iv) the Borrower shall have delivered such other instruments, documents and agreements as the Lender may reasonably have requested; and (v) no Default or Event of Default exists.

(d) Conflicting Provisions. This Section shall supersede any provisions in Section 9.01 to the contrary.

ARTICLE III. TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 Taxes.

(a) **Defined Terms.** For purposes of this Section 3.01, the term “applicable Law” includes FATCA and the term “Lender” includes any L/C Issuer.

(b) Payments Free of Taxes. Any and all payments by or on account of any obligation of [~~the Borrower hereunder or~~] any Loan Party under any [~~other~~] Loan Document shall be made [~~free and clear of and~~] without [~~reduction~~] deduction or withholding for any [~~Indemnified~~] Taxes [~~including any Other Taxes~~], provided that if the Borrower shall be, except as required by applicable Law [~~to deduct~~]. If any [~~Indemnified Taxes including~~] applicable Law (as determined in the good faith discretion of the applicable Withholding Agent) requires the deduction or withholding of any [~~Other Taxes~~] Tax from any such [~~payments~~] payment by a Withholding Agent, then the applicable Withholding Agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable Law and, if such Tax is an Indemnified Tax, then [~~(i)~~] the sum payable by the applicable Loan Party shall be increased as necessary so that after [~~making all required deductions~~] such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section 3.01) the [~~applicable Credit Party~~] Lender receives an amount equal to the sum it would have received had no such [~~deductions~~] deduction or withholding been made [~~;~~ (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with [~~Law~~].

(c) Payment of Other Taxes by the Borrower. Without limiting the provisions of subsection (a) above, the Borrower shall timely pay [~~any Other Taxes~~] to the relevant Governmental Authority in accordance with applicable Law, or at the option of the Lender timely reimburse it for the payment of, any Other Taxes.

(d) Indemnification by the Loan Parties. The Loan Parties shall indemnify [~~each Credit Party~~] the Lender, within [~~ten (10)~~] days after demand therefor, for the full amount of any Indemnified Taxes [~~or Other Taxes~~] (including Indemnified Taxes [~~or Other Taxes~~] imposed or asserted on or attributable to amounts payable under this Section [~~]~~ 3.01 payable or paid by [~~such Credit Party~~] the Lender or required to be withheld or deducted from a payment to the Lender and any [~~penalties, interest and~~] reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes [~~or Other Taxes~~] were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by [~~a Credit Party (with a copy to)~~] the Lender [~~], or by the Lender on its own behalf or on behalf of any Credit Party,~~] shall be conclusive absent manifest error.

(e) Evidence of Payments. As soon as practicable after any payment of [~~Indemnified Taxes or Other~~] Taxes by the Borrower to a Governmental Authority as provided in this Section 3.01, the Borrower shall deliver to the Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of [~~the~~] any return [~~reporting~~] required by applicable Law to report such payment or other evidence of such payment reasonably satisfactory to the Lender.

(f) Status of Lenders; Tax Documentation.

(i) If the Lender is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document, the Lender shall deliver to the Borrower, at the time or times reasonably requested by the Borrower, such properly completed and executed documentation reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, the Lender, if reasonably requested by the Borrower shall deliver such other documentation prescribed by applicable Law or reasonably requested by the Borrower as will enable the Borrower to determine whether or not the Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject the Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of the Lender.

(ii) Without limiting the generality of the foregoing, in the event that the Borrower is a U.S. Person,

(A) If the Lender is a U.S. Person, the Lender shall deliver to the Borrower on or prior to the date on which the Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower), executed copies of IRS Form W-9 certifying that the Lender is exempt from U.S. federal backup withholding tax; and

(B) if a payment made to the Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if the Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), the Lender shall deliver to the Borrower at the time or times prescribed by law and at such time or times reasonably requested by the Borrower such documentation prescribed by applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower as may be necessary for the Borrower to comply with their obligations under FATCA and to determine that the Lender has complied with the Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (D), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(iii) The Lender agrees that if any form or certification it previously delivered pursuant to this Section 3.01 expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Borrower in writing of its legal inability to do so.

(g) Treatment of Certain Refunds. If ~~[any Credit Party]~~the Lender determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes ~~[or Other Taxes]~~ as to which it has been indemnified by ~~the~~any Loan ~~[Parties]~~Party or with respect to which ~~the Borrower~~any Loan Party has paid additional amounts pursuant to this Section 3.01, it shall pay to the ~~Borrower~~Loan Party an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by ~~the Borrower~~a Loan Party under this Section 3.01 with respect to the Taxes~~[(including any Other Taxes)]~~ giving rise to such refund), net of all out-of-pocket expenses ~~[of such Credit Party]~~ (including Taxes) incurred by Lender, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Loan ~~[Parties]~~Party, upon the request of ~~[such Credit Party, agree]~~the Lender, agrees to repay the amount paid over to the ~~Borrower~~Loan Party (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to ~~[such Credit Party]~~the Lender in the event ~~[that]~~ the Lender~~[-or the L/C Issuer]~~ is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this clause (h), in no event will the Lender be required to pay any amount to the Loan Party pursuant to this clause (g) the payment of which would place the Lender in a less favorable net after-Tax position than the Lender would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This subsection shall not be construed to require ~~[any Credit Party]~~the Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to ~~the~~any Loan ~~[Parties]~~Party or any other Person.

3.02 Illegality. If the Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for the Lender or its applicable Lending Office to make, maintain or fund ~~[LIBOR Rate] Loans;~~~~or to determine or charge whose~~ interest ~~rates based upon~~ is determined by reference to the ~~[LIBOR]Eurodollar~~ Rate, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of the Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, ~~on~~upon notice thereof by the Lender to the Borrower, ~~(i)a~~ any obligation of the Lender to make or continue ~~[LIBOR]Eurodollar~~ Rate Loans or to ~~Convert~~convert Base Rate Loans to ~~[LIBOR]Eurodollar~~ Rate Loans shall be suspended, and ~~(ii)b~~ if such notice asserts the illegality of ~~[such]~~the Lender making or maintaining Base Rate Loans the interest rate on which is determined by reference to the ~~[LIBOR]Eurodollar~~ Rate component of the Base Rate, the interest rate on which Base Rate Loans of ~~[such]~~the Lender shall, if necessary to avoid such illegality, be determined by the Lender without reference to the ~~[LIBOR]Eurodollar~~ Rate component of the Base Rate, in each case until the Lender notifies the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, ~~(*)i~~ the Borrower shall, upon demand from the Lender, prepay or, if applicable, ~~Convert~~convert all ~~[LIBOR]Eurodollar~~ Rate Loans of the Lender to Base Rate Loans (the interest rate on which Base Rate Loans of ~~[such]~~the Lender shall, if necessary to avoid such illegality, be determined by the Lender without reference to the ~~[LIBOR]Eurodollar~~ Rate component of the Base Rate), either on the last day of the Interest Period therefor, if the Lender may lawfully continue to maintain such ~~[LIBOR]Eurodollar~~ Rate Loans to such day, or immediately, if the Lender may not lawfully continue to maintain such ~~[LIBOR]Eurodollar~~ Rate

Loans and ~~(y)ii~~ if such notice asserts the illegality of ~~[such]the~~ Lender determining or charging interest rates based upon the ~~[LIBOR]Eurodollar~~ Rate, the Lender shall during the period of such suspension compute the Base Rate applicable to ~~[-such]the~~ Lender without reference to the ~~[LIBOR]Eurodollar~~ Rate component thereof until ~~[the Lender is advised in writing by such Lender that]~~ it is no longer illegal for ~~[such]the~~ Lender to determine or charge interest rates based upon the ~~[LIBOR]Eurodollar~~ Rate. Upon any such prepayment or ~~[Conversion]conversion~~, the Borrower shall also pay accrued interest on the amount so prepaid or ~~[Converted]~~converted, together with any additional amounts required pursuant to Section 3.05.

3.03 Inability to Determine Rates. ~~[If]the Lender determines that for any reason~~

(a) Subject to Section 3.03(c), if in connection with any request for a ~~[LIBOR]Eurodollar~~ Rate Loan or a ~~[Conversion]conversion~~ to or continuation thereof, (i) the Lender determines that (a) Dollar deposits are not being offered to banks in the London interbank Eurodollar market for the applicable amount and Interest Period of such ~~[LIBOR]Eurodollar~~ Rate Loan, or (b) adequate and reasonable means do not exist for determining the ~~[LIBOR]Eurodollar~~ Rate for any requested Interest Period with respect to a proposed ~~[LIBOR]Eurodollar~~ Rate Loan or in connection with an existing or proposed Base Rate Loan utilizing the Eurodollar Rate Component (in each case with respect to this clause (i), "Impacted Loans"), or (e)ii) ~~the Lender determines that for any reason~~ the ~~[LIBOR]Eurodollar~~ Rate for any requested Interest Period with respect to a proposed ~~[LIBOR]Eurodollar~~ Rate Loan does not adequately and fairly reflect the cost to the Lender of funding such Eurodollar Rate Loan, ~~the Lender will promptly so notify the Borrower. Thereafter, (x) the obligation of the Lender to make or maintain [LIBOR] Rate Loans shall be suspended,~~ the Lender will promptly so notify the Borrower. Thereafter, (x) the obligation of the Lender to make or maintain Eurodollar Rate Loans shall be suspended, (to the extent of the affected Eurodollar Rate Loans or Interest Periods), and (y) in the event of a determination described in the preceding sentence with respect to the ~~[LIBOR]Rate component of the Base Rate, the utilization of the [LIBOR] Rate component in determining~~ Eurodollar Rate component of the Base Rate, the utilization of the Eurodollar Rate component in determining the Base Rate shall be suspended, in each case ~~;~~ until the Lender revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans (to the extent of the affected Eurodollar Rate Loans or Interest Periods) or, failing that, will be deemed to have converted such request into a request for a Borrowing of Base Rate Loans in the amount specified therein.

(b) Notwithstanding the foregoing, if the Lender has made the determination described in clause (i) of Section 3.03(a), the Lender, in consultation with the Borrower, may establish an alternative interest rate for the Impacted Loans, in which case, such alternative rate of interest shall apply with respect to the Impacted Loans until (i) the Lender revokes ~~[such]the~~ notice delivered with respect to the Impacted Loans under clause (i) of the first sentence of Section 3.03(a), (ii) the Lender notifies the Borrower that such alternative interest rate does not adequately and fairly reflect the cost to the Lender of funding the Impacted Loans, or (iii) the Lender

determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for the Lender or its applicable Lending Office to make, maintain or fund Loans whose interest is determined by reference to such alternative rate of interest or to determine or charge interest rates based upon such rate or any Governmental Authority has imposed material restrictions on the authority of the Lender to do any of the foregoing and provides the Lender and the Borrower written notice thereof.

(c) Notwithstanding anything to the contrary in this Agreement or any other Loan Documents, if the Lender determines (which determination shall be conclusive absent manifest error), or the Borrower notifies the Lender that the Borrower has determined, that:

(i) adequate and reasonable means do not exist for ascertaining LIBOR for any requested Interest Period, including, without limitation, because the LIBOR Screen Rate is not available or published on a current basis and such circumstances are unlikely to be temporary; or

(ii) the administrator of the LIBOR Screen Rate or a Governmental Authority having jurisdiction over the Lender has made a public statement identifying a specific date after which LIBOR or the LIBOR Screen Rate shall no longer be made available, or used for determining the interest rate of loans, provided that, at the time of such statement, there is no successor administrator that is satisfactory to the Lender, that will continue to provide LIBOR after such specific date (such specific date, the "Scheduled Unavailability Date"); or

(iii) loans currently being executed, or that include language similar to that contained in this Section 3.03, are being executed or amended (as applicable) to incorporate or adopt a new benchmark interest rate to replace LIBOR,

then, reasonably promptly after such determination by the Lender or receipt by the Lender of such notice, as applicable, the Lender and the Borrower may amend this Agreement solely for the purpose of replacing LIBOR in accordance with this Section 3.03 with (x) one or more SOFR-Based Rates or (y) another alternate benchmark rate giving due consideration to any evolving or then existing convention for similar U.S. dollar denominated credit facilities for such alternative benchmarks and, in each case, including any mathematical or other adjustments to such benchmark giving due consideration to any evolving or then existing convention for similar U.S. dollar denominated syndicated credit facilities for such benchmarks, which adjustment or method for calculating such adjustment shall be published on an information service as selected by the Lender from time to time in its reasonable discretion and may be periodically updated (the "Adjustment;" and any such proposed rate, a "LIBOR Successor Rate"). Such LIBOR Successor Rate shall be applied in a manner consistent with market practice; provided that to the extent such market practice is not administratively feasible for the Lender, such LIBOR Successor Rate shall be applied in a manner as otherwise reasonably determined by the Lender.

If no LIBOR Successor Rate has been determined and the circumstances under clause (i) above exist or the Scheduled Unavailability Date has occurred (as applicable), the Lender will promptly so notify the Borrower. Thereafter, (x) the obligation of the Lender to make or maintain Eurodollar Rate Loans shall be suspended, (to the extent of the affected Eurodollar Rate Loans or Interest Periods), and (y) the Eurodollar Rate component shall no longer be utilized in determining the Base Rate. Upon receipt of such notice, the Borrower may revoke any pending request for a [~~Committed~~]Borrowing of, [~~Conversion~~]conversion to or continuation of [~~LIBOR~~]Eurodollar Rate Loans (to the extent of the affected Eurodollar Rate Loans or Interest Periods) or, failing that, will be deemed to have [~~Converted~~]converted such request into a request for a [~~Committed~~]Borrowing of Base Rate Loans (subject to the foregoing clause (y)) in the amount specified therein.

Notwithstanding anything else herein, any definition of LIBOR Successor Rate shall provide that in no event shall such LIBOR Successor Rate be less than one percent (1.00%) for purposes of this Agreement.

In connection with the implementation of a LIBOR Successor Rate, the Lender will have the right to make LIBOR Successor Rate Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such LIBOR Successor Rate Conforming Changes will become effective without any further action or consent of any other party to this Agreement.

3.04 Increased Costs; Reserves on [~~LIBOR~~]Eurodollar Rate Loans.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, the Lender (except any reserve requirement [~~reflected in the LIBOR Rate~~]contemplated by Section 3.04(e)) or the L/C Issuer;

(ii) subject the Lender or the L/C Issuer to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any [~~LIBOR~~]Eurodollar Rate Loan made by it, or change the basis of taxation of payments to the Lender or the L/C Issuer in respect thereof (except for (A) Indemnified Taxes[~~or Other~~], (B) Taxes [~~covered by Section 3.01 and the imposition of, or any change in~~]described in clauses (b) through (c) of the [rate]definition of[~~any~~] Excluded [~~Tax payable by the Lender or the L/C Issuer~~]Taxes and (C) or Connection Income Taxes); or

(iii) impose on the Lender or the L/C Issuer or the London interbank market any other condition, cost or expense affecting this Agreement or [~~LIBOR~~]Eurodollar Rate Loans made by the Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to the Lender of making, converting to, continuing or maintaining any [~~LIBOR~~]Eurodollar Rate Loan (or of maintaining

its obligation to make any such Loan), or to increase the cost to the Lender or the L/C Issuer of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by the Lender or the L/C Issuer hereunder (whether of principal, interest or any other amount) then, upon request of the Lender or the L/C Issuer, the Loan Parties will pay to the Lender or the L/C Issuer, as the case may be, such additional amount or amounts as will compensate the Lender or the L/C Issuer, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If the Lender or the L/C Issuer determines that any Change in Law affecting the Lender or the L/C Issuer or the Lender's or the L/C Issuer's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on the Lender's or the L/C Issuer's capital or on the capital or liquidity of the Lender's or the L/C Issuer's holding company, if any, as a consequence of this Agreement, the Commitments of the Lender or the Loans made by, or participations in Letters of Credit held by, the Lender, or the Letters of Credit issued by the L/C Issuer, to a level below that which the Lender or the L/C Issuer or the Lender's or the L/C Issuer's holding company could have achieved but for such Change in Law (taking into consideration the Lender's or the L/C Issuer's policies and the policies of the Lender's or the L/C Issuer's holding company with respect to capital adequacy), then from time to time the Loan Parties will pay to the Lender or the L/C Issuer, as the case may be, such additional amount or amounts as will compensate the Lender or the L/C Issuer or the Lender's or the L/C Issuer's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of the Lender or the L/C Issuer setting forth the amount or amounts necessary to compensate the Lender or the L/C Issuer or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower shall be conclusive absent manifest error. The Loan Parties shall pay the Lender or the L/C Issuer, as the case may be, the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of the Lender or the L/C Issuer to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of the Lender's or the L/C Issuer's right to demand such compensation, provided that the Loan Parties shall not be required to compensate the Lender or the L/C Issuer pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than nine (9) months prior to the date that the Lender or the L/C Issuer, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of the Lender's or the L/C Issuer's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Reserves on [LIBOR]Eurodollar Rate Loans. The Borrower shall pay to the Lender, as long as the Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as [~~€~~“Eurocurrency liabilities”[~~€~~]), additional interest on the unpaid principal

amount of each [~~LIBOR~~ Eurodollar Rate Loan equal to the actual costs of such reserves allocated to such Loan by the Lender (as determined by the Lender in good faith, which determination shall be conclusive), which shall be due and payable on each date on which interest is payable on such Loan, provided the Borrower shall have received at least ten (10) days' prior notice (with a copy to the Lender) of such additional interest from the Lender. If the Lender fails to give notice ten (10) days prior to the relevant Interest Payment Date, such additional interest shall be due and payable ten (10) days from receipt of such notice.

3.05 Compensation for Losses. Upon demand of the Lender from time to time, the Borrower shall promptly compensate the Lender for and hold the Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, Conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise); or

(b) any failure by the Borrower (for a reason other than the failure of the Lender to make a Loan) to prepay, borrow, continue or Convert any Loan other than a Base Rate Loan on the date or in the amount notified by the Borrower; including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by the Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrower to the Lender under this Section 3.05, the Lender shall be deemed to have funded each [~~LIBOR~~ Eurodollar Rate Loan made by it at the [~~LIBOR~~ Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank market for a comparable amount and for a comparable period, whether or not such [~~LIBOR~~ Eurodollar Rate Loan was in fact so funded.

3.06 Survival. All of the Borrower's obligations under this Article III shall survive termination of the Commitment and repayment of all other Obligations hereunder.

ARTICLE IV.

CONDITIONS PRECEDENT TO CLOSING AND CREDIT EXTENSIONS

4.01 Conditions to Closing. The effectiveness of this Agreement is subject to satisfaction of the following conditions precedent:

(a) The Lender's receipt of the following, each of which shall be originals, telecopies or other electronic image scan transmission (e.g., "pdf" or "tif "via e-mail) (followed promptly by originals) unless otherwise specified, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to the Lender:

(i) counterparts of this Agreement each properly executed by a Responsible Officer of the signing Loan Party and the Lender;

(ii) a Note executed by the Borrower in favor of the Lender, if requested by the Lender;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Lender may require evidencing (A) the authority of each Loan Party to enter into this Agreement and the other Loan Documents to which such Loan Party is a party or is to become a party and (B) the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party or is to become a party;

(iv) copies of each Loan Party's Organization Documents and such other documents and certifications as the Lender may reasonably require to evidence that each Loan Party is duly organized or formed, and that each Loan Party is validly existing, in good standing, and qualified to engage in business in each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to so qualify in such jurisdiction could not reasonably be expected to have a Material Adverse Effect;

(v) a favorable opinion of Alston & Bird, LLP, counsel to the Loan Parties, addressed to the Lender, as to such matters concerning the Loan Parties and the Loan Documents as the Lender may reasonably request;

(vi) a certificate of a Responsible Officer of the Borrower certifying (A) that the conditions specified in Sections 4.01 and 4.02 have been satisfied, (B) that there has been no event or circumstance since the date of the unaudited financial statements of the Borrower and its Subsidiaries for the quarter ended July 30, 2011 that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect, (C) to the Solvency of the Loan Parties as of the Closing Date after giving effect to the transactions contemplated hereby, and (D) either that (1) no consents, licenses or approvals are required in connection with the execution, delivery and performance by such Loan Party and the validity against such Loan Party of the Loan Documents to which it is a party, or (2) that all such consents, licenses and approvals have been obtained and are in full force and effect;

(vii) evidence that all insurance required to be maintained pursuant to the Loan Documents and all endorsements in favor of the Lender required under the Loan Documents have been obtained and are in effect;

(a) a payoff letter from the lender under the Existing Credit Agreement satisfactory in form and substance to the Lender evidencing that the Existing Credit Agreement has been or concurrently with the Closing Date is being terminated, all obligations thereunder have been or concurrently with the Closing Date are being paid in full;

(i) the Security Documents and certificates evidencing any stock being pledged thereunder, together with undated stock powers executed in blank, each duly executed by the applicable Loan Parties;

(ii) all other Loan Documents, each duly executed by the applicable Loan Parties;

(iii) a written report regarding the results of a commercial finance examination and quality of earnings report of the Loan Parties, which shall be satisfactory to the Lender and shall be paid by crediting the treasury management analysis fees payable by the Borrower to the Lender or any of its Affiliates pursuant to the Fee Letter;

(b) results of searches or other evidence reasonably satisfactory to the Lender (in each case dated as of a date reasonably satisfactory to the Lender) indicating the absence of Liens on the assets of the Loan Parties, except for Permitted Encumbrances and Liens for which termination statements and releases satisfactory to the Lender are being tendered concurrently with such extension of credit or other arrangements satisfactory to the Lender for the delivery of such termination statements and releases have been made;

(i) (A) all documents and instruments, including Uniform Commercial Code financing statements, required by law or reasonably requested by the Lender to be filed, registered or recorded to create or perfect the first priority Liens intended to be created under the Loan Documents and all such documents and instruments shall have been so filed, registered or recorded to the satisfaction of the Lender, (B) the Credit Card Notifications and Blocked Account Agreements required pursuant to Section 6.12 hereof shall have been obtained, and (C) control agreements with respect to the Loan Parties' securities and investment accounts have been obtained; and

(c) such other assurances, certificates, documents, consents or opinions as the Lender reasonably may require.

(d) Availability shall be not less than \$25,000,000.

(e) The Lender shall have received a Borrowing Base Certificate dated the Closing Date, relating to the month ended on September 30, 2011, and executed by a Responsible Officer of the Borrower.

(f) The Lender shall be reasonably satisfied that any financial statements delivered to it fairly present the business and financial condition of the Loan Parties and that there has been no Material Adverse Effect since the date of the unaudited financial statements of the Borrower and its Subsidiaries for the quarter ended July 30, 2011.

(g) The Lender shall have received and be satisfied with (i) a detailed forecast for the period commencing on the Closing Date and extending through January 31, 2013, which shall include an Availability model, Consolidated income statement, balance sheet, and statement of cash flow, by month, each prepared in conformity with GAAP and

consistent with the Loan Parties' then current practices and (b) such other information (financial or otherwise) reasonably requested by the Lender.

(h) There shall not be pending any litigation or other proceeding, the result of which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(i) There shall not have occurred any default of any Material Contract of any Loan Party.

(j) The consummation of the transactions contemplated hereby shall not violate any Law or any Organization Document.

(k) All fees required to be paid to the Lender on or before the Closing Date shall have been paid in full.

(l) The Borrower shall have paid all fees, charges and disbursements of counsel to the Lender to the extent invoiced prior to or on the Closing Date, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the Closing Date (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrower and the Lender).

(m) The Lender shall have received all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including without limitation the USA PATRIOT Act.

(n) No material changes in governmental regulations or policies affecting any Loan Party or any Credit Party shall have occurred prior to the Closing Date.

(o) The Closing Date shall have occurred on or before October 28, 2011. The Lender shall notify the Borrower of the Closing Date, and such notice shall be conclusive and binding on the Loan Parties

4.02 Conditions to all Credit Extensions. The obligation of the Lender to honor any Request for Credit Extension (other than a Committed Loan Notice requesting only a Conversion of Committed Loans to the other Type, or a continuation of [~~LIBOR~~Eurodollar Rate Loans) and of each L/C Issuer to issue each Letter of Credit is subject to the following conditions precedent:

(a) The representations and warranties of each Loan Party contained in Article V or in any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the date of such Credit Extension, except (i) to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date and (ii) for purposes of this Section 4.02, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01.

(b) No Default or Event of Default shall exist, or would result from such proposed Credit Extension or from the application of the proceeds thereof.

(c) The Lender and, if applicable, the L/C Issuer shall have received a Request for Credit Extension in accordance with the requirements hereof.

(d) No event or circumstance which could reasonably be expected to result in a Material Adverse Effect shall have occurred.

(e) After giving effect to the Credit Extension requested to be made on any such date and the use of proceeds thereof, Availability shall be greater than zero.

Each Request for Credit Extension (other than a Committed Loan Notice requesting only a Conversion of Committed Loans to the other Type or a continuation of [~~LIBOR~~ Eurodollar Rate Loans) submitted by the Borrower shall be deemed to be a representation and warranty by the Borrower that the conditions specified in Sections 4.02(a), (b), (d) and (~~(b) and (d)~~e) have been satisfied on and as of the date of the applicable Credit Extension.

ARTICLE V. REPRESENTATIONS AND WARRANTIES

To induce the Credit Parties to enter into this Agreement and to make Loans and to issue Letters of Credit hereunder, each Loan Party represents and warrants to the Lender and the other Credit Parties that:

5.01 Existence, Qualification and Power. Each Loan Party and each Subsidiary thereof (a) is a corporation, limited liability company, partnership or limited partnership, duly incorporated, organized or formed, validly existing and, where applicable, in good standing under the Laws of the jurisdiction of its incorporation, organization or formation, (b) has all requisite power and authority and all requisite governmental licenses, permits, authorizations, consents and approvals to (i) own or lease its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, and (c) is duly qualified and is licensed and, where applicable, in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license; except in each case referred to in clause (c), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect. Schedule 5.01 to the Disclosure Schedule sets forth, as of the Closing Date, each Loan Party's name as it appears in official filings in its state of incorporation or organization, organization type, organization number, if any, issued by its state of incorporation or organization, and its federal employer identification number.

5.02 Authorization; No Contravention. The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is or is to be a party, has been duly authorized by all necessary corporate or other organizational action, and does not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach, termination, or contravention of, or constitute a default under, or require any payment to be made under (i) any Material Contract or any Material Indebtedness to which such Person is a party or affecting such Person or the properties of such Person or any of its Subsidiaries

or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; (c) result in or require the creation of any Lien upon any asset of any Loan Party (other than Liens in favor of the Lender under the Security Documents); or (d) violate any Law.

5.03 Governmental Authorization; Other Consents. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document, except for (a) the perfection or maintenance of the Liens created under the Security Documents (including the first priority nature thereof) or (b) such as have been obtained or made and are in full force and effect.

5.04 Binding Effect. This Agreement has been, and each other Loan Document, when delivered, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

5.05 Financial Statements; No Material Adverse Effect.

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of the Borrower and its Subsidiaries on a Consolidated basis as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all Material Indebtedness and other liabilities, direct or contingent, of the Borrower and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness, as and to the extent required in accordance with GAAP.

(b) The unaudited Consolidated balance sheet of the Borrower and its Subsidiaries dated May 2, 2015, and the related Consolidated statements of income or operations, Shareholders' Equity and cash flows for the Fiscal Quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present the financial condition of the Borrower and its Subsidiaries on a Consolidated basis as of the date thereof and their results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments.

(c) Since the date of the unaudited financial statements of the Borrower and its Subsidiaries for the quarter ended May 2, 2015, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

(d) To the best knowledge of the Borrower, no Internal Control Event exists or has occurred since the date of the Audited Financial Statements that has resulted in or could reasonably be expected to result in a misstatement in any material respect, (i) in any financial information delivered or to be delivered to the Lender, (ii) of the Borrowing Base, (iii) of covenant compliance calculations provided hereunder or (iv) of the assets, liabilities, financial condition or results of operations of the Borrower and its Subsidiaries on a Consolidated basis.

(e) The Consolidated forecasted balance sheet and statements of income and cash flows of the Borrower and its Subsidiaries delivered pursuant to Section 6.01(d) were prepared in good faith on the basis of the assumptions stated therein, which assumptions were fair in light of the conditions existing at the time of delivery of such forecasts, and represented, at the time of delivery, the Loan Parties' best estimate of its future financial performance.

5.06 Litigation. There are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Loan Parties after due and diligent investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against any Loan Party or any of its Subsidiaries or against any of its properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect.

5.07 No Default. No Loan Party or any Subsidiary is in default under or with respect to any Material Contract or any Material Indebtedness. No Default or Event of Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

5.08 Ownership of Property; Liens.

(a) Each of the Loan Parties and each Subsidiary thereof has good record and marketable title in fee simple to or valid leasehold interests in, all Real Estate necessary or used in the ordinary conduct of its business. Each of the Loan Parties and each Subsidiary has good and marketable title to, valid leasehold interests in, or valid licenses to use all personal property and assets material to the ordinary conduct of its business.

(b) Schedule 5.08(b)(1) to the Disclosure Schedule sets forth the address (including street address, county and state) of all Real Estate (excluding Leases) that is owned by the Loan Parties and each of their Subsidiaries, together with a list of the holders of any mortgage or other Lien thereon as of the Closing Date. Each Loan Party and each of its Subsidiaries has good, marketable and insurable fee simple title to the Real Estate owned by such Loan Party or such Subsidiary, free and clear of all Liens, other than Permitted Encumbrances. Schedule 5.08(b)(2) to the Disclosure Schedule sets forth the address (including street address, county and state) of all Leases of the Loan Parties, together with the name of each lessor and its contact information with respect to each such Lease as of the Closing Date. Each of such Leases is in full force and effect and the Loan Parties are not in default of the terms thereof.

(c) Schedule 7.01 to the Disclosure Schedule sets forth a complete and accurate list of all Liens on the property or assets of each Loan Party and each of its Subsidiaries, showing as of the Closing Date the lienholder thereof, the principal amount of the obligations secured thereby and the property or assets of such Loan Party or such Subsidiary subject thereto. The property of each Loan Party and each of its Subsidiaries is subject to no Liens, other than Permitted Encumbrances.

(d) Schedule 7.02 to the Disclosure Schedule sets forth a complete and accurate list of all Investments held by any Loan Party or any Subsidiary of a Loan Party on the Closing Date, showing as of the Closing Date the amount, obligor or issuer and maturity, if any, thereof.

(e) Schedule 7.03 to the Disclosure Schedule sets forth a complete and accurate list of all Indebtedness of each Loan Party or any Subsidiary of a Loan Party on the Closing Date, showing as of the Closing Date the amount, obligor or issuer and maturity thereof.

5.09 Environmental Compliance.

(a) No Loan Party or any Subsidiary thereof (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability, except, in each case, as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) None of the properties currently or formerly owned, leased or operated by any Loan Party or any Subsidiary thereof is listed or proposed for listing on the NPL or on the CERCLIS or any analogous foreign, state or local list or is adjacent to any such property; to the best of the knowledge of the Loan Parties, there are no and never have been any underground or above-ground storage tanks or any surface impoundments, septic tanks, pits, sumps or lagoons in which Hazardous Materials are being or have been treated, stored or disposed on any property currently owned or operated by any Loan Party or any Subsidiary thereof or on any property formerly owned or operated by any Loan Party or Subsidiary thereof; there is no asbestos or asbestos-containing material on any property currently owned or operated by any Loan Party or Subsidiary thereof; and to the best knowledge of the Loan Parties, Hazardous Materials have not been [~~released, discharged~~] Released on, at under or [~~disposed of on~~] from any property currently or formerly owned, leased or operated by any Loan Party or any Subsidiary thereof.

(c) No Loan Party or any Subsidiary thereof is undertaking, and no Loan Party or any Subsidiary thereof has completed, either individually or together with other potentially responsible parties, any investigation or assessment or remedial or response action relating to any actual or threatened [~~release, discharge or disposal~~] Release of Hazardous Materials at, on, under or from any site, location or operation, either voluntarily or pursuant to the order of any Governmental Authority or the requirements of any Environmental Law; and to the best knowledge of the Loan Parties, all Hazardous

Materials generated, used, treated, handled or stored at, or transported to or from, any property currently or formerly owned, leased or operated by any Loan Party or any Subsidiary thereof have been disposed of in a manner not reasonably expected to result in material liability to any Loan Party or any Subsidiary thereof.

(d) Except, in each case, as could not individually or in the aggregate reasonably be expected to have a Material Adverse Effect, the Loan Parties and their respective Subsidiaries: (A) are, and within the period of all applicable statutes of limitation have been, in compliance with all applicable Environmental Laws; (B) hold all Environmental Permits (each of which is in full force and effect) required for any of their current or intended operations or for any property owned, leased, or otherwise operated by any of them; (C) are, and within the period of all applicable statutes of limitation have been, in compliance with all of their Environmental Permits; (D) to the extent within the control of the Loan Parties and their respective Subsidiaries, will timely renew and comply with each of their Environmental Permits and any additional Environmental permits that may be required of any of them without material expense, and timely comply with any current, future or potential Environmental Law without material expense; and (E) are not aware of any requirements proposed for adoption or implementation under any Environmental Law.

5.10 Insurance. The properties of the Loan Parties and their Subsidiaries are insured with financially sound and reputable insurance companies which are not Affiliates of the Loan Parties, in such amounts, with such deductibles and covering such risks (including, without limitation, workmen's compensation, public liability, business interruption, property damage and directors and officers liability insurance) as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Loan Parties or the applicable Subsidiary operates. Schedule 5.10 to the Disclosure Schedule sets forth a description of all insurance maintained by or on behalf of the Loan Parties and their Subsidiaries as of the Closing Date. As of the Closing Date, each insurance policy listed on Schedule 5.10 to the Disclosure Schedule is in full force and effect and all premiums in respect thereof that are due and payable have been paid.

5.11 Taxes. The Loan Parties and their Subsidiaries have filed all federal, state and other tax returns and reports required to be filed, and have paid all federal, state and other taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings being diligently conducted, for which adequate reserves have been provided in accordance with GAAP, as to which Taxes no Lien has been filed and which contest effectively suspends the collection of the contested obligation and the enforcement of any Lien securing such obligation. There is no proposed tax assessment against any Loan Party or any Subsidiary that would, if made, have a Material Adverse Effect. No Loan Party or any Subsidiary thereof is a party to any tax sharing agreement.

5.12 ERISA Compliance.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other ~~[federal]~~Federal or state ~~[Laws]~~laws. Each Pension Plan that is intended to ~~[qualify]~~be a qualified plan under Section 401(a) of the Code has received a favorable determination letter from the ~~[IRS]~~Internal Revenue Service to the effect that the form of such Plan is qualified under Section 401(a) of the Code and the trust related thereto has been determined by the Internal Revenue Service to be exempt from federal income tax under Section 501(a) of the Code, or an application for such a letter is currently being processed by the ~~[IRS with respect thereto and, to]~~Internal Revenue Service. To the best knowledge of the Borrower, nothing has occurred ~~[which]~~that would prevent~~[,]~~ or cause the loss of~~[,]~~ such ~~[qualification. The Loan Parties and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan. No Lien imposed under the Code or ERISA exists or is likely to arise on account of any Plan]~~tax-qualified status.

(b) There are no pending or, to the best knowledge of the Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred~~[or is]~~, and neither the Borrower nor any ERISA Affiliate is aware of any fact, event or circumstance that could reasonably be expected to ~~[occur; (ii) no Pension Plan has any Unfunded Pension Liability]~~constitute or result in an ERISA Event with respect to any Pension Plan or Multiemployer Plan; (ii) as of the most recent valuation date for any Pension Plan, the funding target attainment percentage (as defined in Section 430(d)(2) of the Code) is 60% or higher and neither the Borrower nor any ERISA Affiliate knows of any facts or circumstances that could reasonably be expected to cause the funding target attainment percentage for any such plan to drop below 60% as of the most recent valuation date; (iii) neither [any Loan Party]the Borrower nor any ERISA Affiliate has incurred[or reasonably expects to incur,] any liability under Title IV of ERISA [with respect to any Pension Plan (to the PBGC other than for the payment of premiums [due and not delinquent under Section 4007 of ERISA); (iv) neither any Loan Party] nor any ERISA Affiliate [has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither any Loan Party], and there are no premium payments which have become due that are unpaid; (iv) neither the Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to [Sections]Section 4069 or Section 4212(c) of ERISA; and (v) no Pension Plan has been terminated by the plan administrator thereof nor by the PBGC, and no event or circumstance has occurred or exists that could reasonably be expected to cause the PBGC to institute proceedings under Title IV of ERISA to terminate any Pension Plan.

(d) Neither the Borrower or any ERISA Affiliate maintains or contributes to, or has any unsatisfied obligation to contribute to, or liability under, any active or terminated Pension Plan other than Pension Plans not otherwise prohibited by this Agreement.

(e) The Borrower represents and warrants as of the Second Amendment Effective Date that the Borrower is not and will not be using “plan assets” (within the meaning of 29 CFR § 2510.3-101, as modified by Section 3(42) of ERISA, or otherwise) of one or more Benefit Plans in connection with the Loans, the Letters of Credit or the Commitments.

5.13 Subsidiaries; Equity Interests. As of the Closing Date, the Loan Parties have no Subsidiaries other than those specifically disclosed in Part (a) of Schedule 5.13 to the Disclosure Schedule, which sets forth the legal name, jurisdiction of incorporation or formation and authorized Equity Interests of each such Subsidiary. All of the outstanding Equity Interests in such Subsidiaries have been validly issued, are fully paid and non-assessable and are owned by a Loan Party (or a Subsidiary of a Loan Party) in the amounts specified on Part (a) of Schedule 5.13 free and clear of all Liens except for those created under the Security Documents. Except as set forth in Schedule 5.13, there are no outstanding rights to purchase any Equity Interests in any Subsidiary. As of the Closing Date, the Loan Parties have no equity investments in any other corporation or entity other than those specifically disclosed in Part (b) of Schedule 5.13. All of the outstanding Equity Interests of the Subsidiaries of the Borrower have been validly issued, and are fully paid and non-assessable and are owned in the amounts specified on Part (c) of Schedule 5.13 free and clear of all Liens except for those created under the Security Documents. The copies of the Organization Documents of each Loan Party and each amendment thereto provided pursuant to Section 4.01 are true and correct copies of each such document, each of which is valid and in full force and effect.

5.14 Margin Regulations; Investment Company Act.

(a) (a) No Loan Party is engaged or will be engaged, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock. None of the proceeds of the Credit Extensions shall be used directly or indirectly for the purpose of purchasing or carrying any margin stock, for the purpose of reducing or retiring any Indebtedness that was originally incurred to purchase or carry any margin stock or for any other purpose that might cause any of the Credit Extensions to be considered a “purpose credit” within the meaning of Regulations T, U, or X issued by the FRB.

(b) None of the Loan Parties, any Person Controlling any Loan Party, or any Subsidiary is or is required to be registered as an “investment company” under the Investment Company Act of 1940.

5.15 Disclosure. Each Loan Party has disclosed to the Lender all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected

to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Loan Party to the Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or under any other Loan Document (in each case, as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Loan Parties represent only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

5.16 Compliance with Laws. Each of the Loan Parties and each Subsidiary is in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

5.17 Intellectual Property; Licenses, Etc. The Loan Parties and their Subsidiaries own, or possess the right to use, all of the Intellectual Property, licenses, permits and other authorizations that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best knowledge of the Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by any Loan Party or any Subsidiary infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Borrower, threatened, which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.18 Labor Matters. Except as set forth on Schedule 5.18 to the Disclosure Schedule, (a) there are no strikes, lockouts, slowdowns or other material labor disputes against any Loan Party or any Subsidiary thereof pending or, to the knowledge of any Loan Party, threatened; (b) the hours worked by and payments made to employees of the Loan Parties comply with the Fair Labor Standards Act and any other applicable federal, state, local or foreign Law dealing with such matters.; (c) no Loan Party or any of its Subsidiaries has incurred any liability or obligation under the Worker Adjustment and Retraining Act or similar state Law; (d) all payments due from any Loan Party and its Subsidiaries, or for which any claim may be made against any Loan Party or any of its Subsidiaries, on account of wages and employee health and welfare insurance and other benefits, have been paid or properly accrued in accordance with GAAP as a liability on the books of such Loan Party; (e) no Loan Party or any Subsidiary is a party to or bound by any collective bargaining agreement, management agreement, employment agreement, bonus, restricted stock, stock option, or stock appreciation plan or agreement or any similar plan, agreement or arrangement; (f) there are no representation proceedings pending or, to any Loan Party's knowledge, threatened to be filed with the National Labor Relations Board, and no labor organization or group of employees of any Loan Party or any Subsidiary has made a pending demand for recognition; (g) there are no complaints, unfair labor practice charges, grievances, arbitrations, unfair employment practices charges or any other claims or complaints against any Loan Party or any Subsidiary pending or, to the knowledge of any Loan Party, threatened to be

filed with any Governmental Authority or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment of any employee of any Loan Party or any of its Subsidiaries; and (h) the consummation of the transactions contemplated by the Loan Documents will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which any Loan Party or any of its Subsidiaries is bound.

5.19 Security Documents.

The Security Agreement creates in favor of the Lender, for the benefit of the Secured Parties referred to therein, a legal, valid, continuing and enforceable security interest in the Collateral (as defined in the Security Agreement), the enforceability of which is subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law. The financing statements, releases and other filings are in appropriate form and have been or will be filed in the offices specified in Schedule II of the Security Agreement. Upon such filings and/or the obtaining of "control" (as defined in the UCC), the Lender will have a perfected Lien on, and security interest in, to and under all right, title and interest of the grantors thereunder in all Collateral that may be perfected under the UCC (in effect on the date this representation is made) by filing, recording or registering a financing statement or analogous document (including without limitation the proceeds of such Collateral subject to the limitations relating to such proceeds in the UCC) or by obtaining control, in each case prior and superior in right to any other Person.

5.20 Solvency.

After giving effect to the transactions contemplated by this Agreement, and before and after giving effect to each Credit Extension, the Loan Parties, on a Consolidated basis, are Solvent. No transfer of property has been or will be made by any Loan Party and no obligation has been or will be incurred by any Loan Party in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of any Loan Party.

5.21 Deposit Accounts; Credit Card Arrangements.

(a) Schedule 5.21(a) to the Disclosure Schedule sets forth a list of all DDAs maintained by the Loan Parties as of the Closing Date, which Schedule includes, with respect to each DDA (i) the name and address of the depository; (ii) the account number(s) maintained with such depository; (iii) a contact person at such depository, and (iv) the identification of each Blocked Account Bank.

(b) Schedule 5.21(b) to the Disclosure Schedule sets forth a list describing all arrangements as of the Closing Date to which any Loan Party is a party with respect to the processing and/or payment to such Loan Party of the proceeds of any credit card charges and debit card charges for sales made by such Loan Party.

5.22 Brokers. No broker or finder brought about the obtaining, making or closing of the Loans or transactions contemplated by the Loan Documents, and no Loan Party or Affiliate thereof has any obligation to any Person in respect of any finder's or brokerage fees in connection therewith.

5.23 Trade Relations. There exists no actual or, to the knowledge of any Loan Party, threatened, termination or cancellation of, or any material adverse modification or change in the business relationship of any Loan Party with any supplier material to its operations.

5.24 Material Contracts. Schedule 5.24 to the Disclosure Schedule sets forth all Material Contracts to which any Loan Party is a party or is bound as of the Closing Date. The Loan Parties have delivered true, correct and complete copies of such Material Contracts to the Lender on or before the Closing Date. The Loan Parties are not in breach or in default in any material respect of or under any Material Contract and have not received any notice of the intention of any other party thereto to terminate any Material Contract.

5.25 Casualty. Neither the businesses nor the properties of any Loan Party or any of its Subsidiaries are affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance) that, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.26 OFAC. No Loan Party, nor any of its Subsidiaries, nor, to the knowledge of any Loan Party or any of its Subsidiaries, any director, officer, employee, agent, affiliate or representative thereof, is an individual or entity that is, or is owned or controlled by one or more individuals or entities that are (a) currently the subject or target of any Sanctions, (b) included on OFAC's List of Specially Designated Nationals or HMT's Consolidated List of Financial Sanctions Targets, or any similar list enforced by any other relevant sanctions authority or (c) located, organized or resident in a Designated Jurisdiction. The Loan Parties and their Subsidiaries have conducted their businesses in compliance in all material respects with all applicable Sanctions and have instituted and maintained policies and procedures designed to promote and achieve compliance with such Sanctions.

5.27 Anti-Corruption Laws. The Loan Parties and their Subsidiaries have conducted their businesses in compliance in all material respects with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010, and other applicable anti-corruption legislation in other jurisdictions and have instituted and maintained policies and procedures designed to promote and achieve compliance with such laws

5.28 Beneficial Ownership Certificate. As of the Second Amendment Effective Date, the information included in the Beneficial Ownership Certification, if applicable, is true and correct in all respects.

5.29 Covered Entities. No Loan Party is a Covered Entity.

5.30 EEA Financial Institution. No Loan Party is an EEA Financial Institution.

ARTICLE VI.
AFFIRMATIVE COVENANTS

So long as the Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied (other than contingent indemnification claims for which a claim has not been asserted), or any Letter of Credit shall remain outstanding, the Loan Parties shall, and shall (except in the case of the covenants set forth in Sections 6.01, 6.02, and 6.03) cause each Subsidiary to:

6.01 Financial Statements. Deliver to the Lender, in form and detail satisfactory to the Lender:

(a) as soon as available, but in any event within ninety (90) days after the end of each Fiscal Year of the Borrower, a Consolidated balance sheet of the Borrower (commencing with the Fiscal Year ending January 28, 2012) and its Subsidiaries as at the end of such Fiscal Year, and the related Consolidated statements of income or operations, Shareholders' Equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail and prepared in accordance with GAAP, such consolidated statements to be audited and accompanied by a report and unqualified opinion of a Registered Public Accounting Firm of nationally recognized standing reasonably acceptable to the Lender, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit;

(b) as soon as available, but in any event within forty-five (45) days after the end of each of the Fiscal Quarters of each Fiscal Year of the Borrower (commencing with the Fiscal Quarter ended October 29, 2011), a Consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such Fiscal Quarter, and the related Consolidated statement of income or operations for such Fiscal Quarter and for the portion of the Borrower's Fiscal Year then ended, and the related statement of cash flows for the portion of the Borrower's Fiscal Year then ended, setting forth in each case, as applicable, in comparative form the figures for (A) such period set forth in the projections delivered pursuant to Section 6.01(d) hereof, (B) the corresponding Fiscal Quarter of the previous Fiscal Year and (C) the corresponding portion of the previous Fiscal Year, all in reasonable detail, such consolidated statements to be certified by a Responsible Officer of the Borrower as fairly presenting the financial condition, results of operations and cash flows of the Borrower and its Subsidiaries as of the end of such Fiscal Quarter in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes;

(c) if Availability is less than twenty percent (20%) of the Loan Cap at any time, as soon as available, but in any event within thirty (30) days after the end of each of the Fiscal Months of each Fiscal Year of the Borrower, a Consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such Fiscal Month, and the related Consolidated statement of income or operations for such Fiscal Month, and for the portion of the Borrower's Fiscal Year then ended and the related statement of cash flows for the portion of the Borrower's Fiscal Year then ended, setting forth in each case, as applicable,

in comparative form the figures for (A) such period set forth in the projections delivered pursuant to Section 6.01(d) hereof, (B) the corresponding Fiscal Month of the previous Fiscal Year and (C) the corresponding portion of the previous Fiscal Year, all in reasonable detail, such Consolidated statements to be certified by a Responsible Officer of the Borrower as fairly presenting the financial condition, results of operations and cash flows of the Borrower and its Subsidiaries as of the end of such Fiscal Month in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes;

(d) as soon as available, but in any event at least thirty (30) days before the end of each Fiscal Year of the Borrower, forecasts prepared by management of the Borrower, in form satisfactory to the Lender, of Availability and the Consolidated balance sheets and statements of income or operations and cash flows of the Borrower and its Subsidiaries on a monthly basis for the immediately following Fiscal Year (including the Fiscal Year in which the Maturity Date occurs), and as soon as available, any significant revisions to such forecast with respect to such Fiscal Year.

6.02 Certificates; Other Information. Deliver to the Lender, in form and detail satisfactory to the Lender:

(a) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b) and (c) (commencing with the delivery of the financial statements for the Fiscal Quarter ended October 29, 2011, or at any time that the Borrower is obligated to deliver monthly financial statements pursuant to Section 6.01(c), with each monthly financial statement) (i) a duly completed Compliance Certificate signed by a Responsible Officer of the Borrower, and in the event of any change in generally accepted accounting principles used in the preparation of such financial statements, the Borrower shall also provide a statement of reconciliation conforming such financial statements to GAAP and (ii) with respect to the delivery of the financial statements referred to in Sections 6.01(a) and (b), a copy of management's discussion and analysis with respect to such financial statements;

(b) (i) if there are no outstanding Committed Borrowings or other amounts payable by the Borrower or its Subsidiaries on account of any Loans made to the Borrower and the L/C Obligations do not exceed \$5,000,000, on the fifteenth (15th) day of each Fiscal Quarter (or, if such day is not a Business Day, on the next succeeding Business Day), a certificate in the form of Exhibit E (a "Borrowing Base Certificate") showing the Borrowing Base as of the close of business as of the last day of the immediately preceding Fiscal Quarter, each Borrowing Base Certificate to be certified as complete and correct by a Responsible Officer of the Borrower; (ii) if the conditions of clause (b)(i) are not satisfied, such Borrowing Base Certificate shall be delivered on the fifteenth (15th) day of each Fiscal Month (or, if such day is not a Business Day, on the next succeeding Business Day) showing the Borrowing Base as of the close of business as of the last day of the immediately preceding Fiscal Month; and (iii) at any time that an Accelerated Borrowing Base Delivery Event has occurred and is continuing, such Borrowing Base Certificate shall be delivered on a Wednesday of each week (or, if Wednesday is not a Business Day, on the next succeeding Business Day), as of the close of business on the immediately preceding Saturday;

(c) promptly upon receipt, copies of any detailed audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of any Loan Party by its Registered Public Accounting Firm in connection with the accounts or books of the Loan Parties or any Subsidiary, or any audit of any of them, including, without limitation, specifying any Internal Control Event;

(d) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Loan Parties, and copies of all annual, regular, periodic and special reports and registration statements which any Loan Party may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934 or with any national securities exchange;

(e) the financial and collateral reports described on Schedule 6.02 hereto, at the times set forth in such Schedule;

(f) promptly after the furnishing thereof, copies of any statement or report furnished to any holder of Material Indebtedness of any Loan Party or any Subsidiary thereof pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Lender pursuant to Section 6.01 or any other clause of this Section 6.02;

(i) as soon as available, but in any event within thirty (30) days after the end of each Fiscal Year of the Loan Parties, a report summarizing the insurance coverage (specifying type, amount and carrier) in effect for each Loan Party and its Subsidiaries and containing such additional information as the Lender may reasonably specify;

(g) promptly after the Lender's request therefor, copies of all Material Contracts and documents evidencing Material Indebtedness;

(i) promptly, and in any event within five (5) Business Days after receipt thereof by any Loan Party or any Subsidiary thereof, copies of each notice or other correspondence received from any Governmental Authority (including, without limitation, the SEC (or comparable agency in any applicable non-U.S. jurisdiction)) concerning any proceeding with, or investigation or possible investigation or other inquiry by such Governmental Authority regarding financial or other operational results of any Loan Party or any Subsidiary thereof or any other matter which, if adversely determined, could reasonably be expected to have a Material Adverse Effect; ~~and~~

(h) promptly, such additional information regarding the business affairs, financial condition or operations of any Loan Party or any Subsidiary, or compliance with the terms of the Loan Documents, as the Lender may from time to time reasonably request. Documents required to be delivered pursuant to Section 6.01(a), (b), Section 6.02(c) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the

date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet at the website address listed on Schedule 9.02 hereto; or (ii) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which the Lender has access (whether a commercial, third-party website or whether sponsored by the Lender); provided that the Borrower shall notify the Lender (by telecopier or electronic mail) of the posting of any such documents and provide to the Lender by electronic mail electronic versions (i.e., soft copies) of such documents. The Lender shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Loan Parties with any such request for delivery; and

(i) promptly following any [~~such~~]-request [~~for-delivery~~]therefor, information and documentation reasonably requested by the Lender for purposes of compliance with applicable "know your customer" and anti-money-laundering rules and regulations, including, without limitation, the PATRIOT Act and the Beneficial Ownership Regulation.

6.03 Notices. Promptly notify the Lender:

- (a) of the occurrence of any Default or Event of Default;
 - (b) of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect,
 - (c) of any breach or non-performance of, or any default under, a Material Contract or with respect to Material Indebtedness of any Loan Party or any Subsidiary thereof;
 - (d) of any dispute, litigation, investigation, proceeding or suspension between any Loan Party or any Subsidiary thereof and any Governmental Authority; or the commencement of, or any material development in, any litigation or proceeding affecting any Loan Party or any Subsidiary thereof, including pursuant to any applicable Environmental Laws;
 - (e) of the occurrence of any ERISA Event;
 - (f) of any material change in accounting policies or financial reporting practices by any Loan Party or any Subsidiary thereof;
 - (g) of any change in any Loan Party's senior executive officers;
 - (h) of the discharge by any Loan Party of its present Registered Public Accounting Firm or any withdrawal or resignation by such Registered Public Accounting Firm;
 - (i) of any collective bargaining agreement or other labor contract to which a Loan Party becomes a party, or the application for the certification of a collective bargaining agent;
-

(j) of the filing of any Lien for unpaid Taxes against any Loan Party;

(k) of any casualty or other insured damage to any material portion of the Collateral or the commencement of any action or proceeding for the taking of any interest in a material portion of the Collateral under power of eminent domain or by condemnation or similar proceeding or if any material portion of the Collateral is damaged or destroyed;

(l) of any transaction of the nature prohibited or restricted in Article VII hereof, occurring after the Closing Date, and

(m) of any failure by any Loan Party to pay rent at (i) any of the Loan Parties' distribution centers or warehouses or (ii) any of such Loan Party's locations if such failure continues for more than ten (10) days following the day on which such rent first came due and such failure would be reasonably likely to result in a Material Adverse Effect.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower has taken and proposes to take with respect thereto.

6.04 Payment of Obligations. Pay and discharge as the same shall become due and payable, all its obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, (b) all lawful claims (including, without limitation, claims of landlords, warehousemen, customs brokers, freight forwarders, consolidators, and carriers) which, if unpaid, would by Law become a Lien upon its property, and (c) all Material Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness, except, in each case, where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) such Loan Party has set aside on its books adequate reserves with respect thereto in accordance with GAAP, (c) such contest effectively suspends collection of the contested obligation and enforcement of any Lien securing such obligation, (d) no Lien has been filed with respect thereto and (e) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect. Nothing contained herein shall be deemed to limit the rights of the Lender with respect to determining Reserves pursuant to this Agreement.

6.05 Preservation of Existence, Etc. (a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization or formation except in a transaction permitted by Section 7.04 or 7.05; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) preserve or renew all of its Intellectual Property, except to the extent such Intellectual Property is no longer used or useful in the conduct of the business of the Loan Parties.

6.06 Maintenance of Properties. (a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; and (b) make all necessary repairs thereto and renewals

and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

6.07 Maintenance of Insurance. Maintain with financially sound and reputable insurance companies reasonably acceptable to the Lender not Affiliates of the Loan Parties, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business and operating in the same or similar locations or as is required by Law, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons and as are reasonably acceptable to the Lender.

(a) Maintain for themselves and their Subsidiaries, a Directors and Officers insurance policy, and a “Blanket Crime” policy including employee dishonesty, forgery or alteration, theft, disappearance and destruction, robbery and safe burglary, property, and computer fraud coverage with responsible companies in such amounts as are customarily carried by business entities engaged in similar businesses similarly situated, and upon request by the Lender furnish the Lender certificates evidencing renewal of each such policy.

(b) Cause fire and extended coverage policies maintained with respect to any Collateral to be endorsed or otherwise amended to include (i) lenders’ loss payable clause (regarding personal property), in form and substance satisfactory to the Lender, which endorsements or amendments shall provide that the insurer shall pay all proceeds otherwise payable to the Loan Parties under the policies directly to the Lender, (ii) a provision to the effect that none of the Loan Parties, Credit Parties or any other Person shall be a co-insurer and (iii) such other provisions as the Lender may reasonably require from time to time to protect the interests of the Credit Parties.

(c) Cause commercial general liability policies to be endorsed to name the Lender as an additional insured.

(d) Cause business interruption policies to name the Lender as a loss payee and to be endorsed or amended to include (i) a provision that, from and after the Closing Date, the insurer shall pay all proceeds otherwise payable to the Loan Parties under the policies directly to the Lender, (ii) a provision to the effect that none of the Loan Parties, the Lender or any other party shall be a co-insurer and (iii) such other provisions as the Lender may reasonably require from time to time to protect the interests of the Credit Parties.

(e) Cause each such policy referred to in this Section 6.07 to also provide that it shall not be canceled, modified or not renewed (i) by reason of nonpayment of premium except upon not less than ten (10) days’ prior written notice thereof by the insurer to the Lender (giving the Lender the right to cure defaults in the payment of premiums) or (ii) for any other reason except upon not less than thirty (30) days’ prior written notice thereof by the insurer to the Lender.

(f) Deliver to the Lender, prior to the cancellation, modification or non-renewal of any such policy of insurance, a copy of a renewal or replacement policy (or other

evidence of renewal of a policy previously delivered to the Lender, including an insurance binder) together with evidence satisfactory to the Lender of payment of the premium therefor.

(g) Permit any representatives that are designated by the Lender to inspect the insurance policies maintained by or on behalf of the Loan Parties and to inspect books and records related thereto and any properties covered thereby.

Notwithstanding the foregoing, unless a Cash Dominion Event has occurred and is continuing the Lender shall remit to the Borrower any casualty insurance proceeds it receives pursuant to Section 6.07(c) and (e). None of the Credit Parties, or their agents or employees shall be liable for any loss or damage insured by the insurance policies required to be maintained under this Section 6.07. Each Loan Party shall look solely to its insurance companies or any other parties other than the Credit Parties for the recovery of such loss or damage and such insurance companies shall have no rights of subrogation against any Credit Party or its agents or employees. If, however, the insurance policies do not provide waiver of subrogation rights against such parties, as required above, then the Loan Parties hereby agree, to the extent permitted by law, to waive their right of recovery, if any, against the Credit Parties and their agents and employees. The designation of any form, type or amount of insurance coverage by any Credit Party under this Section 6.07 shall in no event be deemed a representation, warranty or advice by such Credit Party that such insurance is adequate for the purposes of the business of the Loan Parties or the protection of their properties.

6.08 Compliance with Laws. Comply in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves have been set aside and maintained by the Loan Parties in accordance with GAAP; (b) such contest effectively suspends enforcement of the contested Laws, and (c) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.09 Books and Records; Accountants.

(a) Maintain (i) proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Loan Parties or such Subsidiary, as the case may be; and (ii) such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over the Loan Parties or such Subsidiary, as the case may be.

(b) At all times retain a Registered Public Accounting Firm which is reasonably satisfactory to the Lender and instruct such Registered Public Accounting Firm to cooperate with, and be available to, the Lender or its representatives to discuss the Loan Parties' financial performance, financial condition, operating results, controls, and such other matters, within the scope of the retention of such Registered Public Accounting Firm, as may be raised by the Lender.

6.10 Inspection Rights.

(a) Permit representatives and independent contractors of the Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and Registered Public Accounting Firm, all at the expense of the Loan Parties and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower; provided, however, that when a Default or an Event of Default exists the Lender (or any of its representatives or independent contractors) may do any of the foregoing at the expense of the Loan Parties at any time during normal business hours and without advance notice.

(b) Upon the request of the Lender after reasonable prior notice, permit the Lender or professionals (including investment bankers, consultants, accountants, and lawyers) retained by the Lender to conduct commercial finance examinations and other evaluations, including, without limitation, of (i) the Borrower's practices in the computation of the Borrowing Base (ii) the assets included in the Borrowing Base and related financial information such as, but not limited to, sales, gross margins, payables, accruals and reserves, and (iii) the Loan Parties' business plan, forecasts and cash flows. The Loan Parties acknowledge that the Lender may, in its discretion, undertake up to one (1) commercial finance examination in each twelve (12) month period at the Loan Parties' expense; provided that in the event that the Availability is less than thirty percent (30%) of the Loan Cap (the "Trigger Event"), then the Lender may, in its discretion, undertake up to two (2) commercial finance examinations in the twelve (12) month period following the Trigger Event at the Loan Parties' expense. Notwithstanding the foregoing, the Lender may cause additional commercial finance examinations to be undertaken (i) as it in its discretion deems necessary or appropriate, at its own expense or, (ii) if required by Law or if a Default or Event of Default shall have occurred and be continuing, at the expense of the Loan Parties.

(c) If the L/C Obligations exceed \$5,000,000 or there are outstanding Committed Borrowings or other amounts payable by the Borrower or any Loan Parties on account of any Loans made to the Borrower, upon the request of the Lender after reasonable prior notice, permit the Lender or professionals (including appraisers) retained by the Lender to conduct appraisals of the Collateral, including, without limitation, the assets included in the Borrowing Base. The Loan Parties acknowledge that if such appraisals may be undertaken pursuant to the preceding sentence, the Lender may, in its discretion, undertake up to one (1) inventory appraisal in each twelve (12) month period at the Loan Parties' expense; provided that if the Trigger Event occurs at any time during a Fiscal Year, then the Lender may, in its discretion, undertake up to two (2) inventory appraisals in the twelve (12) month period following the Trigger Event at the Loan Parties' expense. Notwithstanding the foregoing, the Lender may cause additional appraisals to be undertaken (i) as it in its discretion deems necessary or appropriate, at its own expense or, (ii) if required by Law or if a Default or Event of Default shall have occurred and be continuing, at the expense of the Loan Parties.

6.11 Additional Loan Parties. Notify the Lender at the time that any Person becomes a Subsidiary (including, without limitation, upon the formation of any Subsidiary that is a Division Successor), and promptly thereafter (and in any event within fifteen (15) days), cause any such Person (a) to become a Loan Party by executing and delivering to the Lender a Joinder to this Agreement or a Joinder to the Facility Guaranty or such other documents as the Lender shall deem appropriate for such purpose, and (b) grant a Lien to the Lender on such Person's assets of the same type that constitute Collateral to secure the Obligations, and (iii) deliver to the Lender documents of the types referred to in clauses (iii) and (iv) of Section 4.01(a) and favorable opinions of counsel to such Person (which shall cover, among other things, the legality, validity, binding effect and enforceability of the documentation referred to in clauses (a) and (b)). In no event shall compliance with this Section 6.11 waive or be deemed a waiver or consent to any transaction giving rise to the need to comply with this Section 6.11 if such transaction was not otherwise expressly permitted by this Agreement or constitute or be deemed to constitute, with respect to any Subsidiary, an approval of such Person as the Borrower or permit the inclusion of any acquired assets in the computation of the Borrowing Base.

6.12 Cash Management.

(a) On or prior to the Closing Date:

(i) deliver to the Lender copies of notifications (each, a "Credit Card Notification") reasonably satisfactory in form and substance to the Lender which have been executed on behalf of such Loan Party and delivered to such Loan Party's credit card clearinghouses and processors listed on Schedule 5.21(b) to the Disclosure Schedule; and

(ii) enter into a Blocked Account Agreement satisfactory in form and substance to the Lender with each Blocked Account Bank (collectively, the "Blocked Accounts").

(b) Prior to the occurrence of a Cash Dominion Event, ACH or wire transfer no less frequently than daily (and whether or not there are then any outstanding Obligations) to a Blocked Account all amounts on deposit in each DDA (net of any minimum balance, not to exceed \$2,500, as may be required to be kept in the subject DDA by the depository institution at which such DDA is maintained) and all payments due from credit card processors and credit card issuers.

(c) After the occurrence and during the continuance of a Cash Dominion Event, (i) ACH or wire transfer no less frequently than daily (and whether or not there are then any outstanding Obligations) to a Blocked Account all amounts on deposit in each DDA (net of any minimum balance, not to exceed \$2,500, as may be required to be kept in the subject DDA by the depository institution at which such DDA is maintained) and all payments due from credit card processors and credit card issuers and (ii) cause the ACH or wire transfer to the collection account maintained by the Lender at Bank of America (the "Collection Account"), no less frequently than daily (and whether or not there are then any outstanding Obligations), all cash receipts and collections received by each Loan Party from all sources, including, without limitation, the following:

(i) all available cash receipts from the sale of Inventory (including without limitation, proceeds of credit card charges) and other assets (whether or not constituting Collateral);

(ii) all cash received or paid to or for the account of any Person not in the ordinary course of business, including tax refunds, pension plan reversions, indemnity payments and any purchase price adjustments;

(iii) all proceeds of collections of Accounts;

(iv) all Net Proceeds, and all other cash payments received by a Loan Party from any Person or from any source or on account of any Disposition or other transaction or event, including, without limitation, any Prepayment Event;

(v) the then contents of each DDA (net of any minimum balance, not to exceed \$2,500, as may be required to be kept in the subject DDA by the depository institution at which such DDA is maintained); and

(vi) the then entire ledger balance of each Blocked Account (net of any minimum balance, not to exceed \$2,500, as may be required to be kept in the subject Blocked Account by the Blocked Account Bank).

(d) The Collection Account shall at all times during the continuance of a Cash Dominion Event be under the sole dominion and control of the Lender. The Loan Parties hereby acknowledge and agree that (i) during the continuance of a Cash Dominion Event, the Loan Parties have no right of withdrawal from the Collection Account, (ii) the funds on deposit in the Collection Account shall at all times be collateral security for all of the Obligations and (iii) during the continuance of a Cash Dominion Event, the funds on deposit in the Collection Account shall be applied to the Obligations as provided in this Agreement. In the event that, notwithstanding the provisions of this Section 6.12, any Loan Party receives or otherwise has dominion and control of any such cash receipts or collections, such receipts and collections shall be held in trust by such Loan Party for the Lender, shall not be commingled with any of such Loan Party's other funds or deposited in any account of such Loan Party and shall, not later than the Business Day after receipt thereof, be deposited into the Collection Account or dealt with in such other fashion as such Loan Party may be instructed by the Lender.

(e) Upon the request of the Lender, cause bank statements and/or other reports to be delivered to the Lender not less often than monthly, accurately setting forth all amounts deposited in each Blocked Account to ensure the proper transfer of funds as set forth above.

6.13 Information Regarding the Collateral.

(a) Furnish to the Lender at least thirty (30) days prior written notice of any change in: (i) any Loan Party's name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties; (ii) the location of any Loan Party's chief executive office, its principal place of business, any office in which it maintains books

or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility); (iii) any Loan Party's organizational structure or jurisdiction of incorporation or formation; or (iv) any Loan Party's Federal Taxpayer Identification Number or organizational identification number assigned to it by its state of organization. The Loan Parties shall not effect or permit any change referred to in the preceding sentence unless all filings have been made under the UCC or otherwise that are required in order for the Lender to continue at all times following such change to have a valid, legal and perfected first priority security interest in all the Collateral for its own benefit and the benefit of the other Credit Parties.

(b) Should any of the information on any of the Schedules to the Disclosure Schedule become inaccurate or misleading in any material respect as a result of changes after the Closing Date, advise the Lender in writing (as provided in the following sentence) of such revisions or updates as may be necessary or appropriate to update or correct the same. Quarterly, concurrently with the delivery of the Compliance Certificate or as may be reasonably requested by the Lender, the Borrower shall supplement each Schedule to the Disclosure Schedule, or any representation herein or in any other Loan Document, with respect to any matter arising after the Closing Date that, if existing or occurring on the Closing Date, would have been required to be set forth or described in such Schedule or as an exception to such representation or that is necessary to correct any information in such Schedule or representation which has been rendered materially inaccurate thereby (and, in the case of any supplements to any Schedule, such Schedule shall be appropriately marked to show the changes made therein). Notwithstanding the foregoing, no supplement or revision to any Schedule or representation shall be deemed the Credit Parties' consent to the matters reflected in such updated Schedules or revised representations nor permit the Loan Parties to undertake any actions otherwise prohibited hereunder or fail to undertake any action required hereunder from the restrictions and requirements in existence prior to the delivery of such updated Schedules or such revision of a representation; nor shall any such supplement or revision to any Schedule or representation be deemed the Credit Parties' waiver of any Default or Event of Default resulting from the matters disclosed therein.

6.14 Physical Inventories.

(a) Cause not less than one (1) physical inventory to be undertaken at each Store, at the expense of the Loan Parties, in each Fiscal Year and periodic cycle counts at each distribution center, in each case consistent with past practices, conducted by such inventory takers as are satisfactory to the Lender and following such methodology as is consistent with the methodology used in the immediately preceding inventory or as otherwise may be satisfactory to the Lender. The Lender, at the expense of the Loan Parties, may participate in and/or observe each scheduled physical count of Inventory which is undertaken on behalf of any Loan Party. The Borrower, upon the request of the Lender, shall provide the Lender with a reconciliation of the results of such inventory (as well as of any other physical inventory or cycle counts undertaken by a Loan Party) and shall post such results to the Loan Parties' stock ledgers and general ledgers, as applicable.

(b) Permit the Lender, in its discretion, if any Default or Event of Default exists, to cause additional such inventories to be taken as the Lender determines (each, at the expense of the Loan Parties).

6.15 Environmental Laws.

(a) Conduct its operations and keep and maintain its Real Estate in material compliance with all Environmental Laws; (b) obtain and renew all environmental permits necessary for its operations and properties; and (c) implement any and all investigation, remediation, removal and response actions that are appropriate or necessary to maintain the value and marketability of the Real Estate or to otherwise comply with Environmental Laws pertaining to the presence, generation, treatment, storage, use, disposal, transportation or release of any Hazardous Materials on, at, in, under, above, to, from or about any of its Real Estate, provided, however, that neither a Loan Party nor any of its Subsidiaries shall be required to undertake any such cleanup, removal, remedial or other action to the extent that its obligation to do so is being contested in good faith and by proper proceedings and adequate reserves have been set aside and are being maintained by the Loan Parties with respect to such circumstances in accordance with GAAP.

6.16 Further Assurances.

Execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements and other documents), that may be required under any Law, or which the Lender may request, to effectuate the transactions contemplated by the Loan Documents or to grant, preserve, protect or perfect the Liens created or intended to be created by the Security Documents or the validity or priority of any such Lien, all at the expense of the Loan Parties. The Loan Parties also agree to provide to the Lender, from time to time upon request, evidence satisfactory to the Lender as to the perfection and priority of the Liens created or intended to be created by the Security Documents.

6.17 Compliance with Terms of Leaseholds.

Except as otherwise expressly permitted hereunder, (a) make all payments and otherwise perform all obligations in respect of all Leases to which any Loan Party or any of its Subsidiaries is a party, keep such Leases in full force and effect (b) not allow such Leases to lapse or be terminated or any rights to renew such Leases to be forfeited or cancelled except in the ordinary course of business, consistent with past practices, (c) notify the Lender of any default by any party with respect to such Leases and cooperate with the Lender in all respects to cure any such default, and (d) cause each of its Subsidiaries to do the foregoing. Notwithstanding the foregoing, the Loan Parties shall be permitted to allow Leases to lapse or be terminated to the extent such Leases are no longer used or useful in the conduct of the business of the Loan Parties in the ordinary course of business, consistent with past practices, and nothing herein shall preclude the Loan Parties from contesting in good faith any dispute with the lessor with respect to any Lease.

6.18 Material Contracts. (a) Perform and observe all the terms and provisions of each Material Contract to be performed or observed by it, (b) maintain each such Material Contract in

full force and effect except to the extent such Material Contract is no longer used or useful in the conduct of the business of the Loan Parties in the ordinary course of business, consistent with past practices, (c) enforce each such Material Contract in accordance with its terms, and (d) cause each of its Subsidiaries to do the foregoing.

6.19 Anti-Corruption Laws; Sanctions**6.20. Conduct its businesses in compliance in all material respects with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010, and other applicable anti-corruption legislation in other jurisdictions and with all applicable Sanctions, and maintain policies and procedures designed to promote and achieve compliance with such laws and Sanctions.**

ARTICLE VII.

NEGATIVE COVENANTS

So long as the Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied (other than contingent indemnification claims for which a claim has not been asserted), or any Letter of Credit shall remain outstanding, no Loan Party shall, nor shall it permit any Subsidiary to, directly or indirectly:

7.01 Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired or sign or file or suffer to exist under the UCC or any similar Law or statute of any jurisdiction a financing statement that names any Loan Party or any Subsidiary thereof as debtor; sign or suffer to exist any security agreement authorizing any Person thereunder to file such financing statement; sell any of its property or assets subject to an understanding or agreement (contingent or otherwise) to repurchase such property or assets with recourse to it or any of its Subsidiaries; or assign or otherwise transfer any accounts or other rights to receive income, other than, as to all of the above, Permitted Encumbrances.

7.02 Investments. Make any Investments, except Permitted Investments.

7.03 Indebtedness; Disqualified Stock; Equity Issuances.~~(a)~~ Create, incur, assume, guarantee, suffer to exist or otherwise become or remain liable with respect to, any Indebtedness, except Permitted Indebtedness; (b) issue Disqualified Stock, or (c) issue and sell any other Equity Interests unless (i) such Equity Interests shall be issued solely by the Borrower and not by a Subsidiary of a Loan Party, (ii) such Equity Interests shall not be subject to redemption other than redemption at the option of the Loan Party issuing such Equity Interests and in accordance with the limitations contained in this Agreement, and (iii) all Restricted Payments in respect of such Equity Interests are subordinated to the Obligations.

7.04 Fundamental Changes. Merge, dissolve, liquidate, consolidate with or into another Person, (or agree to do any of the foregoing), except that, so long as no Default or Event of Default shall have occurred and be continuing prior to or immediately after giving effect to any action described below or would result therefrom:

(a) any Subsidiary which is not a Loan Party may merge with (i) a Loan Party, provided that the Loan Party shall be the continuing or surviving Person, or (ii) any one or more other Subsidiaries which are not Loan Parties, provided that when any wholly-owned

Subsidiary is merging with another Subsidiary, the wholly-owned Subsidiary shall be the continuing or surviving Person;

(b) any Subsidiary which is a Loan Party may merge into any Subsidiary which is a Loan Party or into the Borrower, provided that in any merger involving the Borrower, the Borrower shall be the continuing or surviving Person; and

(c) in connection with a Permitted Acquisition, a Loan Party may merge with or into or consolidate with any other Person or permit any other Person to merge with or into or consolidate with it; provided that (i) the Person surviving such merger shall be a wholly-owned Subsidiary of a Loan Party and such Person shall become a Loan Party in accordance with the provisions of Section 6.11 hereof, and (ii) in the case of any such merger to which any Loan Party is a party, such Loan Party is the surviving Person.

7.05 Dispositions. Make any Disposition, except Permitted Dispositions.

7.06 Restricted Payments. Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that:

(a) each Subsidiary of a Loan Party may make Restricted Payments to any Loan Party;

(b) the Loan Parties and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock or other common Equity Interests of such Person;

(c) the Borrower may declare or pay in cash a Restricted Payment if (a) such Restricted Payment is in an amount not exceeding, and is paid solely from, Unrestricted Cash, (b) no Default or Event of Default shall have occurred and be continuing prior to, or immediately after giving effect, to such Restricted Payment, or would result therefrom, and (c) and there have been no Loans outstanding for the thirty (30) days prior, nor after giving pro forma effect to such Restricted Payment, nor are there projected to be any Loans outstanding for the thirty (30) days subsequent to, the making of such Restricted Payment;

(d) if the RP Conditions are satisfied, then each Loan Party may make other Restricted Payments (i.e. Restricted Payments that do not satisfy clauses(a), (b) or (c) above); provided that Loan Parties may make other Restricted Payments without satisfaction of the RP Conditions if (a) after giving pro forma effect to such Restricted Payment, projected Availability is greater than or equal to thirty percent (30%) of the Loan Cap as of the date of such Restricted Payment and as of the end of each Fiscal Month during the subsequent projected twelve (12) Fiscal Months (and prior to making any such Restricted Payment, the Loan Parties shall deliver to the Lender evidence of satisfaction of the conditions contained in this proviso on a basis (including, without limitation, giving due consideration to results for prior periods) reasonably satisfactory to the Lender), and (b) no Default or Event of Default shall have occurred and be continuing prior to, or immediately after giving effect, to such Restricted Payment, or would result therefrom.

Notwithstanding anything to the contrary contained in the foregoing, to the extent any Restricted Payment includes Intellectual Property material and necessary for the operation of the assets of the Loan Parties and their Subsidiaries, taken as a whole, which constitutes Collateral, such Intellectual Property shall be subject to a royalty-free, non-exclusive license in favor of the Lender for the purpose of the Lender's exercise of rights and remedies under the Loan Documents in connection with the Collateral.

7.07 Prepayments of Indebtedness. Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner any Indebtedness, or make any payment in violation of any subordination terms of any Subordinated Indebtedness, except (a) as long as no Default or Event of Default then exists, regularly scheduled or mandatory repayments, repurchases, redemptions or defeasances of (i) Permitted Indebtedness (other than Subordinated Indebtedness) and (ii) Subordinated Indebtedness in accordance with the subordination terms thereof, (b) voluntary prepayments, repurchases, redemptions or defeasances of (i) Permitted Indebtedness (but excluding on account of any Subordinated Indebtedness) as long as the Payment Conditions are satisfied and (ii) Subordinated Indebtedness in accordance with the subordination terms thereof and as long as the Payment Conditions are satisfied, and (c) Permitted Refinancings of any such Indebtedness. Nothing herein shall preclude the Borrower from prepaying or otherwise satisfying the Obligations hereunder pursuant to Section 2.04 hereof, or from terminating or reducing Commitments hereunder pursuant to Section 2.05 hereof.

7.08 Change in Nature of Business.

Engage in any line of business substantially different from the Business conducted by the Loan Parties and their Subsidiaries on the Closing Date or any business substantially related or incidental thereto.

7.09 Transactions with Affiliates. Enter into, renew, extend or be a party to any transaction of any kind with any Affiliate of any Loan Party, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to the Loan Parties or such Subsidiary as would be obtainable by the Loan Parties or such Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate, provided that the foregoing restriction shall not apply to (a) a transaction between or among the Loan Parties, (b) transactions described on Schedule 7.09 to the Disclosure Schedule, (c) advances for commissions, travel and other similar purposes in the ordinary course of business to directors, officers and employees, (d) the payment of reasonable fees and out-of-pocket costs to directors, and compensation and employee benefit arrangements paid to, and indemnities provided for the benefit of, directors, officers or employees of the Borrower or any of its Subsidiaries, and (e) as long as no Change of Control results therefrom, any issuances of securities of the Borrower (other than Disqualified Stock and other Equity Interests not permitted hereunder) or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment agreements, stock options and stock ownership plans (in each case in respect of Equity Interests in the Borrower) of the Borrower or any of its Subsidiaries.

7.10 Burdensome Agreements. Enter into or permit to exist any Contractual Obligation (other than this Agreement or any other Loan Document) that (a) limits the ability (i) of any Subsidiary to make Restricted Payments or other distributions to any Loan Party or to

otherwise transfer property to or invest in a Loan Party, (ii) of any Subsidiary to Guarantee the Obligations, (iii) of any Subsidiary to make or repay loans to a Loan Party, or (iv) of the Loan Parties or any Subsidiary to create, incur, assume or suffer to exist Liens on property of such Person in favor of the Lender; provided, however, that this clause (iv) shall not prohibit any negative pledge incurred or provided in favor of any holder of Indebtedness permitted under clauses (c) or (d) of the definition of Permitted Indebtedness solely to the extent any such negative pledge relates to the property financed by or the subject of such Indebtedness; or (b) requires the grant of a Lien to secure an obligation of such Person if a Lien is granted to secure another obligation of such Person.

7.11 Use of Proceeds. Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, (a) (i) to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund Indebtedness originally incurred for such purpose or (ii) in any manner that would result in a violation of any applicable Sanctions or anti-corruption laws, or (b) for any purposes other than (i) the acquisition of working capital assets in the ordinary course of business, (ii) to finance Capital Expenditures of the Loan Parties, and (iii) for general corporate purposes, in each case to the extent expressly permitted under Law and the Loan Documents.

7.12 Amendment of Material Documents.

Amend, modify or waive any of a Loan Party's rights under (a) its Organization Documents in a manner materially adverse to the Credit Parties, or (b) any Material Contract or Material Indebtedness (other than on account of any Permitted Refinancing thereof), in the case of either (a) or (b) above, to the extent that such amendment, modification or waiver would result in a Default or Event of Default under any of the Loan Documents, would be materially adverse to the Credit Parties, or otherwise would be reasonably likely to have a Material Adverse Effect.

7.13 Fiscal Year.

Change the Fiscal Year of any Loan Party, or the accounting policies or reporting practices of the Loan Parties, except as required by GAAP.

7.14 Deposit Accounts; Credit Card Processors.

Open new DDAs unless the Loan Parties shall have delivered to the Lender Appropriate Blocked Account Agreements consistent with the provisions of Section 6.12 and otherwise satisfactory to the Lender. No Loan Party shall maintain any bank accounts or enter into any agreements with credit card processors or credit card issuers other than the ones expressly contemplated herein or in Section 6.12 hereof.

7.15 Financial [~~Covenants~~]Covenant.

~~[Consolidated Fixed Charge Coverage Ratio.]~~During the continuance of a Covenant Compliance Event, permit the Consolidated Fixed Charge Coverage Ratio, calculated for the Measurement Period ending immediately prior to the Fiscal Month in which the Covenant

Compliance Event occurs and for each Fiscal Month ending thereafter until the Covenant Compliance Event is no longer continuing, to be less than 1:00 to 1:00.

ARTICLE VIII.

EVENTS OF DEFAULT AND REMEDIES

8.01 Events of Default. Any of the following [~~shall constitute~~ events (each an “Event of Default” shall occur]:

(a) Non-Payment. The Borrower or any other Loan Party fails to pay when and as required to be paid herein, (i) any amount of principal of, or interest on, any Loan or any L/C Obligation, or deposit any funds as Cash Collateral in respect of L/C Obligations, or (ii) any fee due hereunder, or (iii) any other amount payable hereunder or under any other Loan Document; or

(b) Specific Covenants. (i) Any Loan Party fails to perform or observe any term, covenant or agreement contained in any of Sections 6.01, 6.02, 6.03(a) and (m), 6.05, 6.07, 6.10, 6.12(a), (c), (d), (e), or 6.13 or Article VII; (ii) any Loan Party fails to perform or observe any term, covenant or agreement contained in Section 6.03(b) through (l) and such failure continues for five (5) days or such later date as the Lender may agree; (iii) any Loan Party fails to perform or observe any term, covenant or agreement contained in Section 6.12 (b) and such failure continues for three (3) Business Days, or (iv) any Loan Party fails to perform or observe any term, covenant or agreement contained in Section 6.11 and such failure continues for fifteen (15) days or such later date as the Lender may agree; or

(c) Other Defaults. Any Loan Party fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for thirty (30) days; or

(d) Representations and Warranties. Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of any Loan Party herein, in any other Loan Document, or in any document delivered in connection herewith or therewith (including, without limitation, any Borrowing Base Certificate) shall be incorrect or misleading in any material respect when made or deemed made; or

(e) Cross-Default. (i) Any Loan Party or any Subsidiary thereof (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Material Indebtedness, or (B) fails to observe or perform any other agreement or condition relating to any such Material Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Material Indebtedness or the beneficiary or beneficiaries of any Guarantee thereof (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such

Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which a Loan Party or any Subsidiary thereof is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which a Loan Party or any Subsidiary thereof is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the Loan Party or such Subsidiary as a result thereof is greater than \$5,000,000; or

(f) Insolvency Proceedings, Etc. Any Loan Party or any of its Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or a proceeding shall be commenced or a petition filed, without the application or consent of such Person, seeking or requesting the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer and such officer is appointed and the appointment continues undischarged, undismissed or unstayed for forty-five (45) calendar days or an order or decree approving or ordering any of the foregoing shall be entered; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for forty-five (45) calendar days, or an order for relief is entered in any such proceeding; or

(g) Inability to Pay Debts; Attachment. (i) Any Loan Party or any Subsidiary thereof becomes unable or admits in writing its inability or fails generally to pay its debts as they become due in the ordinary course of business, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such Person; or

(h) Judgments. There is entered against any Loan Party or any Subsidiary thereof (i) one or more judgments or orders for the payment of money in an aggregate amount (as to all such judgments and orders) exceeding \$5,000,000 (to the extent not covered by independent third-party insurance as to which the insurer is rated at least "A" by A.M. Best Company, has been notified of the potential claim and does not dispute coverage), or (ii) any one or more non-monetary judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of ten (10) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability

of any Loan Party under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$5,000,000 or which would reasonably likely result in a Material Adverse Effect, or (ii) a Loan Party or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$5,000,000 or which would reasonably likely result in a Material Adverse Effect; or

(j) Invalidity of Loan Documents. (i) Any provision of any Loan Document, at any time after its execution and delivery and for any reason, ceases to be in full force and effect; or any Loan Party or any other Person contests in any manner the validity or enforceability of any provision of any Loan Document; or any Loan Party denies that it has any or further liability or obligation under any provision of any Loan Document, or purports to revoke, terminate or rescind any provision of any Loan Document or seeks to avoid, limit or otherwise adversely affect any Lien purported to be created under any Security Document; or (ii) any Lien purported to be created under any Security Document shall cease to be, or shall be asserted by any Loan Party or any other Person not to be, a valid and perfected Lien on any Collateral, with the priority required by the applicable Security Document; or

(k) Change of Control. There occurs any Change of Control; or

(l) Cessation of Business. Except as otherwise expressly permitted hereunder, the Loan Parties, taken as a whole, shall take any action to suspend the operation of their business in the ordinary course, liquidate all or a material portion of their assets or Store locations, or employ an agent or other third party to conduct a program of closings, liquidations or “Going-Out-Of-Business” sales of any material portion of their business; or

(m) Loss of Collateral. There occurs any uninsured loss to any material portion of the Collateral; or

(n) Breach of Contractual Obligation. Any Loan Party or any Subsidiary thereof fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Material Contract or fails to observe or perform any other agreement or condition relating to any such Material Contract or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the counterparty to such Material Contract to terminate such Material Contract; or

(o) Indictment. (i) Any Loan Party is (A) criminally indicted or convicted of a felony for fraud or dishonesty in connection with the Loan Parties’ business, or (B) charged by a Governmental Authority under any law that would reasonably be expected to lead to forfeiture of any material portion of Collateral, or (ii) the chief financial officer or chief executive officer of the Borrower is criminally indicted or convicted of a felony for fraud or dishonesty in connection with the Loan Parties’ business, unless such Person promptly resigns or is removed or replaced;

(p) Guaranty. The termination or attempted termination of any Facility Guaranty except as expressly permitted hereunder or under any other Loan Document;

(q) Subordination. (i) The subordination provisions of the documents evidencing or governing any Subordinated Indebtedness (the "Subordination Provisions") shall, in whole or in part, terminate, cease to be effective or cease to be legally valid, binding and enforceable against any holder of the applicable Subordinated Indebtedness; or (ii) the Borrower or any other Loan Party shall, directly or indirectly, disavow or contest in any manner (A) the effectiveness, validity or enforceability of any of the Subordination Provisions, (B) that the Subordination Provisions exist for the benefit of the Credit Parties, or (C) that all payments of principal of or premium and interest on the applicable Subordinated Indebtedness, or realized from the liquidation of any property of any Loan Party, shall be subject to any of the Subordination Provisions.

8.02 Remedies Upon Event of Default. If any Event of Default occurs and is continuing, the Lender may take any or all of the following actions:

(a) declare the Commitment of the Lender to make Loans and any obligation of the L/C Issuer to make L/C Credit Extensions to be terminated, whereupon such Commitment and obligations shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other Obligations to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Loan Parties;

(c) require that the Loan Parties Cash Collateralize the L/C Obligations; and

(d) whether or not the maturity of the Obligations shall have been accelerated pursuant hereto, proceed to protect, enforce and exercise all rights and remedies of the Credit Parties under this Agreement, any of the other Loan Documents or Law, including, but not limited to, by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement and the other Loan Documents or any instrument pursuant to which the Obligations are evidenced, and, if the Obligations shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of the Credit Parties;

provided, however, that upon the occurrence of any Default or Event of Default with respect to any Loan Party or any Subsidiary thereof under Section 8.01(f), the obligation of the Lender to make Loans and any obligation of the L/C Issuer to make L/C Credit Extensions shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of the Loan Parties to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of the Lender.

No remedy herein is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of Law.

8.03 Application of Funds. After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received on account of the Obligations shall be applied by the Lender in the following order:

First, to payment of that portion of the Obligations (excluding the Other Liabilities) constituting fees, indemnities, Credit Party Expenses and other amounts (including fees, charges and disbursements of counsel to the Credit Parties and amounts payable under Article III) payable to the Lender;

Second, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Committed Loans, L/C Borrowings and other Obligations, and fees (including Letter of Credit Fees), ratably among the Lender and the L/C Issuer in proportion to the respective amounts described in this clause Second payable to them;

Third, to payment of that portion of the Obligations constituting unpaid principal of the Committed Loans and L/C Borrowings and Swap Contracts, ratably among the Lender and the L/C Issuer in proportion to the respective amounts described in this clause Third held by them;

Fourth, to the Lender for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Letters of Credit;

Fifth, to payment of all other Obligations (including without limitation the cash collateralization of unliquidated indemnification obligations as provided in Section 9.04, but excluding any Other Liabilities), ratably among the Credit Parties in proportion to the respective amounts described in this clause Fifth held by them;

Sixth, to payment of that portion of the Obligations arising from Cash Management Services, ratably among the Credit Parties in proportion to the respective amounts described in this clause Sixth held by them;

Seventh, to payment of that portion of the Obligations arising from Bank Products, ratably among the Credit Parties in proportion to the respective amounts described in this clause Seventh held by them; and

Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Loan Parties or as otherwise required by Law.

Subject to Section 2.03(c), amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clause Fourth above shall be applied to satisfy drawings under such

Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set forth above.

Excluded Swap Obligations with respect to any Loan Party shall not be paid with amounts received from such Loan Party, but appropriate adjustments shall be made with respect to payments from other Loan Parties to preserve the allocation to the Obligations otherwise set forth above in this Section.

ARTICLE IX.

MISCELLANEOUS

9.01 Amendments, Etc. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by any Loan Party therefrom, shall be effective unless in writing signed by the Lender and the Borrower or the applicable Loan Party, as the case may be, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given, provided, that no amendment, waiver or consent shall, unless in writing and signed by the L/C Issuer in addition to the Lender, affect the rights or duties of the L/C Issuer under this Agreement or any Issuer Document relating to any Letter of Credit issued or to be issued by it.

Notwithstanding anything to the contrary in this Agreement or any other Loan Document, no provider or holder of any Bank Products or Cash Management Services shall have any voting or approval rights hereunder (or be deemed a Lender) solely by virtue of its status as the provider or holder of such agreements or products or the Obligations owing thereunder, nor shall the consent of any such provider or holder be required (other than in their capacities as the Lender, to the extent applicable) for any matter hereunder or under any of the other Loan Documents, including as to any matter relating to the Collateral or the release of Collateral or any Loan Party.

9.02 Notices; Effectiveness; Electronic Communications.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by [~~telecopier~~ facsimile] as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, if to the Loan Parties, the Lender, the L/C Issuer, to the address, [~~telecopier~~ facsimile] number, electronic mail address or telephone number specified for such Person on Schedule 9.02 hereto.

Notices and other communications sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices and other communications sent by [~~telecopier~~ facsimile] shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices and

other communications delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lender and the L/C Issuer hereunder may be delivered or furnished by electronic communication (including e-mail, FpML messaging, and Internet or intranet websites) pursuant to procedures approved by the Lender, provided that the foregoing shall not apply to notices to the L/C Issuer pursuant to Article II if the L/C Issuer has notified the Lender that it is incapable of receiving notices under such Article by electronic communication. The Lender, the L/C Issuer or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Lender otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement); ~~provided that~~ if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient; and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor; provided that, for both clauses (i) and (ii), if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient.

(b) (c) Change of Address, Etc. Each of the Loan Parties, the Lender and the L/C Issuer may change its address, ~~telexcopier~~ facsimile or telephone number for notices and other communications hereunder by notice to the other parties hereto.

(c) (d) Reliance by Lender and L/C Issuer. The Lender and the L/C Issuer shall be entitled to rely and act upon any notices (including telephonic Committed Loan Notices) purportedly given by or on behalf of the Loan Parties even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Loan Parties shall indemnify the Lender, the L/C Issuer, and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Loan Parties. All telephonic notices to and other telephonic communications with the Lender may be recorded by the Lender, and each of the parties hereto hereby consents to such recording.

9.03 No Waiver; Cumulative Remedies. No failure by any Credit Party to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder or under any other Loan Document preclude any other or further

exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided herein and in the other Loan Documents are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default or Event of Default, regardless of whether any Credit Party may have had notice or knowledge of such Default or Event of Default at the time.

9.04 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Borrower shall pay all Credit Party Expenses.

(b) Indemnification by the Loan Parties. The Loan Parties shall indemnify the Lender (and any sub-agent thereof), each other Credit Party, and each Related Party of any of the foregoing Persons (each such Person being called an “Indemnitee”) against, and hold each Indemnitee harmless (on an after tax basis) from, any and all losses, claims, causes of action, damages, liabilities, settlement payments, costs, and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower or any other Loan Party arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder, the consummation of the transactions contemplated hereby or thereby, or the administration of this Agreement and the other Loan Documents, (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the L/C Issuer to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit, any bank advising or confirming a Letter of Credit and any other Person seeking to enforce the rights of the Borrower, beneficiary, transferee, or assignee or Letter of Credit proceeds or the holder of an instrument or document related to any Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by any Loan Party or any of its Subsidiaries, or any Environmental Liability related in any way to any Loan Party or any of its Subsidiaries, (iv) any claims of, or amounts paid by any Credit Party to, a Blocked Account Bank or other Person which has entered into a control agreement with any Credit Party hereunder, or (v) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower or any other Loan Party or any of the Loan Parties’ directors, shareholders or creditors, and regardless of whether any Indemnitee is a party thereto, in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by the Borrower or any other Loan Party against an Indemnitee for breach in bad faith of such Indemnitee’s obligations hereunder or under any other Loan Document, if the Borrower or

such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

(c) Waiver of Consequential Damages, Etc. To the fullest extent permitted by Law, the Loan Parties shall not assert, and hereby waive, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby other than for direct or actual damages resulting from the gross negligence or willful misconduct of such Indemnitee as determined by a final and nonappealable judgment of a court of competent jurisdiction.

(d) Payments. All amounts due under this Section shall be payable on demand therefor.

(e) Survival. The agreements in this Section shall survive the resignation of the Lender and the L/C Issuer, the assignment of any Commitment or Loan by the Lender, the replacement of the Lender, the termination of the Commitment and the repayment, satisfaction or discharge of all the other Obligations.

9.05 Payments Set Aside. To the extent that any payment by or on behalf of the Loan Parties is made to any Credit Party, or any Credit Party exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by such Credit Party in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) the L/C Issuer agrees to pay to the Lender upon demand (without duplication) of any amount so recovered from or repaid by the Lender, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the L/C Issuer under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

9.06 Successors and Assigns.

(a) (a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that no Loan Party may assign or otherwise transfer any of its rights or obligations hereunder or under any other Loan Document without the prior written consent of the Lender and no Lender may assign or

otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee, (ii) by way of participation in accordance with the provisions of subsection Section 9.06(c), or (iii) by way of pledge or assignment of a security interest subject to the restrictions of Section 9.06(e) (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (c) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Credit Parties) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lender. The parties to any assignment by the Lender hereunder shall execute and deliver to the Lender an Assignment and Assumption. From and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, the Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, and 9.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by the Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by the Lender of a participation in such rights and obligations in accordance with Section 9.06(c).

(c) Participations. The Lender may at any time, without the consent of, or notice to, the Loan Parties, sell participations to any Person (other than a natural person or the Loan Parties or any of the Loan Parties' Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of the Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans (including the Lender's participations in L/C Obligations) owing to it); provided that (i) the Lender's obligations under this Agreement shall remain unchanged, (ii) the Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Loan Parties and the L/C Issuer shall continue to deal solely and directly with the Lender in connection with the Lender's rights and obligations under this Agreement. Any Participant shall agree in writing to comply with all confidentiality obligations set forth in Section 9.07 as if such Participant was the Lender hereunder.

Any agreement or instrument pursuant to which the Lender sells such a participation shall provide that the Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that the Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification that affects such Participant disproportionately to the Lender. Subject to subsection (d) of this Section, the Loan Parties agree

that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were the Lender and had acquired its interest by assignment pursuant to Section 9.06(b).

(d) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent.

(e) Certain Pledges. The Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of the Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release the Lender from any of its obligations hereunder or substitute any such pledgee or assignee for the Lender as a party hereto.

(f) Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

9.07 Treatment of Certain Information; Confidentiality. Each of the Credit Parties agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates, Approved Funds, and to its and its Affiliates' and Approved Funds' respective partners, directors, officers, employees, agents, funding sources, attorneys, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent required or requested by any regulatory authority purporting to have jurisdiction over [#]such Person (including any self-regulatory authority such as the National Association of Insurance Commissioners), (c) to the extent required by Laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any Swap Contract relating to any Loan Party and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to any Credit Party or any of their respective Affiliates on a non-confidential basis from a source other than the Loan Parties.

For purposes of this Section, "Information" means all information received from the Loan Parties or any Subsidiary thereof relating to the Loan Parties or any Subsidiary thereof or their

respective businesses, other than any such information that is available to any Credit Party on a non-confidential basis prior to disclosure by the Loan Parties or any Subsidiary thereof, provided that, in the case of information received from any Loan Party or any Subsidiary after the Closing Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Credit Parties acknowledges that (a) the Information may include material non-public information concerning the Loan Parties or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with Law, including federal and state securities Laws.

9.08 Right of Setoff. If an Event of Default shall have occurred and be continuing or if the Lender shall have been served with a trustee process or similar attachment relating to property of a Loan Party, the Lender, the L/C Issuer and each of their respective Affiliates is hereby authorized at any time and from time to time to the fullest extent permitted by Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) or other property at any time held and other obligations (in whatever currency) at any time owing by the Lender, the L/C Issuer or any such Affiliate to or for the credit or the account of the Borrower or any other Loan Party against any and all of the Obligations now or hereafter existing under this Agreement or any other Loan Document to the Lender or the L/C Issuer, regardless of the adequacy of the Collateral, and irrespective of whether or not the Lender or the L/C Issuer shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrower or such Loan Party may be contingent or unmatured or are owed to a branch or office of the Lender or the L/C Issuer different from the branch or office holding such deposit or obligated on such indebtedness. The rights of the Lender, the L/C Issuer and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that the Lender, the L/C Issuer or their respective Affiliates may have. The Lender and the L/C Issuer agrees to notify the Borrower promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

9.09 Interest Rate Limitation. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by Law (the "Maximum Rate"). If the Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Lender exceeds the Maximum Rate, such Person may, to the extent permitted by Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

9.10 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Lender and when the Lender shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy, pdf or other electronic transmission shall be as effective as delivery of a manually executed counterpart of this Agreement.

9.11 Survival. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Credit Parties, regardless of any investigation made by any Credit Party or on their behalf and notwithstanding that any Credit Party may have had notice or knowledge of any Default or Event of Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding. Further, the provisions of Sections 3.01, 3.04, 3.05 and 9.04 shall survive and remain in full force and effect regardless of the repayment of the Obligations, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof. In connection with the termination of this Agreement and the release and termination of the security interests in the Collateral, the Lender may require such indemnities and collateral security as they shall reasonably deem necessary or appropriate to protect the Credit Parties against (x) loss on account of credits previously applied to the Obligations that may subsequently be reversed or revoked, (y) any obligations that may thereafter arise with respect to the Other Liabilities, and (z) any Obligations that may thereafter arise under Section 9.04 hereof.

9.12 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.13 Governing Law; Jurisdiction; Etc.

(a) GOVERNING LAW. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT (EXCEPT, AS TO ANY OTHER LOAN DOCUMENT, AS EXPRESSLY SET FORTH THEREIN) AND

THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE [~~LAWS~~]LAW OF THE STATE OF NEW YORK[, ~~WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF, BUT INCLUDING SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW~~].

(b) SUBMISSION TO JURISDICTION. THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY [~~SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF~~]AGREES THAT IT WILL NOT COMMENCE ANY ACTION, LITIGATION OR PROCEEDING OF ANY KIND OR DESCRIPTION, WHETHER IN LAW OR EQUITY, WHETHER IN CONTRACT OR IN TORT OR OTHERWISE, AGAINST THE LENDER, THE L/C ISSUER, OR ANY RELATED PARTY OF THE FOREGOING IN ANY WAY RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS RELATING HERETO OR THERETO, IN ANY FORUM OTHER THAN THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, [~~IN ANY ACTION OR PROCEEDING~~]ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT[, ~~OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT,~~]AND EACH OF THE [~~LOAN~~]-PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE JURISDICTION OF SUCH COURTS AND AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION, LITIGATION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE [~~LOAN~~]-PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION, LITIGATION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT ANY CREDIT PARTY MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN [~~PARAGRAPH~~]CLAUSE (B) OF THIS SECTION 9.13. EACH OF THE [~~LOAN~~]-PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN

INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 9.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

~~[(e) —] [ACTIONS COMMENCED BY LOAN PARTIES. EACH LOAN PARTY AGREES THAT ANY ACTION COMMENCED BY ANY LOAN PARTY ASSERTING ANY CLAIM OR COUNTERCLAIM ARISING UNDER OR IN CONNECTION WITH] THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT [SHALL BE BROUGHT SOLELY IN A COURT OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE EXCLUSIVE] JURISDICTION OF SUCH COURTS [WITH RESPECT TO ANY SUCH ACTION.]~~

9.14 Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

9.15 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby, the Loan Parties each acknowledge and agree that: (i) the credit facility provided for hereunder and any related arranging or other services in connection therewith (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document) are an arm's-length commercial transaction between the Loan Parties, on the one hand, and the Credit Parties, on the other hand, and each of the Loan Parties is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (ii) in connection with the process leading to such transaction, each Credit Party is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Loan Parties or any of their respective Affiliates, stockholders, creditors or employees or any other Person; (iii) none of the Credit Parties has assumed or will assume an advisory, agency or fiduciary responsibility in favor of the Loan Parties with respect to any of the transactions contemplated hereby or the process leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether any of the Credit Parties has advised or is currently advising any Loan

Party or any of its Affiliates on other matters) and none of the Credit Parties has any obligation to any Loan Party or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; (iv) the Credit Parties and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Loan Parties and their respective Affiliates, and none of the Credit Parties has any obligation to disclose any of such interests by virtue of any advisory, agency or fiduciary relationship; and (v) the Credit Parties have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to any of the transactions contemplated hereby (including any amendment, waiver or other modification hereof or of any other Loan Document) and each of the Loan Parties has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate. Each of the Loan Parties hereby waives and releases, to the fullest extent permitted by law, any claims that it may have against each of the Credit Parties with respect to any breach or alleged breach of agency or fiduciary duty.

9.16 USA PATRIOT Act Notice. The Lender[~~that is subject to the Act (as hereinafter defined)~~] hereby notifies the Loan Parties that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of each Loan Party and other information that will allow the Lender, as applicable, to identify each Loan Party in accordance with the Act. Each Loan Party is in compliance, in all material respects, with the Patriot Act. No part of the proceeds of the Loans will be used by the Loan Parties, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended. [~~The Loan Parties shall, promptly following a request by the Lender, provide all documentation and other information that the Lender requests in order to comply with its ongoing obligations under~~] applicable “know your customer” and anti-money [~~laundering rules and regulations, including the Act.~~]

9.17 ~~[Foreign Asset Control Regulations.~~ ~~Neither of the advance of the Loans nor the use of the proceeds of any thereof will violate the Trading With the Enemy Act (50 U.S.C. § 1 et seq., as amended) (the “Trading With the Enemy Act”) or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) (the “Foreign Assets Control Regulations”) or any enabling legislation or executive order relating thereto (which for the avoidance of doubt shall include, but shall not be limited to (a) Executive Order 13224 of September 21, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the “Executive Order”) and (b) the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Public Law 107-56)). Furthermore, none of the Borrower or its Affiliates (a) is or will become a “blocked person” as described in the Executive Order, the Trading With the Enemy Act or the Foreign Assets Control Regulations or (b) engages or will engage in any dealings or transactions, or be otherwise associated, with any such “blocked person” or in any manner violative of any such order.]~~ [Reserved].

9.18 Time of the Essence. Time is of the essence of the Loan Documents. ~~[9.19]~~

9.19 Press Releases.

(a) Each Loan Party executing this Agreement agrees that neither it nor its Affiliates will in the future issue any press releases or other public disclosure using the name of the Lender or its Affiliates or referring to this Agreement or the other Loan Documents without at least two (2) Business Days' prior notice to the Lender and without the prior written consent of the Lender unless (and only to the extent that) such Loan Party or Affiliate is required to do so under Law and then, in any event, such Loan Party or Affiliate will consult with the Lender before issuing such press release or other public disclosure.

(b) Each Loan Party consents to the publication by the Lender of advertising material relating to the financing transactions contemplated by this Agreement using any Loan Party's name, product photographs, logo or trademark. The Lender shall provide a draft reasonably in advance of any advertising material to the Borrower for review and comment prior to the publication thereof. The Lender reserves the right to provide to industry trade organizations information necessary and customary for inclusion in league table measurements.

9.20 Additional Waivers.

(a) The Obligations are the joint and several obligation of each Loan Party. To the fullest extent permitted by applicable Law, the [~~obligations~~ Obligations] of each Loan Party shall not be affected by (i) the failure of any Credit Party to assert any claim or demand or to enforce or exercise any right or remedy against any other Loan Party under the provisions of this Agreement, any other Loan Document or otherwise, (ii) any rescission, waiver, amendment or modification of, or any release from any of the terms or provisions of, this Agreement or any other Loan Document, or (iii) the failure to perfect any security interest in, or the release of, any of the Collateral or other security held by or on behalf of the Lender or any other Credit Party.

(b) The [~~obligations~~ Obligations] of each Loan Party shall not be subject to any reduction, limitation, impairment or termination for any reason (other than the indefeasible payment in full in cash of the Obligations [~~after~~ and the termination of the Commitments]), including any claim of waiver, release, surrender, alteration or compromise of any of the Obligations, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of any of the Obligations or otherwise. Without limiting the generality of the foregoing, the [~~obligations~~ Obligations] of each Loan Party hereunder shall not be discharged or impaired or otherwise affected by the failure of the Lender or any other Credit Party to assert any claim or demand or to enforce any remedy under this Agreement, any other Loan Document or any other agreement, by any waiver or modification of any provision of any thereof, any default, failure or delay, willful or otherwise, in the performance of any of the Obligations, or by any other act or omission that may or might in any manner or to any extent vary the risk of any Loan Party or that would otherwise operate as a discharge of any Loan Party as a matter of law or equity (other than the indefeasible

payment in full in cash of all the Obligations [~~after~~ and the termination of the Commitments).

(c) To the fullest extent permitted by applicable Law, each Loan Party waives any defense based on or arising out of any defense of any other Loan Party or the unenforceability of the Obligations or any part thereof from any cause, or the cessation from any cause of the liability of any other Loan Party, other than the indefeasible payment in full in cash of all the Obligations and the termination of the Commitments. The Lender and the other Credit Parties may, at their election, foreclose on any security held by one or more of them by one or more judicial or non-judicial sales, accept an assignment of any such security in lieu of foreclosure, compromise or adjust any part of the Obligations, make any other accommodation with any other Loan Party, or exercise any other right or remedy available to them against any other Loan Party, without affecting or impairing in any way the liability of any Loan Party hereunder except to the extent that all the Obligations have been indefeasibly paid in full in cash and the Commitments have been terminated. Each Loan Party waives any defense arising out of any such election even though such election operates, pursuant to applicable Law, to impair or to extinguish any right of reimbursement or subrogation or other right or remedy of such Loan Party against any other Loan Party, as the case may be, or any security.

(d) Each Loan Party is obligated to repay the Obligations as joint and several obligors under this Agreement. Upon payment by any Loan Party of any Obligations, all rights of such Loan Party against any other Loan Party arising as a result thereof by way of right of subrogation, contribution, reimbursement, indemnity or otherwise shall in all respects be subordinate and junior in right of payment to the prior indefeasible payment in full in cash of all the Obligations and the termination of the Commitments. In addition, any indebtedness of any Loan Party now or hereafter held by any other Loan Party is hereby subordinated in right of payment to the prior indefeasible payment in full of the Obligations and no Loan Party will demand, sue for or otherwise attempt to collect any such indebtedness. If any amount shall erroneously be paid to any Loan Party on account of (i) such subrogation, contribution, reimbursement, indemnity or similar right or (ii) any such indebtedness of any Loan Party, such amount shall be held in trust for the benefit of the Credit Parties and shall forthwith be paid to the Lender to be credited against the payment of the Obligations, whether matured or unmatured, in accordance with the terms of this Agreement and the other Loan Documents. Subject to the foregoing, to the extent that any Loan Party shall, under this Agreement as a joint and several obligor, repay any of the Obligations constituting Loans made to another Loan Party hereunder or other Obligations incurred directly and primarily by any other Loan Party (an ~~["Accommodation Payment"]~~), then the Loan Party making such Accommodation Payment shall be entitled to contribution and indemnification from, and be reimbursed by, each of the other Loan Parties in an amount, for each of such other Loan Party, equal to a fraction of such Accommodation Payment, the numerator of which fraction is such other Loan Party's Allocable Amount and the denominator of which is the sum of the Allocable Amounts of all of the Loan Parties. As of any date of determination, the ~~["Allocable Amount"]~~ of any Loan Party shall be equal to the maximum amount of liability for Accommodation Payments which could be asserted against such Loan Party hereunder without (a) rendering such Loan Party "insolvent"~~["~~ within the meaning of Section ~~[101(3132)]~~ 101(32) of the

Bankruptcy Code, Section 2 of the Uniform Fraudulent Transfer Act (“UFTA”) or Section 2 of the Uniform Fraudulent Conveyance Act (“UFCA”), (b) leaving such Loan Party with unreasonably small capital or assets, within the meaning of Section 548 of the Bankruptcy Code, Section 4 of the UFTA, or Section 5 of the UFCA, or (c) leaving such Loan Party unable to pay its debts as they become due within the meaning of Section 548 of the Bankruptcy Code or Section 4 of the UFTA, or Section 5 of the UFCA.

9.21 No Strict Construction.

The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

9.22 Attachments.

The exhibits, schedules and annexes attached to this Agreement are incorporated herein and shall be considered a part of this Agreement for the purposes stated herein, except that in the event of any conflict between any of the provisions of such exhibits and the provisions of this Agreement, the provisions of this Agreement shall prevail.

9.23 Keepwell.

Each Loan Party that is a Qualified ECP Guarantor at the time the Facility Guaranty or the grant of a security interest under the Loan Documents, in each case, by any Specified Loan Party becomes effective with respect to any Swap Obligation, hereby jointly and severally, absolutely, unconditionally and irrevocably undertakes to provide such funds or other support to each Specified Loan Party with respect to such Swap Obligation as may be needed by such Specified Loan Party from time to time to honor all of its obligations under the Loan Documents in respect of such Swap Obligation (but, in each case, only up to the maximum amount of such liability that can be hereby incurred without rendering such Qualified ECP Guarantor’s obligations and undertakings under the Facility Guaranty voidable under applicable Law relating to fraudulent conveyance or fraudulent transfer, and not for any greater amount). The obligations and undertakings of each Qualified ECP Guarantor under this Section shall remain in full force and effect until Payment in Full of the Obligations have been indefeasibly paid and performed in full. Each Loan Party intends this Section to constitute, and this Section shall be deemed to constitute, a guarantee of the obligations of, and a “keepwell, support, or other agreement” for the benefit of, each Specified Loan Party for all purposes of the Commodity Exchange Act.

9.24 Electronic Execution of Assignments and Certain Other Documents. The words “execution,” “execute,” “signed,” “signature,” and words of like import in or related to this Agreement, any Loan Document or any other document to be signed in connection with this Agreement and the transactions contemplated hereby (including without limitation Assignment and Assumptions, amendments or other modifications, Committed Loan Notices, waivers and consents) shall be deemed to include electronic signatures, the electronic matching of assignment terms and contract formations on electronic platforms approved by

the Lender, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act; provided that notwithstanding anything contained herein to the contrary the Lender is under no obligation to agree to accept electronic signatures in any form or in any format unless expressly agreed to by the Lender pursuant to procedures approved by it.

9.25 Acknowledgement Regarding Any Supported QFCs. To the extent that the Loan Documents provide support, through a guarantee or otherwise, for any Swap Contract or any other agreement or instrument that is a QFC (such support, “QFC Credit Support”, and each such QFC, a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”) in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States): in the event a Covered Entity that is party to a Supported QFC (each, a “Covered Party”) becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the date first above written.

BORROWER

CITI TRENDS, INC.

By _____
Name:
Title:

GUARANTORS

CITI TRENDS MARKETING SOLUTIONS, INC.

By _____
Name:
Title:

Exhibit A

Committed Loan Notice

Date: _____

To: Bank of America, N.A., as Lender
100 Federal Street, 9th Floor
Boston, Massachusetts 02110

Re: Credit Agreement, dated as of October 27, 2011 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), among Citi Trends, Inc., a Delaware corporation (the "Borrower"), the Guarantors from time to time party thereto, and Bank of America, N.A., as Lender and L/C Issuer. Capitalized terms used but not defined herein shall have the meanings set forth in the Credit Agreement.

Ladies and Gentlemen:

The Borrower refers to the above described Credit Agreement and hereby irrevocably notifies you of the [Committed Borrowing] [Conversion of Committed Loan] [continuation of a [~~LIBOR~~ Eurodollar Rate Loan] (the "Requested Action") requested below:

1. The Business Day of the Requested Action is _____, [~~201~~20][_] ¹
2. The principal amount of the Requested Action² is \$ _____, which shall consist of the following Types:

¹ Each such notice must be received by the Lender not later than 11:00 a.m. (i) three (3) Business Days prior to the requested date of any Committed Borrowing of, Conversion to or continuation of [~~LIBOR~~ Eurodollar Rate Loans, or of any Conversion of [~~LIBOR~~ Eurodollar Rate Loans to Base Rate Loans, and (ii) one (1) Business Day prior to the requested date of any Committed Borrowing of Base Rate Loans.

² Each Committed Borrowing of, Conversion to or continuation of [~~LIBOR~~ Eurodollar Rate Loans shall be in a principal amount of \$1,000,000.00 or a whole multiple of \$1,000,000.00 in excess thereof. Except as provided in Section 2.03(c) of the Credit Agreement, each Committed Borrowing, Conversion to or continuation of Base Rate Loans shall be in such minimum amounts as the Lender may require.

Type of Committed Loans (Base Rate Loans or LIBOR Eurodollar Rate Loans) ³	Amount	Interest Period for LIBOR Eurodollar Rate Loans ⁴
	\$ _____	[1] [2] [3] [6] months
	\$ _____	[1] [2] [3] [6] months
	\$ _____	[1] [2] [3] [6] months
	\$ _____	[1] [2] [3] [6] months

3. [Proceeds of the requested Committed Borrowing are to be disbursed to the following account(s):

_____]

The Borrower hereby represents and warrants that: (i) the Committed Loan requested herein complies with the provisions of Section 2.01 and Section 2.02 of the Credit Agreement, 1 and (ii) the conditions specified in Section 4.02 of the Credit Agreement are satisfied on the date hereof and will be satisfied as of the date of the requested Committed Borrowing and (iii) after giving effect to the Committed Loan requested to be made, the sum of cash and cash equivalents of the Loan Parties shall not exceed \$40,000,000 in the aggregate.⁵

CITI TRENDS, INC., as Borrower

By: _____
Name:
Title:

³ Type of Committed Loans to be borrowed or to which existing Committed Loans are to be Converted. If no election of Type of Committed Loans is specified, or if the Borrower fails to give a timely notice requesting a Conversion or continuation, such Committed Loans shall be made as, or Converted to, Base Rate Loans.

⁴ If no election of Interest Period is specified, such notice shall be deemed a request for an Interest Period of one (1) month. After giving effect to all Committed Borrowings, all Conversions of Committed Loans from one Type to the other, and all continuations of Committed Loans as the same Type, there shall not, at any time, be more than five (5) Interest Periods in effect with respect to Committed Loans.

⁵ To be included if a Committed Loan is being requested.

Subsidiary of the Registrant

Name	State of Incorporation	Names Under Which Subsidiary Does Business
Citi Trends Marketing Solutions, Inc.	Idaho	Citi Trends Marketing Solutions, Inc.

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Citi Trends, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-125611 and 333-181609) on Form S-8 of Citi Trends, Inc. of our reports dated May 14, 2020, with respect to the consolidated balance sheets of Citi Trends, Inc. as of February 1, 2020 and February 2, 2019, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years ended February 1, 2020, February 2, 2019, and February 3, 2018, and the related notes, and the effectiveness of internal control over financial reporting as of February 1, 2020, which reports appear in the February 1, 2020 annual report on Form 10-K of Citi Trends, Inc.

Our report on the consolidated financial statements refers to a change in the Company's method of accounting for leases as of February 3, 2019, due to the adoption of Accounting Standards Update No. 2016-02, Leases (Topic 842), as amended.

/s/ KPMG LLP

Jacksonville, Florida
May 14, 2020

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David N. Makuen, certify that:

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

Date: May 14, 2020

/s/ David N. Makuen
David N. Makuen
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 17 CFR 240.13a-14 PROMULGATED
UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jason B. Moschner, certify that:

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

Date: May 14, 2020

/s/ Jason B. Moschner

Jason B. Moschner

Vice President of Finance

(Principal Financial and Accounting Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report of Citi Trends, Inc. (the "Company") on Form 10-K for the fiscal year ending February 1, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David N. Makuen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2020

/s/ David N. Makuen

David N. Makuen
Chief Executive Officer
(Principal Executive Officer)

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

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report of Citi Trends, Inc. (the "Company") on Form 10-K for the fiscal year ending February 1, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jason B. Moschner, Vice President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2020

/s/ Jason B. Moschner

Jason B. Moschner

Vice President of Finance

(Principal Financial and Accounting Officer)

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