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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 4, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-51315

CITI TRENDS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of  
incorporation or organization)

52-2150697

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

104 Coleman Boulevard

Savannah, Georgia

(Address of principal executive offices)

31408

(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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  (Do not check if a smaller reporting company)

Smaller Reporting Company  Emerging Growth Company

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

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

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

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Class	Outstanding as of August 20, 2018
Common Stock, \$.01 par value	12,975,307 shares

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**FORM 10-Q**  
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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****Citi Trends, Inc.**

**Condensed Consolidated Balance Sheets**  
**August 4, 2018 and February 3, 2018**  
**(Unaudited)**  
**(in thousands, except share data)**

	August 4, 2018	February 3, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 40,992	\$ 48,451
Short-term investment securities	36,009	31,500
Inventory	138,801	137,701
Prepaid and other current assets	17,701	15,694
Total current assets	233,503	233,346
Property and equipment, net of accumulated depreciation of \$237,914 and \$229,699 as of August 4, 2018 and February 3, 2018, respectively	57,154	61,777
Long-term investment securities	13,020	25,451
Deferred tax asset	6,385	5,777
Other assets	720	720
Total assets	\$ 310,782	\$ 327,071
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 72,096	\$ 75,947
Accrued expenses	14,537	13,762
Accrued compensation	12,821	17,013
Income tax payable	299	1,916
Layaway deposits	1,706	532
Total current liabilities	101,459	109,170
Other long-term liabilities	8,338	8,433
Total liabilities	109,797	117,603
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 32,000,000 shares; 15,829,380 shares issued as of August 4, 2018 and 15,777,946 shares issued as of February 3, 2018; 13,064,398 shares outstanding as of August 4, 2018 and 13,743,776 shares outstanding as of February 3, 2018	157	156
Paid in capital	90,729	90,605
Retained earnings	171,293	158,927
Treasury stock, at cost; 2,764,982 shares held as of August 4, 2018 and 2,034,170 shares held as of February 3, 2018	(61,194)	(40,220)
Total stockholders' equity	200,985	209,468
Commitments and contingencies (note 10)		
Total liabilities and stockholders' equity	\$ 310,782	\$ 327,071

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

**Citi Trends, Inc.**  
**Condensed Consolidated Statements of Operations**  
**Twenty-Six Weeks Ended August 4, 2018 and July 29, 2017**  
**(Unaudited)**  
**(in thousands, except per share data)**

	<b>Twenty-Six Weeks Ended</b>	
	<b>August 4, 2018</b>	<b>July 29, 2017</b>
Net sales	\$ 393,031	\$ 366,155
Cost of sales (exclusive of depreciation shown separately below)	(239,811)	(224,565)
Selling, general and administrative expenses	(125,290)	(120,321)
Depreciation	(9,650)	(8,887)
Asset impairment	(942)	(77)
Income from operations	17,338	12,305
Interest income	658	401
Interest expense	(75)	(74)
Income before income taxes	17,921	12,632
Income tax expense	(3,389)	(3,952)
Net income	\$ 14,532	\$ 8,680
Basic net income per common share	\$ 1.08	\$ 0.60
Diluted net income per common share	\$ 1.08	\$ 0.59
Weighted average number of shares outstanding		
Basic	13,446	14,550
Diluted	13,491	14,598
Cash dividends declared per share	\$ 0.16	\$ 0.14

**Citi Trends, Inc.**  
**Condensed Consolidated Statements of Operations**  
**Thirteen Weeks Ended August 4, 2018 and July 29, 2017**  
**(Unaudited)**  
**(in thousands, except per share data)**

	<b>Thirteen Weeks Ended</b>	
	<b>August 4, 2018</b>	<b>July 29, 2017</b>
Net sales	\$ 181,999	\$ 166,200
Cost of sales (exclusive of depreciation shown separately below)	(110,398)	(102,175)
Selling, general and administrative expenses	(62,285)	(59,834)
Depreciation	(4,676)	(4,589)
Asset impairment	(942)	(77)
Income (loss) from operations	3,698	(475)
Interest income	363	215
Interest expense	(38)	(37)
Income (loss) before income taxes	4,023	(297)
Income tax (expense) benefit	(788)	87
Net income (loss)	\$ 3,235	\$ (210)
Basic net income (loss) per common share	\$ 0.24	\$ (0.01)
Diluted net income (loss) per common share	\$ 0.24	\$ (0.01)
Weighted average number of shares outstanding		
Basic	13,314	14,382
Diluted	13,351	14,382
Cash dividends declared per share	\$ 0.08	\$ 0.08

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

Citi Trends, Inc.

**Condensed Consolidated Statements of Cash Flows**  
**Twenty-Six Weeks Ended August 4, 2018 and July 29, 2017**  
**(Unaudited)**  
**(in thousands)**

	<b>Twenty-Six Weeks Ended</b>	
	<b>August 4, 2018</b>	<b>July 29, 2017</b>
<b>Operating activities:</b>		
Net income	\$ 14,532	\$ 8,680
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	9,650	8,887
Asset impairment	942	77
Loss on disposal of property and equipment	50	-
Deferred income taxes	(608)	1,741
Insurance proceeds related to operating activities	475	1,187
Noncash stock-based compensation expense	1,130	752
<b>Changes in assets and liabilities:</b>		
Inventory	(1,290)	1,764
Prepaid and other current assets	(2,292)	(1,375)
Other assets	-	5
Accounts payable	(3,899)	(8,255)
Accrued expenses and other long-term liabilities	229	783
Accrued compensation	(4,192)	747
Income tax payable/receivable	(1,617)	(315)
Layaway deposits	1,174	1,332
Net cash provided by operating activities	<u>14,284</u>	<u>16,010</u>
<b>Investing activities:</b>		
Sales/redemptions of investment securities	24,139	25,611
Purchases of investment securities	(16,217)	(20,311)
Purchases of property and equipment	(5,715)	(12,900)
Insurance proceeds related to investing activities	195	443
Net cash provided by (used in) investing activities	<u>2,402</u>	<u>(7,157)</u>
<b>Financing activities:</b>		
Cash used to settle withholding taxes on the vesting of nonvested restricted stock	(1,005)	(894)
Dividends paid to stockholders	(2,166)	(2,062)
Repurchase of common stock	(20,974)	(24,955)
Net cash used in financing activities	<u>(24,145)</u>	<u>(27,911)</u>
Net decrease in cash and cash equivalents	<u>(7,459)</u>	<u>(19,058)</u>
<b>Cash and cash equivalents:</b>		
Beginning of period	48,451	49,253
End of period	<u>\$ 40,992</u>	<u>\$ 30,195</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	<u>\$ 63</u>	<u>\$ 63</u>
Cash payments of income taxes	<u>\$ 5,614</u>	<u>\$ 2,526</u>
<b>Supplemental disclosures of noncash investing activities:</b>		
Accrual for purchases of property and equipment	<u>\$ 499</u>	<u>\$ 1,022</u>

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

**Citi Trends, Inc.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**August 4, 2018**

**1. Basis of Presentation**

Citi Trends, Inc. and its subsidiary (the “Company”) operate as a value-priced retailer of urban fashion apparel and accessories for the entire family. As of August 4, 2018, the Company operated 554 stores in 31 states.

The condensed consolidated balance sheet as of August 4, 2018, the condensed consolidated statements of operations for the twenty-six and thirteen week periods ended August 4, 2018 and July 29, 2017, and the condensed consolidated statements of cash flows for the twenty-six week periods ended August 4, 2018 and July 29, 2017 have been prepared by the Company without audit. The condensed consolidated balance sheet as of February 3, 2018 has been derived from the audited financial statements as of that date, but does not include all required year-end disclosures. In the opinion of management, such statements include all adjustments considered necessary to present fairly the Company’s financial position as of August 4, 2018 and February 3, 2018, and its results of operations and cash flows for all periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s latest Annual Report on Form 10-K for the year ended February 3, 2018.

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by U.S. GAAP for complete financial statements. Operating results for the twenty-six weeks ended August 4, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending February 2, 2019.

The following contains references to fiscal years 2018 and 2017, which represent fiscal years ending or ended on February 2, 2019 and February 3, 2018, respectively. Fiscal 2018 has a 52-week accounting period and fiscal 2017 had a 53-week accounting period.

**2. Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities 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.

**3. Cash and Cash Equivalents/Concentration of Credit Risk**

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

**4. Earnings per Share**

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

per share amounts are based on the weighted average number of common shares outstanding, because the inclusion of common stock equivalents would be antidilutive.

The dilutive effect of stock-based compensation arrangements is accounted for using the treasury stock method. The Company includes as assumed proceeds the amount of compensation cost attributed to future services and not yet recognized. For the twenty-six weeks ended August 4, 2018 and July 29, 2017, there were 118,000 and 144,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution. For the thirteen weeks ended August 4, 2018 and July 29, 2017, there were 127,000 and 178,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution.

The following table provides a reconciliation of the average number of common shares outstanding used to calculate basic earnings per share to the number of common shares and common stock equivalents outstanding used in calculating diluted earnings per share for the twenty-six and thirteen week periods ended August 4, 2018 and July 29, 2017:

	Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017
Average number of common shares outstanding	13,446,285	14,550,435
Incremental shares from assumed vesting of nonvested restricted stock	45,009	47,990
Average number of common shares and common stock equivalents outstanding	13,491,294	14,598,425

  

	Thirteen Weeks Ended	
	August 4, 2018	July 29, 2017
Average number of common shares outstanding	13,314,470	14,381,738
Incremental shares from assumed vesting of nonvested restricted stock	36,851	—
Average number of common shares and common stock equivalents outstanding	13,351,321	14,381,738

##### 5. Fair Value Measurement

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

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

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

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

As of August 4, 2018, 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
<b>Short-term:</b>				
Obligations of the U.S. Treasury and U.S. government agencies (Level 1)	\$ 20,263	\$ -	\$ (107)	\$ 20,156
Obligations of states and municipalities (Level 2)	3,631	1	-	3,632
Bank certificates of deposit (Level 2)	12,115	-	-	12,115
	<u>\$ 36,009</u>	<u>\$ 1</u>	<u>\$ (107)</u>	<u>\$ 35,903</u>
<b>Long-term:</b>				
Obligations of the U. S. Treasury (Level 1)	\$ 4,935	\$ -	\$ (28)	\$ 4,907
Bank certificates of deposit (Level 2)	8,085	-	-	8,085
	<u>\$ 13,020</u>	<u>\$ -</u>	<u>\$ (28)</u>	<u>\$ 12,992</u>

The amortized cost and fair market value of investment securities as of August 4, 2018 by contractual maturity are as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	\$ 36,009	\$ 35,903
Mature after one year through five years	13,020	12,992
	<u>\$ 49,029</u>	<u>\$ 48,895</u>

As of February 3, 2018, 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
<b>Short-term:</b>				
Obligations of the U. S. Treasury (Level 1)	\$ 10,162	\$ -	\$ (25)	\$ 10,137
Obligations of states and municipalities (Level 2)	8,111	1	(2)	8,110
Bank certificates of deposit (Level 2)	13,227	-	-	13,227
	<u>\$ 31,500</u>	<u>\$ 1</u>	<u>\$ (27)</u>	<u>\$ 31,474</u>
<b>Long-term:</b>				
Obligations of the U. S. Treasury (Level 1)	\$ 9,967	\$ -	\$ (116)	\$ 9,851
Bank certificates of deposit (Level 2)	15,484	-	-	15,484
	<u>\$ 25,451</u>	<u>\$ -</u>	<u>\$ (116)</u>	<u>\$ 25,335</u>

The amortized cost and fair market value of investment securities as of February 3, 2018 by contractual maturity were as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	\$ 31,500	\$ 31,474
Mature after one year through five years	25,451	25,335
	<u>\$ 56,951</u>	<u>\$ 56,809</u>

There were no changes among the levels in the twenty-six weeks ended August 4, 2018.



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

#### 6. Impairment of 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 to leasehold improvements and fixtures and equipment at underperforming stores totaled \$0.9 million and \$0.1 million in the twenty-six week periods ended August 4, 2018 and July 29, 2017, respectively.

#### 7. Revolving Line of Credit

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

#### 8. Income Taxes

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

ASC 740-270, *Income Taxes – Interim Reporting*, requires companies to calculate income taxes by applying their estimated full-year tax rate in each interim period unless the estimated full-year tax rate is not reliably predictable. For the twenty-six weeks ended August 4, 2018 and July 29, 2017, the Company utilized this annual effective tax rate method to calculate income taxes.

For the twenty-six weeks ended August 4, 2018, the effective income tax rate was 18.9%. This compares with a rate of 31.3% for the twenty-six weeks ended July 29, 2017. The decrease in the effective income tax rate was due primarily to the decrease in the federal income tax rate from 35% to 21% which was the result of the Tax Cuts and Jobs Act that was effective January 1, 2018.

## 9. Other Long-Term Liabilities

The components of other long-term liabilities as of August 4, 2018 and February 3, 2018 are as follows (in thousands):

	August 4, 2018	February 3, 2018
Deferred rent	\$ 2,227	\$ 2,148
Tenant improvement allowances	4,199	4,325
Other	1,912	1,960
	<u>\$ 8,338</u>	<u>\$ 8,433</u>

## 10. Commitments and Contingencies

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

## 11. Stock Repurchase Program and Cash Dividends

### *Repurchases of Common Stock*

On March 16, 2018, the Company's Board of Directors approved a program that authorized the purchase of up to \$25.0 million in shares of the Company's common stock. During the twenty-six weeks ended August 4, 2018, the Company repurchased 730,812 shares of its common stock at an aggregate cost of \$21.0 million. At August 4, 2018, \$4.0 million remained available for purchase under this program.

### *Dividends*

On February 13, 2018, the Company's Board of Directors declared a dividend of \$0.08 per common share, which was paid on March 20, 2018 to stockholders of record as of March 6, 2018. On May 22, 2018, the Company's Board of Directors declared a dividend of \$0.08 per common share, which was paid on June 19, 2018 to stockholders of record as of June 5, 2018. On August 21, 2018, the Company's Board of Directors declared a dividend of \$0.08 per common share, payable on September 18, 2018 to stockholders of record as of September 4, 2018. Any determination to declare and pay cash dividends for future quarters will be made by the Company's Board of Directors.

## 12. Recent Accounting Pronouncements

### *Recently Adopted*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). The guidance requires an entity to recognize revenue on contracts with customers relating to the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, an entity is required to identify the contract with a customer; identify the separate performance obligations in the contract; determine the transaction price; allocate the transaction price to the separate performance obligations in the contract; and recognize revenue when (or as) the entity satisfies each performance obligation. In August of 2015, the FASB issued ASU No. 2015-14 which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017 and interim periods in the year of adoption. The Company adopted ASU 2014-09 in fiscal 2018 beginning 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, adoption of the ASU did not result in significant changes to the Company's business processes, controls or systems.

*Not Yet Adopted*

In February 2016, the FASB issued ASU No. 2016-02, Leases (“ASU 2016–02”) which replaces the existing guidance in ASC 840, Leases. The new standard establishes 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. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In July 2018, the FASB issued ASU No. 2018-11, Leases – Targeted Improvements, which provides for an additional transition method that allows companies to apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to retained earnings. This transition method option is in addition to the existing modified retrospective transition approach that requires companies to apply the standard to the earliest period presented in the financial statements. The Company will adopt ASU 2016-02 in fiscal 2019 and is evaluating which transition method it will use. The Company is currently in the process of evaluating the new lease guidance to determine the ultimate impact, but anticipates the new standard will result in significant right of use assets and related liabilities associated with its operating leases. All of the Company’s retail store locations are subject to operating lease arrangements. Being party to 554 leases for individual retail locations with an average remaining contractual rent period of 3.0 years, the Company has determined that the adoption of the new lease standard will have a significant impact on the Company’s consolidated balance sheet and disclosures.

13. Revenue

*Revenue Recognition*

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

*Sales Returns*

The Company allows customers to return merchandise for up to thirty days after the date of sale. Expected refunds to customers are recorded based on estimated margin using historical return information. Under ASU 2014-09, the Company recorded an estimated refund liability of \$0.5 million, included in the line item “Accrued expenses,” and the carrying value of a return asset of \$0.3 million, presented separately from inventory, included in the line item “Prepaid and other current assets” on the condensed consolidated balance sheets. The cumulative effect of the changes made to the August 4, 2018 condensed consolidated balance sheet from the modified retrospective adoption of ASU 2014-09 on retained earnings was immaterial.

*Disaggregation of Revenue*

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

In the following table, the Company’s revenue is disaggregated by major product line. The percentage of net sales related to each classification of its merchandise assortment for the twenty-six and thirteen week periods of fiscal 2018 and 2017 was approximately:

	<u>Twenty-Six Weeks Ended</u>		<u>Thirteen Weeks Ended</u>	
	<u>August 4,</u> <u>2018</u>	<u>July 29,</u> <u>2017</u>	<u>August 4,</u> <u>2018</u>	<u>July 29,</u> <u>2017</u>
Accessories	32 %	33 %	33 %	33 %
Ladies'	24 %	24 %	23 %	24 %
Children's	22 %	21 %	22 %	21 %
Men's	17 %	17 %	17 %	17 %
Home	5 %	5 %	5 %	5 %

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

### **Forward-Looking Statements**

Except for specific historical information, many of the matters discussed in this Form 10-Q may express or imply projections of revenues or expenditures, statements of plans and objectives for future operations, growth or initiatives, statements of future economic performance, capital allocation expectations or statements regarding the outcome or impact of pending or threatened litigation. These, and similar statements, are forward-looking statements concerning matters that involve risks, uncertainties and other factors that may cause the actual performance of the Company to differ materially from those expressed or implied by these statements. All forward-looking information should be evaluated in the context of these risks, uncertainties and other factors. The words “believe,” “anticipate,” “project,” “plan,” “expect,” “estimate,” “objective,” “forecast,” “goal,” “intend,” “could,” “will likely result,” or “will continue” and similar words and expressions generally identify forward-looking statements, although not all forward-looking statements contain such language. The Company believes the assumptions underlying these forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in the forward-looking statements.

The factors that may result in actual results differing from such forward-looking information include, but are not limited to: transportation and distribution delays or interruptions; changes in freight rates; the Company’s ability to negotiate effectively the cost and purchase of merchandise; inventory risks due to shifts in market demand; the Company’s ability to gauge fashion trends and changing consumer preferences; changes in consumer spending on apparel; changes in product mix; interruptions in suppliers’ businesses; a deterioration in general economic conditions caused by acts of war or terrorism or other factors; the results of pending or threatened litigation; temporary changes in demand due to weather patterns; seasonality of the Company’s business; delays associated with building, opening and operating new stores; delays associated with building, opening or expanding new or existing distribution centers; and other factors described in the section titled “Item 1A. Risk Factors” and elsewhere in the Company’s Annual Report on Form 10-K for the fiscal year ended February 3, 2018 and in Part II, “Item 1A. Risk Factors” and elsewhere in the Company’s Quarterly Reports on Form 10-Q and any amendments thereto and in the other documents the Company files with the SEC, including reports on Form 8-K.

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

### **Overview**

We are a value-priced retailer of urban fashion apparel and accessories for the entire family. Our merchandise offerings are designed to appeal to the fashion preferences of value-conscious consumers, particularly African-Americans. We operated 554 stores in both urban and rural markets in 31 states as of August 4, 2018.

### **Accounting Periods**

The following discussion contains references to fiscal years 2018 and 2017, which represent fiscal years ending or ended on February 2, 2019 and February 3, 2018, respectively. Fiscal 2018 has a 52-week accounting period and fiscal 2017 had a 53-week accounting period. This discussion and analysis should be read with the unaudited condensed consolidated financial statements and the notes thereto.

### **Results of Operations**

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

## Key Operating Statistics

We measure performance using key operating statistics. One of the main performance measures we use is comparable store sales growth. We define a comparable store as a store that has been opened for an entire fiscal year. Therefore, a store will not be considered a comparable store until its 13th month of operation at the earliest or until its 24th month at the latest. As an example, stores opened in fiscal 2017 and fiscal 2018 are not considered comparable stores in fiscal 2018. Relocated and expanded stores are included in the comparable store sales results. We also use other operating statistics, most notably average sales per store, to measure our performance. As we typically occupy existing space in established shopping centers rather than sites built specifically for our stores, store square footage (and therefore sales per square foot) varies by store. We focus on overall store sales volume as the critical driver of profitability.

In addition to sales, we measure cost of sales as a percentage of sales and store operating expenses, with a particular focus on labor, as a percentage of sales. These results translate into store level contribution, which we use to evaluate overall performance of each individual store. Finally, we monitor corporate expenses against budgeted amounts. All of the statistics discussed above are critical components of earnings before interest, taxes, depreciation and amortization ("EBITDA") and Adjusted EBITDA (comprised of EBITDA, as adjusted for non-cash asset impairment expense and expenses related to our proxy contest in fiscal 2017), which are considered our most important operating statistics. We believe that excluding proxy contest expenses from our financial results reflects operating results that are more indicative of our ongoing operating performance while improving comparability to prior and future periods, and as such, provides an enhanced understanding of our past financial performance and prospects for the future.

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

Provided below is a reconciliation of net income (loss) to EBITDA and to Adjusted EBITDA for the twenty-six and thirteen week periods ended August 4, 2018 and July 29, 2017 (in thousands):

	<u>Twenty-Six Weeks Ended</u>		<u>Thirteen Weeks Ended</u>	
	<u>August 4, 2018</u>	<u>July 29, 2017</u>	<u>August 4, 2018</u>	<u>July 29, 2017</u>
Net income (loss)	\$ 14,532	\$ 8,680	\$ 3,235	\$ (210)
Plus:				
Interest expense	75	74	38	37
Income tax expense	3,389	3,952	788	-
Depreciation	9,650	8,887	4,676	4,589
Less:				
Interest income	(658)	(401)	(363)	(215)
Income tax benefit	-	-	-	(87)
EBITDA	<u>26,988</u>	<u>21,192</u>	<u>8,374</u>	<u>4,114</u>
Asset impairment	942	77	942	77
Proxy contest expenses	-	2,516	-	926
Adjusted EBITDA	<u>\$ 27,930</u>	<u>\$ 23,785</u>	<u>\$ 9,316</u>	<u>\$ 5,117</u>

## **Twenty-Six Weeks Ended August 4, 2018 and July 29, 2017**

*Net Sales.* Net sales increased \$26.8 million, or 7.3%, to \$393.0 million in the twenty-six weeks ended August 4, 2018 from \$366.2 million in the twenty-six weeks ended July 29, 2017. Sales comparisons to the prior year for fiscal 2018 are affected by the calendar shift caused by last year having 53 weeks. The increase in sales was due to a 5.1% increase in comparable store sales (2.7% increase on a comparable weeks basis) and the opening of 15 new stores since last year's second quarter, partially offset by the impact of closing six stores since the second quarter of 2017. The increase in comparable store sales on a comparable weeks basis was reflected in a 2% increase in the average number of items per transaction, together with a 1% increase in the average unit sale, partially offset by a slight decrease in the number of customer transactions. Comparable store sales changes by major merchandise class were as follows in the first twenty-six weeks of fiscal 2018: Home +16%; Men's +3%; Accessories +3%; Ladies' +2%; and Children's +1%.

The 2.7% increase in comparable store sales on a comparable weeks basis resulted in an increase of \$9.8 million in sales, store opening and closing activity resulted in a net increase of \$8.2 million in sales, and the aforementioned calendar shift contributed \$8.8 million to the sales increase.

*Cost of Sales (exclusive of depreciation).* Cost of sales (exclusive of depreciation) increased \$15.2 million, or 6.8%, to \$239.8 million in the twenty-six weeks ended August 4, 2018 from \$224.6 million in the twenty-six weeks ended July 29, 2017. Cost of sales as a percentage of sales decreased to 61.0% in the twenty-six weeks ended August 4, 2018 from 61.3% in the twenty-six weeks ended July 29, 2017, due to a 30 basis points improvement in the core merchandise margin (initial mark-up, net of markdowns) and a 30 basis points reduction in shrinkage, partially offset by a 30 basis points increase in freight costs.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$5.0 million, or 4.1%, to \$125.3 million in the twenty-six weeks ended August 4, 2018 from \$120.3 million in the twenty-six weeks ended July 29, 2017 due primarily to normal inflationary pressure on expenses such as rent and payroll, together with the impact on expenses of opening 15 new stores since last year's second quarter. These factors that caused the increase in selling, general and administrative expenses were partially offset by \$2.5 million in expenses incurred last year in connection with our proxy contest. As a percentage of sales, selling, general and administrative expenses decreased to 31.9% in the first twenty-six weeks of fiscal 2018 from 32.9% in the first twenty-six weeks of fiscal 2017 due primarily to the leveraging effect resulting from higher comparable store sales and last year's non-recurring proxy contest expenses.

*Depreciation.* Depreciation expense increased \$0.8 million, or 8.6%, to \$9.7 million in the first twenty-six weeks of fiscal 2018 from \$8.9 million in the first twenty-six weeks of fiscal 2017 due primarily to the acceleration of our store opening pace in relation to previous years, along with the completion of an expansion of our Roland, Oklahoma distribution center.

*Asset Impairment.* Impairment charges related to property and equipment at underperforming stores totaled \$0.9 million in the first twenty-six weeks of fiscal 2018 and \$0.1 million during the first twenty-six weeks of fiscal 2017.

*Income Tax Expense.* Income tax expense decreased \$0.6 million, or 14.2%, to \$3.4 million in the first twenty-six weeks of fiscal 2018 from \$4.0 million in the first twenty-six weeks of fiscal 2017, due to a decrease in the effective income tax rate from 31.3% to 18.9%. This decrease was a result of the reduction in the federal income tax rate from 35% to 21% included in the Tax Cuts and Jobs Act that was effective January 1, 2018.

*Net Income.* Net income increased \$5.8 million, or 67.4%, to \$14.5 million in the first twenty-six weeks of fiscal 2018 from \$8.7 million in the first twenty-six weeks of fiscal 2017 due to the factors discussed above.

## **Thirteen Weeks Ended August 4, 2018 and July 29, 2017**

*Net Sales.* Net sales increased \$15.8 million, or 9.5%, to \$182.0 million in the thirteen weeks ended August 4, 2018 from \$166.2 million in the thirteen weeks ended July 29, 2017. Sales comparisons to the prior year for each quarter of fiscal 2018 are affected by the calendar shift caused by last year having 53 weeks. Each of the first three quarters in fiscal 2018 begins and ends one week later than the same quarter of fiscal 2017, which can have an impact on quarterly sales comparisons if the beginning and ending weeks of the quarter have different levels of sales volumes. The increase in sales was due to a 7.4% increase in comparable store sales (3.3% on a comparable weeks basis) and the opening of 15 new stores since last year's second quarter, partially offset by the impact of closing six stores since the second quarter of 2017. The increase in comparable store sales on a comparable weeks basis was reflected in a 2% increase in the average number of items per transaction, together with a 1% increase in the average unit sale and a slight

increase in the number of customer transactions. Comparable store sales changes by major merchandise class were as follows in the second quarter of 2018: Home +11%; Men's +5%; Accessories +3%; Children's +3%; and Ladies' less than +1%.

The 3.3% comparable store sales increase on a comparable weeks basis resulted in an increase of \$5.5 million in sales, while store opening and closing activity resulted in a net increase of \$3.6 million in sales, and the aforementioned calendar shift contributed \$6.7 million to the sales increase.

*Cost of sales (exclusive of depreciation).* Cost of sales (exclusive of depreciation) increased \$8.2 million, or 8.0%, to \$110.4 million in the second quarter of 2018 from \$102.2 million in last year's second quarter. Cost of sales as a percentage of sales decreased to 60.7% in the second quarter of 2018 from 61.5% in last year's second quarter. The decrease in cost of sales as a percentage of sales was due primarily to a 50 basis points reduction in shrinkage in the second quarter this year versus last year and a 40 basis points improvement in the core merchandise margin (initial mark-up, net of markdowns). Partially offsetting these margin enhancements was a 10 basis points increase in freight costs.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$2.5 million, or 4.1%, to \$62.3 million in the second quarter of 2018 from \$59.8 million in last year's second quarter due primarily to the impact on expenses of opening 15 new stores since last year's second quarter, together with normal inflationary pressure on expenses such as rent and payroll, partially offset by last year's \$0.9 million of expenses incurred in connection with our proxy contest. As a percentage of sales, selling, general and administrative expenses decreased to 34.2% in the second quarter of 2018 from 36.0% in the second quarter of 2017 due primarily to the leveraging effect resulting from higher comparable store sales and last year's non-recurring proxy contest expenses.

*Depreciation.* Depreciation expense increased \$0.1 million, or 1.9%, to \$4.7 million in the second quarter of 2018 from \$4.6 million in the second quarter of 2017.

*Asset Impairment.* Impairment charges related to property and equipment at underperforming stores totaled \$0.9 million in the second quarter of 2018, and \$0.1 million in the second quarter of 2017.

*Income Tax (Expense) Benefit.* Income tax expense was \$0.8 million in the second quarter of 2018 and a benefit of \$0.1 million in the second quarter of 2017, due primarily to having pretax income of \$4.0 million this year compared with a pretax loss of \$0.3 million last year.

*Net Income (Loss).* Net income increased to \$3.2 million in the second quarter of 2018 from a loss of \$0.2 million in the second quarter of 2017 due to the factors discussed above.

## **Liquidity and Capital Resources**

Our cash requirements are primarily for working capital and capital expenditures for new and existing stores, distribution infrastructure and information systems. In addition, in the first quarter of 2018, we initiated a share repurchase program authorizing the repurchase of up to \$25.0 million of our common stock and have repurchased shares of our common stock at an aggregate cost of \$21.0 million year to date. In recent years, we have met these cash requirements using cash flow from operations and short-term trade credit. We expect to be able to meet future cash requirements with cash flow from operations, short-term trade credit, existing balances of cash and investment securities and, if necessary, borrowings under our revolving credit facility described in Note 7 to the condensed consolidated financial statements included in Part I, Item 1 of this report.

*Current Financial Condition.* As of August 4, 2018, we had total cash and cash equivalents of \$41.0 million compared to \$48.5 million as of February 3, 2018. Additionally, we had \$36.0 million and \$13.0 million of short-term and long-term investment securities, respectively, as of August 4, 2018, 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 44.7% of our total assets as of August 4, 2018, compared to 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 From Operating Activities.* Net cash provided by operating activities was \$14.3 million in the twenty-six weeks ended August 4, 2018 compared to \$16.0 million in the twenty-six weeks ended July 29, 2017. Sources of cash provided during the first half of 2018 included net income adjusted for noncash 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, totaling \$26.2 million (compared to \$21.3 million in the first half of 2017). Other significant sources of cash in the first half of 2018 were a \$1.2 million increase in layaway deposits (compared to a \$1.3 million increase in the first half of 2017) because layaways are heavier at the end of the second quarter when they include merchandise put on layaway in advance of the back-to-school season than at the end of the fourth quarter after merchandise put on layaway for Christmas has been picked up.

Significant uses of cash from operating activities in the first half of 2018 were (1) a \$4.2 million decrease in accrued compensation (compared to a \$0.7 million increase in the first half of 2017) due to payment in the first half of 2018 of incentive compensation accrued in fiscal 2017; (2) a \$3.9 million decrease in accounts payable (compared to an \$8.3 million decrease in the first half of 2017) due to a higher level of next-season-buy inventory at August 4, 2018, with such merchandise being already paid for since it was purchased earlier than 60 days before quarter end; (3) a \$2.3 million increase in prepaid and other current assets (compared to a \$1.4 million increase in the first half of 2017) due primarily to an increase in charge card receivables attributable to higher sales and a greater percentage of customers paying with charge cards; (4) a \$1.6 million change in the income tax payable/receivable (compared to a \$0.3 million change in the first half of 2017) due to estimated tax payments made during the quarter; and (5) a \$1.3 million increase in inventory (compared with a \$1.8 million decrease in the first half of 2017) due primarily to the aforementioned increase in next-season-buy inventory.

*Cash Flows From Investing Activities.* Cash provided by investing activities was \$2.4 million in the twenty-six weeks ended August 4, 2018 compared to cash used of \$7.2 million in the twenty-six weeks ended July 29, 2017. Sales/redemptions of investment securities, net of purchases, provided cash of \$7.9 million and \$5.3 million in the first half of 2018 and 2017, respectively. Cash used for purchases of property and equipment totaled \$5.7 million and \$12.9 million in the first half of 2018 and 2017, respectively.

*Cash Flows From Financing Activities.* Cash used in financing activities was \$24.1 million in the twenty-six weeks ended August 4, 2018 compared to \$27.9 million in the twenty-six weeks ended July 29, 2017, with the decrease due primarily to the repurchase of common stock for an aggregate purchase price of \$21.0 million and \$25.0 million during the first half of 2018 and 2017, respectively. Dividends paid to stockholders used cash of \$2.2 million and \$2.1 million in the first half of 2018 and 2017, respectively.

### **Cash Requirements**

Our principal sources of liquidity consist of: (i) cash and cash equivalents (which equaled \$41.0 million as of August 4, 2018); (ii) short-term and long-term investment securities (which equaled \$36.0 million and \$13.0 million, respectively, as of August 4, 2018); (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 (under which we have no borrowings outstanding). Trade credit represents a significant source of financing for inventory purchases and arises from customary payment terms and trade practices with our vendors. Historically, our principal liquidity requirements have been for working capital and capital expenditure needs.

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



## **Recent Accounting Pronouncements**

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

## **Critical Accounting Policies**

The preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. There have been no material changes to the Critical Accounting Policies outlined in the Company's Annual Report on Form 10-K for the year ended February 3, 2018.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes in our market risk during the twenty-six weeks ended August 4, 2018 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended February 3, 2018.

## **Item 4. Controls and Procedures.**

We have carried out an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of August 4, 2018 pursuant to Rules 13a-15 and 15d-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information has been accumulated and communicated to our management, including the officers who certify our financial reports, as appropriate, to allow timely decisions regarding the required disclosures.

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

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended August 4, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II — OTHER INFORMATION****Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

There have been no material changes to the Risk Factors described under the section titled “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.***Information on Share Repurchases*

The number of shares of common stock that we repurchased during the second quarter of fiscal 2018 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>
May (5/6/18 - 6/2/18)	31,921	\$ 29.93	31,921	\$ 21,377,068
June (6/3/18 - 7/7/18)	324,746	28.38	324,746	12,172,081
July (7/8/18 - 8/4/18)	288,608	28.18	288,608	4,048,739
Total	<u>645,275</u>		<u>645,275</u>	

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

(2) On March 16, 2018, we announced a \$25.0 million stock repurchase program, under which approximately \$4.0 million remained available as of August 4, 2018. Repurchases under the stock repurchase program may be made at management’s discretion from time to time on the open market, in privately negotiated transactions or otherwise, and may be made in part under one or more Rule 10b5-1 plans. The stock repurchase program does not have an expiration date.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

- 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 \(incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on June 7, 2018\).](#)
- 31.1 [Certification of Bruce D. Smith, Chief Executive Officer, Pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\\*](#)
- 31.2 [Certification of Stuart C. Clifford, Chief Financial Officer, Pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\\*](#)
- 32.1 [Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\\*](#)  
†
- 101 The following financial information from Citi Trends, Inc.'s Quarterly Report on Form 10-Q for the quarter ended August 4, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets as of August 4, 2018 and February 3, 2018, (ii) the Condensed Consolidated Statements of Operations for the twenty-six and thirteen week periods ended August 4, 2018 and July 29, 2017, (iii) the Condensed Consolidated Statements of Cash Flows for the twenty-six week periods ended August 4, 2018 and July 29, 2017, and (iv) Notes to the Condensed Consolidated Financial Statements (unaudited).\*

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\* Included herewith.

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

**SIGNATURES**

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

CITI TRENDS, INC.

Date: September 6, 2018

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

## CERTIFICATION

I, Bruce D. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended August 4, 2018 of Citi Trends, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2018

/s/ Bruce D. Smith

Bruce D. Smith  
President and Chief Executive Officer,

(Principal Executive Officer)

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## CERTIFICATION

I, Stuart C. Clifford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended August 4, 2018 of Citi Trends, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2018

/s/ Stuart C. Clifford

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Stuart C. Clifford

Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

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

and

I, Stuart C. Clifford, Senior Vice President and Chief Financial Officer of Citi Trends, Inc., certify that:

1. We have reviewed this quarterly report on Form 10-Q of Citi Trends, Inc. for the period ended August 4, 2018;
2. Based on our knowledge, this quarterly report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
3. Based on our knowledge, the financial statements, and other information included in this quarterly report, fairly present in all material respects the financial condition and results of operations of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 6, 2018

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

Date: September 6, 2018

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

A signed original of this written statement required by Section 906 has been provided to Citi Trends, Inc. and will be retained by Citi Trends, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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