Table of Contents

As filed with the Securities and Exchange Commission on January 11, 2006

Registration No. 333-130863

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

FORM S-1

REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

CITI TRENDS, INC.

(Exact name of Registrant as specified in its charter)

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

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

R. Edward Anderson
Chief Executive Officer
Citi Trends, Inc.
102 Fahm Street
Savannah, Georgia 31401
(912) 236-1561
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

William F. Schwitter, Esq.	**Wm. David Chalk, Esq.**
Paul, Hastings, Janofsky & Walker LLP	**DLA Piper Rudnick Gray Cary US LLP**
75 East 55th Street	**6225 Smith Avenue**
New York, New York 10022	**Baltimore, Maryland 21209**
(212) 318-6000	**(410) 580-3000**
(212) 319-4090 (fax)	**(410) 580-3001 (fax)**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(3)
Common Stock, par value $.01 per share	1,725,000	$70,311,000	$7,523.28

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low prices of the common stock as reported by the Nasdaq National Market on January 5, 2006.

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

(3) Of this amount $7,383.00 was previously paid.

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

Table of Contents

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

Subject to Completion, Dated January 11, 2006

1,500,000 Shares

Common Stock
$ per share

The selling stockholders of Citi Trends, Inc. identified in this prospectus are offering 1,500,000 shares of our common stock. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholders.

Our shares of common stock are listed for trading on the Nasdaq National Market under the symbol "CTRN." On January 10, 2006, the last reported sale price of our common stock on the Nasdaq National Market was $43.00 per share.

Investing in the common stock involves risks. See "Risk Factors" beginning on page 7.

	Per Share	Total
Price to the public	$	$
Underwriting discount		
Proceeds to the selling stockholders		

The selling stockholders have granted an option to the underwriters to purchase up to a maximum of 225,000 additional shares of our common stock from the selling stockholders within 30 days following the date of this prospectus to cover over-allotments, if any.

The underwriters expect to deliver the shares in New York, New York on or about January , 2006

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

CIBC World Markets

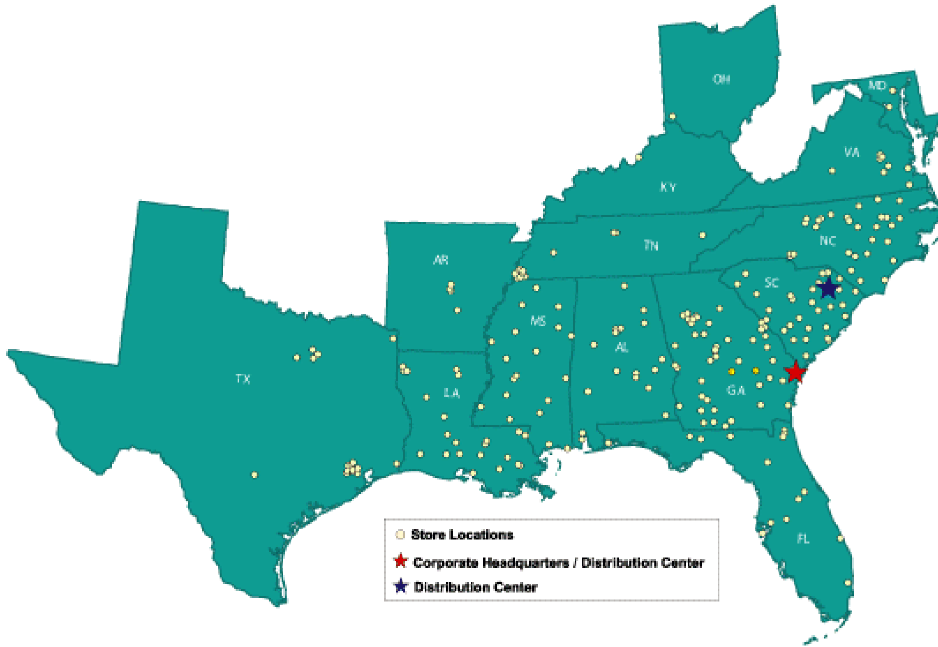
Piper Jaffray **SG Cowen & Co.** **Wachovia Securities**

The date of this prospectus is January , 2006

Table of Contents

Citi Trends

Fashion for LESS



TRENDY FASHIONS AT EVERYDAY LOW PRICES

Table of Contents

	Page
Prospectus Summary	1
Risk Factors	7
Special Note Regarding Forward-Looking Statements	17
Use of Proceeds	18
Price Range of Our Common Stock	18
Dividend Policy	18
Capitalization	19
Selected Financial and Operating Data	20
Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Business	38
Management	48
Related Party Transactions	62
Principal and Selling Stockholders	63
Description of Capital Stock	65
Shares Eligible for Future Sale	69
Underwriting	71
Legal Matters	75
Experts	75
Where You Can Find More Information	75
Index to Financial Statements	F-1
EX-1.1: FORM OF UNDERWRITING AGREEMENT	
EX-23.1: CONSENT OF KPMG LLP	

Prospectus Summary

This summary highlights information contained in other parts of this prospectus, and because it is only a summary, it does not contain all of the information that you should consider before buying shares. You should read the entire prospectus carefully, including the risk factors and financial statements. All share numbers in this prospectus reflect a 26-for-one stock split of our common stock, which was effected on May 11, 2005. Our fiscal year ends on the Saturday closest to January 31, and, except as otherwise provided, references in this prospectus to a fiscal year mean the 52- or 53-week period ended on the Saturday closest to January 31 of the succeeding year. Fiscal 2004, for example, refers to the fiscal year ended January 29, 2005.

Citi Trends, Inc.

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

We operate 236 stores (including two stores currently closed due to hurricane damage) in both urban and rural markets in fourteen states. Originally, our stores were located in the Southeast, and during late fiscal 2004 and fiscal 2005 we expanded into the Mid-Atlantic region, the Midwest and Texas. Our stores average approximately 9,000 square feet of selling space, and our stores opened since the beginning of fiscal 2003 average approximately 10,500 square feet of selling space. Our stores are generally located in neighborhood strip shopping centers that are convenient to low and moderate income consumers. These locations allow us to serve our customers at rents that we believe are attractive, and combined with our differentiated merchandise assortment, compelling value proposition and efficient operating model, enable us to generate strong returns on store investments. Our new stores typically return our initial unit investment within 12 to 14 months.

Our predecessor was founded in 1946 and grew to become a chain of family apparel stores operating in the Southeast under the Allied Department Stores name. In 1999, our chain of stores, then consisting of 85 stores throughout the Southeast, was acquired by Hampshire Equity Partners II, L.P., a private equity firm. Our management team implemented several strategies that have driven our success including refining our merchandise offerings with a focus on urban fashions for the entire family, accelerating and completing the remodeling of virtually all of the 85 acquired stores, and executing an aggressive new store growth plan. We

- grew our store base from 85 stores at the time of the acquisition to 236 stores as of January 4, 2006;
- increased average sales per store from $0.8 million in fiscal 2000 to $1.1 million in fiscal 2004;
- generated comparable store sales increases in each of the past five fiscal years;
- increased net sales from $80.9 million in fiscal 2000 to $203.4 million in fiscal 2004, representing a compound annual growth rate of 25.9%; and
- increased net income from $1.2 million in fiscal 2000 to $7.3 million in fiscal 2004.

We have continued our rapid growth in fiscal 2005 with net sales increasing 40.7% to $193.0 million in the first nine months of fiscal 2005 from $137.1 million in the first nine months of fiscal 2004. Net income grew 165.6% to $6.3 million in the first nine months of fiscal 2005 versus $2.4 million in the first nine months of fiscal 2004. Our comparable store sales increased 6.9%, 11.5% and 25.0%, respectively, in each of the first three quarters of fiscal 2005 compared to 3.5%, 0.3% and 3.0%, respectively, in each of the first three quarters of fiscal 2004. As discussed more fully below in "—Recent Developments" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations— Overview," following Hurricanes

Katrina, Rita and Wilma, we experienced a significant increase in sales since September of fiscal 2005 in our store locations in the markets directly affected by the hurricanes and in contiguous markets. This increase more than offset the sales lost on the days certain of our stores were closed due to the hurricanes. This positive post-hurricane impact has begun to dissipate, and we anticipate that the magnitude of this trend will continue to diminish over time.

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

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

Our growth strategy is to open stores in new and existing markets, as well as to increase sales in existing stores. Adding stores in the markets we currently serve enables us to benefit from enhanced name recognition and achieve advertising and operating synergies, and entering new markets opens additional growth opportunities. For fiscal 2005, we have opened 36 new stores thus far and have no additional openings planned. We expect to open 42 to 45 new stores in fiscal 2006. Approximately 90% of the new stores we intend to open in fiscal 2006 will be located in states we currently serve. We intend to increase comparable store sales primarily through merchandising enhancements and the expansion of product categories such as home décor and intimate apparel.

Recent Developments

Our strong operating and financial momentum continued in the first two months of the fourth quarter of fiscal 2005. As discussed in this section and in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview", following Hurricanes Katrina, Rita and Wilma we experienced a significant increase in sales in our store locations in the markets directly affected by the hurricanes and in contiguous markets. This increase more than offset the sales lost on the days certain of our stores were closed for one or more days due to the hurricanes.

- We expect that net sales for the four-week period ended November 26, 2005 increased 43.5% to $24.7 million compared with $17.2 million for the four-week period ended November 27, 2004. We expect that comparable store sales increased 26.0% for the four-week period ended November 26, 2005 compared with a 0.9% increase in the prior-year period. We expect further that comparable store sales in the non-affected markets increased approximately 18.1% for the four-week period ended November 26, 2005 compared to the prior year period.
- Likewise, we expect that our net sales for the five-week period ended December 31, 2005 increased 46.4% to $51.3 million compared with $35.0 million for the five-week period ended January 1, 2005. We expect that comparable store sales increased 21.4% for the five-week period ended December 31, 2005 compared with a 4.3% increase in the prior-year period. We expect further that comparable store sales in the non-affected markets increased approximately 15.3% for the five-week period ended December 31, 2005 compared to the prior year period.

The preceding financial information contains our expectations relating to our results of operations for two of the months of the fourth quarter of fiscal 2005. Our actual results could differ from these expectations. Factors that could cause our actual results to differ from these expectations include possible accounting adjustments resulting from our quarter-end accounting and review procedures and other factors, including those described under "Special Note Regarding Forward-Looking Statements."

Corporate Information

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

The Offering

Common stock offered by the selling stockholders	1,500,000 shares
Common stock to be outstanding after the offering	13,389,327 shares
Use of proceeds	The selling stockholders will receive all of the net proceeds from the sale of shares of our common stock offered by this prospectus. We will not receive any of the proceeds from the sale of shares of common stock offered by this prospectus.
Nasdaq National Market Symbol	"CTRN"

Unless otherwise stated, information in this prospectus assumes:

- a 26-for-one stock split of our common stock, which was effected on May 11, 2005;
- no exercise of outstanding options to purchase 1,574,133 shares of common stock outstanding as of January 4, 2006, at a weighted average exercise price of $2.60 per share, other than the 376,612 options to be exercised by certain selling stockholders in connection with this offering; and
- no exercise of the underwriters' over-allotment option.

Summary Financial and Operating Data

The following table provides summary financial and operating data for each of the fiscal years in the five-year period ended January 29, 2005 and for the nine months ended October 29, 2005 and October 30, 2004, including: (a) our statement of income data for each such period, (b) additional operating data for each such period and (c) our balance sheet data as of October 29, 2005. The statement of income data for fiscal 2002, fiscal 2003 and fiscal 2004 are derived from our audited financial statements included elsewhere in this prospectus that have been audited by KPMG LLP, an independent registered public accounting firm. The statement of income data for fiscal 2000 and fiscal 2001 are derived from our audited financial statements that are not included in this prospectus. The statement of income data for the nine months ended October 29, 2005 and October 30, 2004 are derived from our unaudited condensed interim financial statements included elsewhere in this prospectus. The unaudited condensed financial statements for the nine months ended October 29, 2005 and October 30, 2004 have been prepared on the same basis as our audited financial statements and include, in the opinion of management, all adjustments, consisting of normal recurring accruals that management considers necessary for a fair presentation of the financial information set forth in those statements. Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire period. The summary financial and operating data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the sections of this prospectus entitled “Selected Financial and Operating Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes included elsewhere in this prospectus. Historical results are not necessarily indicative of results to be expected for any future period.

	Fiscal Year Ended(1)					Nine Months Ended	
	February 3, 2001	February 2, 2002	February 1, 2003	January 31, 2004	January 29, 2005	October 30, 2004	October 29, 2005
	(dollars in thousands, except per share amounts)					(unaudited)	
Statement of Income Data:							
Net sales	$ 80,939	$ 97,933	$ 124,951	$ 157,198	$ 203,442	$ 137,129	$ 192,961
Cost of sales	51,762	62,050	77,807	98,145	127,308	86,288	119,039
Gross profit	29,177	35,883	47,144	59,053	76,134	50,841	73,922
Selling, general and administrative expenses	26,834	31,405	38,760	48,845	63,594	46,440	64,281
Income from operations	2,343	4,478	8,385	10,208	12,540	4,401	9,641
Interest expense (income), net(2)	787	455	256	563	732	557	(197)
Income before income taxes	1,556	4,023	8,129	9,645	11,808	3,844	9,838
Provision for income taxes	358	1,566	3,101	3,727	4,551	1,480	3,560
Net income	$ 1,198	$ 2,457	$ 5,028	$ 5,918	$ 7,257	$ 2,364	$ 6,278
Net income per common share:							
Basic	$ 0.09	$ 0.23	$ 0.51	$ 0.62	$ 0.78	$ 0.25	$ 0.55
Diluted	$ 0.09	$ 0.22	$ 0.44	$ 0.54	$ 0.67	$ 0.22	$ 0.49
Weighted average shares used to compute net income per share:							
Basic	9,269,000	9,219,167	9,295,000	9,295,000	9,302,800	9,305,400	11,348,502
Diluted	9,269,000	9,791,999	10,757,110	10,771,410	10,879,388	10,945,038	12,847,419
Additional Operating Data:							
Number of stores:							
Opened during period	23	12	16	25	40	35	26
Closed during period	0	4	2	1	1	1	0(3)
Open at end of period	115	123	137	161	200	195	226(4)
Selling square footage at end of period	786,534	891,843	1,043,713	1,290,039	1,715,943	1,663,597	2,017,014
Comparable store sales increase(5)	17.6%	6.5%	14.6%	5.7%	3.0%	2.3%	14.1%(6)
Average sales per store(7)	$ 782	$ 823	$ 961	$ 1,055	$ 1,127	$ 770	$ 906

	As of October 29, 2005
	(in thousands)
Balance Sheet Data:	
Cash and cash equivalents	$ 9,371
Total assets	125,378
Total liabilities	52,585
Total stockholders' equity	72,793

(1) Our fiscal year ends on the Saturday closest to January 31 of each year. Fiscal years 2001, 2002, 2003 and 2004 comprise 52 weeks. Fiscal year 2000 comprises 53 weeks.

(2) Our Series A Preferred Stock, which was redeemed using a portion of the net proceeds from our initial public offering, was reclassified as debt as of the second quarter of fiscal 2003, in accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The amount of dividends treated as interest expense was $100,000 for the nine months ended October 29, 2005, $324,450 in fiscal 2004, $189,000 in fiscal 2003 and none in fiscal 2002.

(3) Stores closed for one or more days due to Hurricanes Katrina, Rita and Wilma are not included in this item.

(4) The number of stores open at the end of the period includes four stores closed as of October 29, 2005, as a result of Hurricanes Katrina, Rita and Wilma, two of which have since been re-opened.

(5) 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.

(6) This data includes the positive impact of sales as a result of Hurricanes Katrina, Rita and Wilma during the months of September and October.

(7) Average sales per store is defined as net sales divided by the average of stores open at the end of the prior period and stores open at the end of the current period.

Risk Factors

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

Risks Relating to Citi Trends, Inc.

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

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

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 financial results could suffer.

The retail apparel market is highly competitive, with few barriers to entry. We compete against a diverse group of retailers, including national off-price apparel chains such as The TJX Companies, Inc., or TJX Companies, Burlington Coat Factory Warehouse Corp., or Burlington Coat Factory, and Ross Stores, Inc., or Ross Stores; mass merchants such as Wal-Mart and Kmart; smaller discount retail chains that only sell women's products, such as Rainbow, Dots, Fashion Cents, It's Fashions (a subsidiary of The Cato Corporation) and Simply Fashions; and general merchandise discount stores and dollar stores, which offer a variety of products, including apparel, for the value-conscious consumer. We also compete against local off-price and specialty retail stores, regional retail chains, traditional department stores, and Internet 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, exert greater pricing pressures on suppliers and open new stores more quickly and effectively than we can. Many of these retailers have better name recognition among consumers than we have and purchase significantly more merchandise from vendors. These retailers may be able to purchase branded merchandise that we cannot purchase because of their name recognition and relationships with suppliers, or they may be able to purchase branded merchandise with better pricing concessions than we receive. 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. In addition, our online competitors enjoy a retailing advantage over us as we have only recently completed the upgrade of our website to enable Internet sales of selected urban branded apparel provided by third parties. If the consumer base we serve is satisfied with the selection, quality and price of our competitors' products, consumers may decide not to shop in our stores. Additionally, if our existing competitors or other retailers decide to focus more on our core customers, particularly African-Americans consumers, we may have greater difficulty in competing effectively, our business and results of operations could be adversely affected, and the market price of our common stock could suffer.

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

We could experience a reduction in sales and revenues or reduced cash flows 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 us products, we may be unable to obtain replacement merchandise of comparable fashion appeal or quality, in the same quantities or at the same prices. 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 obtain replacement merchandise in a timely manner. If our existing suppliers cannot meet our increased needs and we cannot locate alternative supply sources, we may be unable to obtain sufficient quantities of the most popular items of the nationally recognized brands at attractive prices, which could negatively impact our sales, revenues and results of operations.

As an apparel retailer, 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.

As an importer and retailer of goods, we rely on numerous third parties to supply the products that we sell. Violations of law by our importers, buying agents, manufacturers or distributors could result in delays in shipments and receipt of goods and could subject us to fines or other penalties, any of which could restrict our business activities, increase our operating expenses or cause our revenues to decline. Further, we are susceptible to the receipt of counterfeit brands or unlicensed goods. We could incur liability with manufacturers or other owners of the brands or trademarked products if we inadvertently receive and sell counterfeit brands or unlicensed goods and, therefore, is important that we establish relationships with reputable vendors to prevent the possibility that we inadvertently receive counterfeit brands or unlicensed goods. Although we have a quality assurance team to check merchandise in an effort to assure that we purchase only authentic brands and licensed goods and are careful in selecting our vendors, we may receive products that we are prohibited from selling or incur liability for selling counterfeit brands or unlicensed goods, which could increase our operating expenses and cause our net income to decline.

If our growth strategy is unsuccessful, our financial condition and results of operation could suffer and the market price of our common stock could decline.

Our ability to continue to increase our net sales and earnings depends, in large part, on opening new stores and operating our new and existing stores profitably. We opened 40 new stores in fiscal 2004. For fiscal 2005, we have opened 36 new stores thus far and have no additional openings planned. We expect to open 42 to 45 new stores in fiscal 2006. If we are unable to open all of these stores or operate them profitability, we may not achieve our forecasted sales and earnings growth targets. Additionally, growth of our store base will place increased demands on our operating, managerial and administrative resources and may lead to management and operating inefficiencies, including merchandising, personnel, distribution and integration problems. These demands and inefficiencies may cause deterioration in the financial performance of our individual stores and, therefore, our entire business.

We would experience increased operating costs and limited amounts of growth if we are unable to obtain reasonably priced financing.

We may need to raise additional debt or equity capital in the future to open new stores, to respond to competitive pressures or to respond to unforeseen financial requirements. We may not be able to obtain additional capital on commercially reasonable terms or at all. Our inability to obtain reasonably priced financing could create increased operating costs and diminished levels of growth, as we could be forced to incur indebtedness with above-market interest rates or with substantial restrictive covenants, issue equity securities that dilute the ownership interests of existing stockholders or scale back our operations and/or store growth strategy.

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

Our ability to distribute merchandise to our store locations in a timely manner is essential to the efficient and profitable operation of our business. We have two distribution centers located in Savannah, Georgia, one of which also serves as our corporate headquarters, and our recently acquired distribution center in Darlington, South Carolina. Together, these facilities provide distribution capacity to support twice our current sales volume. Any natural disaster or other disruption to the operation of any of these facilities due to fire, hurricane, other natural disaster or any other cause or our inability to continue the timely and efficient build out of our Darlington, South Carolina distribution center could damage a significant portion of our inventory or impair our ability to stock our stores and process product returns to suppliers adequately.

In addition, the southeastern United States, where our three distribution centers 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 increase our operating expenses, impair our cash flows and reduce our revenues, which could negatively impact the market price of our common stock.

Hurricanes Katrina, Rita and Wilma have temporarily increased our sales in our store locations in the affected markets and contiguous markets.

Hurricanes Katrina, Rita and Wilma, which caused damage to areas of the Gulf Coast region of the United States during the period of August 2005 to October 2005, impacted our stores in Alabama, Florida, Mississippi, Louisiana and Texas. Thirty-eight of our stores were closed for one or more days due to the hurricanes. Two existing stores have not reopened as of January 4, 2006. In addition, one store scheduled to open in September 2005 was heavily damaged by Hurricane Katrina and remains unopened. Following Hurricanes Katrina, Rita and Wilma, we experienced an increase in sales in our store locations in the markets directly affected by Hurricanes Katrina, Rita and Wilma and in contiguous markets. We believe that these sales increases resulted directly from aid distributed to our customers and the need for our customers to replace lost or damaged clothing and other items. These sales increases have begun to dissipate, and we anticipate that the magnitude of these increases will continue to diminish over time and that we will not continue to increase or maintain our sales at the levels achieved in the months of September, October, November and December in fiscal 2005.

The future contribution of stores affected by the hurricanes to our results of operations will depend on the recovery of the local economy in general in the hurricane impacted areas of the Gulf Coast region. A natural disaster producing the devastation of Hurricane Katrina is unprecedented in recent U.S. history, and the recovery of the local economies and impacted industries in the affected regions will to a certain extent depend on the leadership and actions of federal, state and local governments, which are beyond our control. We can provide no assurance as to the timing and ultimate success of recovery efforts led by federal, state and local governments. In addition, the long-term impact of the hurricanes, such as lack of housing, unemployment or increases in gasoline prices, may disproportionately affect many of our customers in the Gulf Coast region.

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

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

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

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 or decline substantially.

Our comparable store sales and quarterly results have fluctuated significantly in the past based on a number of economic, seasonal and competitive factors, and we expect them to continue to fluctuate in the future. Since the beginning of fiscal 2003, our quarter-to-quarter comparable store sales have ranged from an increase of 0.3% to an increase of 25.0%. The largest of these increases was due to the unusually high customer traffic following Hurricanes Katrina, Rita and Wilma. In addition, we may be unable to maintain historical levels of comparable store sales as we execute our growth strategy and expand our business. 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 volatility of the market price of our common stock. If our comparable store sales and quarterly results fail to meet the expectations of the market generally, the market price of our common stock could decline substantially.

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

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

We believe that our “Citi Trends” trademark is integral to our store design and our success in building consumer loyalty to our brand. We have registered this trademark with the U.S. Patent and Trademark Office. We have also registered, or applied for registration of, additional trademarks with the U.S. Patent and Trademark Office that we believe are important to our business. We cannot assure you that these registrations will prevent imitation of our name, merchandising concept, store design or private label merchandise or the

infringement of our other intellectual property rights by others. Imitation of our name, concept, store design or merchandise in a manner that projects lesser quality or carries a negative connotation of our brand image could have a material adverse effect on our business, financial condition and results of operations.

In addition, we cannot assure you that others will not try to block the manufacture or sale of our private label merchandise by claiming that our merchandise violates their trademarks or other proprietary rights 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 a material adverse effect on our business, financial condition and results of operations.

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

We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. We may be required to be in compliance with Section 404 as early as the time we file our annual report for fiscal 2006 with the Securities and Exchange Commission, or the Commission. During the course of our testing, we may identify deficiencies in our internal controls, which we may be unable to correct in time to meet the deadline imposed by the Sarbanes-Oxley Act of 2002. If we fail to achieve and maintain the adequacy of our internal controls, 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, 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.

Several of our stores have been substantially damaged by Hurricanes Katrina, Rita and Wilma. There can be no assurance that our losses from the hurricanes will be completely covered by our insurance.

We estimate that Hurricanes Katrina, Rita and Wilma caused total damages of approximately $1.2 million in our stores located in five of the fourteen states in which we currently operate stores. In addition, thirty-eight of our stores were closed for one or more days due to the hurricanes, of which two existing stores have not reopened as of January 4, 2006. We are seeking to recover most of our damages attributable to the hurricanes from insurance under the insurance policies that we maintain. There can be no assurance that our losses from property damage will be offset by the proceeds of insurance obtained under our insurance policies.

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

We purchase the products we sell directly from over 1,000 vendors, and a substantial portion of this merchandise is manufactured outside of the United States and imported by our vendors from countries such as China and other areas of the Far East, including Taiwan and the Philippines. 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. Trade restrictions, including increased tariffs or quotas, embargoes, and customs restrictions, against apparel items, as well as United States or foreign labor strikes, work stoppages or boycotts, could increase the cost or reduce the supply of apparel available to us and have a material adverse effect on our business, financial condition and results of operations. 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 instability or the threat of terrorism, in particular in countries where our vendors source merchandise such as Taiwan and the Philippines;
- enhanced security measures at United States and foreign ports, which could delay delivery of imports;
- imposition of new or supplemental duties, taxes, and other charges on imports;
- delayed receipt or non-delivery of goods due to the failure of foreign-source suppliers to comply with applicable import regulations;
- delayed receipt or non-delivery of goods due to organized labor strikes or unexpected or significant port congestion at United States ports; and
- local business practice and political issues, including issues relating to compliance with domestic or international labor standards, which may result in adverse publicity.

The United States may impose new initiatives that adversely affect the trading status of countries where apparel is manufactured. These initiatives may include retaliatory duties or other trade sanctions that, if enacted, would increase the cost of products imported from countries where our vendors acquire merchandise. Any of these factors could have a material adverse effect on our sales, revenues and results of operations.

The removal of import quotas on textiles and clothing in the future may adversely affect our merchandise supply, impact our sales and reduce our cash flows.

On January 1, 2005, in accordance with the World Trade Organization, or the WTO, Agreement on Textiles and Clothing, the import quotas on textiles and clothing manufactured by countries that are members of the WTO were eliminated. Subsequently, the United States and Europe experienced a surge of imported goods from China, a country that benefited from the removal of the quotas. In response, the United States initially implemented new quotas against various textile and apparel items from China and ultimately negotiated an agreement with the Chinese government. The agreement between the United States and China went into effect in November 2005 and will continue in effect through December 31, 2008. During that time, China has agreed to specified quota limits on most textile and apparel products, and the United States has agreed to use restraint in exercising its right to impose additional safeguards. Beginning in January 2009, the U.S.-China agreement and the quotas against Chinese apparel will expire. At that point, the United States would still have the ability to impose safeguards under the WTO Agreement on Textiles and Clothing although the requirements for doing so will be more stringent. The situation in 2009 potentially could be similar to the experience in 2005, with import surges and a cycle of safeguards and negotiations. This could create logistical delays in our ability to maintain required inventory levels and alter cost differentials between vendors that source domestically and vendors that source more extensively from overseas. We believe this could lower the cost of apparel products and thereby reduce our average dollar amount of sales per customer in our stores. Additionally, retaliatory trade actions could cause a disruption of the supply chain of products from foreign markets, difficulty in predicting accurately the prices of merchandise to be imported from a particular country and adverse effects on our merchandise supply, sales and cash flows.

We depend on the experience and expertise of our senior management team and key employees, and the loss of the services of R. Edward Anderson or George A. Bellino could have a material adverse effect on our business strategy, operating costs, financial condition and results of operations.

The success of our business is dependent upon the close supervision of all aspects of our business by our senior management, particularly the operation of our stores, the selection of our merchandise and the site selection for new stores. In addition, we do not have a non-competition agreement with R. Edward Anderson, our Chief Executive Officer, and our non-competition agreement with George A. Bellino, our President and Chief Merchandising Officer, will expire on December 31, 2006. Accordingly, they could leave us and begin to work for one of our competitors, and, if we lose the services of Mr. Anderson or Mr. Bellino, it could

have a material adverse effect on our business strategy, operating costs, financial condition and results of operations.

Failure to attract, train, assimilate and retain skilled personnel could have a material adverse effect on our growth strategy and our financial condition.

Like most retailers, we experience significant employee turnover rates, particularly among store sales associates and managers, and our continued growth will require us to hire and train even more new personnel. We therefore must continually 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 decrease our operating efficiency and productivity. If we are unable to retain our employees or attract, train, assimilate or retain other skilled personnel in the future, we may not be able to service our customers as effectively, thus reducing our ability to continue our growth and to operate our existing stores as profitably as we have in the past.

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

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

If legal proceedings to which we are a party result in an adverse judgment against us, it could have a material adverse effect on our business, financial condition and results of operations.

We are from time to time involved in various legal proceedings incidental to the conduct of our business. Such claims may be made by our customers, employees or former employees and could have a material adverse effect on our business, financial condition and results of operation. We are not currently aware of any legal proceedings pending or threatened against us that we expect to have a material adverse effect on our business, financial condition and results of operations.

Any failure of our management information systems or the inability of third parties to continue to upgrade and maintain the systems could have a material adverse effect on our business, financial condition and results of operations.

We depend on the accuracy, reliability and proper functioning of our management information systems, including systems used to track our sales and facilitate inventory management. We also rely on our management information systems for merchandise planning, replenishment and markdowns, and other key business functions. These functions enhance our ability to optimize sales while limiting markdowns and reducing inventory risk through properly marking down slow-selling styles, reordering existing styles and effectively distributing new inventory to our stores. We do not currently have redundant systems for all functions performed by our management information systems. Any interruption in these systems could impair our ability to manage our inventory effectively, which could have a material adverse effect on our business, financial condition and results of operations. To support our growth, we will need to expand our management information systems, and our failure to link and maintain these systems adequately could have a material adverse effect on our business, financial condition and results of operations.

We depend on third-party suppliers to maintain and periodically upgrade our management information systems, including the software programs supporting our inventory management functions. This software is

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

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

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

Risks Relating to this Offering of Common Stock

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

Our stock price is volatile. From our initial public offering in May 2005 through January 10, 2006, the trading price of our common stock has ranged from $14.00 to $44.90 per share. As a result of this volatility, investors may not be able to sell their common stock at or above their respective purchase prices. The market price for our common stock may be influenced by many factors, including:

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

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

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

Our current stockholders hold a substantial number of shares that they will be able to sell in the public market in the near future. As of January 4, 2006, 13,012,715 shares of our common stock were outstanding. As of January 4, 2006, 1,574,133 additional shares of our common stock were subject to outstanding stock options, of which 376,612 will be exercised by certain selling stockholders in connection with this offering. All of the shares sold in this offering and all of the shares issued and sold in our initial public offering, are freely tradeable, except for any shares acquired by holders who are subject to market stand-off provisions or

lock-up agreements entered into in connection with this offering, or by any of our “affiliates,” as that term is defined in Rule 144 promulgated under the Securities Act of 1933, as amended, which generally includes officers, directors and 10% or greater stockholders. The remaining 7,491,827 shares of our common stock held by existing stockholders are restricted shares, which may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rules 144 or 701 promulgated under the Securities Act of 1933, as amended. Sales of a significant portion of the shares of our common stock outstanding after this offering will continue to be restricted as a result of securities laws or contractual arrangements, including lock-up agreements entered into between our directors and officers and the representatives of the underwriters in this offering. These lock-up agreements restrict holders’ ability to transfer their stock for 90 days after the date of this prospectus. These lock-up agreements cover 7,579,884 fully diluted shares of our common stock. The managing underwriter may, however, waive the lock-up period at any time for any stockholder who is party to a lock-up agreement. Sales of a substantial number of shares of our common stock after this offering, or after the expiration or waiver of applicable lock-up periods, could cause our stock price to fall and/or impair our ability to raise capital through the sale of additional stock.

A significant amount of our common stock is concentrated in the hands of one of our existing stockholders whose interests may not coincide with yours.

Upon the completion of our initial public offering, Hampshire Equity Partners II, L.P. and certain of its affiliates, together Hampshire Equity Partners, owned, on a fully diluted basis, approximately 58% of our common stock and will own, on a fully diluted basis, approximately 46.0% of our common stock after this offering. As a result, Hampshire Equity Partners has an ability to exercise control over matters requiring stockholder approval. These matters include the election of directors and the approval of significant corporate transactions, including potential mergers, consolidations or sales of all or substantially all of our assets. Hampshire Equity Partners II, L.P. has one representative, our current Chairman of the Board, on our five member board of directors. In connection with our initial public offering, we entered into a nominating agreement with Hampshire Equity Partners II, L.P. pursuant to which we, acting through our nominating and corporate governance committee, agreed, subject to the requirements of our directors’ fiduciary duties, that (i) Hampshire Equity Partners II, L.P. is entitled to designate two directors to be nominated for election to our board of directors as long as Hampshire Equity Partners II, L.P. owns in the aggregate at least 40% of the shares of our common stock which it owned immediately prior to the consummation of our initial public offering or (ii) Hampshire Equity Partners II, L.P. is entitled to designate one director to be nominated for election to our board of directors as long as Hampshire Equity Partners II, L.P. owns in the aggregate less than 40% and at least 15% of the shares of our common stock which it owned immediately prior to the consummation of our initial public offering. If at any time Hampshire Equity Partners II, L.P. owns less than 15% of the shares of our common stock which it owned immediately prior to the consummation of our initial public offering, it will not have the right to nominate any directors for election to our board of directors. Your interests as a holder of the common stock may differ from the interests of Hampshire Equity Partners.

Securities analysts may not continue to cover our common stock or they may issue negative reports, and this may have a negative impact on the price of our common stock.

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

In addition, recently-adopted rules mandated by the Sarbanes-Oxley Act of 2002 and a global settlement with the Commission have caused a number of fundamental changes in how securities analysts are reviewed and compensated. In particular, many investment banking firms are now required to contract with independent

financial analysts for their stock research. In this environment, it may be difficult for companies with smaller market capitalizations, such as our company, to attract independent financial analysts to cover them, which could have a negative effect on the market price of our common stock.

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

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

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

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

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

Our costs have increased and may continue to increase as a result of being a public company, and complying with regulations applicable to public companies may adversely affect our business.

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the SEC and the Nasdaq National Market, have required changes in the corporate governance practices of public companies. We expect these new rules and regulations to increase significantly our legal and financial compliance costs and to make some activities more time-consuming and costly. For example, in connection with becoming a public company, we created additional board committees and adopted policies regarding internal controls and disclosure controls and procedures. In addition, we are in the process of evaluating our internal control structure in relation to Section 404 of the Sarbanes-Oxley Act and, pursuant to this section, we may be required to include management and auditor reports on internal controls over financial reporting as part of our annual report for the year ending fiscal 2006. We will incur additional costs in, and dedicate significant resources toward, complying with these requirements, which may divert management's attention from, and which may in turn adversely affect, our business. We also expect these new laws, rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these new laws, rules and regulations, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. The costs of compliance or our failure to comply with these laws, rules and regulations could adversely affect our financial condition, results of operation and the price of our common stock.

Special Note Regarding Forward-Looking Statements

We have made forward-looking statements in this prospectus, including in the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operation" and "Business." All statements other than historical facts contained in this prospectus, including statements regarding our future financial position, business policy and plans and objectives of management for future operations, are forward-looking statements. The words "believe," "may," "could," "estimate," "continue," "anticipate," "intend," "expect" and similar expressions, as they relate to us, are intended to identify forward-looking statements. For example, our statements to the effect that we intend to open a specified number of new stores, our expectations regarding our net sales for the months of November and December, our expectations of comparable store sales increases for the four-week period ended November 26, 2005 and the five-week period ended December 31, 2005 and our expectations of comparable store sales increases in markets not affected by Hurricanes Katrina, Rita and Wilma for the same periods, that we intend to increase comparable store sales and our expectations as to the effects of our adoption of SFAS 123R on our compensation costs, constitute forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events, including, among other things:

- implementation of our growth strategy;
- our ability to anticipate and respond to fashion trends;
- competition in our markets;
- consumer spending patterns;
- actions of our competitors or anchor tenants in the strip shopping centers where our stores are located;
- anticipated fluctuations in our operating results; and
- economic conditions in general, and the recovery of local economies in areas impacted by Hurricanes Katrina, Rita and Wilma.

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

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

Use of Proceeds

The selling stockholders will receive all of the net proceeds from the sale of shares of our common stock offered by this prospectus. We will not receive any of the proceeds from the sale of shares of common stock offered by this prospectus.

Price Range of Our Common Stock

Our common stock has been quoted on the Nasdaq National Market under the symbol “CTRN” since our initial public offering on May 17, 2005. The following table shows the high and low per share prices or our common stock for the periods indicated.

Fiscal 2005	High	Low
Second Quarter (beginning May 17, 2005)	$28.40	$14.00
Third Quarter	30.00	20.20
Fourth Quarter (through January 10, 2006)	44.90	27.54

On January 10, 2006, the last reported sale price of our common stock on the Nasdaq National Market was $43.00 per share. On January 10, 2006, there were six holders of record of our common stock.

Dividend Policy

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

Capitalization

The table below sets forth our cash and cash equivalents and our capitalization as of October 29, 2005. You should read this information together with the sections of this prospectus entitled "Selected Financial and Operating Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes appearing elsewhere in this prospectus.

	As of October 29, 2005 (unaudited) (in thousands, except share and per share amounts)
Cash and cash equivalents	$ 9,371
Capital lease obligations (including current portion)	$ 1,289
Stockholders' equity:	
Common stock, $.01 par value per share, 20,000,000 shares authorized, 13,034,270 issued and 12,868,520 outstanding	130
Additional paid-in capital	46,720
Retained earnings	26,107
Treasury stock	(165)
Total stockholders' equity	72,793
Total capitalization	$74,082

Selected Financial and Operating Data

The following table provides selected financial and operating data for each of the fiscal years in the five-year period ended January 29, 2005 and for the nine months ended October 29, 2005 and October 30, 2004, including: (a) our statement of income data for each such period, (b) additional operating data for each such period and (c) our balance sheet data as of the end of each such period. The statement of income data for fiscal 2002, fiscal 2003 and fiscal 2004, and the balance sheet data as of January 31, 2004 and January 29, 2005 are derived from our audited financial statements included elsewhere in this prospectus that have been audited by KPMG LLP, an independent registered public accounting firm. The statement of income data for fiscal 2000 and fiscal 2001 and the balance sheet data as of January 29, 2000, February 3, 2001, February 2, 2002 and February 1, 2003 are derived from our audited financial statements that are not included in this prospectus. We have also included data for the nine months ended October 30, 2004 and October 29, 2005 from our unaudited condensed interim financial statements included elsewhere in this prospectus. The unaudited condensed financial statements for the nine months ended October 29, 2005 and October 30, 2004 have been prepared on the same basis as our audited financial statements and include, in the opinion of management, all adjustments, consisting of normal recurring accruals that management considers necessary for a fair presentation of the financial information set forth in those statements. Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire period. The selected financial and operating data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the section of this prospectus entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes included elsewhere in this prospectus. Historical results are not necessarily indicative of results to be expected for any future period.

	Fiscal Year Ended[1]					Nine Months Ended	
	February 3, 2001	February 2, 2002	February 1, 2003	January 31, 2004	January 29, 2005	October 30, 2004	October 29, 2005
	(dollars in thousands, except per share amounts)					(unaudited)	
Statement of Income Data:							
Net sales	$ 80,939	$ 97,933	$ 124,951	$ 157,198	$ 203,442	$ 137,129	$ 192,961
Cost of sales	51,762	62,050	77,807	98,145	127,308	86,288	119,039
Gross profit	29,177	35,883	47,144	59,053	76,134	50,841	73,922
Selling, general and administrative expenses	26,834	31,405	38,760	48,845	63,594	46,440	64,281
Income from operations	2,343	4,478	8,385	10,208	12,540	4,401	9,641
Interest expense (income), net [2]	787	455	256	563	732	557	(197)
Income before income taxes	1,556	4,023	8,129	9,645	11,808	3,844	9,838
Provision for income taxes	358	1,566	3,101	3,727	4,551	1,480	3,560
Net income	$ 1,198	$ 2,457	$ 5,028	$ 5,918	$ 7,257	$ 2,364	$ 6,278
Net income per common share:							
Basic	$ 0.09	$ 0.23	$ 0.51	$ 0.62	$ 0.78	$ 0.25	$ 0.55
Diluted	$ 0.09	$ 0.22	$ 0.44	$ 0.54	$ 0.67	$ 0.22	$ 0.49
Weighted average shares used to compute net income per share:							
Basic	9,269,000	9,219,167	9,295,000	9,295,000	9,302,800	9,305,400	11,348,502
Diluted	9,269,000	9,791,999	10,757,110	10,771,410	10,879,388	10,945,038	12,847,419
Additional Operating Data:							
Number of stores:							
Opened during period	23	12	16	25	40	35	26
Closed during period	—	4	2	1	1	1	0[3]
Open at end of period	115	123	137	161	200	195	226[4]
Selling square footage at end of period	786,534	891,843	1,043,713	1,290,039	1,715,943	1,663,597	2,017,014
Comparable store sales increase [5]	17.6%	6.5%	14.6%	5.7%	3.0%	2.3%	14.1%[6]
Average sales per store[7]	$ 782	$ 823	$ 961	$ 1,055	$ 1,127	$ 770	$ 906
Balance Sheet Data:							
Cash and cash equivalents	$ 1,496	$ 4,098	$ 5,825	$ 9,954	$ 11,801	$ 2,156	$ 9,371
Total assets	25,023	29,733	36,127	49,213	70,790	63,825	125,378
Total liabilities	21,552	23,997	25,529	32,709	47,025	44,966	52,585
Total stockholders’ equity	3,471	5,736	10,598	16,504	23,765	18,859	72,793

(footnotes on following page)

(1) Our fiscal year ends on the Saturday closest to January 31 of each year. Fiscal years 2001, 2002, 2003 and 2004 comprise 52 weeks. Fiscal year 2000 comprises 53 weeks.

(2) Our Series A Preferred Stock, which was redeemed using a portion of the net proceeds from our initial public offering, was reclassified as debt as of the second quarter of fiscal 2003, in accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The amount of dividends treated as interest expense was $100,000 for the nine months ended October 29, 2005, $324,450 in fiscal 2004, $189,000 in fiscal 2003 and none in fiscal 2002.

(3) Stores closed for one or more days due to Hurricanes Katrina, Rita and Wilma are not included in this item.

(4) The number of stores open at the end of the period includes four stores closed as of October 29, 2005, as a result of the Hurricanes Katrina, Rita and Wilma, two of which have since been re-opened.

(5) 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.

(6) This data includes the positive impact of positive sales as a result of Hurricanes Katrina, Rita and Wilma during the months of September and October.

(7) Average sales per store is defined as net sales divided by the average of stores open at the end of the prior period and stores open at the end of the current period.

Table of Contents

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

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

Overview

We are a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. Our merchandise offerings are designed to appeal to the preferences of fashion conscious consumers, particularly African-Americans. Originally our stores were located in the Southeast, and during late fiscal 2004 and fiscal 2005 we expanded into the Mid-Atlantic region, the Midwest and Texas. We operate 236 stores in both urban and rural markets in fourteen states, with two stores still closed due to Hurricanes Katrina, Rita and Wilma.

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

During the third quarter of fiscal 2005, our comparable store sales have benefited from additional customer purchases that we believe are related to Hurricanes Katrina, Rita and Wilma. These hurricanes caused extensive damage to areas of the Gulf Coast of the United States and impacted some of our stores in Alabama, Florida, Mississippi, Louisiana and Texas. Thirty-eight of our stores were closed for one or more days due to the hurricanes. Two existing stores have not reopened as of January 4, 2006. In addition, one store scheduled to open in September 2005 was heavily damaged by Hurricane Katrina and remains unopened. In regions impacted by the hurricanes, however, the subsequent sales from the stores that we have reopened, as well as sales from stores located nearby, have more than offset the sales lost on the days the stores affected were closed, positively impacting our comparable store sales. We believe, however, that sales increases in our stores located in markets directly affected by the hurricanes and in contiguous markets resulted directly from aid distributed to our customers and the need for our customers to replace lost or damaged clothing and other items. These sales increases have begun to dissipate. We anticipate that the magnitude of these increases will continue to diminish over time and that we will not continue to increase or maintain our sales or comparable store sales at the levels achieved in the months of September, October, November and December in fiscal 2005.

On May 18, 2005, we completed our initial public offering, in which we issued and sold 2,700,000 shares of our common stock and certain selling stockholders sold 1,150,000 shares of our common stock, at $14.00 per share. In addition, we received notice on May 27, 2005, that the underwriters had exercised the over-allotment option granted in connection with our initial public offering, pursuant to which we issued and sold an additional 577,500 shares on June 1, 2005. We received gross proceeds of approximately $45.9 million and

incurred approximately $4.8 million in expenses in connection with the initial public offering and over-allotment option, for net proceeds of approximately $41.1 million. We did not receive any proceeds from the sale of the shares by the selling stockholders in the initial public offering.

We are continuing to pursue an aggressive store growth strategy and believe that the addition of new stores will be the primary source of future growth. In fiscal 2003 and fiscal 2004, we opened 25 and 40 stores, respectively. During this period, we entered the Baltimore, Houston, Norfolk and Washington, D.C. markets, where we opened a total of 15 new stores. We have continued to expand in fiscal 2005, opening 36 new stores thus far with no additional openings planned and entering the Cincinnati, Dallas, Louisville and Miami markets. We expect to open 42 to 45 new stores in fiscal 2006. Approximately 90% of the new stores we intend to open in fiscal 2006 will be located in states that we currently serve.

Our new store expansion is fueled by store economics that we believe to be very attractive. From an investment perspective, we seek to design stores that are inviting and easy to shop, while limiting start up and fixturing costs. We also have relatively low store operating costs. Our real estate approach is focused on strip shopping center sites within low to moderate income neighborhoods, and we generally utilize previously occupied store sites rather than newly constructed sites. As a result, we are usually able to secure sites with substantial customer traffic at attractive lease terms. Our ongoing advertising expenses are also low, with a significant amount of advertising focused on new store openings.

Our stores generate rapid payback of investment. The average investment for the 65 stores opened in fiscal 2003 and fiscal 2004, including leasehold improvements, equipment, fixturing, cost of inventory to stock the store (net of accounts payables), and pre-opening store expenses, was approximately $280,000. These 65 stores generated average sales of $1.4 million and average store operating profit (defined as store operating revenues less cost of sales and store operating expenses which is comprised of payroll, occupancy, advertising and other operating costs) of approximately $230,000 during their first 12 months of operation.

We measure our performance using key operating statistics. One of our main performance measures is comparable store sales growth. We define a comparable store as a store that has been open for an entire fiscal year. Therefore, a store will not be considered a comparable store until its 13th month of operation at the earliest or its 24th month at the latest. As an example, all stores opened in fiscal 2003 and fiscal 2004 were not considered comparable stores in fiscal 2004. Relocated and expanded stores are included in the comparable store sales results. We also use other operating statistics, most notably average sales per store. As we typically occupy existing space in established shopping centers rather than sites built specifically for our stores, our store square footage (and therefore sales per square foot) varies by store. We focus on the overall store sales volume as the critical driver of profitability. Our average sales per store has increased as we have driven comparable store sales and opened new stores which are generally larger than our existing stores. Our average sales per store have increased from $0.8 million in fiscal 2000 to $1.1 million in fiscal 2004, and from $770,000 in the nine months ended October 30, 2004 to $906,000 in the nine months ended October 29, 2005. In addition to sales, we measure gross margin percentage and store operating expenses, with a particular focus on labor as a percentage of sales. These results translate into store level contribution, which we use to evaluate overall performance of each individual store. Finally, we monitor corporate expenses against budgeted amounts.

In October 2005, we purchased an approximately 286,500 square foot distribution center in Darlington, South Carolina that is situated on 90 acres of land. To date we have paid approximately $1.6 million of the $3 million to $4 million in total we expect to spend on acquisition costs and for capital improvements necessary to prepare the location for full operation. We began receiving and processing shipments from this new distribution location in the fourth quarter of fiscal 2005. We expect this facility, together with our two locations in Savannah, to provide us the capacity to double our existing sales volume.

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

In December 2004, the FASB issued a revision to SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123R replaces SFAS No. 123 and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. The impact of adopting SFAS No. 123R will be dependent on numerous factors including, but not limited to, the valuation model chosen by us to value stock-based awards, the assumed award forfeiture rate, the accounting policies adopted concerning the method of recognizing the fair value of awards over the requisite service period and the transition method chosen for adopting SFAS No. 123R. We have preliminarily estimated the effects of adoption of SFAS No. 123R will result in an additional compensation expense of $1.0 million to $1.5 million in fiscal 2006 and a yet to be determined additional compensation expense in fiscal 2007.

We are documenting and testing our internal control procedures in order to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires annual management assessments of the effectiveness of our internal controls over financial reporting and reports by our independent auditors. We may be required to comply with Section 404 as early as the time we file our annual report for fiscal 2006 with the Commission. During this time period specific internal controls may be identified as being deficient. We plan to remediate any identified deficiencies and comply with our Section 404 obligations before the deadline.

Basis of the Presentation

Net sales consist of store sales, net of returns by customers, and layaway fees. Cost of sales consists of the cost of products we sell and associated freight costs. Selling, general and administrative expense is comprised of store costs, including salaries and store occupancy costs, handling costs, corporate and distribution center costs and advertising costs. We operate on a 52- or 53-week fiscal year, which ends on the Saturday closest to January 31. Each of our fiscal quarters consists of four 13-week periods, with an extra week added on to the fourth quarter every five to six years. Our last three fiscal years ended on February 1, 2003, January 31, 2004 and January 29, 2005 and each included 52 weeks.

Results of Operations

The following discussion of our financial performance is based on the condensed financial statements set forth elsewhere in this prospectus. 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.

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

	Fiscal Year Ended						Thirty-Nine Weeks Ended			
	February 1, 2003		January 31, 2004		January 29, 2005		October 30, 2004		October 29, 2005	
	(dollars in thousands)						(unaudited)			
Statement of Income Data										
Net sales	$124,951	100.0%	$157,198	100.0%	$203,442	100.0%	$137,129	100%	$192,961	100%
Cost of sales	77,807	62.3	98,145	62.4	127,308	62.6	86,288	62.9	119,039	61.7
Gross profit	47,144	37.7	59,053	37.6	76,134	37.4	50,841	37.1	73,922	38.3
Selling, general and administrative expenses	38,760	31.0	48,845	31.1	63,594	31.3	46,440	33.9	64,281	33.3
Income from operations	8,385	6.7	10,208	6.5	12,540	6.1	4,401	3.2	9,641	5.0
Interest expense (income), net	256	0.2	563	0.4	732	0.3	557	0.4	(197)	(0.1)
Income before income taxes	8,129	6.5	9,645	6.1	11,808	5.8	3,844	2.8	9,838	5.1
Provision for income taxes	3,101	2.5	3,727	2.4	4,551	2.2	1,480	1.1	3,560	1.8
Net income	$ 5,028	4.0%	$ 5,918	3.8%	$ 7,257	3.6%	$ 2,364	1.7%	$ 6,278	3.3%

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

	Fiscal Year Ended			Thirty-Nine Weeks Ended	
	February 1, 2003	January 31, 2004	January 29, 2005	October 30, 2004	October 29, 2005
Total stores open, beginning of period	123	137	161	161	200
New stores	16	25	40	35	26
Closed stores	2	1	1	1	0(1)
Total stores open, end of period	137	161	200	195	226(2)
Comparable store sales increase(3)	14.6%	5.7%	3.0%	2.3%	14.1%

(1) Stores closed for one or more days due to Hurricanes Katrina, Rita and Wilma are not included in this item.

(2) The number of stores open at the end of the period includes four stores closed as of October 29, 2005, as a result of Hurricanes Katrina, Rita and Wilma, two of which have since been re-opened.

(3) 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.

Thirty-Nine Weeks Ended October 29, 2005 Compared to Thirty-Nine Weeks Ended October 30, 2004

Net Sales. Net sales increased $55.8 million, or 40.7%, to $193.0 million for the thirty-nine weeks ended October 29, 2005 from $137.1 million in the thirty-nine weeks ended October 30, 2004. The increase in net sales was primarily due to 31 new store openings since October 30, 2004 and a comparable store sales increase of 14.1% for the thirty-nine weeks ended October 29, 2005 compared to the thirty-nine weeks ended October 30, 2004. The 31 stores opened since October 30, 2004 accounted for $21.6 million of the total increase in sales, the 35 stores opened between February 1, 2004 and October 30, 2004 accounted for $17.3 million and the 158 comparable stores contributed $16.9 million of the increase in sales. Four stores were expanded and/or relocated since October 30, 2004, all of which, occurred in the thirty-nine weeks ended October 29, 2005. The increase in comparable store sales was primarily from an increase in customer transactions which was due in part to improved sales trends from the increasing consumer preference for branded goods. Comparable store sales for the thirty-nine weeks ended October 29, 2005 also were positively impacted by post-hurricane sales in September and October. Federal Emergency Management Act vouchers and other one-time assistance enabled many of our customers to purchase sizeable amounts of apparel and

other items to replace what had been lost. While the hurricanes have had a negative effect on us by causing 38 stores to be closed for one day or more during the thirty-nine weeks ended October 29, 2005, the subsequent sales increases after the stores have reopened has more than offset the sales missed on those lost days. Stores located in areas contiguous to the stores affected directly by the hurricanes have also shown a dramatic increase in their sales for the thirty-nine weeks ended October 29, 2005. We believe that sales increases in our stores located in markets directly affected by the hurricanes and in contiguous markets resulted directly from aid distributed to our customers and the need for our customers to replace lost or damaged clothing and other items. These sales increases have begun to dissipate. We anticipate that the magnitude of these increases will continue to diminish in the thirteen weeks ended January 28, 2006, and that we will not continue to increase or maintain our sales at the levels achieved in the months of September, October, November and December in fiscal 2005.

Gross Profit. Gross profit increased $23.1 million, or 45.4%, to $73.9 million in the thirty-nine weeks ended October 29, 2005 from $50.8 million in the thirty-nine weeks ended October 30, 2004. The increase in gross profit is primarily a result of the strong sales increases. As a percentage of net sales, gross profit increased to 38.3% in the thirty-nine weeks ended October 29, 2005 from 37.1% in the thirty-nine weeks ended October 30, 2004. This increase, as a percentage of net sales, was primarily due to reduced markdown rates which was a result of well balanced inventories and strong sales increases in the thirty-nine weeks ended October 29, 2005 compared to the thirty-nine weeks ended October 30, 2004.

Selling, General and Administrative Expense. Selling, general and administrative expenses increased $17.8 million, or 38.4%, to $64.3 million in the thirty-nine weeks ended October 29, 2005 from $46.4 million in the thirty-nine weeks ended October 30, 2004. The increase in these expenses was due primarily to additional store level, distribution and corporate costs arising from the opening of 31 new stores since October 30, 2004, the payment of a $1.2 million fee to terminate the consulting agreement with Hampshire Equity Partners II, L.P. and property losses from Hurricanes Katrina, Rita and Wilma, which we anticipate will total approximately $700,000 net of insurance recoveries in the thirty-nine weeks ended October 29, 2005. Selling, general and administrative costs increased additionally due to costs associated with being a public company of approximately $700,000. Selling, general and administrative expense as a percentage of net sales decreased to 33.3% in the thirty-nine weeks ended October 29, 2005 from 33.9% in the thirty-nine weeks ended October 30, 2004. The decrease as a percentage of net sales was primarily due to our strong comparable sales growth and the fixed nature of the selling, general and administrative expenses. In addition, this decrease is in part due to a prior year charge in the thirty-nine weeks ended October 30, 2004 of approximately $300,000 for additional vacation pay accrual pursuant to a change in our vacation policy.

Interest Income. Interest income increased to approximately $499,000 in the thirty-nine weeks ended October 29, 2005 from approximately $16,700 in the thirty-nine weeks ended October 30, 2004. The increase in interest income was due primarily to interest income earned on proceeds from our initial public offering.

Interest Expense. Interest expense decreased 47.4% to approximately $302,000 in the thirty-nine weeks ended October 29, 2005 from approximately $574,000 in the thirty-nine weeks ended October 30, 2004. The decrease in interest expense was due primarily to the redemption of our preferred shares subject to mandatory redemption, the absence of any borrowings under the line of credit and repaying in full our mortgage on the Fahm Street headquarters and distribution center.

Provision for Income Taxes. The provision for income taxes increased to approximately $3.6 million in the thirty-nine weeks ended October 29, 2005 from $1.5 million in the thirty-nine weeks ended October 30, 2004. The effective income tax rates for fiscal 2005 and fiscal 2004 were 36.2%, and 38.5%, respectively. The tax rate decreased in fiscal 2005 as a result of tax exempt investments, a qualification to utilize job tax credits and a reduction in non-deductible preferred stock dividends.

Net Income. Net income increased 165.6% to $6.3 million in the thirty-nine weeks ended October 29, 2005 from $2.4 million in the thirty-nine weeks ended October 30, 2004. The increase in net income was due to the factors discussed previously.

Fiscal 2004 Compared to Fiscal 2003

Net Sales. Net sales increased $46.2 million, or 29.4%, to $203.4 million for fiscal 2004 from $157.2 million for fiscal 2003. The increase resulted primarily from net sales of $63.2 million in fiscal 2004 from stores opened during fiscal 2004 and fiscal 2003 as compared to net sales of $20.9 million in fiscal 2003 from stores opened in fiscal 2003. In addition, the increase was due to a comparable store sales increase of $4.0 million, or 3.0%. The increase in comparable store sales resulted, in part, from an increase in the number of customer transactions and average items per sale, partially offset by a decrease in the average price of an item sold. Remodeled and relocated stores accounted for less of the growth of comparable store sales in fiscal 2004 (only about 0.3% of the 3% growth) due to fewer stores being relocated and remodeled during the year.

Gross Profit. Gross profit increased $17.1 million, or 28.9%, to $76.1 million for fiscal 2004 from $59.1 million for fiscal 2003. The increase resulted primarily from the operation of new stores opened in fiscal 2004 and the full period impact of new stores opened during fiscal 2003, partially offset by a decrease in gross profit margin. Gross profit as a percentage of sales was 37.4% for fiscal 2004 compared to 37.6% for fiscal 2003. Gross margins decreased as a result of higher inbound and outbound freight costs primarily due to fuel surcharges. Our gross margins may not be comparable to other retailers as we include distribution center, advertising and promotional costs in our selling, general and administrative expenses, while certain other retailers deduct these costs directly from their gross margin.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $14.7 million, or 30.2%, to $63.6 million for fiscal 2004 from $48.8 million for fiscal 2003. This increase was caused primarily by store level, distribution and corporate costs associated with the growing store base and the full period impact of new stores opened in fiscal 2003. As a percentage of net sales, selling, general and administrative expenses increased to 31.3% for fiscal 2004 from 31.1% for fiscal 2003. The increase was partially driven by approximately $360,000 of additional vacation pay accrual pursuant to a change in our vacation policy.

Interest Expense. Interest expense increased approximately $169,000 for fiscal 2004 to approximately $732,000 compared to approximately $563,000 for fiscal 2003. The increase was primarily the result of the adoption of SFAS No. 150, which increased interest expense by the inclusion of dividends on mandatory redeemable obligations that were previously deducted from equity as dividends, and increased borrowings related to the cost of new stores during the period, inclusive of inventory. We adopted SFAS No. 150 on July 6, 2003, and dividends treated as interest expense in fiscal 2004 and fiscal 2003 were approximately $324,000 and approximately $189,000, respectively.

Provision for Income Taxes. The provision for income taxes increased approximately $824,000 for fiscal 2004 to $4.6 million compared to $3.7 million for fiscal 2003. Our effective tax rate was 38.5% and 38.6% for fiscal 2004 and fiscal 2003, respectively.

Net Income. Net income increased to $7.3 million for fiscal 2004 from $5.9 million as a result of the factors discussed above.

Fiscal 2003 Compared to Fiscal 2002

Net Sales. Net sales increased $32.2 million, or 25.8%, to $157.2 million for fiscal 2003 from $125.0 million for fiscal 2002. The increase resulted primarily from net sales of $38.6 million in fiscal 2003 from stores opened during fiscal 2003 and fiscal 2002 as compared to net sales of $10.8 million in fiscal 2002 from stores opened in fiscal 2002. In addition, the increase was due to a comparable store sales increase of $6.1 million, or 5.7%. The increase in comparable store sales resulted, in part, from an increase in the number of customer transactions and average items per sale, partially offset by a decrease in average price of an item sold. In addition, in fiscal 2002, we took over shoe operations in our stores from a third party licensee that had previously managed the shoe merchandise and paid us a commission on sales. As a result of this purchase, we recognized shoe sales as part of net sales (amounting to $3.8 million in fiscal 2003) instead

of recognizing only the commissions as an increase to operating income. The increase in comparable store sales in fiscal 2003 benefited from the full year impact of this change. The increase was also caused by the impact of increased sales from stores that were relocated and remodeled during the two-year period, with such stores accounting for approximately one-third of the 5.7% comparable store sales increase.

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

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

Interest Expense. Interest expense increased approximately $308,000 for fiscal 2003 to approximately $563,000, compared to approximately $256,000 for fiscal 2002. The increase was primarily the result of our adoption of SFAS No. 150, which increased interest expense by the inclusion of dividends on mandatory redeemable obligations that were previously deducted from equity as dividends, increased borrowings related to the costs of opening new stores during the year, and the full year impact of the purchase of, and mortgage on, the office and distribution facility in Savannah, Georgia. The amount of dividends treated as interest expense in fiscal 2003 was approximately $189,000 and none in fiscal 2002.

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

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

Quarterly Results of Operations

The following table sets forth our unaudited quarterly results of operations for fiscal 2003 and fiscal 2004 and the thirty-nine weeks ended October 29, 2005. Each quarterly period presented below consists of 13 weeks, and the information includes our statement of income data for each such period and additional operating data for each such period. In the opinion of management, these unaudited interim financial data have been prepared on the same basis as the audited financial statements and reflect all adjustments (consisting only of normal recurring adjustments) and fairly present the financial information disclosed for these periods. The interim financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the audited financial statements and related notes included elsewhere in this prospectus. The results of operations for historical periods are not necessarily indicative of results for any future period.

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

Our quarterly results of operations also may fluctuate based upon such factors as the timing of holiday seasons, the number and timing of new store openings, the amount of store preopening expenses, the amount of net sales contributed by new and existing stores, the mix of products sold, the timing and level of

markdowns, store closings, remodels and relocations, competitive factors, weather and general economic conditions.

	May 3, 2003	Aug. 2, 2004	Nov. 1, 2003	Jan. 31, 2004	May 1, 2004	July 31, 2004	Oct. 30, 2004	Jan. 29, 2005	Apr. 30, 2005	July 30, 2005	Oct. 29, 2005
	(dollars in thousands, except per share amounts; unaudited)										
Statement of Income Data:											
Net sales	$ 37,575	$ 34,209	$ 36,168	$ 49,246	$ 48,069	$ 43,011	$ 46,049	$ 66,313	$ 63,616	$ 59,449	$ 69,895
Cost of sales	22,023	22,452	22,991	30,679	29,034	28,095	29,159	41,020	38,482	37,682	42,873
Gross profit	15,552	11,757	13,177	18,567	19,035	14,916	16,890	25,293	25,134	21,767	27,022
Selling, general and administrative expenses	11,719	11,655	12,558	12,913	15,221	14,806	16,413	17,154	19,758	21,271	23,252
Income from operations	3,833	102	619	5,654	3,814	110	477	8,139	5,376	496	3,770
Interest expense (income), net	57	98	160	248	173	176	208	175	111	(55)	(252)
Earnings (loss) before income taxes	3,776	4	459	5,406	3,641	(66)	269	7,964	5,265	551	4,022
Income tax expense (benefit)	1,459	1	177	2,090	1,402	(25)	104	3,070	2,000	170	1,390
Net income (loss)	$ 2,317	$ 2	$ 282	$ 3,316	$ 2,239	$ (41)	$ 165	$ 4,894	$ 3,265	$ 381	$ 2,632
Net income (loss) per common share:											
Basic	$ 0.24	$ (0.01)	$ 0.03	$ 0.36	$ 0.24	$ (0.00)	$ 0.02	$ 0.53	$ 0.35	$ 0.03	$ 0.21
Diluted	$ 0.21	$ (0.00)	$ 0.03	$ 0.31	$ 0.21	$ (0.00)	$ 0.02	$ 0.45	$ 0.30	$ 0.03	$ 0.18
Weighted average shares used to compute net income per share:											
Basic	9,295,000	9,295,000	9,295,000	9,295,000	9,305,400	9,310,600	9,300,200	9,295,000	9,295,000	11,925,307	12,825,199
Diluted	10,814,502	10,794,447	10,810,836	10,834,839	10,867,016	10,875,182	10,864,496	10,902,736	10,986,959	13,587,400	14,379,974
Additional Operating Data:											
Number of stores:											
Open, beginning of quarter	137	147	154	159	161	178	182	195	200	214	221
Opened during quarter	10	7	6	2	17	5	13	5	14	7	5
Closed during quarter(1)	—	—	—	—	—	1	—	—	—	—	—
Total open at end of period(2)	147	154	159	161	178	182	195	200	214	221	226
Comparable store sales Increase(3)	3.2%	5.6%	9.6%	5.2%	3.5%	0.3%	3.0%	4.6%	6.9%	11.5%	25.0%(4)

(1) Stores closed for one or more days due to Hurricanes Katrina, Rita and Wilma are not included in this item.
(2) The number of stores open at the end of the period includes four stores closed as of October 29, 2005, as a result of Hurricanes Katrina, Rita and Wilma, two of which have since been re-opened.
(3) 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.
(4) Comparable store sales in this period benefited from strong sales in hurricane affected areas. Comparable store sales in areas not affected by the hurricanes were approximately 18.1% for the period.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, construction of new stores, remodeling of existing stores and the improvement of our information systems. Prior to the initial public offering, these cash requirements had been met from cash flow from operations, short-term trade credit and borrowings under our revolving lines of credit, long-term debt and capital leases.

On May 18, 2005, we completed our initial public offering of our common stock, as a result of which we issued and sold 2,700,000 shares of common stock at $14.00 per share. In addition, we received notice on May 27, 2005, that the underwriters had exercised the over-allotment option, pursuant to which we issued and sold an additional 577,500 shares on June 1, 2005. Upon completing the offering and the over-allotment option granted in connection with our initial public offering, we received gross proceeds of approximately $45.9 million and incurred approximately $4.8 million in expenses in connection with our initial public offering, for net proceeds of approximately $41.1 million. In addition, 1,150,000 shares of common stock were sold in our initial public offering by certain of our selling stockholders, for which we received no proceeds. As a result, upon the closing of the offering, there were 12,602,154 shares of common stock outstanding.

Following the closing of our initial public offering on May 23, 2005, each of our 3,605 shares of mandatory redeemable preferred stock were redeemed and extinguished for approximately $3.6 million, and we repaid in full our mortgage on the Fahm Street headquarters and distribution center in the amount of approximately $1.5 million.

Using a portion of the proceeds from our initial public offering and cash flow from operations, we purchased a distribution center in Darlington, South Carolina in the thirteen weeks ending October 29, 2005.

Discussion of Cash Flows

Thirty-Nine Weeks Ended October 29, 2005 and October 30, 2004

At October 29, 2005, we had total cash, cash equivalents and marketable securities of $42.0 million compared with total cash and cash equivalents of $11.8 million at January 29, 2005. The most significant factors in the change in our net liquidity position during the first thirty-nine weeks of 2005 were the proceeds from our initial public offering, positive net income from operations adjusted for depreciation and other non-cash charges, offset by the purchase of additional inventory and capital expenditures to open new stores and purchase our distribution center in Darlington, South Carolina.

Inventory represented approximately 43% of our total assets as of October 29, 2005. 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 somewhat seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise.

Cash Flows Provided by (Used in) Operating Activities. Net cash provided by (used in) operating activities was $3.1 million in the thirty-nine weeks ended October 29, 2005 compared to ($5.3) million in the thirty-nine weeks ended October 30, 2004. The main sources of cash provided during the thirty-nine weeks ended October 29, 2005 was net income adjusted for depreciation and other non-cash charges of $12.3 million, increases in accrued expenses of $2.6 million, increases in accrued compensation of $2.5 million and deposits taken on layaway transactions of $1.2 million. Uses of cash consisted of the net increase in net inventory of $11.1 million, a $3.7 million change in the net income tax receivable/payable, and an approximately $580,000 increase in prepaid assets and other current assets related to insurance receivables for property damages from Hurricanes Katrina, Rita and Wilma.

Cash Flows Used in Investing Activities. Cash used in investing activities was $41.0 million in the thirty-nine weeks ended October 29, 2005 compared to $6.2 million in the thirty-nine weeks ended October 30, 2004. Net cash used in investing activities increased during the thirty-nine weeks ended October 29, 2005 compared to the thirty-nine weeks ended October 30, 2004 primarily because of the investment of $32.6 million of cash proceeds from the IPO in municipal auction rate securities. We also made capital expenditures in the amount of $8.9 million in the thirty-nine weeks ended October 29, 2005 for the purchase of the distribution center in Darlington, South Carolina, purchase of property and equipment for the build out of 26 new stores, four relocations and remodels, and other general corporate purposes compared to $6.9 million in the thirty-nine weeks ended October 30, 2004 used for the purchase of property and equipment for the build out of 35 new stores, three relocations and remodels and other general corporate purposes. Approximately $988,000 of our capital expenditures on new stores in the thirty-nine weeks ended October 29, 2005 will be reimbursed to us by the landlords of the leased properties. These tenant improvement dollars will be amortized over the life of the individual store's lease as a reduction to occupancy expense.

Cash Flows Provided by Financing Activities. Cash provided by financing activities was $35.5 million in the thirty-nine weeks ended October 29, 2005 and $3.8 million in the thirty-nine weeks ended October 30, 2004. Financing activities in the thirty-nine weeks ended October 29, 2005 included the receipt of $41.3 million from the initial public offering and subsequent option exercises by employees, payment of $3.6 million redeeming the preferred shares subject to mandatory redemption, the $1.5 million payoff of the mortgage on the Fahm Street headquarters and distribution center and scheduled repayments of approximately $758,000 on outstanding capital leases.

Fiscal 2004 and Fiscal 2003

For fiscal 2004, cash and cash equivalents increased by $1.8 million to $11.8 million from $10.0 million at the end of fiscal 2003. The primary contributor to the increase in cash and cash equivalents was $12.7 million provided by operating activities, partially offset by $8.6 million used in investing activities, primarily to open new stores, and $2.2 million used in financing activities, primarily to make dividend payments to holders of mandatory redeemable stock and repayment on long-term debt and capital lease obligations.

For fiscal 2003, cash and cash equivalents increased by $4.2 million to $10.0 million from $5.8 million at the end of fiscal 2002. The primary contributor to the increase in cash and cash equivalents was $11.2 million of cash provided by operations, partially offset by $6.1 million used in investing activities, primarily to open new stores.

Net cash provided by operating activities was $12.7 million for fiscal 2004 and $11.2 million for fiscal 2003. Net cash provided by operating activities increased in fiscal 2004 attributable to net income of $7.3 million, depreciation, amortization and other non-cash charges of $5.2 million and approximately $155,000 provided by net operating assets and liabilities. Cash flow from net operating assets and liabilities in fiscal 2004 was largely attributable to the investment in inventory, net of accounts payable, offset by the increase in accrued expenses and income tax payable. In fiscal 2004 this change in net inventory position (inventory less accounts payable) resulted in a use of cash of $4.9 million. The change in net inventory position in fiscal 2004 reflects the opening of 40 stores and an increase in inventory levels in preparation for a mid-March Easter season in fiscal 2005. Accrued expenses increased $2.8 million due to additional accruals for rent and landlord allowances, sales taxes, freight, professional fees and other expenses. Income tax payable increased $2.1 million due to our change of method of paying installments on income tax.

Net cash used in investing activities was $8.6 million for fiscal 2004, and $6.1 million for fiscal 2003. Net cash used in investing activities increased in fiscal 2004 compared to fiscal 2003 because we purchased additional property and equipment to open 40 new stores compared to 25 new stores in the prior year. Net cash used in investing activities was $6.1 million for fiscal 2003, and $5.9 million for fiscal 2002. Net cash used in investing activities increased in fiscal 2003 compared to fiscal 2002 because we purchased additional property and equipment to open 25 new stores compared to 16 new stores in the prior year.

Net cash used in financing activities was $2.2 million for fiscal 2004 and approximately $942,000 for fiscal 2003. Net cash used in financing activities for fiscal 2004 was attributable to $1.4 million in payments on preferred stock dividends and approximately $831,000 for payments on capital lease obligations and mortgage payments on our Fahm Street facility. Net cash used in financing activities was approximately $942,000 for fiscal 2003 and $2.8 million for fiscal 2002. Net cash used in financing activities for fiscal 2003 was attributable to payments on capital lease obligations and mortgage payments on our Fahm Street facility. Until required for other purposes, we maintain our cash and cash equivalents in deposit accounts or highly liquid investments with remaining maturities of 90 days or less at the time of purchase.

Liquidity Sources, Requirements and Contractual Cash Requirements and Commitments

Our principal sources of liquidity consist of: (i) cash, cash equivalents and marketable securities (which equaled $42.0 million as of October 29, 2005); (ii) a secured line of credit with a maximum available borrowing of $25.0 million subject to our inventory levels (with availability of $25 million and none drawn down as of October 29, 2005); (iii) an unsecured line of credit with a maximum available borrowing of $3.0 million subject to our inventory levels (with availability of $3.0 million and none drawn down as of October 29, 2005); (iv) cash generated from operations on an ongoing basis as we sell our merchandise inventory; and (v) trade credit. Short-term trade credit represents a significant source of financing for our inventory purchases. Trade credit arises from customary payment terms and trade practices with our vendors. Our management regularly reviews the adequacy of credit available to us from our vendors. Historically, our principal liquidity requirements have been to meet our working capital and capital expenditure needs.

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

We anticipate that our capital expenditures for the fourth quarter of fiscal 2005 will be approximately $2.6 million. We anticipate that our capital expenditures will be approximately $13 million to $15 million for fiscal 2006. These expenditures will relate to the purchase of property and equipment for the 42 to 45 stores we plan to open in fiscal 2006, the addition of more office space and the continued buildout of our Darlington, South Carolina distribution center. We plan to finance these capital expenditures with cash flow from operations.

The following table discloses aggregate information about our contractual obligations as of October 29, 2005 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:					
Capital leases	$ 1,412	$ 801	$ 611	$ —	$ —
Operating leases(1)	38,430	11,017	17,937	8,935	541
Purchase obligations	57,117	57,117	—	—	—
Total contractual cash obligations	$96,959	$68,935	$18,548	$8,935	$541

(1) Represents fixed minimum rentals in stores and does not include incremental rents which are computed as a percentage of net sales. For example, in fiscal 2004 incremental percentage rent was approximately $723,000, which represented 8.6% of total rent expense.

Indebtedness. We have a revolving line of credit secured by substantially all of our assets pursuant to which we pay customary fees. This secured line of credit expires in April 2007. This secured line of credit provides for aggregate cash borrowings and the issuance of letters of credit up to the lesser of $25.0 million or our borrowing base (which was approximately $25 million at October 29, 2005), with a letter of credit sub-limit of $2.0 million. Borrowings under this secured line of credit bear interest at the prime rate plus a spread or LIBOR plus a spread, at our election, based on conditions in the credit agreement. As of October 29, 2005, we had no outstanding borrowings on the line of credit, and no outstanding letters of credit. Under the terms of the credit agreement, we are required to maintain a minimum tangible net worth.

In September 2003, we entered into an annual unsecured revolving line of credit with Bank of America that was renewed in June 2004. The line of credit provides for aggregate cash borrowings up to $3.0 million to be used for general operating purposes. Borrowings under the credit agreement bear interest at LIBOR plus a spread. At October 29, 2005, there was no balance on this revolving line of credit.

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

Capital Leases. We have capital lease obligations that financed the purchase of our computer equipment. At October 29, 2005, our capital lease obligations were $1.3 million. These obligations have maturity dates ranging from March 2005 to December 2007. The interest rates on these obligations range from 7.2% to 13.0%. All of these obligations are secured by the computer equipment.

Operating Leases. We lease our stores under operating leases, which generally have an initial term of five years with one five-year renewal option. The typical store lease requires a combination of both fixed monthly rentals and rentals computed as percentage of net sales after a certain sales threshold has been met. For the thirty-nine weeks ended October 29, 2005, rental expense was $8.6 million compared to $6.4 million for the thirty-nine weeks ended October 30, 2004 (including approximately $840,000 and $540,000 of percentage rent, respectively).

Purchase Obligations. As of October 29, 2005, we had purchase obligations of $57.0 million, all of which were for less than one year. These purchase obligations primarily consist of outstanding merchandise orders.

Table of Contents

Off-Balance Sheet Arrangements. Other than the store operating leases described above, we do not have any off-balance sheet arrangements.

Outstanding Stock Options

As of October 29, 2005, we had outstanding vested options to purchase approximately 1,430,228 shares of common stock, at a weighted average exercise price of $0.78 per share, and outstanding unvested options to purchase 286,900 shares of common stock, at a weighted average price of $10.64 per share. The per share value of each share of common stock underlying the vested and unvested options, based on the difference between the exercise price per option and the estimated fair market value of the shares at the dates of the grant of the options (also referred to as intrinsic value), ranges from $0 to $4.20 per share.

For all stock option grants prior to fiscal 2005, the fair market values of the shares at the dates of grant were originally estimated by our board of directors, with input from management. We did not obtain contemporaneous valuations by an unrelated valuation specialist because we based our valuation on comparable private company market multiple analyses. We used a consistent formula based on our twelve-month rolling EBITDA, defined as earnings before taxes, interest, depreciation and amortization, multiplied by a private company multiple less outstanding debt. We believe this formula removes uncertainties associated with asset based valuation methodologies and methodologies based on estimated future revenues and costs. For grants in fiscal 2005, stock options were granted under this plan at the market price on the grant date and generally vest ratably over a four-year period. All stock options granted under this plan have a ten-year life subject to earlier termination upon death, disability or cessation of employment.

Significant Factors Contributing to the Difference between Fair Value as of the Date of Each Grant and the IPO Price. As disclosed more fully in Note 8 to the Consolidated Financial Statements, we granted stock options during fiscal 2004 with a fair value of $9.55 per share for the first quarter, $10.25 per share for the second quarter and $11.05 per share for the third quarter. Factors that contributed to the difference between the fair value of those grants and our initial public offering price are:

- the increased private company valuation of the company that occurred subsequent to the date of the grants but previous to the initial public offering based on earnings and cash flows;
- the span of time between grant dates and the time of the initial public offering;
- the fact that private company valuations are normally based on historical performance while a public company’s are based on future expected earnings;
- the uncertainty of our future cash flow and earnings at the date of the grants;
- our dependence on results in the fourth quarter of fiscal 2004, which had not been completed at the date of the grants and which accounted for approximately 67% of our net income for fiscal 2004;
- increased same store sales when compared with the same periods from previous years; (the continued growth in our store base;
- increased average sales per store;
- the continued growth in our store base;
- our expanded geographic footprint; and
- our determination in December 2004 to initiate the process of an initial public offering and begin drafting a registration statement.

The intrinsic value exceeded the exercise price established at the date of each grant by the following amounts: $3.01 per share for those options granted in the first quarter of fiscal 2004, $3.44 per share for those options granted in the second quarter of fiscal 2004 and $4.20 per share for those options granted in the third quarter of fiscal 2004.

Based on the closing price of $27.40 per share on October 29, 2005, the intrinsic value of the options outstanding on October 29, 2005 was $47.0 million, of which $39.1 million related to vested options and

$7.9 million related to unvested options. Although it is reasonable to conclude that the completion of this offering will add value to the shares because they will have increased liquidity and marketability, the amount of additional value can be measured with neither precision nor certainty.

Our board of directors has authorized awards for our management employees in the form of stock option grants. See “Management—2005 Long Term Incentive Plan—Initial Grants.”

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We believe the following critical accounting policies describe the more significant judgments and estimates used in the preparation of our financial statements:

Revenue Recognition

While our recognition of revenue is predominantly derived from routine retail transactions and does not involve significant judgment, revenue recognition represents an important accounting policy of ours. We recognize retail sales at the time the customer takes possession of the merchandise and purchases are paid for less an allowance for returns. We allow for returns up to 10 days after the date of sales and the estimate for returns is based on actual observed return activity 10 days after the period ends. Revenue from layaway sales is recognized when the customer has paid for and received the merchandise. However, revenue from the $2.00 service charge for participating in the program and from the $5.00 re-stocking fee, if charged as part of the layaway program, is recognized at the time of payment. All sales are from cash, check or major credit card company transactions.

Inventory

Inventory is stated at the lower of cost (first-in, first-out basis) or market as determined by the retail inventory method less a provision for inventory shrinkage. Under the retail inventory method, the cost value of inventory and gross margins are determined by calculating a cost-to-retail ratio and applying it to the retail value of inventory. Inherent in the retail inventory calculation are certain significant management judgments and estimates including, among others, merchandise markups, markdowns and shrinkage, which impact the ending inventory valuation at cost as well as resulting gross margins. We estimate a shrinkage reserve for the period between the last physical count and the balance sheet date. The estimate for the shrinkage reserve can be affected by changes in actual shrinkage trends. We believe the first-in first-out retail inventory method results in an inventory valuation that is fairly stated. Many retailers have arrangements with vendors that provide for rebates and allowances under certain conditions, which ultimately affect the value of the inventory. We have not entered into such arrangements with our vendors.

Property and Equipment, net

We have a significant investment in property and equipment. Property and equipment are stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation and amortization are computed using the straight-line method over the lesser of the estimated useful lives (primarily three to five years for computer equipment and furniture, fixtures and equipment, five years for leasehold improvements, and 15 years for buildings) of the related assets or the relevant lease term, whichever is shorter. Any reduction in these estimated useful lives would result in a higher annual depreciation expense for the related assets.

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

Stock-Based Compensation

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

Operating Leases

We lease substantially all of our store properties and accounts for the leases as operating leases in accordance with SFAS No. 13, *Accounting for Leases.* Many lease agreements contain tenant improvement allowances, rent holidays, rent escalation clauses and/or contingent rent provisions. For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, we use the date of initial possession to begin amortization, which is generally when we enter the space and begin to make improvements in preparation of intended use.

For scheduled rent escalation clauses during the lease terms or for rental payments commencing “rent holidays” at a date other than the date of initial occupancy, we record minimum rental expenses on a straight-line basis over the terms of the leases. For tenant improvement allowances we record a deferred rent liability on the consolidated balance sheets and amortize the deferred rent over the terms of the leases.

Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of 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 is reasonably estimable.

Accounting for Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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 which such changes are enacted.

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

Quantitative and Qualitative Disclosure about Market Risk

We are exposed to financial market risks related to changes in interest rates connected with our revolving lines of credit, which bear interest at variable rates. We cannot predict market fluctuations in interest rates. As a result, future results may differ materially from estimated results due to adverse changes in interest rates or debt availability. A hypothetical 100 basis point increase in prevailing market interest rates would not have materially impacted our financial position, results of operations, cash flows for fiscal 2004. We do not engage in financial transactions for trading or speculative purposes, and we have not entered into any interest rate hedging contracts.

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

If we were to begin sourcing product directly from overseas, our risk management policy would allow us to utilize foreign currency forward and option contracts to manage currency exposures. If we were to enter into hedging contracts, we anticipate that the contracts would have maturities of less than three months and would settle before the end of each quarterly period. Additionally, we do not expect to enter into any hedging contracts for trading or speculative purposes.

In June 2005 we began investing excess cash in auction rate securities. These securities are highly liquid, variable-rate debt securities. While the underlying security has a long-term nominal maturity, the interest rate is reset through dutch auctions that are typically held every 35 days, creating a short-term instrument. Due to the short-term nature of these investments, we believe that we do not have material exposure to changes in the fair value of our investments as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. We do not enter into investments for trading or speculative purposes.

Recently Issued Accounting Standards

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

In December 2004, the FASB issued a revision to SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123R replaces SFAS No. 123 and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions and is effective as of the

beginning of the first annual period that begins after June 15, 2005 for public entities that do not file as small business issuers. We have illustrated the effect on our earnings as if we had adopted the fair value method of accounting for stock-based compensation under SFAS No. 123. This information is contained in notes 2 and 8 to our financial statements. The fair values of options and shares issued pursuant to our option plan at each grant date were estimated using the Black-Scholes option pricing model. The fair value-based method of SFAS No. 123 is similar in most respects to the fair value-based method under SFAS No. 123R, although the election of certain methods within the applicable transition rules of SFAS No. 123R may affect the impact on our consolidated financial position or results of operations. The impact of adopting SFAS No. 123R will be dependent on numerous factors including, but not limited to, the valuation model chosen by us to value stock-based awards, the assumed award forfeiture rate, the accounting policies adopted concerning the method of recognizing the fair value of awards over the requisite service period and the transition method chosen for adopting SFAS No. 123R. We have preliminarily estimated the effects of adoption of SFAS No. 123R will result in an additional compensation expense of $1.0 million to $1.5 million in fiscal 2006 and a yet to be determined additional compensation expense in fiscal 2007.

Business

We are a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. We offer quality, branded products from nationally recognized brands, as well as private label products and a limited assortment of home décor items. Our merchandise offerings are designed to appeal to the preferences of fashion conscious consumers, particularly African-Americans. We believe that we provide our merchandise at compelling values. We seek to provide nationally recognized branded merchandise at 20% to 60% discounts to department and specialty stores' regular prices. Our stores average approximately 9,000 square feet of selling space and are typically located in neighborhood shopping centers that are convenient to low to moderate income customers. Originally our stores were located in the Southeast, and during late fiscal 2004 and fiscal 2005 we expanded into the Mid-Atlantic region, the Midwest and Texas. We operate 236 stores (including two stores currently closed due to the recent hurricanes) in both urban and rural markets in fourteen states. For fiscal 2005, we have opened 36 new stores and have no additional openings planned. We expect to open 42 to 45 new stores in fiscal 2006. Approximately 90% of the new stores we intend to open in fiscal 2006 will be located in states that we currently serve.

Our predecessor was founded in 1946 and grew to become a chain of family apparel stores operating in the Southeast under the Allied Department Stores name. In 1999, our chain of stores, then consisting of 85 stores throughout the Southeast, was acquired by Hampshire Equity Partners II, L.P., a private equity firm. Our management team has implemented several strategies designed to differentiate our stores, improve our operating and financial performance and position us for growth, including:

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

Industry

According to NPD Fashionworld, a division of the NPD Group, or NPD, a nationally recognized firm that specializes in apparel research, based on Consumer Panel Estimated Data, retail sales of off-price apparel totaled $16.5 billion in the U.S. in 2004, an increase of more than 15% from 2003. The popularity of this segment continues to grow, with off-price retailers accounting for 9.5% of overall retail apparel sales in the U.S. in 2004, versus 8.6% in 2003 and 8.2% in 2002, according to NPD.

The off-price apparel market is dominated by large format, national apparel companies, such as TJX Companies, Burlington Coat Factory and Ross Stores. Our management believes that these retailers generally target more affluent consumers and seek to achieve high volumes by serving the fashion needs of a broad segment of the population. Mass merchants and general merchandise discount retailers, such as Wal-Mart and Kmart, also offer apparel at reduced prices, but we believe that they generally focus on basic apparel and are less fashion oriented. As a result, we believe there is significant demand for a value retailer that addresses the market of low to moderate income consumers generally and, particularly, African-American and other

minority consumers who seek value-priced, urban fashion apparel and accessories. We believe this market benefits from several favorable characteristics, including:

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

Significant Spending on Apparel. According to the Selig Center for Economic Growth at The University of Georgia the combined U.S. buying power of non-whites grew from $454.3 billion in 1990 to approximately $956.4 billion in 2000. During that period, buying power for African-Americans grew from $318.1 billion to $590.2 billion and is estimated by the Selig Center to grow approximately 70% to $1.0 trillion in 2010.

We believe our core customers are more fashion oriented, which results in a greater propensity to purchase apparel. According to the U.S. Department of Labor, African-Americans spend 4.6% of their annual income on apparel and related products and services, compared to 3.3% for the U.S. population as a whole.

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

Business Strengths

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

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

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

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

Strong and Flexible Sourcing Relationships. We maintain strong sourcing relationships with a large group of suppliers. We have purchased merchandise from more than 1,000 vendors in the past twelve months. Purchasing is controlled by our 20-plus member buying team located at our Savannah, Georgia headquarters and in New York, New York, and our buyers have an average of more than 20 years of retail experience. We purchase merchandise through planned programs with vendors at reduced prices and opportunistically through close-outs, with the majority of our merchandise purchased for the current season and a limited quantity held

for sale in future seasons. To foster our vendor relationships, we pay vendors promptly and do not ask for typical retail concessions such as promotional and markdown allowances or delivery concessions such as drop shipments to stores.

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

Highly Profitable Store Model. We operate a proven and efficient store model that delivers strong cash flow and store level return on investment. We locate stores in high traffic strip shopping centers that are convenient to low and moderate income neighborhoods. We generally utilize previously occupied store sites. This approach enables us to generate substantial traffic at attractive rents. Similarly, our advertising expenses are low as we do not rely on promotion-driven sales but rather seek to build our reputation for value through everyday low prices. At the same time, from an investment perspective, we seek to design stores that are inviting and easy to shop, while limiting startup and fixturing costs. As a result, our stores generate rapid payback of investments, typically within 12 to 14 months.

Growth Strategy

Our growth strategy is to open stores in new and existing markets, as well as to increase sales in existing stores. Adding stores in the markets we currently serve often enables us to benefit from enhanced name recognition and achieve advertising and operating synergies. In fiscal 2003 and fiscal 2004, we opened 25 and 40 stores, respectively, and entered the Baltimore, Houston, Norfolk and Washington, D.C. markets.

For fiscal 2005, we have opened 36 new stores thus far and have no additional openings planned, and we entered the Cincinnati, Dallas, Louisville and Miami markets. We expect to open 42 to 45 new stores in fiscal 2006. Approximately 90% of the new stores we intend to open in fiscal 2006 will be located in states we currently serve.

We intend to increase comparable store sales by increasing the assortment and amount of inventory in existing merchandise categories for which recent sales and/or sales trends are encouraging. We also intend to increase comparable store sales through the expansion of adjacent product categories such as home décor and intimate apparel. In order to expand such developing categories, we added a dedicated buyer in home décor in fiscal 2005 and upgraded our buying capabilities and focus within the intimate apparel category.

Store Operations

Store Format. Our existing 236 stores' average selling space is approximately 9,000 square feet, which allows us space and flexibility to departmentalize our stores and provide directed traffic patterns. New stores opened since the beginning of fiscal 2003 average approximately 10,500 square feet of selling space, which is larger than our historical store base. As a result of these new stores, as well as due to the remodeling and expansion of existing stores, our average square footage of selling space per store has increased from approximately 7,600 at the end of fiscal 2002 to its current level.

We arrange our stores in a racetrack format with women's sportswear, our most attractive and fashion current merchandise, in the center of each store, and complementary categories adjacent to those items. Men's and boy's apparel is displayed on one side of the store while dresses, footwear and accessories are displayed on the other side. Merchandise for infants, toddlers and girls is displayed along the back of the store. Impulse items, such as jewelry and sunglasses, are featured near the checkout area. Products from nationally recognized brands are prominently displayed on four way racks at the front of each department. The

remaining merchandise is displayed on hanging racks and occasionally on table displays. Large hanging signs identify each category location. The unobstructed floor plan allows the customer to see virtually all of the different product areas from the store entrance and provides us the flexibility easily to expand and contract departments in response to consumer demand, seasonality and merchandise availability. Virtually all of our inventory is displayed on the selling floor. Our prices are clearly marked and often have the comparative retail-selling price noted on the price tag.

Store Management. Store operations are managed by our Vice President of Store Operations, three regional managers and 26 district managers, each of whom typically manages eight to ten stores. Our typical store is staffed with a store manager, two or three assistant managers and seven to eight part time sales associates, all of whom rotate work days on a shift basis. District managers and store managers participate in a bonus program based on achieving predetermined levels of sales and profits. The district managers also participate in bonus programs based on achieving targeted payroll costs. Our regional managers participate in a bonus program based on a rollup of the district managers' bonuses. The assistant managers and sales associates are compensated on an hourly basis with incentives. Moreover, we recognize individual performance through internal promotions and provide extensive opportunities for advancement, particularly given our rapid growth.

We place significant emphasis on loss prevention in order to control inventory shrinkage. Our initiatives include electronic tags on all of our products, training and education of store personnel on loss prevention issues, digital video camera systems, alarm systems and motion detectors in the stores. We also capture extensive point-of-sale data and maintain systems that monitor returns, voids and employee sales, and produce trend and exception reports to assist us in identifying shrinkage issues. We have a centralized loss prevention team that focuses exclusively on implementation of these initiatives and specifically on stores that have experienced above average levels of shrinkage.

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

Layaway Program. We offer a layaway program that allows customers to purchase merchandise by initially paying a 20% deposit together with a $2.00 service charge. The customer then makes additional payments every two weeks and has 60 days within which to complete the purchase. If the purchase is not completed, the customer receives a merchandise credit for amounts paid less a $5.00 re-stocking fee and the service charge. Sales under our layaway program accounted for approximately 13% of our total sales in fiscal 2004.

Store Economics. We believe we benefit from attractive store-level economics. The average investment for the 65 stores we opened in fiscal 2003 and fiscal 2004, including leasehold improvements, equipment, fixturing, cost of inventory to stock the store (net of accounts payable) and pre-opening store expenses, was approximately $280,000. These 65 stores generated average sales of $1.4 million and average store operating profit (defined as store operating revenue less cost of sales and store operating expenses which is comprised of payroll, occupancy, advertising and other operating costs) of approximately $230,000 during their first twelve months of operation.

Store Locations

As of January 4, 2006, we operated 236 stores (including two stores, one in Belle Glade, Florida and one in New Orleans, Louisiana, currently closed due to the recent hurricanes) located in fourteen states. Our stores are primarily located in strip shopping centers and downtown business districts. We have no franchising relationships as all of our stores are company-operated. The table below sets forth the number of stores in each of these fourteen states and the specific markets within each such state in which we operated at least two stores as of January 4, 2006:

Alabama—19
Birmingham—4
Montgomery—2
Mobile—2
Single store locations—11
Arkansas—5
Little Rock—3
Single store locations—2
Florida—16
Jacksonville—3
Orlando—2
Tampa—2
Single store locations—9
Georgia—48
Albany—2
Atlanta—9
Augusta—3
Macon—3
Savannah—2
Single store locations—29
Kentucky—1
Louisiana—22
Baton Rouge—2
Monroe—2
New Orleans—2
Shreveport—3
Single store locations—13
Maryland—3
Baltimore—2
Single store locations—1
Mississippi—19
Jackson—2
Single store locations—17
North Carolina—31
Charlotte—3
Durham—2
Fayetteville—2
Greensboro—2
Winston-Salem—2
Single store locations—20
Ohio—1
South Carolina—32
Charleston—2
Columbia—2
Orangeburg—2
Single store locations—26
Tennessee—10
Memphis—6
Nashville—2
Single store locations—2
Texas—16
Dallas-Fort Worth—3
Houston—8
Single store locations—5
Virginia—13
Norfolk—7
Richmond—4
Single store locations—2

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

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

We have a dedicated real estate management team responsible for new store site selection. Our group has identified a significant number of target sites in existing strip shopping centers and off-mall locations with appropriate market characteristics in both new and existing markets. We opened a total of 65 new stores in

fiscal 2003 and fiscal 2004. We have opened 36 new stores in fiscal 2005 and expect to open 42 to 45 new stores in fiscal 2006. We have funded our store openings with a portion of the net proceeds from our initial public offering and cash flow from operations.

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

Product Merchandising and Pricing

Merchandising. Our merchandising policy is to offer high quality, branded products at attractive prices for the entire value-conscious family. We seek to maintain a diverse assortment of first quality, in-season

merchandise that appeals to the distinctive tastes and preferences of our core customers. Approximately 35% to 40% of our sales are typically represented by nationally recognized brands that we purchase from approximately 30 to 50 vendors. We also offer a wide variety of products from less recognized brands that represent approximately 60% of sales. The remaining 10% of sales represent private label products under our proprietary brands such as Citi Steps, Diva Blue and Urban Sophistication. Our private label products enable us to expand product selection, offer merchandise at lower prices and enhance our product offerings.

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

The following table sets forth our approximate merchandise assortment by classification as a percentage of net sales for the thirty-nine weeks ended October 29, 2005. We have made an estimate for layaways based on total layaway transactions still outstanding as of October 29, 2005.

	Percentage of Net Sales
Women's	38%
Children's	26%
Men's	21%
Accessories	13%
Home décor	2%

Pricing. We purchase our merchandise at low prices and mark prices up less than department or specialty stores. We seek to provide our nationally recognized brands at prices 20% to 60% below regular retail prices available in department stores and specialty stores, and that product offering validates both our value and fashion positioning to our consumers. We also consider the price-to-value relationships of our non-branded products to be strong. Our basic pricing strategy is everyday low prices. Our discount from the suggested retail price is usually reflected on the price tag. We review each department in our stores at least monthly for possible markdowns based on sales rates and fashion seasons to promote faster turnover of inventory and to accelerate the flow of current merchandise. Our return policy permits any customer the right to return merchandise within ten days of purchase and receive a cash refund if they have a receipt, unless such item was purchased in a closeout or discount in which case we will only permit a merchandise exchange. We believe that our practice in this regard is more restrictive when compared to other apparel retailers.

Sourcing and Allocation

Our merchandising department oversees the sourcing and allocation of merchandise to our stores, which allows us to utilize volume purchase discounts and maintain control over our inventory. We source our merchandise from over 1,000 vendors, consisting of domestic manufacturers and importers. For the thirty-nine weeks ended October 29, 2005, no vendor represented over 6% of our net sales. Our President and Chief Merchandising Officer supervises our 18 member planning and allocation team, as well as our buying team which is comprised of four merchandise managers and 19 buyers. Consistent with our plan to grow the intimate apparel and home décor categories, we added a dedicated buyer in home décor in fiscal 2005 and upgraded our buying capabilities and focus in intimate apparel.

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

trade shows, including urban-focused trade shows. We also retain the services of two independent fashion consulting firms, Barbara Fields Buying and Henry Donegar Associates, that monitor market trends.

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

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

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

Advertising and Marketing

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

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

Distribution

All merchandise sold in our stores is shipped directly from our distribution centers in Savannah, Georgia and our distribution center in Darlington, South Carolina. In October 2005, we purchased our Darlington facility which is situated on 90 acres of land. To date we have paid approximately $1.6 million of the $3 million to

$4 million in total we expect to spend on acquisition costs and for capital improvements necessary to prepare the location for full operation. We began receiving and processing shipments from this new distribution location in the fourth quarter of fiscal 2005. We will continue our physical renovation and updating of the distribution center, which has the same technology and information systems as our other distribution centers.

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

We generally ship merchandise from our distribution centers to stores daily, but approximately 40 of our smaller volume stores receive merchandise every other day. We use United Parcel Service, Inc. and FedEx Corporation to ship merchandise to our stores. Our two distribution centers in Savannah have a combined approximately 240,000 square feet, including approximately 20,000 square feet of office space. Our Darlington, South Carolina facility has approximately 286,500 square feet. We expect these facilities to provide us the capacity to double our existing sales volume.

Quality control reviews of every merchandise receipt are performed by a dedicated team at our distribution centers. These teams are responsible for working with our vendors and manufacturers to ensure consistent and superior quality across all merchandise categories. Nearly all of our merchandise is purchased from recognized domestic manufacturers and importers, which reduces our risk of inadvertently handling counterfeit items.

Information Technology and Systems

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

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

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

We had planned to complete installation of the latest upgrade to the DataVantage software. We, however, experienced delays implementing the upgrade and now plan to complete installation of the upgrade by the end of fiscal 2006. The new software will enable improved and less costly telecommunications between our stores and our corporate headquarters. The upgrade will also provide improved credit and debit card processing, store e-mail and more reliable data transmissions to our home office systems.

We believe that our information systems, with upgrades and updates over time, are adequate to support our operations for the foreseeable future.

Competition

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

Intellectual Property

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

Properties

All our existing 236 stores, totaling approximately 2.6 million gross square feet, are leased under operating leases. Additionally, as of January 4, 2006, we have signed leases for 11 new stores to be opened during fiscal 2006 aggregating approximately 150,000 total gross square feet. Our typical store lease is for five years with an option to extend our lease term for an additional five-year period, and all but one lease requires us to pay percentage rent and increases in specified site-related charges. Nearly all of our store leases provide us the right to cancel following an initial three-year period in the event the store does not meet pre-determined sales levels.

We own an approximately 170,000 square foot facility located on Fahm Street in Savannah, Georgia, which serves as our headquarters and one of our three distribution centers. This facility is financed under a mortgage which was repaid with a portion of the proceeds from our initial public offering. We currently lease the land and building for our distribution center located on Coleman Boulevard. The lease for this distribution center expires in September 2006, with options to renew for up to three more years. On October 19, 2005, we acquired an approximately 286,500 square foot distribution center in Darlington, South Carolina. We began to receive shipments into the new facility in December. In addition, we currently lease 1,200 square feet in New York City, which is used for buyer operations and meetings with vendors.

Employees

As of January 4, 2006, we had approximately 1,120 full-time and approximately 1,600 part-time employees. Of these employees, approximately 2,295 are employed in our stores and the remainder are employed in our

distribution centers and corporate offices. We are not a party to any collective bargaining agreements, and none of our employees is represented by a labor union.

Legal Proceedings

We are from time to time involved in various legal proceedings incidental to the conduct of our business, including claims by our customers, employees or former employees. Such claims could have a material adverse effect on our business, financial condition and results of operation. We, however, are not aware of any legal proceedings pending or threatened against us that we expected to have a material adverse effect on our business, financial condition or results of operation.

Table of Contents

Management

Executive Officers and Directors

The following table sets forth information regarding our executive officers and directors and their ages as of January 4, 2006:

Name	Age	Position
R. Edward Anderson	55	Chief Executive Officer and Director
George A. Bellino	58	President and Chief Merchandising Officer
Thomas W. Stoltz	44	Chief Financial Officer
James A. Dunn	49	Vice President of Store Operations
Gregory P. Flynn	49	Chairman of the Board of Directors
John S. Lupo	59	Director
Patricia M. Luzier	55	Director
Tracy L. Noll	57	Director

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

George A. Bellino. Mr. Bellino has served as our President and Chief Merchandising Officer since December 2001 and served as a director from April 1999 to May 2005. Mr. Bellino served as our Chief Executive Officer and President from April 1999 to December 2001. From January 1997 to March 1999, Mr. Bellino served as President of our predecessor company. From June 1992 to December 1996, Mr. Bellino served as the Vice President of Merchandising at Pennsylvania Fashions, a privately held off-price apparel chain. From June 1990 to October 1991, Mr. Bellino served as President of General Textiles / Family Bargain Center, a retail apparel chain.

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

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

Gregory P. Flynn. Mr. Flynn has served as our Chairman of the board of directors since 2001 and as a member of the compensation committee since 2001. Mr. Flynn is also a member of the nominating and corporate governance committee. Mr. Flynn is currently a Managing Partner of Hampshire Equity Partners II, L.P. and Hampshire Equity Partners III, L.P. and has been associated with Hampshire since 1996. Hampshire Equity Partners II, L.P. and certain of its affiliates are selling stockholders in this offering. From 1994 to 1996, Mr. Flynn served as a Managing Partner of ING Equity Partners, L.P.

John S. Lupo. Mr. Lupo has served as a director since May 2003, and is the Chairman of the compensation committee, as well as a member of the audit committee and the nominating and corporate governance committee.

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

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

Patricia M. Luzier. Ms. Luzier has served as a director since November 30, 2005 and is the Chairman of the nominating and corporate governance committee, as well as a member of the audit committee and the compensation committee. Ms. Luzier was previously the Senior Vice President and Chief Administrative Officer of Cole National Corporation, a public reporting specialty retailer, from 1999 until October 2004. She served as Senior Vice President, Human Resources and Administration for HomePlace Group, Inc. from 1998 until 1999. She also served as Senior Vice President of Human Resources with Vicorp Restaurants, Inc. from 1994 until 1998. Ms. Luzier currently serves as a Director for Dale Carnegie and Associates and serves on their Compensation Committee.

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

Board of Directors Composition

Our board of directors consists of five directors divided into three classes, three of which are “independent” under the rules of the Nasdaq National Market. Mr. Flynn is the only Hampshire Equity Partners nominated director, and the three independent directors are Messrs. Noll and Lupo and Ms. Luzier.

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

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

shares of our common stock which it owned immediately prior to the consummation of our initial public offering. If at any time Hampshire Equity Partners II, L.P. owns less than 15% of the shares of our common stock which it owned immediately prior to the consummation of our initial public offering, it will not have the right to nominate any directors for election to our board of directors. See "Related Party Transactions—Nominating Agreement".

Board of Directors Committees

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee.

Audit Committee

The audit committee, currently consisting of Messrs. Noll and Lupo and Ms. Luzier, reviews our internal accounting procedures and consults with and reviews the services provided by our independent registered public accountants. Mr. Noll is the Chairman of the audit committee and qualifies as an "audit committee financial expert" for purposes of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The principal duties and responsibilities of our audit committee are to:

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

- prepare an audit committee report required by the Commission to be included in our annual proxy statement;
- engage independent counsel and other advisors to assist the audit committee in carrying out its duties;
- review and approve all related party transactions consistent with the rules applied to companies listed on the Nasdaq National Market; and
- establish procedures regarding complaints received by us or our employees regarding accounting, accounting controls or accounting matters.

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

Compensation Committee

The compensation committee, consisting of Messrs. Lupo, Noll and Flynn and Ms. Luzier, reviews and determines the compensation and benefits of all of our officers, establishes and reviews general policies relating to the compensation and benefits of all of our employees, and administers our long-term incentive plan. Mr. Lupo is the Chairman of the compensation committee. The principal duties and responsibilities of our compensation committee are to:

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

Compensation Committee Interlocks and Insider Participation

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

Nominating and Corporate Governance Committee

The nominating and corporate governance committee currently consists of Messrs. Lupo, Noll and Flynn and Ms. Luzier. Ms. Luzier is the Chair of the nominating and corporate governance committee. The principal duties and responsibilities of our nominating and corporate governance committee are to:

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

Code of Business Conduct

We have adopted a written code of business conduct applicable to our directors, officers and employees in accordance with the rules of the Nasdaq National Market and the Commission. Our code of business conduct is designed to deter wrongdoing and to promote:

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

Our code is available on our website at www.cititrends.com.

Director Compensation

Our independent directors currently receive a $24,000 annual retainer, $2,500 per meeting attended and an annual award of 2,500 options with an exercise price set to the fair market value of our common stock on the date of grant as compensation from us for their services as members of the board of directors. A director who serves as the chairman of the audit committee receives an $8,000 annual retainer and a director who serves as chair of the compensation committee receives a $2,000 annual retainer. All non-employee directors also receive $500 for attendance at each committee meeting. We reimburse all of our directors for out-of-pocket expenses in connection with attendance at board of directors and committee meetings.

Executive Compensation

The following table sets forth a summary of the compensation paid during fiscal 2004 to our Chief Executive Officer and our four most highly compensated executive officers, together referred to as our named executive officers:

Summary Compensation Table

	Annual Compensation(1)			Long-Term Compensation
Name and Principal Position	Fiscal Year	Salary	Bonus	Securities Underlying Options
R. Edward Anderson Chief Executive Officer	2004	$327,693	$144,000	$ 619
George A. Bellino President and Chief Merchandising Officer	2004	$248,077	$114,000	$1,342
Thomas W. Stoltz Chief Financial Officer	2004	$173,769	$ 40,000	—
James A. Dunn Vice President of Store Operations	2004	$140,769	$ 39,900	—

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

Table of Contents

Stock Option Grants

The following table contains summary information regarding stock option grants made during fiscal 2004 by us to the named executive officers. We also granted stock options to purchase shares of common stock to certain of our employees and to our current stockholders, including Hampshire Equity Partners II, L.P. All options were granted at fair market value of our common stock, as determined by our board of directors, on the grant date.

Option Grants In Last Fiscal Year

Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term(1)	
					5%	10%
R. Edward Anderson	312	0.3%	$6.85	10/30/14	$ 4,978	$ 9,192
George A. Bellino	676	0.7%	$6.85	10/30/14	$10,785	$19,917
Thomas W. Stoltz	—	—				
James A. Dunn	—	—				

(1) Potential realizable value is based upon the initial public offering price of our common stock of $14.00. Potential realizable values are net of exercise price, but before taxes associated with exercise. Amounts representing hypothetical gains are those that could be achieved if options are exercised at the end of the option term. The assumed 5% and 10% rates of stock price appreciation are provided in accordance with rules of the Commission, based on the initial public offering price of $14.00 per share and do not represent our estimate or projection of the future stock price.

Year-End Option Values

The following table provides information about the number and value of unexercised options to purchase common stock held on January 29, 2005 by the named executive officers. There was no public market for our common stock on January 29, 2005. Accordingly, we have calculated the values of the unexercised options on the basis of the initial public offering price of $14.00 per share, less the applicable exercise price, multiplied by the number of shares acquired upon exercise. None of the named executive officers exercised any stock options in fiscal 2004.

Fiscal Year End Option Values

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End			Value of Unsecured In-the-Money Options(1)	
	Total	Exercisable	Unexercisable	Exercisable	Unexercisable
R. Edward Anderson	437,502	437,502	—	$5,955,495	$ —
George A. Bellino	361,504	361,504	—	4,916,615	—
Thomas W. Stoltz	78,000	78,000	—	1,062,360	—
James A. Dunn	65,000	51,350	13,650	699,387	185,913

(1) The options were granted under our Amended and Restated 1999 Stock Option Plan. These options generally vest in equal installments over four years from the date of grant and are generally exercisable up to ten years from the date of grant. The fair value of the options granted during the year ended January 29, 2005 was $2.50 using the Black-Scholes option-pricing model, with weighted average assumptions: no dividend yield; 50% expected volatility; 2.50% risk-free interest rate; ten year expected life and a 10% forfeiture rate.

2005 Long-Term Incentive Plan

Our board of directors and stockholders adopted the 2005 Long-Term Incentive Plan to replace our Amended and Restated 1999 Stock Option Plan. The 2005 Long-Term Incentive Plan enables our key employees and directors to acquire and maintain stock ownership, thereby strengthening their commitment to our success and their desire to remain with us, focusing their attention on managing as an equity owner and aligning their interests with those of our stockholders. In addition, the plan is intended to attract and retain key employees, which, together with the key directors, we refer to collectively as eligible persons, and to provide incentives and rewards for superior performance that will ultimately lead to our profitable growth. The plan was approved by a majority of our stockholders on April 8, 2005. As of January 4, 2006, options to purchase up to 1,416,133 shares of our common stock remained outstanding under the Amended and Restated 1999 Stock Option Plan. Due to the adoption of the new plan, the Amended and Restated 1999 Stock Option Plan was terminated and no additional options was granted under that plan.

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

Shares Subject to the Plan

The incentive plan provides that no more than 1,300,000 shares of our common stock may be issued pursuant to awards under the incentive plan; provided that, in the aggregate, no more than 50% of the total shares of our common stock can be made the subject of an award other than as options under the incentive plan. These shares of our common stock will be authorized but unissued shares in such amounts as determined by the board of directors. However, the amount of shares of our common stock granted to an individual in any calendar year period can not exceed 5% of the total number of reserved shares of common stock. Also, in any calendar year period, the maximum dollar amount of cash or the fair market value of common stock that any individual can receive in connection with performance units can not exceed $2.5 million. The number of shares of our common stock available for awards, as well as the terms of outstanding awards, are subject to adjustment as provided in the incentive plan for stock splits, stock dividends, recapitalizations, mergers, consolidations, liquidations, changes in corporate structure and other similar events. Awards that may be granted under the incentive plan include stock options, stock appreciation rights (SARs), restricted shares, performance units, performance shares and director’s shares. Upon the granting of an award to an individual, the number of shares of common stock available shall be reduced depending on the type of award granted, as provided in the incentive plan.

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

Administration

Our compensation committee administers the incentive plan. With respect to decisions involving an award to a reporting person within the meaning of Rule 16a-2 under the Exchange Act, the committee is to consist of two or more directors who are disinterested within the meaning of Rule 16b-3 under the Exchange Act. With respect to decisions involving an award intended to satisfy the requirements of section 162(m) of the Internal Revenue Code, the committee is to consist solely of two or more directors who are “outside directors” for purposes of that code section. We satisfy these requirements as our compensation committee is comprised of three independent directors.

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

limits of the incentive plan, the committee may accelerate the vesting of any awards, allow the exercise of unvested awards, and may modify, replace, cancel, or renew them.

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

Eligibility

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

Stock Options

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

Stock Appreciation Rights (SARs)

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

Exercise Price for Stock Options and SARs

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

Exercise and Term of Options and SARs

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

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

Restricted Shares

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

Performance Awards

The incentive plan authorizes the committee to grant performance-based awards in the form of performance units and performance shares that are "performance compensation awards" that are intended to be exempt from Internal Revenue Code Section 162(m) limitations unless otherwise designated in the applicable award agreement. In either case, unless otherwise specified in the award agreement, upon the achievement, within the specified period of time, of the performance objectives, a performance unit shall be deemed exercised on the date on which it first becomes exercisable. Performance units are payable in cash or restricted stock, except that the committee may decide to pay benefits wholly or partly in stock delivered to the grantee or

credited to a specified brokerage account. For performance shares, unless otherwise specified in the award agreement or by the committee, upon the achievement within the specified period of time of the performance objectives, grantees shall be awarded shares of restricted stock or common stock, unless the committee decides to pay cash in lieu of stock, based upon the number of percentage shares specified in the award agreement multiplied by the performance percentage achieved. The committee decides the length of performance periods, but the periods may not be less than one year nor more than 5 years. Any performance shares with respect to which the performance goals have not been achieved at the end of the performance period shall expire.

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

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

Tandem Awards

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

Initial Awards

Our board of directors authorized awards for our management employees in the form of stock option grants. Our fiscal 2005 grants were as follows: options to purchase 168,000, 4,000 and 2,500 shares of common stock at the exercise price of $14.00, $26.03 and $35.75 per share, respectively. These grants were awarded as follows: options to purchase 28,000, 11,000, 6,000, 5,000 and 119,500 shares of common stock were awarded to Messrs. Anderson, Bellino, Stoltz, Dunn and all management employees as a group (approximately 60 employees), respectively. Independent board members received options to purchase 5,000 shares of common stock for their services in fiscal 2005.

Income Tax Withholding

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

Transferability

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

Certain Corporate Transactions

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

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

Term of Plan; Amendments and Termination

The term of the incentive plan is ten years from April 8, 2005, the date it was approved by our board of directors and stockholders, or at such earlier time as our board of directors may determine. Our board of directors may from time to time, amend or modify the incentive plan without the approval of our stockholders, unless stockholder approval is required (a) to retain ISO treatment under the Internal Revenue Code, (b) to permit transactions in stock under the incentive plan to be exempt from liability under Section 16(b) of the Exchange Act or (c) under the listing requirements of any securities exchange on which any of our equity securities are listed.

Governing Law

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

Employment Agreements

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

Amended and Restated Employment Agreement with R. Edward Anderson

On December 29, 2005, we entered into an amended and restated employment agreement with Mr. Anderson, pursuant to which Mr. Anderson continues as our Chief Executive Officer on an at will basis and as a member of our board of directors.

Compensation

The agreement provides that Mr. Anderson will receive an annual base salary of $340,000 (not including perquisites) and will be eligible to earn a bonus at the sole discretion of our board of directors.

Severance

The agreement provides that in the event that Mr. Anderson is terminated for any reason other than for “cause,” he is entitled to severance pay of six months base salary to be paid in equal amounts over a period of six months.

“Cause” as defined in the agreement means Mr. Anderson’s:

- commission of a willful act of fraud or dishonesty, the purpose or effect of which, in the board’s sole determination, materially and adversely affects us;
- conviction of a felony or a crime involving embezzlement, conversion of property or moral turpitude (whether by plea of *nolo contendere* or otherwise);
- engaging in willful or reckless misconduct or gross negligence in connection with any property or activity of ours, the purpose or effect of which, in the board’s sole determination, materially and adversely affects us;
- material breach of any of his obligations as a stockholder or otherwise under our organizational documents; provided that Mr. Anderson has been given written notice by the board of such breach and 30 days from such notice fails to cure the breach; or
- failure or refusal to perform any material duty or responsibility under his agreement or a board determination that Mr. Anderson has breached his fiduciary obligations to us; provided that Mr. Anderson has been given written notice by the board of such failure, refusal or breach and 30 days from such notice fails to cure such failure, refusal or breach.

Amended and Restated Employment Agreement with George A. Bellino

On December 29, 2005, we entered into an amended and restated employment agreement with Mr. Bellino, pursuant to which Mr. Bellino continues as our President and Chief Merchandising Officer on an at will basis.

Compensation

The agreement provides that Mr. Bellino will receive an annual base salary of $245,000 (not including perquisites) and will be eligible to earn a bonus at the sole discretion of our board of directors.

Severance

The agreement provides that in the event that Mr. Bellino is terminated for any reason other than for “cause,” he is entitled to severance pay of six months base salary to be paid in equal amounts over a period of six months.

“Cause” as defined in the agreement means Mr. Bellino’s:

- commission of a willful act of fraud or dishonesty, the purpose or effect of which, in the board’s sole determination, materially and adversely affects us;
- conviction of a felony or a crime involving embezzlement, conversion of property or moral turpitude (whether by plea of *nolo contendere* or otherwise);
- engaging in willful or reckless misconduct or gross negligence in connection with any property or activity of ours, the purpose or effect of which, in the board’s sole determination, materially and adversely affects us;
- material breach of any of his obligations as a stockholder or otherwise under our organizational documents; provided that Mr. Bellino has been given written notice by the board of such breach and 30 days from such notice fails to cure the breach; or
- failure or refusal to perform any material duty or responsibility under his agreement or a board determination that Mr. Bellino has breached his fiduciary obligations to us; provided that Mr. Bellino has been given written notice by the board of such failure, refusal or breach and 30 days from such notice fails to cure such failure, refusal or breach.

Non-Interference

From the date of his agreement until December 31, 2006, Mr. Bellino has agreed not to, without our consent, own, manage, operate, control, invest or acquire an interest in, or otherwise engage or participate in, whether as a proprietor, partner, stockholder, lender, director, officer, employee, joint venturer, investor, lessor, agent, representative or other participant, any business which competes with us in any state where we operate.

Limitation of Liability and Indemnification of Officers and Directors

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

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

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

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

- we may indemnify our directors, officers and employees to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions;

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

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

Related Party Transactions

Management Consulting Agreement

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

In connection with our initial public offering, the parties terminated the consulting agreement and we paid the consultant a one time termination fee of $1.2 million in the second quarter of fiscal 2005.

Stockholders Agreement

Prior to our initial public offering, Hampshire Equity Partners II, L.P., George Bellino and certain management stockholders were party to a Stockholders Agreement, dated as of April 13, 1999, or the stockholders agreement. The stockholders agreement provided, among other things, that four members of our board of directors were designated by Hampshire Equity Partners and its affiliates, the stockholders agreed generally not to transfer their shares and the management stockholders were granted tag-along rights in the event of a sale of more than 50% of our stock. We agreed to register shares of our common stock held by the stockholders under certain circumstances and agreed that Hampshire Equity Partners would include its shares of common stock in an initial public offering of our common stock. In connection with our initial public offering, we terminated the stockholders agreement in its entirety.

Registration Rights Agreement

In connection with our initial public offering, we entered into a registration rights agreement with Hampshire Equity Partners II, L.P., who will hold 5,744,282 shares, or approximately 39.4%, of our shares of common stock on a fully diluted basis following the consummation of this offering. Pursuant to the terms and provisions of the registration rights agreement, Hampshire Equity Partners II, L.P. will have the right from time to time, subject to certain restrictions, to cause us to register its shares of common stock for sale under the Securities Act of 1933, as amended, on Form S-1 or, if available, on Form S-3 or any similar short-form registration statement. In addition, if at any time we register additional shares of common stock, Hampshire Equity Partners II, L.P. will be entitled to include its shares of common stock in the registration statement relating to that offering. If our subsequent registration is made pursuant to an underwritten offering, Hampshire Equity Partners II, L.P. must sell its registrable securities to the underwriters selected by us if they choose to participate in that registration.

Nominating Agreement

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

Table of Contents

Principal and Selling Stockholders

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of January 4, 2006, and as adjusted to reflect the sale of 1,500,000 shares of common stock in this offering by selling stockholders, for the following persons:

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

This table lists applicable percentage ownership based on 13,012,715 shares of common stock outstanding as of January 4, 2006, and also lists applicable percentage ownership based on shares of common stock outstanding after completion of this offering.

We have determined beneficial ownership in the table in accordance with the rules of the Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have deemed shares of common stock subject to options held by that person that are currently exercisable or will become exercisable within 60 days of January 4, 2006 to be outstanding, but we have not deemed these shares to be outstanding for computing the percentage ownership of any other person. To our knowledge, except as set forth in the footnotes below, each stockholder identified in the table possesses sole voting and investment power with respect to all shares of common stock shown as beneficially owned by that stockholder. Unless otherwise indicated, the address of all listed stockholders is c/o Citi Trends, Inc., 102 Fahm Street, Savannah, Georgia 31401.

Name of Beneficial Owner	Number of Shares Beneficially Owned Prior to the Offering	Number of Shares Being Offered	Number of Shares Beneficially Owned After the Offering	Percentage of Shares Outstanding Before the Offering	Percentage of Shares Outstanding After the Offering
Directors and Named Executive Officers:					
R. Edward Anderson					
Chief Executive Officer and Director	466,665(1)	125,000	341,665	3.5%	2.5%
George A. Bellino					
President and Chief Merchandising Officer	491,072(2)	125,000	366,072	3.7%	2.7%
Thomas W. Stoltz					
Chief Financial Officer	68,917(3)	20,000	48,917	*	*
James A. Dunn					
Vice President of Store Operations	57,431(3)	20,000	37,431	*	*
Tracy L. Noll					
Director	90,064(4)	20,000	70,064	*	*
John S. Lupo					
Director	5,200(3)	0	5,200	*	*
Gregory P. Flynn(5)					
Director	7,900,535	1,190,000	6,710,535	60.4%	51.3%
Patricia M. Luzier					
Director	0	0	0	*	*
Directors and executive officers as a group (eight persons)	9,079,884	1,500,000	7,579,884	64.6%	53.9%
5% Stockholder:					
Hampshire Equity Partners (as defined)(6)	7,900,535	1,190,000	6,710,535	60.4%	51.3%

(1) Includes 29,163 shares of common stock and 437,502 options to purchase shares of common stock that are currently exercisable or will become exercisable within 60 days of January 4, 2006.
(2) Includes 129,568 shares of common stock and 361,504 options to purchase shares of common stock that are currently exercisable or will become exercisable within 60 days of January 4, 2006.
(3) Consists of options to purchase shares of common stock that are currently exercisable or will become exercisable within 60 days of January 4, 2006.
(4) Includes 45,500 shares of common stock and 44,564 options to purchase shares of common stock that are currently exercisable or will become exercisable within 60 days of January 4, 2006.
(5) Mr. Flynn is the Vice President of Lexington Equity Partners II, Inc., the general partner of Hampshire Equity Partners II, L.P., and is deemed to beneficially own the shares of common stock held by Hampshire Equity Partners (as defined in footnote 6 below). Mr. Flynn has disclaimed beneficial ownership of the shares of common stock held by Hampshire Equity Partners.
(6) Hampshire Equity Partners refers to Hampshire Equity Partners II, L.P., Hampshire Equity Partners Cayman D.B. II, LP and Hampshire Equity Partners Cayman II, LP. Hampshire Equity Partners II, L.P. currently owns 6,762,933 shares of our common stock, which includes 66,612 options to purchase shares of common stock that are currently exercisable or will become exercisable within 60 days of January 4, 2006, and is offering to sell 1,018,652 shares in this offering. Hampshire Equity Partners Cayman D.B. II, L.P. currently owns 1,115,296 shares of our common stock and is offering to sell 167,989 shares in this offering. Hampshire Equity Partners Cayman II, L.P. currently owns 22,306 shares of our common stock and is offering to sell 3,359 shares in this offering. Lexington Equity Partners II, L.P. is the general partner of Hampshire Equity Partners II, L.P. Lexington Equity Partners Cayman II, L.P. is the general partner of each of Hampshire Equity Partners Cayman D.B. II, LP and Hampshire Equity Partners Cayman II, LP. The general partner of each of Lexington Equity Partners II, L.P. and Lexington Equity Partners Cayman II, L.P. is Lexington Equity Partners II, Inc., which has ultimate voting and investment control over the shares of our common stock held by Hampshire Equity Partners. Tracey Rudd, an employee of an affiliate of Hampshire Equity Partners, is the President of Lexington Equity Partners II, Inc. and Mr. Flynn, one of our directors, is the Vice President of Lexington Equity Partners II, Inc. The address for each of Hampshire Equity Partners II, L.P., Hampshire Equity Partners Cayman D.B. II, LP and Hampshire Equity Partners Cayman II, LP is 520 Madison Avenue, New York, New York 10022.
* Less than 1%.

Description of Capital Stock

General

We are authorized to issue 20,000,000 shares of common stock, $0.01 par value per share, and 5,000 shares of undesignated preferred stock, $0.01 par value per share. The following description of our capital stock does not purport to be complete and is subject to, and qualified in its entirety by, our second amended and restated certificate of incorporation and amended and restated by-laws, which were previously filed as exhibits to our registration statement filed in connection with our initial public offering.

Common Stock

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

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

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

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

Preferred Stock

No shares of, and no securities convertible into, our preferred stock are outstanding.

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

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

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

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

Delaware Anti-Takeover Statute

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

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

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

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

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

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

No Cumulative Voting. The Delaware General Corporation Law provides that stockholders are not entitled to cumulate votes in the election of directors unless provided for otherwise in a company's certificate of

incorporation. Our second amended and restated certificate of incorporation does not grant our stockholders cumulative voting rights.

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

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

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

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

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

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

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

Authorized but Unissued Shares. Our authorized but unissued shares of common stock and preferred stock will be available for future issuance without your approval. We may use additional shares for a variety of

corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

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

- the prohibition on stockholder action by written consent;
- the ability to call a special meeting of stockholders being vested solely in (1) the chairman of our board of directors, (2) our board of directors pursuant to a resolution adopted by our board of directors and (3) our board of directors upon a request by holders of at least 50% in voting power of all the outstanding shares entitled to vote at that meeting;
- the provisions relating to the classification of our board of directors;
- the provisions relating to the size of our board of directors;
- the provisions relating to the quorum requirements for stockholder action and the removal of directors;
- the limitation on the liability of our directors to us and our stockholders;
- the provisions granting authority to our board of directors to amend or repeal our by-laws without a stockholder vote, as described in more detail in the next succeeding paragraph; and
- the supermajority voting requirements listed above.

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

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

Listing

Our common stock is listed on the Nasdaq National Market under the trading symbol "CTRN."

Transfer Agent and Registrar

The transfer agent and registrar for our stock is American Stock Transfer and Trust Company. The transfer agent's address is 59 Maiden Lane, New York, New York 10038.

Shares Eligible for Future Sale

Future sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices. Furthermore, since certain shares will not be available for sale shortly after the offering because of contractual and legal restrictions on resale described below, sales of substantial amounts of common stock in the public market after the restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, 13,389,327 shares of common stock will be outstanding, assuming no exercise of currently outstanding and exercisable options other than the 376,612 options to be exercised by certain selling stockholders in connection with this offering. Of these shares, the shares sold in this offering, plus any additional shares sold upon exercise of the underwriters' over-allotment option, and all of the 4,427,500 shares issued and sold in our initial public offering will be freely transferable without restriction under the Securities Act of 1933, as amended, unless they are held by our "affiliates" as that term is used under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. The remaining 7,491,827 shares of common stock held by existing stockholders are restricted shares. In addition, upon consummation of this offering, a total of 1,197,521 options will be outstanding, of which 913,421 options will be fully vested. Restricted shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 or 701 promulgated under the Securities Act of 1933, as amended, which rules are summarized below.

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

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

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

On June 8, 2005, we filed a registration statement on Form S-8 registering shares of common stock subject to outstanding stock options or reserved for issuance under our Amended and Restated 1999 Stock Option Plan and 2005 Long-Term Incentive Plan. Shares issued pursuant to our Amended and Restated 1999 Stock Option Plan and 2005 Long-Term Incentive Plan and registered under that registration statement are, subject to Rule 144 volume limitations applicable to affiliates, be available for sale in the open market, unless such shares are subject to vesting restrictions with us or the lock-up agreements described below.

Lock-Up Agreements

Each of our executive officers and directors and certain other stockholders, including Hampshire Equity Partners, have agreed to a 90-day "lock-up" with respect to our shares of common stock and other of our securities that they beneficially own, including securities that are convertible into shares of common stock and securities that are exchangeable or exercisable for shares of common stock. These lock-up agreements cover

fully diluted shares of our common stock. This means that, for a period of 90 days following the date of this prospectus, the lock-up period, subject to specified exceptions, such persons may not, directly or indirectly, offer, sell, pledge or otherwise dispose of these securities without the prior written consent of CIBC World Markets Corp. In addition, the lock-up period may be extended in the event that (i) we release earnings or announce certain material news during the last 17 days of the lock-up period, or (ii) prior to the expiration of the lock-up period, we announce that we will release earnings during the 16-day period beginning on the last day of the lock-up period. The restrictions in the lock-up agreements will not prevent such persons from transferring their shares or other securities as distributions to such persons' limited partners or as gifts, to members of their immediate family or to a trust for the benefit of themselves or member of their family or by will or intestacy, provided, in each case, that the transferee of such shares of other securities agrees to be locked-up to the same extent as the person from whom they received the shares.

We have been advised by CIBC World Markets Corp. that the release of any lock-up agreement by it will be considered on a case-by-case basis. The factors considered by CIBC World Markets Corp. in any such decision may include the length of time before the lock-up agreement expires, the number of shares involved, the reason for the requested release, market conditions, the trading price of our common stock, and the identity of the person or entity seeking the release (i.e., us or one of our affiliates, stockholders, executive officers or directors). We have also been advised by the underwriters that the underwriters have no current intention of waiving the lock-ups.

Registration Rights

Pursuant to the registration rights agreement executed in connection with our initial public offering, Hampshire Equity Partners II, L.P. has the right to demand registration of its shares and to include its shares in registration statements that we file after the consummation of this offering, subject to certain exceptions. See "Related Party Transactions— Registration Rights Agreement."

Underwriting

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

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

Underwriters	Number of Shares
CIBC World Markets Corp.	
Piper Jaffray & Co.	
SG Cowen & Co., LLC	
Wachovia Capital Markets, LLC	
Total	1,500,000

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

The shares should be ready for delivery on or about January , 2006 against payment in immediately available funds. The underwriters are offering the shares subject to various conditions and may reject all or part of any order. The representatives have advised us and the selling stockholders that the underwriters propose to offer the shares directly to the public at the public offering price that appears on the cover page of this prospectus. In addition, the representatives may offer some of the shares to other securities dealers at such price less a concession of $ per share. The underwriters may also allow, and such dealers may reallow, a concession not in excess of $ per share to other dealers. After the shares are released for sale to the public, the representatives may change the offering price and other selling terms at various times.

The selling stockholders have granted the underwriters an over-allotment option. This option, which is exercisable for up to 30 days after the date of this prospectus, permits the underwriters to purchase a maximum of 225,000 additional shares to cover over-allotments. If the underwriters exercise all or part of this option, they will purchase shares covered by the option at the public offering price that appears on the cover page of this prospectus, less the underwriting discount. If this option is exercised in full, the total price to the public will be approximately $ and the total proceeds to the selling stockholders will be $. The underwriters have severally agreed that, to the extent the over-allotment option is exercised, they will each purchase a number of additional shares proportionate to the underwriter's initial amount reflected in the foregoing table.

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

	Per Share	Total Without Exercise of Over-Allotment Option	Total With Full Exercise of Over-Allotment Option
Selling Stockholders	$	$	$

We estimate that the total expenses of this offering payable by us, excluding the underwriting discount, will be approximately $444,800. We have agreed to bear the expenses (other than underwriting discounts and commissions) of the selling stockholders in connection with this offering.

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

Each of our executive officers and directors and certain other stockholders, including Hampshire Equity Partners have agreed to a 90-day “lock-up” with respect to our shares of common stock and other of our securities that they beneficially own, including securities that are convertible into shares of common stock and securities that are exchangeable or exercisable for shares of common stock. These lock-up agreements cover 7,579,884 fully diluted shares of our common stock. This means that for a period of 90 days following the date of this prospectus, the lock-up period, subject to specified exceptions, such persons may not, directly or indirectly, offer, sell, pledge or otherwise dispose of these securities without the prior written consent of CIBC World Markets Corp. In addition, the lock-up period may be extended in the event that (i) we release earnings or announce certain material news during the last 17 days of the lock-up period, or (ii) prior to the expiration of the lock-up period, we announce that we will release earnings during the 16-day period beginning on the last day of the lock-up period. The restrictions in the lock-up agreements will not prevent such persons from transferring their shares or other securities as distributions to such persons’ limited partners or as gifts, to members of their immediate family or to a trust for the benefit of themselves of member of their family or by will or intestacy, provided in each case, that the transferee of such shares of other securities agree to be locked-up to the same extent as the person from whom they received the shares.

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

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

Our common stock is listed on the Nasdaq National Market under the symbol “CTRN.” As of January 10, 2006, the last reported price of our common stock was $43.00 per share.

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

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

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

- Penalty bids—If the representative purchases shares in the open market in a stabilizing transaction or syndicate covering transaction, they may reclaim a selling concession from the underwriters and selling group members who sold those shares as part of this offering.
- Passive market making—Market makers in the shares who are underwriters or prospective underwriters may make bids for or purchases of shares, subject to limitations, until the time, if ever, at which a stabilizing bid is made.

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

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

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

Based on information provided to us by CIBC World Markets Corp. and Hampshire Equity Partners, a managing director of CIBC World Markets Corp. has an approximate 0.02% indirect interest in our common stock, through ownership of limited partnership interests in Hampshire Equity Partners II, L.P. We do not expect the proceeds with respect to this indirect interest to exceed $30,000 in the aggregate.

As of January 4, 2006, Hampshire Equity Partners, on a fully diluted basis, currently holds approximately 54.2% of our common stock and after the offering will hold, on a fully diluted basis, approximately 46.0% of our common stock. Based upon this ownership interest, Hampshire Equity Partners is an "affiliate" of the company (as such term is defined under the Securities Act of 1933, as amended) and may be deemed to be an "underwriter" under the Securities Act of 1933, as amended. Certain of our other "affiliates" are also selling stockholders in this offering, including Messrs. Anderson, Bellino, Stoltz, Noll and Dunn, who are members of management and employees of ours, and may similarly be deemed to be "underwriters" under the Securities Act of 1933, as amended. See "Principal and Selling Stockholders."

Notice to Prospective Investors in the United Kingdom

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “relevant member state”), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that member state (the “Relevant Implementation Date”) it has not made and will not make an offer of shares to the public in that relevant member state, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that relevant member state:

(a) in the period beginning on the date of publication of a prospectus in relation to the shares, which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(d) at any time in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of shares to the public” in relation to any shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression Prospectus Directive means Directive 2003/71/ EC and includes any relevant implementing measure in each relevant member state.

Each underwriter has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (as amended) (the “FSMA”)) received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) of the FSMA does not apply to us; and

(b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

Electronic Distribution

A prospectus in electronic format may be made available on Internet sites or through other online services maintained by one or more of the underwriters or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter, prospective investors may be allowed to place orders online. The underwriters may agree to allocate a specific number of shares to online brokerage account holders. Any such allocation for online distributions will be made by the representative on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter’s web site and any information contained in any other web site maintained by an underwriter is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling stockholder in its capacity as underwriter or selling stockholder and should not be relied upon by investors.

Table of Contents

Legal Matters

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

Experts

The financial statements of Citi Trends, Inc. as of January 29, 2005 and January 31, 2004 and for the years ended January 29, 2005, January 31, 2004 and February 1, 2003 have been included herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The audit report refers to the adoption of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" on July 6, 2003.

Where You Can Find More Information

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

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

We intend to furnish our stockholders with annual reports containing financial statements audited by our independent registered public accountants and to make available to our stockholders quarterly reports for the first three quarters of each fiscal year containing unaudited interim financial statements.

Citi Trends, Inc.

Index to Financial Statements

FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JANUARY 29, 2005, JANUARY 31, 2004 AND FEBRUARY 1, 2003

Report of Independent Registered Public Accounting Firm	F-2
Balance Sheets as of January 29, 2005 and January 31, 2004	F-3
Statements of Income for the Years Ended January 29, 2005, January 31, 2004 and February 1, 2003	F-4
Statements of Cash Flows for the Years Ended January 29, 2005, January 31, 2004 and February 1, 2003	F-5
Statements of Stockholders' Equity for the Years Ended January 29, 2005, January 31, 2004 and February 1, 2003	F-6
Notes to Financial Statements for the Years Ended January 29, 2005, January 31, 2004 and February 1, 2003	F-7

INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED OCTOBER 29, 2005 AND OCTOBER 30, 2004

Condensed Balance Sheets as of October 29, 2005 and January 29, 2005 (unaudited)	F-21
Condensed Statements of Income for the Thirty-nine weeks ended October 29, 2005 and October 30, 2004 (unaudited)	F-22
Condensed Statements of Cash Flows for the Thirty-nine weeks ended October 29, 2005 an October 30, 2004 (unaudited)	F-23
Notes to the Condensed Financial Statements (unaudited)	F-24

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Citi Trends, Inc.:

We have audited the accompanying balance sheets of Citi Trends, Inc. (the "Company") as of January 29, 2005, and January 31, 2004, and the related statements of income, stockholders' equity, and cash flows for the fiscal years ended January 29, 2005, January 31, 2004 and February 1, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citi Trends, Inc. as of January 29, 2005, and January 31, 2004, and the results of its operations and its cash flows for the fiscal years ended January 29, 2005, January 31, 2004 and February 1, 2003 in conformity with U.S. generally accepted accounting principles.

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

/s/ KPMG LLP
Jacksonville, Florida
March 30, 2005, except as to Note 12(c) which is as of April 28, 2005 and Note 12(d) which is as of May 11, 2005

Citi Trends, Inc.

Balance Sheets
January 29, 2005 and January 31, 2004

	January 29, 2005	January 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$11,801,442	$ 9,954,232
Inventory	36,172,832	22,712,369
Prepaid and other current assets	2,600,933	1,770,998
Deferred tax asset	1,139,000	530,604
Total current assets	51,714,207	34,968,203
Property and equipment, net	17,573,767	12,749,601
Goodwill	1,371,404	1,371,404
Other assets	130,182	123,992
Total assets	$70,789,560	$49,213,200
Liabilities and Stockholders' Equity		
Current liabilities:		
Borrowings under revolving lines of credit	$ —	$ —
Accounts payable	28,132,301	19,577,370
Accrued expenses	3,199,772	2,121,520
Accrued compensation	2,537,643	1,669,462
Current portion of long-term debt	78,953	74,762
Current portion of capital lease obligations	718,425	566,667
Income tax payable	2,455,247	331,342
Layaway deposits	252,791	133,028
Total current liabilities	37,375,132	24,474,151
Long-term debt, less current portion	1,526,110	1,494,302
Capital lease obligations, less current portion	688,473	494,547
Preferred shares subject to mandatory redemption	3,984,763	5,160,313
Deferred tax liability	818,000	333,445
Other long-term liabilities	2,632,113	752,574
Total liabilities	47,024,591	32,709,332
Stockholders' equity:		
Common stock, $0.01 par value. Authorized 20,000,000 shares; 9,460,750 and 9,445,150 shares issued in 2005 and 2004; 9,295,000 shares outstanding in 2005 and 2004	3,639	3,633
Paid-in-capital	4,120,894	4,011,601
Retained earnings	19,828,629	12,571,384
Treasury stock, at cost; 165,750 and 150,150 shares in 2005 and 2004	(164,550)	(57,750)
Subscription receivable	(23,643)	(25,000)
Total stockholders' equity	23,764,969	16,503,868
Commitments and contingencies (notes 9 and 10)		
Total liabilities and stockholders' equity	$70,789,560	$49,213,200

See accompanying notes to financial statements.

Table of Contents

Citi Trends, Inc.

Statements of Income
Years Ended January 29, 2005, January 31, 2004 and February 1, 2003

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Net sales	$203,441,772	$157,198,306	$124,950,935
Cost of sales	127,307,594	98,145,216	77,806,541
Gross profit	76,134,178	59,053,090	47,144,394
Selling, general and administrative expenses	63,593,731	48,844,888	38,759,624
Income from operations	12,540,447	10,208,202	8,384,770
Interest expense, including redeemable preferred stock dividend	732,202	563,342	255,708
Income before provision for income taxes	11,808,245	9,644,860	8,129,062
Provision for income taxes	4,551,000	3,726,914	3,101,237
Net income	$ 7,257,245	$ 5,917,946	$ 5,027,825
Basic income per common share	$ 0.78	$ 0.62	$ 0.51
Diluted income per common share	$ 0.67	$ 0.54	$ 0.44
Average number of shares outstanding			
Basic	9,302,800	9,295,000	9,295,000
Diluted	10,879,388	10,771,410	10,757,110

See accompanying notes to financial statements

Citi Trends, Inc.

Statements of Cash Flows
Years Ended January 29, 2005, January 31, 2004 and February 1, 2003

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Operating activities:			
Net income	$ 7,257,245	$ 5,917,946	$ 5,027,825
Adjustment to reconcile net income to net cash provided by operating activities:			
Dividends on preferred shares subject to mandatory redemption	324,450	189,263	—
Depreciation and amortization	4,871,682	4,032,602	3,014,549
Deferred income taxes	(123,841)	161,883	541,742
Loss on disposal of fixed assets	80,719	23,396	93,189
Interest on Subscription Receivable	(9,643)	—	—
Noncash compensation expense	103,299	123,273	161,882
Changes in assets and liabilities:			
Inventory	(13,460,463)	(5,669,857)	(2,110,472)
Prepaid and other current assets	(845,787)	(577,991)	374,919
Income tax receivable	—	195,068	60,795
Other assets	(29,334)	(16,020)	(39,294)
Accounts payable	8,554,931	6,108,110	1,956,945
Accrued expenses and other long-term liabilities	2,823,842	647,045	576,631
Accrued compensation	868,181	(247,906)	880,225
Income tax payable	2,123,905	331,342	—
Layaway deposits	119,763	(28,761)	(82,278)
Net cash provided by operating activities	12,658,949	11,189,393	10,456,658
Investing activities:			
Purchase of property and equipment	(8,631,233)	(6,117,954)	(5,926,622)
Financing activities:			
Fee paid for continuance of revolving line of credit	—	—	(50,000)
Borrowings under revolving line of credit	37,716,044	26,295,521	133,369,853
Repayments under revolving line of credit	(37,716,044)	(26,295,521)	(137,059,791)
Repayments on long-term debt and capital lease obligations	(831,456)	(942,054)	(742,969)
Proceeds from issuance of long-term debt	—	—	1,680,000
Payment of dividends on preferred shares subject to mandatory redemption	(1,366,050)	—	—
Proceeds from payment of shareholder note receivable	11,000	—	—
Proceeds from sale of stock	6,000	—	—
Net cash used in financing activities	(2,180,506)	(942,054)	(2,802,907)
Net increase in cash and cash equivalents	1,847,210	4,129,385	1,727,129
Cash and cash equivalents:			
Beginning of period	9,954,232	5,824,847	4,097,718
End of period	$ 11,801,442	$ 9,954,232	$ 5,824,847
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 518,557	$ 352,933	$ 255,708
Cash paid for income taxes	$ 2,550,938	$ 3,036,620	$ 2,498,700
Supplemental disclosures of noncash activities:			
Dividends accrued on redeemable preferred stock	$ —	$ 135,187	$ 327,713
Purchases of property and equipment financed by entering into capital leases	$ 1,106,338	$ 670,503	$ 660,012
Insurance settlement not yet received related to loss of fixed assets and inventory related to store fire	—	192,384	—

Citi Trends, Inc.

Statements of Stockholders' Equity
Years Ended January 29, 2005, January 31, 2004 and February 1, 2003

	Common Stock		Paid in Capital	Retained Earnings	Treasury Stock		Subscription Receivable	Total
	Shares	Amount			Shares	Amount		
Balance— February 2, 2002	9,445,150	3,633	3,726,446	2,088,513	150,150	(57,750)	(25,000)	5,735,842
Expense recorded in connection with issuance of stock options			161,882					161,882
Accrued preferred stock dividends				(327,713)				(327,713)
Net income				5,027,825				5,027,825
Balance— February 1, 2003	9,445,150	3,633	3,888,328	6,788,625	150,150	(57,750)	(25,000)	10,597,836
Expense recorded in connection with issuance of stock options			123,273					123,273
Accrued preferred stock dividends				(135,187)				(135,187)
Net income				5,917,946				5,917,946
Balance— January 31, 2004	9,445,150	3,633	4,011,601	12,571,384	150,150	(57,750)	(25,000)	16,503,868
Exercise of stock options	15,600	6	5,994					6,000
Expense recorded in connection with issuance of stock options			103,299					103,299
Purchase of 600 shares of common stock in exchange for a 3 year note					15,600	(106,800)		(106,800)
Interest recorded on subscription receivable							(9,643)	(9,643)
Payment received on subscription receivable							11,000	11,000
Net income				7,257,245				7,257,245
Balance— January 29, 2005	9,460,750	3,639	4,120,894	19,828,629	165,750	(164,550)	(23,643)	23,764,969

Citi Trends, Inc.

Notes to Financial Statements
January 29, 2005, January 31, 2004 and February 1, 2003

(1) Organization and Business

Citi Trends, Inc. (the "Company") is a rapidly growing, value-priced retailer of urban fashion apparel and accessories for the entire family. As of January 29, 2005, the Company operated 200 stores in Alabama, Arkansas, Florida, Georgia, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Texas, and Virginia.

(2) Summary of Significant Accounting Policies

(a) Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31 of each year. The years ended January 29, 2005, January 31, 2004 and February 1, 2003 are referred to as fiscal 2004, 2003 and 2002, respectively, in the accompanying financial statements. Fiscal years 2004, 2003 and 2002 are each comprised of 52 weeks.

(b) Cash and Cash Equivalents

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

(c) Inventory

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

(d) Property and Equipment, net

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

(e) Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired. The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, as of February 3, 2002. Pursuant to SFAS No. 142, goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but instead tested for impairment at least annually. The Company performed this analysis at the end of fiscal 2004 and no impairment was indicated.

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 29, 2005, January 31, 2004 and February 1, 2003

(f) *Impairment of Long-Lived Assets*

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

(g) *Stock-Based Compensation*

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations including Financial Accounting Standards Board ("FASB") interpretation (FIN) No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25,* to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. The Company recognizes the fair value of stock rights granted to non-employees in the accompanying financial statements. SFAS No. 123, *Accounting for Stock-Based Compensation,* and SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123*, establishes accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing accounting standards, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and the Company has adopted only the disclosure requirements of SFAS No. 123, as amended. The following table illustrates the effect on net income for fiscal 2004, 2003 and 2002 if the fair-value-based method had been applied to all outstanding and unvested awards in the period. Pro forma information regarding net income and net income per share is required in order to show our net income as if we had accounted for employee stock options under the fair value method of SFAS No. 123, *Accounting for Stock-Based Compensation,* as amended by SFAS No. 148, *Accounting for*

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 29, 2005, January 31, 2004 and February 1, 2003

Stock-Based Compensation—Transition Disclosure. The fair values of options and shares issued pursuant to our option plan at each grant date were estimated using the Black-Scholes option pricing model.

	2004	2003	2002
Net income, as reported	$7,257,245	$5,917,946	$5,027,825
Add stock-based employee compensation expense included in reported net income, net of tax of $39,791, $45,855 and $62,729, respectively	63,508	77,415	99,153
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax of $86,829, $68,120 and $47,157, respectively	(138,583)	(114,997)	(74,538)
Pro forma net income	$7,182,170	$5,880,364	$5,052,440
As reported basic income per common share	$ 0.78	$ 0.62	$ 0.51
Pro forma basic income per common share	$ 0.77	$ 0.62	$ 0.51
As reported diluted income per common share	$ 0.67	$ 0.54	$ 0.44
Pro forma diluted income per common share	$ 0.66	$ 0.53	$ 0.44

(h) Revenue Recognition

Revenue from retail sales is recognized at the time of the sale, net of an allowance for estimated returns. The Company allows for returns up to 10 days after the date of sales and the estimate for returns is based on actual return activity 10 days after the period ends. Revenue from layaway sales is recognized when the customer has paid for and received the merchandise. If the merchandise is not fully paid for within 60 days, the customer is given a refund or store credit for merchandise payments made, less a re-stocking fee and a program service charge. Program service charges, which are non-refundable, are recognized in revenue when collected. All sales are from cash, check or major credit card company transactions. The Company does not offer company-sponsored customer credit accounts.

(i) Cost of Sales

Cost of sales includes the cost of inventory sold during the period, net of discounts and allowances; purchasing costs; transportation costs including inbound freight and internal transfer costs. Distribution center costs, advertising and promotional expenses are not considered a portion of cost of sales and are included as part of selling, general and administrative expenses.

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

The Company has prospectively adopted SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 also includes required disclosures for financial instruments within its scope. For the Company, SFAS No. 150 was effective for instruments entered into or modified after May 1, 2003 and otherwise effective as of February 1, 2004, except for mandatorily redeemable financial instruments. As such, the Company adopted

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 29, 2005, January 31, 2004 and February 1, 2003

the provisions of SFAS No. 150 for our Series A Preferred Stock on July 6, 2003 which required the Company to classify the Series A Preferred Stock as a liability on our balance sheet. The effective date of SFAS No. 150 has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. To illustrate the effect of SFAS No. 150 the following table shows net income if SFAS No. 150

	2004	2003	2002
Net income, as reported	$7,257,245	$5,917,946	$5,027,825
Add dividends on preferred shares subject to mandatory redemption	324,450	189,263	—
Pro forma net income	$7,581,695	$6,107,209	$5,027,825

(k) Earnings per Share

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

The following table provides a reconciliation of the earnings figures used to calculate earning per share and used in calculating diluted earnings per share for fiscal 2004, 2003 and 2002:

	2004	2003	2002
Net income, as reported	$7,257,245	$5,917,946	$5,027,825
Subtract dividends on preferred shares subject to mandatory redemption	—	135,188	324,450
Numerator for EPS calculation	$7,257,245	$5,782,758	$4,703,375

The following table provides a reconciliation of the number of average common shares outstanding used to calculate earning per share to the number of common shares and common share equivalents outstanding used in calculating diluted earnings per share for fiscal 2004, 2003 and 2002:

	2004	2003	2002
Average number of common shares outstanding	9,302,800	9,295,000	9,295,000
Incremental shares from assumed exercises of stock options	1,576,588	1,476,410	1,462,110
Average number of common shares and common stock equivalents outstanding	10,879,388	10,771,410	10,757,110

For fiscal 2004 and 2002 there were no options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution. For fiscal 2003, there was an immaterial number of options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution.

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 29, 2005, January 31, 2004 and February 1, 2003

(l) Advertising

The Company expenses all advertising expenditures as incurred. Advertising expense for fiscal 2004, 2003 and 2002 was $1,164,701, $905,872 and $618,051, respectively.

(m) Operating Leases

We account for our store leases in accordance with SFAS No. 13, Accounting for Leases and other authoritative guidance. Rent expense for operating leases, which have escalating rentals over the term of the lease, is recognized on a straight-line basis over the initial term.

Certain of our leases contain tenant improvement allowances, rent holidays, rent escalation clauses and/or contingent rent provisions. Incentives, rent holidays and minimum rental expenses are recognized on a straight-line basis over the term of the lease based on the date of initial possession, which is generally the date the property is available to the Company to make improvements in preparation of its intended use.

For tenant improvement allowances, we record a deferred rent liability on the balance sheet and amortize the deferred rent over the term of the lease as a reduction to rent expense.

(n) Store Opening and Closing Costs

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

(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) Use of Estimates

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

(q) Business Reporting Segments

The Company is a value-priced retailer of urban fashion apparel and accessories for the entire family. The Company’s chief operating decision maker reviews performance and the allocation of resources on a store by store basis. Because the Company operates one business activity and the level of review by the Company’s chief operating decision maker is on a store by store basis, the Company has determined that its operations

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 29, 2005, January 31, 2004 and February 1, 2003

are within one reportable segment. Accordingly, financial information on industry segments is omitted. All sales are to customers and assets are located within the United States.

(r) Other Comprehensive Income

The Company did not have any components of other comprehensive income for fiscal 2004, 2003 and 2002.

(s) Recently Issued Accounting Standards Not Currently Effective

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

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

(3) Property and Equipment, Net

The components of property and equipment at January 29, 2005 and January 31, 2004 are as follows:

	January 29, 2005	January 31, 2004
Land	$ 810,000	$ 810,000
Building	1,340,000	1,340,000
Leasehold improvements	12,134,815	8,885,163
Furniture, fixtures, and equipment	13,660,714	9,000,105
Computer equipment	6,535,924	4,823,922
	34,481,453	24,859,190
Accumulated depreciation and amortization	16,907,686	12,109,589
	$17,573,767	$12,749,601

Depreciation expense for fiscal 2004, 2003 and 2002 was $4,848,537, $4,011,456 and $2,999,666, respectively. Computer equipment held under capital leases and related accumulated depreciation was $4,466,372 and $3,103,821, respectively, at January 29, 2005 and $3,373,409 and $2,448,245, respectively, at January 31, 2004.

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 29, 2005, January 31, 2004 and February 1, 2003

(4) Revolving Lines of Credit

The Company has a revolving line of credit secured by substantially all of the Company's assets pursuant to which the Company pays customary fees. This secured line of credit expires in April 2007. At January 29, 2005, the line of credit provided for aggregate cash borrowings and the issuance of letters of credit up to the lesser of $25,000,000 or the Company's borrowing base (approximately $23,500,000 at January 29, 2005), as defined in the credit agreement. Borrowings under this secured line of credit bear interest at either the prime rate or the Eurodollar rate plus 2.25%, at the Company's election, based on conditions in the credit agreement. Additionally, there is a letter of credit fee of 1.25% per annum on the outstanding balance of letters of credit. At January 29, 2005, there were no outstanding borrowings on the revolving line of credit, nor were there any outstanding letters of credit. Under the terms of the credit agreement, the Company is required to maintain a minimum tangible net worth. The Company was in compliance with this requirement at January 29, 2005.

In September 2003, the Company entered into an annual unsecured revolving line of credit with Bank of America that expires in June 2005. At January 29, 2005, the line of credit provided for aggregate cash borrowings up to $3,000,000. Borrowings under the credit agreement bear interest at the London Interbank Offered Rate ("LIBOR") plus 2.00%. At January 29, 2005, there were no outstanding borrowings on the unsecured revolving line of credit.

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

(5) Long-term Debt and Capital Lease Obligations

Capital Leases. The Company has capital lease obligations that finance the purchase of its computer equipment. These obligations have maturity dates ranging from March 2005 to December 2007. The interest rates on these obligations range from 7.2% to 11.5%. All of these obligations are secured by the computer equipment.

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 29, 2005, January 31, 2004 and February 1, 2003

As of January 29, 2005 and January 31, 2004, long-term debt and capital lease obligations consist of the following:

	January 29, 2005	January 31, 2004
Mortgage payable issued to finance purchase of land and building; payable in monthly installments of $14,913, including interest, through June 2007 with a balloon payment of $1,303,412 due July 2007; interest at a fixed rate of 6.80%; secured by land and building	$1,496,121	$1,569,064
Non-negotiable three year junior subordinated note payable on September 30, 2007 issued in exchange for 600 shares of common stock	108,942	—
Capital lease obligations issued to finance purchase of computer equipment; payable in monthly installments averaging approximately $68,092, $45,357 and $15,889 in 2005, 2006 and 2007, with maturity dates ranging from March 2005 to December 2007; interest at rates ranging from 7.2% to 11.5%; secured by computer equipment	1,406,898	1,061,214
	3,011,961	2,630,278
Less current portion of long-term debt and capital lease obligations	797,378	641,429
	$2,214,583	$1,988,849

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

Fiscal Year	Long-term Debt	Capital Lease Obligations
2005	$ 78,953	$ 801,112
2006	85,984	544,278
2007	1,440,126	182,639
	1,605,063	1,528,029
Less portion attributable to future interest payments (at rates ranging from 7.2% to 11.5%)	—	(121,131)
	$1,605,063	$1,406,898

(6) Income Taxes

The provision for income taxes for fiscal 2004, 2003 and 2002 consists of the following:

	2004	2003	2002
Current:			
Federal	$3,910,115	$2,987,496	$2,136,445
State	764,726	577,535	423,050
	4,674,841	3,565,031	2,559,495
Deferred:			
Federal	(104,170)	135,658	465,423
State	(19,671)	26,225	76,319
	(123,841)	161,883	541,742
	$4,551,000	$3,726,914	$3,101,237

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 29, 2005, January 31, 2004 and February 1, 2003

Income tax expense computed using the federal statutory rate is reconciled to the reported income tax expense as follows for fiscal 2004, 2003 and 2002:

	2004	2003	2002
Statutory rate applied to income before income taxes	$4,014,803	$3,279,252	$2,763,881
State income taxes, net of federal benefit	491,736	385,794	329,584
General business credits	(182,000)	(161,023)	(117,004)
Dividends on preferred stock	110,313	66,240	—
Other	116,148	156,651	124,776
Provision for income taxes	$4,551,000	$3,726,914	$3,101,237

The components of deferred tax assets and liabilities at January 29, 2005 and January 31, 2004 are as follows:

	2005	2004
Deferred tax assets:	$ 518,531	$ 189,682
Deferred rent amortization	850,156	572,515
Inventory capitalization	177,333	61,750
Vacation liability	171,477	129,071
Stock compensation	56,000	16,000
Other	1,773,497	969,018
Deferred tax liabilities:		
Book and tax depreciation differences	(681,945)	(188,881)
Prepaid expenses	(462,832)	(309,464)
Goodwill	(170,652)	(129,612)
Other	(137,068)	(143,902)
	(1,452,497)	(771,859)
Net deferred tax asset	$ 321,000	$ 197,159

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. As such, a valuation allowance for deferred tax assets was not considered necessary at January 29, 2005 and January 29, 2004.

(7) Preferred Shares Subject to Mandatory Redemption

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

liquidation of the Company. At January 29, 2005 and January 31, 2004 the Company had accrued interest and dividends payable of $379,763 and $1,555,313, respectively. During fiscal 2003, the Company's board of directors adopted a resolution whereby the Company intends to begin repaying its Series A Preferred Stock and all dividends accrued thereon at a rate of $500,000 per quarter, beginning in the second quarter of fiscal 2004. In fiscal 2004 the Company paid dividends and interest of $1.5 million.

(8) Stockholders' Equity

(a) Stockholders Agreement

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

(b) Equity Transactions with Officer

In December 2001, the Company issued options to an officer for 436,800 shares of common stock. Since the estimated fair market value of the Company's common stock issued exceeded the exercise price of these options on the date of grant, the Company recognized charges to earnings during fiscal 2004, 2003 and 2002 of $44,627, $84,441 and $161,882, respectively. Additional charges related to these options of $17,721 will be recognized in fiscal 2005.

(c) Equity Transactions with Majority Stockholder

In August 2003, the Company's board of directors adopted a plan (the "Anti-Dilution Plan") whereby stock options are to be issued to the Company's majority stockholder, as well as certain defined members of management, in amounts necessary to prevent the dilution of their ownership percentage as a result of the issuance of stock options to other employees of the Company. Options granted under this Anti-Dilution Plan are to be issued at the estimated fair market value of the Company's common stock on the date of grant and vest immediately. This Anti-Dilution Plan was terminated. See Note 12. During fiscal 2004 and 2003, the Company issued stock options for 31,174 and 39,078 shares of common stock, respectively, under this Anti-Dilution Plan, 29,562 and 37,050, respectively, of which were issued to its majority stockholder. Because the majority stockholder does not qualify as an employee, FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," required the Company to recognize a charge to earnings during fiscal 2004 and 2003 of $58,672 and $38,832, respectively. The fair value of the vested options was determined using the Black-Scholes option-pricing model.

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 29, 2005, January 31, 2004 and February 1, 2003

(d) Stock Options

In 1999, the Company established the 1999 Citi Trends, Inc. Stock Option Plan (the "Plan"). The Plan provides for the grant of incentive and nonqualified options to key employees and directors. The board of directors determines the exercise price of option grants. Option grants generally vest in equal installments over four years from the date of grant and are generally exercisable up to ten years from the date of grant. The Company has authorized up to 1,950,000 shares of common stock for issuance under the Plan.

A summary of option activity in the Plan for fiscal 2004, 2003 and 2002 is as follows:

	2004		2003		2002	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at beginning of period	1,791,374	0.77	1,728,896	0.40	1,718,496	$0.38
Granted	124,774	6.75	192,478	3.79	46,800	2.09
Exercised	(15,600)	0.38	—	—	—	—
Forfeited	(39,000)	3.35	(130,000)	0.65	(36,400)	0.38
Outstanding end of period	1,861,548	1.12	1,791,374	0.77	1,728,896	0.40
Options exercisable end of period	1,616,498	0.67	1,383,096	0.49	962,910	$0.38

At January 29, 2005 the range of exercise prices and weighted-average remaining contractual life of outstanding options was $0.38 to $6.85 and 6 years, respectively.

The following table summarizes the status of Company options exercisable at January 29, 2005 by exercise price:

Exercise Price & Fair Value of Stock on Date of Grant	Quarter of Grant	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Total Intrinsic Value of Options at Date of Grant
$0.38(1)	4th Quarter 2001 and prior	1,552,096	5.4	1,498,146	$336,000
$1.92	1st Quarter 2002	20,800	7.0	10,400	—
$2.69	2nd Quarter 2002	10,400	7.5	5,200	—
$3.62	2nd Quarter 2003	101,478	8.4	58,578	—
$3.81	3rd Quarter 2003	26,000	8.6	6,500	—
$4.46	4th Quarter 2003	26,000	8.8	6,500	—
$6.54(2)	1st Quarter 2004	36,400	9.2	—	109,564
$6.81(3)	2nd Quarter 2004	20,800	9.3	—	71,552
$6.85(4)	3rd Quarter 2004	67,574	9.6	31,174	283,811
		1,861,548		1,616,498	$800,927

Citi Trends, Inc.

Notes to Financial Statements—(Continued)
January 29, 2005, January 31, 2004 and February 1, 2003

(1) 436,800 shares were granted during the 4th quarter 2001, the exercise price was $0.38 and the fair value of the options were $1.15.
(2) 36,400 shares were granted during the 1st quarter 2004, the exercise price was $6.54 and the fair value of the options were $9.55.
(3) 20,800 shares were granted during the 2nd quarter 2004, the exercise price was $6.81 and the fair value of the options were $10.25.
(4) 67,574 shares were granted during the 3rd quarter 2004, the exercise price was $6.85 and the fair value of the options were $11.05.

Since the estimated fair market value of the Company's common stock exceeded the exercise price of the options referenced in footnotes (2), (3) and (4) above on the dates of their respective grants, the Company expects to recognize charges related to these options of approximately $83,000, $83,000, $83,000 and $26,000 in fiscal 2005, fiscal 2006, fiscal 2007 and fiscal 2008, respectively.

The fair value of options granted during the years ended January 29, 2005, January 31, 2004 and February 1, 2003 was $2.50, $1.31 and $0.80, respectively, using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	2005	2004	2003
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	50.00%	50.00%	50.00%
Risk-free interest rate	2.50%	2.50%	3.60%
Expected life, in years	10 years	10 years	10 years
Forfeiture rate	10.00%	10.00%	10.00%

(9) Commitments and Contingencies

The Company leases its stores under operating leases, which generally have an initial term of five years with a five-year renewal option. Future minimum rental payments under operating leases having noncancelable lease terms at January 29, 2005 are as follows:

Fiscal Year:	
2005	$ 8,223,506
2006	7,318,638
2007	6,032,679
2008	4,706,191
2009	2,365,894
Thereafter	614,920
Total future minimum lease payments	$29,261,828

Certain operating leases provide for fixed monthly rentals while others provide for rentals computed as a percentage of net sales. Certain operating leases provide for a combination of both fixed monthly rental and rentals computed as a percentage of net sales. Rental expense was $8,417,799, $6,363,257 and $4,787,768 for the fiscal 2004, 2003 and 2002 (including $723,471, $794,444 and $539,090 of percentage rent), respectively.

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. The Company is currently the defendant in a putative collective action lawsuit commenced by a former employee under the Fair Labor Standards Act. The suit is pending in District Court of the United States for the Middle District of Alabama, Northern Division. The plaintiff is seeking unpaid compensation and benefits, liquidated damages, attorneys fees, costs and injunctive relief. The case is in its early stages, and the Company is in the process of

evaluating the claims made. While the Company's review of the allegations is preliminary, it believes that its business practices are, and were during the relevant periods, in compliance with the law. While the Company is unable to predict the outcome of this matter, it plans to defend this suit vigorously.

(10) Related Party Transactions

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

Term and Termination

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

Compensation

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

Upon the consummation of the Company's IPO (see Note 12), the Company intends to negotiate a termination of the consulting agreement and has tentatively agreed to pay the consultant a termination fee of $1.2 million before December 31, 2005.

Included in operating expenses are management fees of $240,000, $240,000 and $190,000 for fiscal 2004, 2003 and 2002, respectively.

Table of Contents

(11) Valuation and Qualifying Accounts

The following table presents amounts that have been reserved on the balance sheet.

	Inventory Shrinkage Reserve
Balance at February 2, 2002	$ 806,367
Additions charged to costs and expenses	2,066,634
Deductions	(1,808,188)
Balance at February 1, 2003	$ 1,064,813
Additions charged to costs and expenses	2,541,749
Deductions	(2,672,235)
Balance at January 31, 2004	$ 934,327
Additions charged to costs and expenses	2,917,053
Deductions	(2,629,883)
Balance at January 29, 2005	$ 1,221,497

Additions charged to costs and expenses is the result of anticipated inventory shrinkage. Deductions represent actual inventory shrinkage incurred from physical inventories taken during the fiscal year.

(12) Subsequent Events

(a) Initial Public Offering

On February 28, 2005, the Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission to register shares in an initial public offering (“IPO”). The IPO is expected to be consummated during the second quarter of 2005.

(b) Long-Term Incentive Plan

On March 8, 2005 the Company adopted the 2005 Long-Term Incentive Plan which will become effective upon the consummation of the IPO. Under the Incentive Plan, the Company has reserved 910,000 shares of Common Stock for the grant of stock options and other equity incentive awards.

(c) Termination of Anti-Dilution Plan

On April 28, 2005, the Company terminated the Anti-Dilution Plan discussed in Note 8(c).

(d) Stock Split

In connection with the IPO, on May 11, 2005, the Board of Directors approved a 26-for-1 stock split of the Company’s common stock. All share and per share amounts related to common stock and stock options included in the accompanying financial statements and footnotes have been restated to reflect the stock split.

Table of Contents

Citi Trends, Inc.

Condensed Balance Sheets
October 29, 2005 and January 29, 2005

	October 29, 2005	January 29, 2005
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 9,371,132	$11,801,442
Marketable securities	32,581,066	—
Inventory	53,978,475	36,172,832
Prepaid and other current assets	3,388,950	2,600,933
Income tax receivable	1,285,052	—
Deferred tax asset	1,420,102	1,139,000
Total current assets	102,024,777	51,714,207
Property and equipment, net	21,796,574	17,573,767
Goodwill	1,371,404	1,371,404
Other assets	184,900	130,182
Total assets	$125,377,655	$70,789,560
Liabilities and Stockholders' Equity		
Current liabilities:		
Borrowings under revolving lines of credit	$ —	$ —
Accounts payable	34,798,307	28,132,301
Accrued expenses	5,691,159	3,199,772
Accrued compensation	5,014,246	2,537,643
Current portion of long-term debt	—	78,953
Current portion of capital lease obligations	725,291	718,425
Income taxes payable	—	2,455,247
Layaway deposits	1,494,753	252,791
Total current liabilities	47,723,756	37,375,132
Long-term debt, less current portion	—	1,526,110
Capital lease obligations, less current portion	563,565	688,473
Preferred shares subject to mandatory redemption	—	3,984,763
Deferred tax liability	1,075,690	818,000
Other long-term liabilities	3,221,896	2,632,114
Total liabilities	52,584,907	47,024,592
Stockholders' equity:		
Common stock, $0.01 par value. Authorized 20,000,000; 13,034,270 shares issued at October 29, 2005 and 9,460,750 shares issued at January 29, 2005; 12,868,520 shares outstanding at October 29, 2005 and 9,295,000 outstanding at January 29, 2005	130,343	94,608
Paid-in-capital	46,720,247	4,029,925
Retained earnings	26,106,708	19,828,628
Treasury stock, at cost; 165,750 shares as of October 29, 2005 and January 29, 2005	(164,550)	(164,550)
Subscription receivable	—	(23,643)
Total stockholders' equity	72,792,748	23,764,968
Commitments and contingencies (note 7)		
Total liabilities and stockholders' equity	$125,377,655	$70,789,560

See accompanying notes to the condensed financial statements.

Table of Contents

Citi Trends, Inc.

Condensed Statements of Income
Thirty-Nine Weeks Ended October 29, 2005 and October 30, 2004

	October 29, 2005	October 30, 2004
	(Unaudited)	
Net sales	$192,960,784	$137,128,891
Cost of sales	119,038,450	86,288,238
Gross profit	73,922,334	50,840,653
Selling, general and administrative expenses	64,281,322	46,439,668
Income from operations	9,641,012	4,400,985
Interest income	499,403	16,734
Interest expense, including redeemable preferred stock dividend	(302,335)	(574,324)
Income before provision for income taxes	9,838,080	3,843,395
Provision for income taxes	3,560,000	1,479,707
Net income	$ 6,278,080	$ 2,363,688
Basic income per common share	$ 0.55	$ 0.25
Diluted income per common share	$ 0.49	$ 0.22
Average number of shares outstanding		
Basic	11,348,502	9,305,400
Diluted	12,847,419	10,945,038

See accompanying notes to the condensed financial statements.

Citi Trends, Inc.

Condensed Statements of Cash Flows
Thirty-nine Weeks Ended October 29, 2005 and October 30, 2004

	October 29, 2005	October 30, 2004
	(Unaudited)	
Operating activities:		
Net income	$ 6,278,080	$ 2,363,688
Adjustment to reconcile net income to net cash provided by operating activities:		
Dividends on preferred shares subject to mandatory redemption	100,308	243,338
Depreciation and amortization	4,369,232	3,587,207
Loss on disposal of property and equipment due to hurricane damage	161,506	—
Deferred income taxes	(23,412)	—
Noncash compensation expense	75,531	92,142
Tax benefit on stock option exercise	1,316,621	—
Changes in assets and liabilities:		
Inventory	(17,805,643)	(17,618,342)
Prepaid and other current assets	(576,850)	(723,555)
Other assets	(73,388)	(13,071)
Accounts payable	6,666,006	3,929,299
Accrued expenses and other long-term liabilities	2,601,051	1,969,512
Accrued compensation	2,476,603	887,067
Income tax payable/receivable	(3,740,299)	(1,074,618)
Layaway deposits	1,241,962	1,008,628
Net cash provided by (used in) operating activities	3,067,308	(5,348,705)
Investing activities:		
Investments in marketable securities	(32,581,066)	—
Purchase of property and equipment	(8,431,852)	(6,228,499)
Net cash used in investing activities	(41,012,918)	(6,228,499)
Financing activities:		
Gross borrowings under revolving line of credit	—	27,860,104
Gross repayments under revolving line of credit	—	(22,472,037)
Repayments on long-term debt and capital lease obligations	(2,237,296)	(626,077)
Proceeds from payment of shareholder note receivable	23,691	11,000
Repayment of preferred shares subject to mandatory redemption	(3,605,000)	(1,000,000)
Proceeds from sale of stock	41,333,905	6,000
Net cash provided by financing activities	35,515,300	3,778,990
Net decrease in cash and cash equivalents	(2,430,310)	(7,798,214)
Cash and cash equivalents:		
Beginning of period	11,801,442	9,954,232
End of period	$ 9,371,132	$ 2,156,018
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 664,750	$ 296,900
Cash paid for income taxes	$ 6,007,090	$ 2,559,729
Purchases of property and equipment financed by entering into capital leases	$ 514,191	$ 670,503

See accompanying notes to the condensed financial statements.

Citi Trends, Inc.

Notes to the Condensed Financial Statements (unaudited)
October 29, 2005

(1) Basis of Presentation

The condensed balance sheet as of October 29, 2005, the condensed statements of operations for the thirty-nine-week periods ended October 29, 2005 and October 30, 2004, and the condensed statements of cash flows for the thirty-nine week periods ended October 29, 2005 and October 30, 2004 have been prepared by Citi Trends, Inc. (the "Company"), without audit. The condensed balance sheet at January 29, 2005 has been derived from the audited financials statements at 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 October 29, 2005 and January 29, 2005, and its results of operations and cash flows at October 29, 2005 and October 30, 2004 and for all periods presented.

Certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted from these condensed financial statements. The Company suggests that you read its condensed financial statements in conjunction with the financial statements and notes thereto included in this prospectus.

The results of operations for the thirty-nine weeks ended October 29, 2005 are not necessarily indicative of the operating results that may be expected for the year ending January 28, 2006.

(2) Stock-Based Compensation

The Company applies the intrinsic-value-based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB interpretation (FIN) No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25*, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. The Company recognizes the fair value of stock rights granted to non-employees in the accompanying condensed financial statements. SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123*, establishes accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing accounting standards, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and the Company has adopted only the disclosure requirements of SFAS No. 123, as amended. The following table illustrates the effect on net income for the thirty-nine ended October 29, 2005 and October 30, 2004 as if the fair-value-based method had been applied to all outstanding and unvested awards in the periods. Pro forma information regarding net income and net income per share is required in order to disclose the Company's net income as if it had accounted for employee stock options under the fair value method of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for*

Stock-Based Compensation—Transition Disclosure. The fair values of options and shares issued pursuant to its option plan at each grant date were estimated using the Black-Scholes option pricing model.

	Thirty-Nine Weeks	
	2005	2004
Net income, as reported	$6,278,080	$2,363,688
Add stock-based employee compensation expense included in reported net income, net of tax of $27,336 and $33,355, respectively, for the thirty-nine weeks	48,195	58,787
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax of $98,350 and $101,582, respectively, for the thirty-nine weeks	(173,335)	(179,032)
Pro forma net income	$6,152,940	$2,243,443
As reported basic income per common share	$ .55	$ .25
Pro forma basic income per common share	$ .54	$ .24
As reported diluted income per common share	$ .49	$ .22
Pro forma diluted income per common share	$ .48	$ .20

(3) Earnings per Share

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

The following table provides a reconciliation of the number of average common shares outstanding used to calculate earnings per share to the number of common shares and common share equivalents outstanding used in calculating diluted earnings per share for the thirty-nine weeks ended October 29, 2005 and October 30, 2004:

	2005	2004
Average number of common shares outstanding	11,348,502	9,305,400
Incremental shares from assumed exercises of stock options	1,498,917	1,639,638
Average number of common shares and common stock equivalents outstanding	12,847,419	10,945,038

For the thirty-nine weeks ended October 29, 2005 and October 30, 2004 there were 4,000 and 0 options, respectively, outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because of anti-dilution.

(4) Marketable Securities

Marketable securities consist primarily of auction rate municipal securities which are highly liquid, variable rate debt securities. While the underlying security has a long-term nominal maturity, the interest rate is periodically reset through dutch auctions typically every thirty-five days. Since these auction rate securities are priced and subsequently trade at short-term intervals they are classified as current assets.

The Company classifies all investments as available-for-sale. Available-for-sale securities are carried at estimated fair value, based on available market information, with unrealized gains and losses, if any, reported as a component of stockholders' equity. As a result of the resetting variable rates, the carrying value of available-for-sale securities approximates fair market value due to their short maturities. For these reasons, the Company has no cumulative gross unrealized or realized gains or losses from these investments. All income generated from these investments was recorded as interest income. The Company has no investments considered to be trading securities.

(5) Revolving Lines of Credit

The Company has a revolving line of credit secured by substantially all of the Company's assets pursuant to which the Company pays customary fees. This secured line of credit expires in April 2007. At October 29, 2005, the line of credit provided for aggregate cash borrowings and the issuance of letters of credit up to the lesser of $25,000,000 or the Company's borrowing base (approximately $25,000,000 at October 29, 2005), as defined in the credit agreement. Borrowings under this secured line of credit bear interest at either the prime rate or the Eurodollar rate plus 2.25%, at the Company's election, based on conditions in the credit agreement. Additionally, there is a letter of credit fee of 1.25% per annum on the outstanding balance of letters of credit. At October 29, 2005, there were no outstanding borrowings on the revolving line of credit, nor were there any outstanding letters of credit. Under the terms of the credit agreement, the Company is required to maintain a minimum tangible net worth. The Company was in compliance with this requirement at October 29, 2005.

In September 2003, the Company entered into an annual unsecured revolving line of credit with Bank of America that expires on June 30, 2006. At October 29, 2005, the line of credit provided for aggregate cash borrowings up to $3,000,000. Borrowings under the credit agreement bear interest at LIBOR plus 2.00%. At October 29, 2005, there were no outstanding borrowings on the unsecured revolving line of credit.

(6) Equity Transactions with Majority Stockholder

In August 2003, the Company's board of directors adopted the Anti-Dilution Plan whereby stock options were to be issued to the Company's majority stockholder, as well as certain defined members of management, in amounts necessary to prevent the dilution of their ownership percentage as a result of the issuance of stock options to other employees of the Company. Options granted under this Anti-Dilution Plan were to be issued at the estimated fair market value of the Company's common stock on the date of grant and vest immediately. On April 28, 2005 the Company terminated the Anti-Dilution Plan. During the thirty-nine week periods ended October 29, 2005 and October 30, 2004, the Company issued 0 and 31,174 stock options, respectively, under this Anti-Dilution Plan.

(7) Contingencies

The Company from time to time is involved in various legal proceedings incidental to the conduct of its business, including claims by customers, employees or former employees. While litigation is subject to uncertainties and the outcome of any litigated matter is not predictable, the Company is not aware of any legal proceedings pending or threatened against it that it expects to have a material adverse effect on its financial condition or results of operations.

(8) Related Party Transactions—Management Consulting Agreement

The Company was a party to an Amended and Restated Management Consultant Agreement, or the Consulting Agreement, effective as of February 1, 2004 with Hampshire Management Company LLC, or the Consultant, which is an affiliate of the Company's majority stockholder, pursuant to which the Consultant provided the Company with certain consulting services related to, but not limited to, financial affairs, relationships with lenders, stockholders and other third-party associates or affiliates, and the expansion of the

Company's business. In connection with the Company's initial public offering (see note 10), the parties terminated the Consulting Agreement and the Company paid the Consultant a one time termination fee of $1.2 million in the second quarter of 2005.

Included in operating expenses were management fees of $72,857 and the termination fee of $1.2 million for the thirty-nine weeks ended October 29, 2005 and management fees of approximately $180,000 for the thirty-nine weeks ended October 30, 2004.

(9) Long-Term Incentive Plan

On March 8, 2005 the Company adopted the 2005 Long-Term Incentive Plan which became effective upon the consummation of the initial public offering. Under the Incentive Plan, the Company may grant up to 1.3 million shares of common stock that may be issued for the grant of stock options and other equity incentive awards. In the thirty-nine weeks ended October 29, 2005, the Company issued approximately 172,000 options under this plan.

(10) Initial Public Offering

On May 18, 2005, the Company completed the initial public offering, or IPO, of its common stock as a result of which the Company issued and sold 2,700,000 shares of common stock at $14.00 per share. In addition, the Company received notice on May 27, 2005, that the underwriters had exercised the over-allotment option granted in connection with the IPO, pursuant to which the Company issued and sold an additional 577,500 shares on June 1, 2005. Upon completing the offering and the over-allotment option, the Company received gross proceeds of approximately $45.9 million and incurred approximately $4.8 million in expenses in connection with the IPO, for net proceeds of approximately $41.1 million. In addition, 1,150,000 shares of common stock were sold in the IPO by certain selling stockholders of the Company, for which the Company received no proceeds. As a result, upon the closing of the offering, there were 12,602,154 shares of common stock outstanding. The Company's common stock is listed on NASDAQ under the symbol "CTRN".

(11) Stock Split

In connection with the IPO, on May 11, 2005, the Board of Directors approved a 26-for-1 stock split of the Company's common stock. All share and per share amounts related to common stock and stock options included in the accompanying condensed financial statements and notes have been restated to reflect the stock split.

(12) Use of IPO Proceeds

The Company received net proceeds of approximately $41.2 million from the IPO. Following the closing of the IPO, each of the Company's 3,605 shares of mandatory redeemable preferred stock were redeemed and extinguished for approximately $3.6 million, and the Company repaid in full the mortgage on its Fahm Street Headquarters and Distribution Center in the amount of approximately $1.5 million. Subsequent to the IPO the Company has invested approximately $30.2 million of the proceeds in short term investments and has spent approximately $4.3 million on capital expenditures for new stores and approximately $1.6 million to date for a distribution center in Darlington, South Carolina.

(13) Recent Accounting Pronouncements

In December of 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which replaces the requirements under SFAS No. 123 and APB No. 25. SFAS No. 123R sets accounting requirements for "share-based" compensation to employees, including employee stock purchase plans, and requires all share-based payments, including employee stock options, to be recognized in the financial statements of the Company based on their fair value. It carries forward prior guidance on accounting for awards to non-

employees. The accounting for employee stock ownership plan transactions will continue to be accounted for in accordance with Statement of Position 93-6, while awards to most non-employee directors will be accounted for as employee awards. This Statement is effective for public companies that do not file as small business issuers as of the beginning of their first annual period beginning after June 15, 2005 (the Statement is effective January 29, 2006 for the Company). The impact of adopting SFAS No. 123R will be dependent on numerous factors including, but not limited to, the valuation model chosen by the Company to value stock-based awards; the assumed award forfeiture rate; the accounting policies adopted concerning the method of recognizing the fair value of awards over the requisite service period; and the transition method chosen for adopting SFAS No. 123R. The Company has preliminarily estimated the effects of adoption of SFAS No. 123R will result in an additional compensation expense of $1.0-1.5 million in fiscal 2006.

In May, 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections: a replacement of APB Opinion No. 20 and FASB Statement No. 3." Statement 154 requires retrospective application for voluntary changes in accounting principle unless it is impracticable to do so. The requirements are effective for accounting changes made in fiscal years beginning after December 12, 2005. The Company has assessed the impact of Statement 154, and does not expect it to have an impact on its financial position, results of operations or cash flows.

Table of Contents

Table of Contents

1,500,000 Shares

Citi Trends

Common Stock

PROSPECTUS

January , 2006

CIBC World Markets

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

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

Part II

Information Not Required in Prospectus

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

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by the registrant in connection with the sale of the securities being registered. All amounts are estimates.

SEC registration fee	$ 7,400
NASD filing fee	7,400
Printing	100,000
Legal fees and expenses	125,000
Accounting fees and expenses	125,000
Transfer agent, registrar fees and custodian fees	5,000
Miscellaneous	75,000
Total	$444,800

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

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

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

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

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

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

Our second amended and restated certificate of incorporation, attached as Exhibit 3.1 to our Registration Statement on Form S-1 filed with the SEC on February 28, 2005, and our amended and restated by-laws, attached as Exhibit 3.2 to our Registration Statement on Form S-1 filed with the SEC on February 28, 2005, provide for the indemnification provisions described above and elsewhere herein. In addition, we have purchased a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment in some circumstances. These indemnification provisions may be sufficiently broad to permit indemnification of our officers and directors for liabilities, including reimbursement of expenses incurred, arising under the Securities Act of 1933, as amended (the "1933 Act").

The form of Underwriting Agreement, filed herewith, provides for indemnification by the underwriters of us and our officers and directors for specified liabilities, including matters arising under the 1933 Act.

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

Set forth below in reverse chronological order is information regarding the number of shares of capital stock and options issued by us since January 2003. Also included is the consideration if any received by us for the securities.

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

Common Stock

In January 2004, a former employee of ours resigned with 15,600 shares of vested stock options. The employee exercised his options in March 2004 pursuant to the provisions of our Amended and Restated 1999 Stock Option Plan and we issued to him shares of our common stock. In September 2004, pursuant to the terms and conditions of our Amended and Restated 1999 Stock Option Plan, we repurchased the 15,600 shares of common stock from him for the then fair market value of the common stock. As consideration we issued him a non-negotiable three year junior subordinated note in the amount of $106,800. The common shares we repurchased are currently held by us in treasury stock.

Options

On March 10, 2004, Messrs. Lupo and Noll received options to purchase 2,600 shares of our common stock at an exercise price of $6.54 per share. Also in fiscal 2004, we granted Messrs. Anderson, Bellino and Noll options to purchase 312, 676 and 156 shares of our common stock, respectively, at an exercise price of $6.85 per share.

Additionally, during fiscal 2004, certain employees, including buyers and district managers, received options to purchase an aggregate of 88,868 shares of our common stock pursuant to the terms of our Amended and Restated 1999 Stock Option Plan.

In August 2003, our board of directors adopted an Anti-Dilution Plan whereby stock options are to be issued to Hampshire Equity Partners II, L.P., as well as other common stockholders, in amounts necessary to prevent the dilution of their ownership percentage as a result of the issuance of stock options to our other employees. Options granted under this Anti-Dilution Plan are to be issued at the estimated fair market value of our common stock on the date of grant and vest immediately. The Anti-Dilution Plan was terminated effective on

April 28, 2005. See Note 12 to our consolidated financial statements. During fiscal 2004 and fiscal 2003, we issued stock options for 31,174 and 39,078 shares of common stock, respectively, under this Anti-Dilution Plan, 37,050 of which were issued to Hampshire Equity Partners II, L.P. Because Hampshire Equity Partners II, L.P. does not qualify as an employee, FIN No. 44 required us to recognize a charge to earnings during fiscal 2004 and fiscal 2003 of $58,672 and $38,832, respectively. The fair value of the vested options was determined using the Black-Scholes option-pricing model.

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

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

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

Exhibit No.	Description
14.1	Citi Trends, Inc. Code of Business Conduct***
23.1	Consent of KPMG LLP******
23.2	Consent of Paul Hastings, Janofsky & Walker LLP (included in Exhibit 5.1)*****
24.1	Power of Attorney*****

* Previously filed as an exhibit to the Registration Statement on Form S-1 (File No. 333-123028) filed with the Securities and Exchange Commission on February 28, 2005.
** Previously filed as an exhibit to Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-123028) filed with the Securities and Exchange Commission on April 7, 2005.
*** Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-123028) filed with the Securities and Exchange Commission on April 29, 2005.
**** Previously filed as an exhibit to the Current Report on Form 8-K (File No. 000-51315) filed with the Securities and Exchange Commission on December 30, 2005.
***** Previously filed as an exhibit to the Registration Statement of Form S-1 (File No. 333-130863) filed with the Securities and Exchange Commission on January 5, 2006.
****** Filed herewith.

Item 17. ***Undertakings.***

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

The undersigned registrant hereby undertakes that:

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

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

Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed on its behalf by the undersigned, thereunto duly authorized, in The City of New York, State of New York, on the 11th of January, 2006.

CITI TRENDS, INC.

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

By: /s/ THOMAS W. STOLTZ
Thomas W. Stoltz
Chief Financial Officer (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 1 to the Registrant's Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ R. EDWARD ANDERSON R. Edward Anderson, on behalf of himself as well as Attorney-in-Fact	Chief Executive Officer (Principal Executive Officer)	January 11, 2006
/s/ THOMAS W. STOLTZ Thomas W. Stoltz, on behalf of himself as well as Attorney-in-Fact	Chief Financial Officer (Principal Financial and Accounting Officer)	January 11, 2006
* Gregory P. Flynn	Director	January 11, 2006
* John S. Lupo	Director	January 11, 2006
* Patricia M. Luzier	Director	January 11, 2006
* Tracy L. Noll	Director	January 11, 2006

*By: /s/ R. EDWARD ANDERSON
R. Edward Anderson
Attorney-in-Fact

*By: /s/ THOMAS W. STOLTZ
Thomas W. Stoltz Attorney- in-Fact

Table of Contents

Exhibit Index

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14.1	Citi Trends, Inc. Code of Business Conduct***
23.1	Consent of KPMG LLP******

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Exhibit No.	Description
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24.1	Power of Attorney (included on signature page hereto)*****

*	Previously filed as an exhibit to the Registration Statement on Form S-1 (File No. 333-123028) filed with the Securities and Exchange Commission on February 28, 2005.
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*****	Previously filed as an exhibit to the Registration Statement of Form S-1 (File No. 333-130863) filed with the Securities and Exchange Commission on January 5, 2006.
******	Filed herewith.

EXHIBIT 1.1

1,500,000 Shares

CITI TRENDS, INC.

Common Stock

UNDERWRITING AGREEMENT

January , 2006

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

Ladies and Gentlemen:

The persons listed on Schedule II hereto (each, a "Selling Stockholder," and together, the "Selling Stockholders"), propose, subject to the terms and conditions contained herein, to sell to you and the other underwriters named on Schedule I to this Agreement (the "Underwriters"), for whom you are acting as Representatives (the "Representatives"), an aggregate of 1,500,000 shares (the "Firm Shares") of common stock, $0.01 par value per share (the "Common Stock") of Citi Trends, Inc., a Delaware corporation (the "Company"). The respective amounts of the Firm Shares to be purchased by each of the several Underwriters are set forth opposite their names on Schedule I hereto. In addition, the Selling Stockholders (each in the amount set forth on Schedule II hereto) propose to grant to the Underwriters an option to purchase up to an additional 225,000 shares (the "Option Shares") of Common Stock, for the purpose of covering over-allotments, if any, in connection with the sale of the Firm Shares. The Firm Shares and the Option Shares are collectively called the "Shares."

The Company has prepared and filed in conformity, in all material respects, with the applicable requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the published rules and regulations thereunder (the "Rules") adopted by the Securities and Exchange Commission (the "Commission") a Registration Statement (as hereinafter defined) on Form S-1 (No. 333-130863), including a preliminary prospectus relating to the Shares, and such amendments thereof as may have been required to the date of this Agreement. Copies of such Registration Statement and of the related Preliminary Prospectus (as hereinafter defined) have heretofore been delivered by the Company to you. The term "Preliminary Prospectus" means any preliminary prospectus included at any time as a part of the Registration Statement or filed

with the Commission by the Company pursuant to Rule 424(a) of the Rules. The term "Registration Statement" as used in this Agreement means the initial registration statement (including all exhibits and financial schedules) as amended at the time and on the date it becomes effective (the "Effective Date"), including the information (if any) contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) of the Rules and deemed to be part thereof at the time of effectiveness pursuant to Rule 430A of the Rules. If the Company has filed an abbreviated registration statement to register additional Shares pursuant to Rule 462(b) under the Rules (the "462(b) Registration Statement"), then any reference herein to the Registration Statement shall also be deemed to include such 462(b) Registration Statement. The term "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement at the time of effectiveness or, if Rule 430A of the Rules is relied on, the term Prospectus shall also include the final prospectus filed with the Commission pursuant to and within the time limits described in Rule 424(b) of the Rules and any amendments thereof and supplements thereto.

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

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

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

(b) The Selling Stockholders hereby grant to the several Underwriters an option to purchase, severally and not jointly, all or any part of the Option Shares at the Initial Price. The number of Option Shares to be sold by each Selling Stockholder is set forth opposite the name of each such Selling Stockholder on Schedule II hereto. The number of Option Shares to be purchased by each Underwriter shall be the same percentage (adjusted by the Representatives to eliminate fractions) of the total number of Option Shares to be purchased by the Underwriters as such Underwriter is purchasing of the Firm Shares. Such option may be exercised only to cover over-allotments in the sales of the Firm Shares by the Underwriters and may be exercised in whole or in part at any time

on or before 12:00 noon, New York City time, on the business day before the Firm Shares Closing Date (as defined below), and from time to time thereafter within 30 days after the date of this Agreement, in each case upon written, facsimile or telegraphic notice, or verbal or telephonic notice confirmed by written, facsimile or telegraphic notice, by the Representatives to the Company no later than 12:00 noon, New York City time, on the business day before the Firm Shares Closing Date or at least two business days before the Option Shares Closing Date (as defined below), as the case may be, setting forth the number of Option Shares to be purchased and the time and date (if other than the Firm Shares Closing Date) of such purchase.

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

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

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

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

(a) On the Effective Date, the Registration Statement complied, and on the date of the Prospectus, the date any post-effective amendment to the Registration Statement becomes effective, the date any supplement or amendment to the Prospectus is filed with the Commission and each Closing Date (each such date referred to in this sentence, a "Determination Date"), the Registration Statement and the Prospectus (and any amendment thereof or supplement thereto) will comply, in all material respects, with the applicable requirements of the Securities Act and the Rules and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the published rules and regulations of the Commission thereunder. The Registration Statement did not, as of the Effective Date and the date of the Prospectus, and will not, as of any other Determination Date, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and the Prospectus did not, as of its date or the Effective Date, and will not, as of any other Determination Date contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. When any related preliminary prospectus was first filed with the Commission (whether filed as part of the Registration Statement or any amendment thereto or pursuant to Rule 424(a) of the Rules) and when any amendment thereof or supplement thereto was first filed with the Commission, such preliminary prospectus as amended or supplemented complied in all material respects with the applicable provisions of the Securities Act and the Rules and did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading. If applicable, each Preliminary Prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T. Notwithstanding the foregoing, none of the representations and warranties in this Section 2(a) shall apply to statements in, or omissions from, the Registration Statement or the Prospectus made in reliance upon, and in conformity with, information furnished in writing by the Representatives on behalf of the several Underwriters for use in the Registration Statement or the Prospectus. With respect to the preceding sentence, the Company acknowledges that the only information furnished in writing by the Representatives on behalf of the several Underwriters for use in the Registration Statement or the Prospectus is the statements contained in the third, fourth, fifth and sixth sentences of the fourth paragraph, and the eleventh, thirteenth, fourteenth and seventeenth paragraphs under the caption "Underwriting" in the Statutory Prospectus and the Prospectus (collectively, the "Underwriter Information").

(b) As of the Applicable Time (as defined below), neither (i) the Issuer Free Writing Prospectus(es) (as defined below) issued at or prior to the Applicable Time, and the Statutory Prospectus (as defined below), all considered together (collectively, the "General Disclosure Package"), nor (ii) any individual Issuer Free Writing Prospectus when considered together with the General Disclosure Package included any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not apply to statements in or omissions from any

prospectus included in the General Disclosure Package made in reliance upon and in conformity with the Underwriter Information.

Each Issuer Free Writing Prospectus, including any electronic road show (including without limitation any "bona fide electronic road show" as defined in Rule 433(h)(5) under the Securities Act) (each, a "Road Show") (i) is identified in Schedule V hereto and (ii) complied when issued, and complies, in all material respects with the requirements of the Securities Act and the Rules and the Exchange Act and the rules and regulations of the Commission thereunder. Except for the free writing prospectuses, if any, identified in Schedule V hereto, the Company has not prepared, used or referred to, and will not, without the prior consent of the Representatives, prepare, use or refer to, any Issuer Free Writing Prospectus.

As used in this Section and elsewhere in this Agreement:

"Applicable Time" means ___:00 [a/p]m (Eastern time) on the date of this Underwriting Agreement.

"Statutory Prospectus" as of any time means the Preliminary Prospectus relating to the Shares that is included in the Registration Statement immediately prior to the Applicable Time. For purposes of this definition, information contained in a form of prospectus that is deemed retroactively to be a part of the Registration Statement pursuant to Rule 430A of the Rules shall be considered to be included in the Statutory Prospectus as of the actual time that form of prospectus is filed with the Commission pursuant to Rule 424(b).

"Issuer Free Writing Prospectus" means each "free writing prospectus" (as defined in Rule 405 of the Rules), if any, prepared by or on behalf of the Company or used or referred to by the Company in connection with the offering of the Shares.

(c) The Registration Statement is effective under the Securities Act and no stop order preventing or suspending the effectiveness of the Registration Statement or suspending or preventing the use of any Preliminary Prospectus, the Prospectus or any "free writing prospectus" (as defined in Rule 405 of the Rules) has been issued by the Commission and, to the Company's knowledge, no proceedings for that purpose have been instituted or are threatened under the Securities Act. Any required filing of the Prospectus and any supplement thereto pursuant to Rule 424(b) of the Rules has been or will be made in the manner and within the time period required by such Rule 424(b). Any material required to be filed by the Company pursuant to Rule 433(d) or Rule 163(b)(2) of the Rules has been or will be made in the manner and within the time periods required by such Rules.

(d) Each Issuer Free Writing Prospectus, as of its issue date and at all subsequent times through the completion of the public offer and sale of the Shares or until any earlier date that the Company notified or notifies the Representatives as described in the next sentence, did not, does not and will not include any information that conflicted, conflicts or will conflict with the information contained in the Registration Statement, the Statutory Prospectus or the Prospectus. If at any time following issuance of an Issuer

Free Writing Prospectus there occurred or occurs an event or development as a result of which such Issuer Free Writing Prospectus conflicted or would conflict with the information contained in the Registration Statement, the Statutory Prospectus or the Prospectus or included or would include an untrue statement of a material fact or omitted or would omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances prevailing at the subsequent time, not misleading, the Company has promptly notified or will promptly notify the Representatives and has promptly amended or will promptly amend or supplement, at its own expense, such Issuer Free Writing Prospectus to eliminate or correct such conflict, untrue statement or omission.

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

(f) KPMG LLP, whose reports are filed with the Commission as a part of the Registration Statement, are and, during the periods covered by their reports, were an independent registered public accounting firm as required by the Securities Act and the Rules. The Company has not had any "disagreements" (as that term is defined in Item 304 of Regulation S-K promulgated under the Securities Act) with its current or former independent auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure and none of the events listed in Item 304(a)(1)(v)(A) through (D) of Regulation S-K promulgated under the Securities Act have occurred during the immediately preceding five fiscal years.

(g) The Company has been duly incorporated and is validly existing and in good standing under the laws of the State of Delaware. The Company has no subsidiary or subsidiaries and does not control, directly or indirectly, any corporation, partnership, joint venture, association or other business organization. The Company is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which the nature of the business conducted by it or location of the assets or properties owned, leased or licensed by it requires such qualification (which jurisdictions are listed on Schedule III hereto), except for such jurisdictions where the failure to so qualify, individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the assets, properties, condition, financial or otherwise, or in the results of operations, business affairs or business prospects of the Company (a "Material Adverse Effect"); and to the Company's knowledge, no proceeding has been instituted in

any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification. The Company does not own, lease or license any asset or property or conduct any business outside the United States of America.

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

(i) At the time of filing the Registration Statement and at the date hereof, the Company was not and is not an "ineligible issuer," as defined in Rule 405 of the Rules.

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

(k) The Company has good and marketable title in fee simple to all real property, and good and marketable title to all other property owned by it, in each case free and clear of all liens, encumbrances, claims, security interests and defects, except such as are described in the Registration Statement and Prospectus and which could not reasonably be expected to have a Material Adverse Effect. All property held under lease by the Company is held by it under valid, existing and enforceable leases, free and clear of all liens, encumbrances, claims, security interests and defects, except such as are described in the Registration Statement and Prospectus and which could not reasonably be expected to have a Material Adverse Effect. Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, (i) there has not been any Material Adverse Effect and (ii) the Company has not sustained any loss or

interference with its assets, businesses or properties (whether owned or leased) from fire, explosion, earthquake, flood or other calamity, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree which could reasonably be expected to have a Material Adverse Effect. Since the date of the latest balance sheet included in the Registration Statement and the Prospectus, the Company has not (A) issued any securities or incurred any liability or obligation, direct or contingent, for borrowed money, except such liabilities or obligations incurred in the ordinary course of business, (B) entered into any transaction not in the ordinary course of business or (C) declared or paid any dividend or made any distribution on any shares of its stock or redeemed, purchased or otherwise acquired or agreed to redeem, purchase or otherwise acquire any shares of its capital stock.

(l) There is no document, contract or other agreement required to be described in the Registration Statement, the Statutory Prospectus or the Prospectus or to be filed as an exhibit to the Registration Statement which is not described or filed, as applicable, as required by the Securities Act or Rules. Each description of a contract, document, agreement or instrument in the Registration Statement, the Statutory Prospectus or the Prospectus accurately reflects in all respects the material terms of the underlying contract, document, agreement or instrument. Each contract, document or other agreement described in the Registration Statement, the Statutory Prospectus or the Prospectus or listed in the Exhibits to the Registration Statement is in full force and effect and is valid and enforceable by and against the Company, as the case may be, in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles. Neither the Company nor, to the Company's knowledge, any other party is in default in the observance or performance of any term or obligation to be performed by it under any such contract, document, agreement or instrument, and, to the Company's knowledge, no event has occurred which with notice or lapse of time or both would constitute such a default. No default exists, and no event has occurred which with notice or lapse of time or both would constitute a default, in the due performance and observance of any term, covenant or condition, by the Company of any other contract, document, agreement or instrument to which the Company is a party or by which Company or its properties or business may be bound or affected which default or event, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

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

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

(o) Neither the execution, delivery and performance of this Agreement by the Company nor the consummation of any of the transactions contemplated hereby will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or require any consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of the Company pursuant to the terms of, any indenture, mortgage, deed of trust or other contract, document, agreement or instrument to which the Company is a party or by which the Company or any of its properties or businesses is bound, or any franchise, license, permit, judgment, decree, order, statute, rule or regulation applicable to the Company or violate any provision of the Charter or Bylaws, except for such consents or waivers which have already been obtained and are in full force and effect.

(p) The Company has authorized and outstanding capital stock as set forth under the caption "Capitalization" in the Statutory Prospectus and the Prospectus. All of the issued and outstanding shares of Common Stock have been duly and validly issued and are fully paid and nonassessable. There are no preemptive or other similar rights to subscribe for or to purchase or acquire any shares of Common Stock or any such rights pursuant to the Charter or Bylaws or any contract, document, agreement or instrument to or by which the Company is a party or bound. The Shares are duly and validly issued, fully paid and nonassessable, except as provided in the next sentence, and have not been issued in violation of any preemptive or other similar right. The Shares that are not issued and outstanding as of the date hereof have been duly reserved and authorized by the Company and, when issued and delivered upon exercise of the applicable Stock Options, as defined below, will be validly issued, fully paid and non-assessable. The Stock Options to be exercised by certain Selling Stockholders in connection with the transactions contemplated by the Custody Agreements, the Powers of Attorney and this Agreement and to be deposited with the Custodian in accordance with the Custody Agreements (collectively, the "Stock Options") have been duly granted to, are fully vested in and may be exercised by, such relevant Selling Stockholder. The Stock Options were granted in accordance with the Company's Amended and Restated 1999 Stock Option Plan and/or 2005 Long-Term Incentive Plan (the "Plans").

(q) Except as disclosed in the Registration Statement, the Statutory Prospectus and the Prospectus, there is no outstanding option, warrant or other right calling for the issuance of, and there is no commitment, plan or arrangement to issue, any share of capital stock of the Company or any security convertible into, or exercisable or exchangeable for, such capital stock. The Common Stock and the Shares conform in all material respects to all statements in relation thereto contained in the Registration Statement, the Statutory Prospectus and the Prospectus.

(r) No holder of any security of the Company has any right, which has not been waived in writing, to have any security owned by such holder included in the Registration Statement or to demand registration of any security owned by such holder for a period of 180 days after the date of this Agreement. Each director and executive officer of the Company and each stockholder of the Company listed on Schedule IV has delivered to

the Representatives his enforceable written lock-up agreement in the form attached to this Agreement as Exhibit A hereto ("Lock-Up Agreement").

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

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

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

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

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

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

(y) The Company's Common Stock is listed on the National Association of Securities Dealers Automated Quotation National Market System ("Nasdaq"). The Company is in compliance with all applicable corporate governance requirements set forth in the Nasdaq Marketplace Rules that are in effect with respect to it and is actively taking steps to ensure that it will be in compliance with other applicable corporate governance requirements set forth in the Nasdaq Marketplace Rules which will in the future become applicable to it.

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

(aa) The books, records and accounts of the Company accurately and fairly reflect, in reasonable detail, the transactions in, and dispositions of, the assets of, and the results of operations of, the Company. The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; the chief executive officer and the chief financial officer of the Company have made all certifications required by the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and any related rules and regulations promulgated by the Commission, and the statements contained in any such certification are complete and correct; the Company maintains "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Exchange Act).

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

(cc) Except as described in the Statutory Prospectus and the Prospectus and as preapproved in accordance with the requirements set forth in Section 10A of the Exchange Act, KPMG LLP has not been engaged by the Company to perform any "prohibited activities" (as defined in Section 10A of the Exchange Act).

(dd) The Company's Board of Directors has validly appointed an audit committee whose composition satisfies the requirements of Rule 4350(d)(2) of the Rules of the National Association of Securities Dealers (the "NASD Rules") and the Board of

Directors and/or the audit committee has adopted a charter that satisfies the requirements of Rule 4350(d)(1) of the NASD Rules. The audit committee has reviewed the adequacy of its charter within the past twelve months.

(ee) The Company is actively taking steps to ensure that it will be in compliance with all other applicable provisions of the Sarbanes-Oxley Act and any related rules and regulations promulgated by the Commission and corporate governance requirements under the NASD Rules upon the effectiveness of such provisions and has no reason to believe that it will not be able to comply with such provisions at the time of effectiveness.

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

(gg) The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are customary in the businesses in which they are engaged or propose to engage after giving effect to the transactions described in the Statutory Prospectus and the Prospectus; all policies of insurance and fidelity or surety bonds insuring the Company or the Company's businesses, assets, employees, officers and directors are in full force and effect; the Company is in compliance with the terms of such policies and instruments in all material respects; and the Company has no reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that is not materially greater than the current cost. Except as disclosed in the Registration Statement, the Statutory Prospectus and the Prospectus, the Company has not been denied any insurance coverage which it has sought or for which it has applied.

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

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

(jj) (i) The Company is in compliance in all material respects with all rules, laws and regulation relating to the use, treatment, storage and disposal of toxic substances and protection of health or the environment ("Environmental Laws") which are applicable to

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

(kk) In the ordinary course of its business, the Company periodically reviews the effect of Environmental Laws on the business, operations and properties of the Company, in the course of which the Company identifies and evaluates associated costs and liabilities (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws, or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties). On the basis of such review, the Company has reasonably concluded that such associated costs and liabilities would not, singly or in the aggregate, have a Material Adverse Effect.

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

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

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

arbitrator involving the Company with respect to the Money Laundering Laws is pending, or to the best knowledge of the Company, threatened.

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

(pp) Except as described in the Statutory Prospectus and the Prospectus, the Company has not offered, sold or issued any shares of Common Stock during the six-month period preceding the date of the Prospectus, including any sales pursuant to Rule 144A under, or Regulations D or S of, the Securities Act, other than shares issued pursuant to employee benefit plans, qualified stock options plans or other employee compensation plans or pursuant to outstanding options, rights or warrants.

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

(rr) None of the Company, its directors or its officers has distributed, nor will they distribute, prior to the later of (i) the Firm Shares Closing Date, or the Option Shares Closing Date, and (ii) completion of the distribution of the Shares, any offering material in connection with the offering and sale of the Shares other than any Prospectus, the Registration Statement and other materials, if any, permitted by the Securities Act and consistent with Section 5(e) below.

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

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

(a) Each Selling Stockholder has caused certificates for the number of Shares to be sold by such Selling Stockholder hereunder (except with respect to Shares to be issued upon exercise of Stock Options) to be delivered to American Stock Transfer & Trust Company

(the "Custodian"), endorsed in blank or with blank stock powers duly executed, with a signature appropriately guaranteed, such certificates to be held in custody by the Custodian for delivery, pursuant to the provisions of this Agreement and an agreement dated January ___, 2006 among the Custodian and the Selling Stockholders substantially in the form attached hereto as Exhibit B (the "Custody Agreement"). The Stock Options, if any, to be exercised by each Selling Stockholder in connection with the transactions contemplated by the relevant Custody Agreement, the relevant Power of Attorney and this Agreement have been duly granted to, are fully vested and may be exercised by, such Selling Stockholder in accordance with the Plans. Each Selling Stockholder has deposited the requisite number of certificates and/or Stock Options representing its respective portion of the Shares allowing such Selling Stockholder to fulfill its obligations pursuant to the terms of this Agreement.

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

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

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

governmental agency or body having jurisdiction over it, except such as may be required by the blue sky laws of the various states in connection with the offer and sale of the Shares which have been or will be effected in accordance with this Agreement.

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

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

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

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

(i) Each Selling Stockholder has reviewed the Registration Statement, the Prospectus and any Issuer Free Writing Prospectus and, although such Selling Stockholder has not independently verified the accuracy or completeness of all the information contained therein, nothing has come to the attention of such Selling Stockholder that would lead such Selling Stockholder to believe that (i) on the Effective Date, the Registration Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements made therein not misleading; (ii) on the Effective Date the Prospectus, any amendment thereof or supplement thereto contained and, on each Closing Date contains, any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; or (iii) as of the Applicable Time, either the General Disclosure Package or any individual Issuer Free Writing Prospectus, when considered together with the General Disclosure Package, included any untrue statement of any material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except for the free writing prospectuses, if any, identified in Schedule V hereto, no Selling Stockholder or group of Selling Stockholders has prepared, used or referred to, nor will, without the prior consent of the Representatives, prepare, use or refer to, any free writing prospectus.

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

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

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

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

(a) Notification that the Registration Statement has become effective shall have been received by the Representatives and the Prospectus shall have been timely filed with the Commission in accordance with Section 5(a) of this Agreement, and any material required to be filed by the Company pursuant to Rule 433(d) of the Rules shall have been timely filed with the Commission in accordance with such Rule.

(b) No order preventing or suspending the use of any Preliminary Prospectus, the Prospectus or any "free writing prospectus," as defined in Rule 405 of the Rules, shall have been or shall be in effect and no order suspending the effectiveness of the Registration Statement shall be in effect and no proceedings for such purpose shall be pending before or threatened by the Commission, and any requests for additional information on the part of the Commission (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the satisfaction of the Commission and the Representatives. If the Company has elected to rely upon Rule 430A, Rule 430A information previously omitted from the effective Registration Statement pursuant to Rule 430A shall have been transmitted to the Commission for filing pursuant to Rule 424(b) within the prescribed time period and the Company shall have provided evidence satisfactory to the Underwriters of such timely filing, or a post-effective amendment providing such information shall have been promptly filed and declared effective in accordance with the requirements of Rule 430A.

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

(d) The Representatives shall have received on each Closing Date a certificate, addressed to the Representatives and dated such Closing Date, of the chief executive officer and the chief financial officer or chief accounting officer of the Company to the

effect that: (i) the representations, warranties and agreements of the Company in this Agreement were true and correct when made and are true and correct as of such Closing Date; (ii) the Company has performed all covenants and agreements and satisfied all conditions contained herein; (iii) they have carefully examined the Registration Statement, the Prospectus, the General Disclosure Package and any individual Issuer Free Writing Prospectus and, in their opinion (A) (x) as of the Effective Date, the Registration Statement, the Statutory Prospectus and the Prospectus and (y) as of the Applicable Time, the General Disclosure Package and any individual Issuer Free Writing Prospectus, when considered together with the General Disclosure Package, did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (B) since the Effective Date no event has occurred which should have been set forth in a supplement or otherwise required an amendment to the Registration Statement, the Statutory Prospectus or the Prospectus; and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and, to their knowledge, no proceedings for that purpose have been instituted or are pending under the Securities Act.

(e) The Representatives shall have received on each Closing Date a certificate addressed to the Representatives and dated such Closing Date, of each Selling Stockholder, to the effect that: (i) the representations, warranties and agreements of each Selling Stockholder in this Agreement were true and correct when made and are true and correct as of such Closing Date; (ii) each Selling Stockholder has performed all covenants and agreements and satisfied all conditions contained herein; and (iii) each Selling Stockholder has carefully examined the Registration Statement, the Prospectus, the General Disclosure Package and any individual Issuer Free Writing Prospectus, and, in the opinion of such Selling Stockholder, (A) with respect to the information relating to such Selling Stockholder, (x) as of the Effective Date, the Registration Statement, the Statutory Prospectus and the Prospectus, and (y) as of the Applicable Time, the General Disclosure Package and any individual Issuer Free Writing Prospectus, when considered together with the General Disclosure Package, did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (B) since the Effective Date no event has occurred with respect to such Selling Stockholder which should have been set forth in a supplement or otherwise required an amendment to the Registration Statement or the Prospectus.

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

(g) The Representatives shall have received on each Closing Date from Paul, Hastings, Janofsky & Walker LLP, counsel for the Company, an opinion, addressed to the Representatives and dated such Closing Date stating the opinions set forth in Exhibit D attached hereto.

(h) The Representatives shall have received on the Firm Shares Closing Date from Paul, Hastings, Janofsky & Walker LLP, counsel for the Selling Stockholders, an opinion, addressed to the Representatives and dated such Closing Date, and stating the opinions set forth in Exhibit E attached hereto.

(i) The Representatives shall have received on each Closing Date from DLA Piper Rudnick Gray Cary US LLP, counsel for the Representatives, an opinion, addressed to the Representatives and dated such Closing Date, and stating the opinions set forth in Exhibit F hereto.

With respect to the opinions referred to in Section 4(g), Section 4(h) and Section 4(i), to the extent deemed advisable by such counsel, such counsel may rely as to matters of fact on certificates of responsible officers of the Company and public officials and on the opinions of other counsel satisfactory to the Representatives as to matters which are governed by laws other than the laws of the State of New York, the General Corporation Law of the State of Delaware and the federal laws of the United States; provided that such counsel shall state that in their opinion the Underwriters and they are justified in relying on such other opinions. Copies of such certificates and other opinions shall be furnished to the Representatives.

(j) The Representatives shall have received copies of the Lock-Up Agreements executed by each entity or person listed on Schedule IV hereto.

(k) On or prior to the date of this Agreement, each Selling Stockholder shall have deposited with the Custodian under the relevant Custody Agreement certificates and/or Stock Options representing the maximum aggregate number of Shares which may be sold by such Selling Stockholder as indicated on Schedule II hereto.

(l) On or prior to any Closing Date, the Attorney shall have exercised, on the corresponding Selling Stockholder's behalf and in full compliance with the requirements of the Plans, the requisite number of Stock Options required to allow such Selling Stockholder to meet its obligations hereunder; upon the exercise of any Stock Options, the Company shall have, on or prior to the Closing Date in question, issued, and the Custodian shall have issued certificates representing, the Shares underlying such Stock Options.

(m) The Company and each Selling Stockholder shall have furnished or caused to be furnished to the Representatives such further certificates or documents as the Representatives shall have reasonably requested.

5. Covenants of the Company, the Selling Stockholders and the Underwriters.

(a) Each of the Company and the Selling Stockholders (to the extent set forth in clause (ix) below) covenants and agrees as follows:

(i) The Company will use its best efforts to cause the Registration Statement, if not effective at the time of execution of this Agreement, to become effective as promptly as possible. The Company shall prepare the Prospectus in a form approved by the Representatives and file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by the Rules. The Company will file with the Commission all Issuer Free Writing Prospectuses in the time and manner required under Rule 433(d).

(ii) The Company shall promptly advise the Representatives in writing (A) when any post-effective amendment to the Registration Statement shall have become effective or any supplement to the Prospectus shall have been filed, (B) of any request by the Commission for any amendment of the Registration Statement or the Prospectus or for any additional information, (C) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any preliminary prospectus or any "free writing prospectus," as defined in Rule 405 of the Rules, or the institution or threatening of any proceeding for that purpose and (D) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company shall not file any amendment of the Registration Statement or supplement to the Prospectus or any Issuer Free Writing Prospectus unless the Company has furnished the Representatives a copy for their review prior to filing and shall not file any such proposed amendment or supplement to which the Representatives reasonably object. The Company shall use its best efforts to prevent the issuance of any such stop order and, if issued, to obtain as soon as possible the withdrawal thereof.

(iii) If, at any time when a prospectus relating to the Shares is required to be delivered under the Securities Act and the Rules (or, in lieu thereof, the notice referred to in Rule 173(a)), an event or development occurs as a result of which the Statutory Prospectus or the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or if it shall be necessary to amend or supplement the Statutory Prospectus or the Prospectus to comply with the Securities Act or the Rules, the Company promptly shall prepare and file with the Commission, subject to the second sentence of paragraph (ii) of this Section 5(a), an amendment or supplement which shall correct such statement or omission or an amendment which shall effect such compliance.

(iv) If at any time following issuance of an Issuer Free Writing Prospectus an event or development occurs as a result of which such Issuer Free Writing Prospectus would (A) conflict with the information contained in the Registration Statement or (B) include an untrue statement of a material fact or would omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances prevailing at the subsequent time, not misleading, the Company will promptly notify the Representatives and will promptly amend or supplement, at its own expense, such Issuer Free Writing Prospectus to eliminate or correct such conflict, untrue statement or omission.

(v) The Company shall make generally available to its security holders and to the Representatives as soon as practicable, but not later than 45 days after the end of the 12-month period beginning at the end of the fiscal quarter of the Company during which the Effective Date occurs (or 90 days if such 12-month period coincides with the Company's fiscal year), an earning statement (which need not be audited) of the Company, covering such 12-month period, which shall satisfy the provisions of Section 11(a) of the Securities Act or Rule 158 of the Rules.

(vi) The Company shall furnish to the Representatives and counsel for the Underwriters, without charge, signed copies of the Registration Statement and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Securities Act or the Rules, as many copies of any preliminary prospectus, any Issuer Free Writing Prospectus and the Prospectus as the Representatives may reasonably request. If applicable, the copies of the Registration Statement, Preliminary Prospectus, any Issuer Free Writing Prospectus and Prospectus and each amendment and supplement thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(vii) The Company shall cooperate with the Representatives and their counsel in endeavoring to qualify the Shares for offer and sale in connection with the offering under the laws of such jurisdictions as the Representatives may designate and shall maintain such qualifications in effect so long as required for the distribution of the Shares; provided, however, that the Company shall not be required in connection therewith, as a condition thereof, to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction or subject itself to taxation as doing business in any jurisdiction.

(viii) The Company, during the period when the Prospectus (or in lieu thereof, the notice referred to in Rule 173(a) of the Rules) is required to be delivered under the Securities Act and the Rules or the Exchange Act, will file all reports and other documents required to be filed with the Commission pursuant to

Section 13, 14 or 15 of the Exchange Act within the time periods required by the Exchange Act and the regulations promulgated thereunder.

(ix) Without the prior written consent of CIBC World Markets Corp., for a period of 90 days after the date of this Agreement, the Company shall not issue, sell or register with the Commission (other than on Form S-8 or on any successor form), or otherwise dispose of, directly or indirectly, any equity securities of the Company (or any securities convertible into, exercisable for or exchangeable for equity securities of the Company), except for the issuance of the Shares pursuant to the Registration Statement and the issuance of shares (or securities convertible into or exercisable or exchangeable for equity securities of the Company) pursuant to the Company's existing stock option plan or bonus plan as described in the Registration Statement and the Prospectus. In the event that during this period, (A) any shares are issued pursuant to the Company's existing stock option plan or bonus plan that are exercisable during such 90-day period or (B) any registration is effected on Form S-8 or on any successor form relating to shares that are exercisable during such 90-day period, the Company shall obtain the written agreement of such grantee or purchaser or holder of such registered securities that, for a period of 90 days after the date of this Agreement, such person will not, without the prior written consent of CIBC World Markets Corp., offer for sale, sell, distribute, grant any option for the sale of, or otherwise dispose of, directly or indirectly, or exercise any registration rights with respect to, any shares of Common Stock (or any securities convertible into, exercisable for, or exchangeable for any shares of Common Stock) owned by such person. Notwithstanding the foregoing, (i) the Company represents and warrants that each such grantee or purchaser or holder of such registered securities shall be subject to similar lockup restrictions as set forth on Exhibit A attached hereto and the Company shall enforce such rights and impose stop-transfer restrictions on any such sale or other transfer or disposition of such shares until the end of the applicable period and (ii) if (x) during the last 17 days of the 90-day period described in this Section 5(a)(ix) the Company issues an earnings release or material news or a material event relating to the Company occurs; or (y) prior to the expiration of such 90-day period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the 90-day period; the restrictions imposed by this Section 5(a)(ix) shall continue to apply until the expiration of the 18-day period beginning on the date of the issuance of the earnings release or material news or the occurrence of the material event; provided, however, that this sentence shall not apply if the research published or distributed on the Company is compliant under Rule 139 of the Securities Act and the Company's securities are actively traded as defined in Rule 101(c) of Regulation M under the Exchange Act.

(x) Neither the Company nor any Selling Stockholder shall take, directly or indirectly, any action designed to or which might reasonably be expected to cause or result in the stabilization or manipulation of the price of the Common Stock or any security of the Company to facilitate the sale or resale of any of the Shares.

(xi) On or before completion of this offering, the Company shall make all filings required under applicable securities laws and by the Nasdaq National Market (including any required registration under the Exchange Act).

(xii) Prior to the Closing Date, the Company will issue no press release or other communications directly or indirectly and hold no press conference with respect to the Company, the condition, financial or otherwise, or the earnings, business affairs or business prospects of any of them, or the offering of the Shares without the prior written consent of the Representatives unless in the judgment of the Company and its counsel, and after notification to the Representatives, such press release or communication is required by law.

(b) Subject to the provisions of Section 8, the Company agrees to pay, or reimburse if paid by the Representatives, whether or not the transactions contemplated hereby are consummated or this Agreement is terminated, all costs and expenses incident to the public offering of the Shares and the performance of the obligations of the Company under this Agreement including those relating to: (i) the preparation, printing, reproduction, filing and distribution of the Registration Statement including all exhibits thereto, each Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus, all amendments and supplements thereto, and the printing, filing and distribution of this Agreement; (ii) the preparation and delivery of certificates for the Shares to the Underwriters; (iii) the registration or qualification of the Shares for offer and sale under the securities or blue sky laws of the various jurisdictions referred to in Section 5(a)(vii); (iv) the furnishing (including costs of shipping and mailing) to the Representatives and to the Underwriters of copies of each Preliminary Prospectus, the Prospectus and all amendments and supplements to the Prospectus, any Issuer Free Writing Prospectus, and of the several documents required by this Section to be so furnished, as may be reasonably requested for use in connection with the offering and sale of the Shares by the Underwriters or by dealers to whom Shares may be sold; and (v) the filing fees of the NASD in connection with its review of the terms of the public offering. Subject to the provisions of Section 8, the Underwriters agree to pay, whether or not the transactions contemplated hereby are consummated or this Agreement is terminated, all costs and expenses incident to the performance of the obligations of the Underwriters under this Agreement not payable by the Company pursuant to the preceding sentence, including, without limitation, the fees and disbursements of counsel for the Underwriters.

(c) The Selling Stockholders, jointly and severally, will pay all expenses incident to the performance of their respective obligations under, and the consummation of the transactions contemplated by, this Agreement, including (i) any stamp duties, capital duties and stock transfer taxes, if any, payable upon the sale of the Shares to the Underwriters, and their transfer between the Underwriters pursuant to an agreement between such Underwriters, and (ii) the fees and disbursements of their respective counsel and accountants.

(d) The Company will prepare a final term sheet relating to the Shares, containing only information that describes the final terms of the Shares and otherwise in a form consented to by the Representative, and will file such final term sheet within the period required by Rule 433(d)(5)(ii) following the date such final terms have been established for all classes of the offering of the Shares. Any such final term sheet is an Issuer Free Writing Prospectus for purposes of this Agreement.

(e) The Company represents and agrees that, unless it obtains the prior consent of the Representatives, and each Underwriter represents and agrees that, unless it obtains the prior consent of the Company and the Representatives, it has not made and will not make any offer relating to the Shares that would constitute an "issuer free writing prospectus," as defined in Rule 433, or that would otherwise constitute a "free writing prospectus," as defined in Rule 405, required to be filed with the Commission. The Company has complied and will comply with the requirements of Rule 433 applicable to any Issuer Free Writing Prospectus, including timely filing with the Commission where required, legending and record-keeping. The Company consents to the use by any Underwriter of a free writing prospectus that (i) is not an "issuer free writing prospectus" as defined in Rule 433, and (ii) contains only (A) information describing the preliminary terms of the Shares or their offering or (B) information that describes the final terms of the Shares or their offering and that is included in the final term sheet of the Company contemplated in Section 5(d).

(f) When Stock Options are exercised in accordance with this Agreement and the Powers of Attorney, the Company will issue the appropriate number of certificates in negotiable form on each Closing Date.

6. Indemnification.

(a) The Company and the Selling Stockholders, jointly and severally, agree to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all losses, claims, damages and liabilities, joint or several (including any reasonable investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted), to which they, or any of them, may become subject under the Securities Act, the Exchange Act or other Federal or state law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Statutory Prospectus, the Prospectus, any Issuer Free Writing Prospectus or any "issuer information" filed or required to be filed pursuant to Rule 433(d) of the Rules, or any amendment thereof or supplement thereto, or in any blue sky application or other information or other documents executed by the Company filed in any state or other jurisdiction to qualify any or all of the Shares under the securities laws thereof (any such application, document or information being hereinafter referred to as a "Blue Sky Application") or arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided,

however, that such indemnity shall not inure to the benefit of any Underwriter (or any person controlling such Underwriter) on account of any losses, claims, damages or liabilities arising from the sale of the Shares to any person by such Underwriter if such untrue statement or omission or alleged untrue statement or omission was made in such Preliminary Prospectus, the Registration Statement, the Prospectus the Statutory Prospectus, any Issuer Free Writing Prospectus or such amendment or supplement thereto, or in any Blue Sky Application in reliance upon and in conformity with Underwriter Information. Notwithstanding the foregoing, the liability of each of the Selling Stockholders pursuant to the provisions of this Section 6(a) shall be limited to an amount equal to the aggregate net proceeds received by such Selling Stockholder from the sale of the Shares sold by the Selling Stockholders hereunder. This indemnity agreement will be in addition to any liability which the Company and Selling Stockholders may otherwise have.

(b) Each Underwriter agrees to indemnify and hold harmless the Company, the Selling Stockholders and each person, if any, who controls the Company or the Selling Stockholders within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, each director of the Company, and each officer of the Company who signs the Registration Statement, against any losses, claims, damages or liabilities to which such party may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Statutory Prospectus or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any Preliminary Prospectus, the Registration Statement, the Statutory Prospectus or the Prospectus or any such amendment or supplement in reliance upon and in conformity with the Underwriter Information (it being understood that such information is limited to the statements identified in Section 2(a) above); provided, however, that the obligation of each Underwriter to indemnify the Company or the Selling Stockholders (including any controlling person, director or officer thereof) shall be limited to the net proceeds received by the Selling Stockholders from such Underwriter.

(c) Any party that proposes to assert the right to be indemnified under this Section will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim is to be made against an indemnifying party or parties under this Section, notify each such indemnifying party of the commencement of such action, suit or proceeding, enclosing a copy of all papers served. No indemnification provided for in Section 6(a) or 6(b) shall be available to any party who shall fail to give notice as provided in this Section 6(c) if the party to whom notice was not given was unaware of the proceeding to which such notice would have related and was prejudiced by the failure to give such notice but the omission so to notify such indemnifying party of any such action, suit or proceeding shall not relieve it from any liability that it may have to any indemnified party for contribution or otherwise than

under this Section. In case any such action, suit or proceeding shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof and the approval by the indemnified party of such counsel, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses, except as provided below and except for the reasonable costs of investigation subsequently incurred by such indemnified party in connection with the defense thereof. The indemnified party shall have the right to employ its counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of counsel by such indemnified party has been authorized in writing by the indemnifying parties, (ii) the indemnified party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or in addition to those available to the indemnifying party (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party) or (iii) the indemnifying parties shall not have employed counsel to assume the defense of such action within a reasonable time after notice of the commencement thereof, in each of which cases the fees and expenses of counsel shall be at the expense of the indemnifying parties. An indemnifying party shall not be liable for any settlement of any action, suit, and proceeding or claim effected without its written consent, which consent shall not be unreasonably withheld or delayed.

7. Contribution. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in Section 6(a) or 6(b) is due in accordance with its terms but for any reason is unavailable to or insufficient to hold harmless an indemnified party in respect to any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate losses, liabilities, claims, damages and expenses (including any investigation, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting any contribution received by any person entitled hereunder to contribution from any person who may be liable for contribution) incurred by such indemnified party, as incurred, in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other hand from the offering of the Shares pursuant to this Agreement or, if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company and the Selling Stockholders on the one hand and the Underwriters on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations. The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating,

preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission. Notwithstanding the provisions of this Section 7, (i) no Underwriter (except as may be provided in the Agreement Among Underwriters) shall be required to contribute any amount in excess of the amount by which the total price at which the shares underwritten by it and distributed to the public were offered to the public exceeds the amount of damages which such underwriter has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission; and (ii) no Selling Stockholders shall be required to contribute any amount in excess of the aggregate net proceeds of the sale of Shares received by the Selling Stockholders. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 7, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Underwriter, and each director of the Company including any person who, with his or her consent, is named in the Registration Statement as about to become a director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company or any Selling Stockholders within the meaning of the Section 15 of the Securities Act or Section 20 of the Exchange Act, shall have the same rights to contribution as the Company or any/the Selling Stockholders, as the case may be. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this Section 7, notify such party or parties from whom contribution may be sought, but the omission so to notify such party or parties from whom contribution may be sought shall not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have hereunder or otherwise than under this Section 7. No party shall be liable for contribution with respect to any action, suit, proceeding or claim settled without its written consent. The Underwriters' obligations to contribute pursuant to this Section 7 are several in proportion to their respective underwriting commitments and not joint.

8. Termination.

(a) This Agreement may be terminated with respect to the Shares to be purchased on a Closing Date by the Representatives by notifying the Company and the Selling Stockholders at any time at or before a Closing Date in the absolute discretion of the Representatives if: (i) there has occurred any material adverse change in the securities markets or any event, act or occurrence that has materially disrupted, or in the opinion of the Representatives, will in the future materially disrupt, the securities markets or there shall be such a material adverse change in general financial, political or economic conditions or the effect of international conditions on the financial markets in the United States is such as to make it, in the judgment of the Representatives, inadvisable or impracticable to market the Shares or enforce contracts for the sale of the Shares; (ii) there has occurred any outbreak or material escalation of hostilities or other calamity or crisis the effect of which on the financial markets of the United States is such as to make it, in the judgment of the Representatives, inadvisable or impracticable to market the Shares or enforce contracts for the sale of the Shares; (iii) trading in the Shares or any

securities of the Company has been suspended or materially limited by the Commission or trading generally on the New York Stock Exchange, Inc., the American Stock Exchange, Inc. or the Nasdaq National Market has been suspended or materially limited, or minimum or maximum ranges for prices for securities shall have been fixed, or maximum ranges for prices for securities have been required, by any of said exchanges or by such system or by order of the Commission, the NASD or any other governmental or regulatory authority; (iv) a banking moratorium has been declared by any state or Federal authority; or (v) in the judgment of the Representatives, there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Prospectus, any material adverse change in the assets, properties, condition, financial or otherwise, or in the results of operations, business affairs or business prospects of the Company considered as a whole, whether or not arising in the ordinary course of business.

(b) If this Agreement is terminated pursuant to any of its provisions, neither the Company nor the Selling Stockholders shall be under any liability to any Underwriter, and no Underwriter shall be under any liability to the Company or the Selling Stockholders, except that (y) if this Agreement is terminated by the Representatives or the Underwriters because of any failure, refusal or inability on the part of the Company or the Selling Stockholders to comply with the terms or to fulfill any of the conditions of this Agreement, the Company will reimburse the Underwriters for all out-of-pocket expenses (including the reasonable fees and disbursements of their counsel) incurred by them in connection with the proposed purchase and sale of the Shares or in contemplation of performing their obligations hereunder and (z) no Underwriter who shall have failed or refused to purchase the Shares agreed to be purchased by it under this Agreement, without some reason sufficient hereunder to justify cancellation or termination of its obligations under this Agreement, shall be relieved of liability to the Company, the Selling Stockholders or to the other Underwriters for damages occasioned by its failure or refusal.

9. Substitution of Underwriters. If any Underwriter shall default in its obligation to purchase on any Closing Date the Shares agreed to be purchased hereunder on such Closing Date, the Representatives shall have the right, within 36 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase such Shares on the terms contained herein. If, however, the Representatives shall not have completed such arrangements within such 36-hour period, then the Company shall be entitled to a further period of 36 hours within which to procure another party or other parties satisfactory to the Underwriters to purchase such Shares on such terms. If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by the Representatives and the Company as provided above, the aggregate number of Shares which remains unpurchased on such Closing Date does not exceed one-eleventh of the aggregate number of all the Shares that all the Underwriters are obligated to purchase on such date, then the Company shall have the right to require each non-defaulting Underwriter to purchase the number of Shares which such Underwriter agreed to purchase hereunder at such date and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing

herein shall relieve a defaulting Underwriter from liability for its default. In any such case, either the Representatives or the Company and the Selling Stockholders shall have the right to postpone the applicable Closing Date for a period of not more than seven days in order to effect any necessary changes and arrangements (including any necessary amendments or supplements to the Registration Statement or Prospectus or any other documents), and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in the opinion of the Company and the Underwriters and their counsel may thereby be made necessary.

If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by the Representatives and the Company as provided above, the aggregate number of such Shares which remains unpurchased exceeds 10% of the aggregate number of all the Shares to be purchased at such date, then this Agreement, or, with respect to a Closing Date which occurs after the First Closing Date, the obligations of the Underwriters to purchase and of the Company or the Selling Stockholders, as the case may be, to sell the Option Shares to be purchased and sold on such date, shall terminate, without liability on the part of any non-defaulting Underwriter to the Company or the Selling Stockholders, and without liability on the part of the Company or the Selling Stockholders, except as provided in Sections 5(b), 6, 7 and 8. The provisions of this Section 9 shall not in any way affect the liability of any defaulting Underwriter to the Company or the non-defaulting Underwriters arising out of such default. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section 9 with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

10. Miscellaneous. The respective agreements, representations, warranties, indemnities and other statements of the Company, Selling Stockholders and the several Underwriters, as set forth in this Agreement or made by or on behalf of them pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or the Company or the Selling Stockholders or any of their respective officers, directors or controlling persons referred to in Sections 6 and 7 hereof, and shall survive delivery of and payment for the Shares. In addition, the provisions of Sections 5(b), 6, 7, 8 and this Section 10 shall survive the termination or cancellation of this Agreement.

This Agreement has been and is made for the benefit of the Underwriters, the Company and the Selling Stockholders and their respective successors and assigns, and, to the extent expressed herein, for the benefit of persons controlling any of the Underwriters, or the Company, and directors and officers of the Company, and their respective successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" shall not include any purchaser of Shares from any Underwriter merely because of such purchase.

All notices and communications hereunder shall be in writing and mailed or delivered or by telephone or telegraph if subsequently confirmed in writing, (a) if to the Representatives, c/o CIBC World Markets Corp., 300 Madison Avenue New York, New York 10017 Attention: Mark Goodman, with a copy to Wm. David Chalk, Esq., DLA Piper Rudnick Gray Cary US LLP, 6225 Smith Avenue, Baltimore, MD 21209, (b) if to the Company, to its agent for service as such agent's address appears on the cover page of the Registration Statement with a copy to

William F. Schwitter, Esq., Paul, Hastings, Janofsky & Walker LLP, 75 East 55th Street, New York, NY 10022 and (c) if to the Selling Stockholders, to R. Edward Anderson, as attorney-in-fact, c/o Citi Trends, Inc., 102 Fahm Street, Savannah, Georgia 31401, with a copy to William F. Schwitter, Esq., Paul, Hastings, Janofsky & Walker LLP, 75 East 55th Street, New York, NY 10022.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

Please confirm that the foregoing correctly sets forth the agreement among us.

Very truly yours,

CITI TRENDS, INC.

By: -----------------------------
Name: R. Edward Anderson
Title: Chief Executive Officer

SELLING STOCKHOLDERS

By: -----------------------------
Name: Thomas W. Stoltz
Title: Attorney-in-Fact

Confirmed:

CIBC WORLD MARKETS CORP.
WACHOVIA CAPITAL MARKETS, LLC
SG COWEN & CO., LLC
PIPER JAFFRAY & CO.

Acting severally on behalf of itself
and as representative of the several
Underwriters named in Schedule I annexed
hereto.

CIBC WORLD MARKETS CORP.

By

Name: Mark Goodman
Title: Managing Director

SCHEDULE I

Name	Number of Firm Shares to be Purchased
CIBC World Markets Corp.	
Wachovia Capital Markets, LLC	
SG Cowen & Co., LLC	
Piper Jaffray & Co	
Total	1,500,000

SCHEDULE II

Name of Selling Stockholder	Number of Firm Shares to be Sold	Number of Option Shares
Hampshire Equity Partners II, L.P.	1,018,652	
Hampshire Equity Partners Cayman D.B. II, LP	167,989	
Hampshire Equity Partners Cayman II, LP	3,359	
R. Edward Anderson	125,000	
George A. Bellino	125,000	
Thomas W. Stoltz	20,000	
James A. Dunn	20,000	
Tracy L. Noll	20,000	
Total	1,500,000	225,000

SCHEDULE III

Foreign Jurisdictions

Alabama
Arkansas
Florida
Georgia
Kentucky
Louisiana
Maryland
Mississippi
North Carolina
Ohio
South Carolina
Tennessee
Virginia
Texas

SCHEDULE IV

Lock-up Signatories

Hampshire Equity Partners II, L.P.
Hampshire Equity Partners Cayman D.B. II, LP
Hampshire Equity Partners Cayman II, LP
R. Edward Anderson
George A. Bellino
Gregory P. Flynn
Patricia M. Luzier
Thomas W. Stoltz
James A. Dunn
Tracy L. Noll
John S. Lupo

SCHEDULE V

Issuer Free Writing Prospectuses

Exhibit A

FORM OF LOCK-UP AGREEMENT

Exhibit B

FORM OF CUSTODY AGREEMENT
for sale of shares of common stock,
par value $0.01 per share, of Citi Trends, Inc.

Exhibit C

SELLING STOCKHOLDERS'
IRREVOCABLE POWER OF ATTORNEY
for sale of shares of common stock,
par value $0.01 per share, of Citi Trends, Inc.

Exhibit D

FORM OF OPINION OF COUNSEL FOR THE COMPANY

Exhibit E

FORM OF OPINION OF COUNSEL FOR THE SELLING STOCKHOLDERS

Exhibit F

FORM OF OPINION OF COUNSEL FOR REPRESENTATIVES

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Citi Trends, Inc.:

We consent to the use of our report dated March 30, 2005, except as to Note 12(c) which is as of April 28, 2005 and Note 12(d) which is as of May 11, 2005, with respect to the balance sheets of Citi Trends, Inc. as of January 29, 2005 and January 31, 2004, and the related statements of income, stockholders' equity, and cash flows for the years ended January 29, 2005, January 31, 2004 and February 1, 2003 incorporated herein by reference and to the reference to our firm under the heading "Experts" in the prospectus.

Our report refers to the adoption of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity".

/s/ KPMG LLP
Jacksonville, Florida
January 11, 2006