Citi Trends Inc
Form 10-Q
June 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended May 3, 2014

OR

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

Commission File Number 000-51315

CITI TRENDS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**52-2150697**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
104 Coleman Boulevard Savannah, Georgia	**31408**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

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

Class	**Outstanding as of May 19, 2014**
Common Stock, $.01 par value	15,579,397 shares

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CITI TRENDS, INC.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Citi Trends, Inc.

Condensed Consolidated Balance Sheets

May 3, 2014 and February 1, 2014

(Unaudited)

(in thousands, except share data)

		May 3, 2014		February 1, 2014
Assets				
Current assets:				
Cash and cash equivalents	$	81,433	$	58,928
Short-term investment securities		7,345		6,004
Inventory		112,720		126,501
Prepaid and other current assets		12,713		11,221
Income tax receivable				394
Deferred tax asset		4,172		4,711
Total current assets		218,383		207,759
Property and equipment, net of accumulated depreciation of $167,005 and $161,868 as of May 3, 2014 and February 1, 2014, respectively		52,960		56,154
Long-term investment securities		19,096		19,777
Deferred tax asset		6,810		6,932
Other assets		673		686
Total assets	$	297,922	$	291,308
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	$	51,603	$	60,037
Accrued expenses		15,825		14,651
Accrued compensation		10,385		9,548
Income tax payable		3,724		
Layaway deposits		1,434		515
Total current liabilities		82,971		84,751
Other long-term liabilities		6,814		7,686
Total liabilities		89,785		92,437
Stockholders equity:				
Common stock, $0.01 par value. Authorized 32,000,000 shares; 15,745,797 shares issued as of May 3, 2014 and 15,604,805 shares issued as of February 1, 2014; 15,580,047 shares outstanding as of May 3, 2014 and 15,439,055 outstanding as of February 1, 2014		151		150
Paid-in-capital		83,001		82,815

Retained earnings		125,150		116,071
Treasury stock, at cost; 165,750 shares as of May 3, 2014 and February 1, 2014		(165)		(165)
Total stockholders equity		208,137		198,871
Commitments and contingencies (note 9)				
Total liabilities and stockholders equity	$	297,922	$	291,308

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

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Citi Trends, Inc.

Condensed Consolidated Statements of Income

Thirteen Weeks Ended May 3, 2014 and May 4, 2013

(Unaudited)

(in thousands, except per share data)

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Net sales	$ 188,016	$ 181,828
Cost of sales (exclusive of depreciation shown separately below)	(114,767)	(114,505)
Selling, general and administrative expenses	(53,975)	(51,908)
Depreciation	(5,160)	(5,595)
Asset impairment		(27)
Income from operations	14,114	9,793
Interest income	53	68
Interest expense	(48)	(47)
Income before income tax expense	14,119	9,814
Income tax expense	5,040	3,650
Net income	$ 9,079	$ 6,164
Basic net income per common share	$ 0.61	$ 0.42
Diluted net income per common share	$ 0.61	$ 0.42
Weighted average number of shares outstanding		
Basic	14,901	14,752
Diluted	14,902	14,753

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

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Citi Trends, Inc.

Condensed Consolidated Statements of Cash Flows

Thirteen Weeks Ended May 3, 2014 and May 4, 2013

(Unaudited)

(in thousands)

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Operating activities:		
Net income	$ 9,079	$ 6,164
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,160	5,595
Asset impairment		27
Loss on disposal of property and equipment	1	1
Deferred income taxes	661	1,155
Noncash stock-based compensation expense	1,190	968
Excess tax benefits from stock-based payment arrangements	(236)	428
Changes in assets and liabilities:		
Inventory	13,781	32,964
Prepaid and other current assets	(1,492)	(254)
Other assets	13	10
Accounts payable	(8,434)	(22,192)
Accrued expenses and other long-term liabilities	181	191
Accrued compensation	837	2,013
Income tax receivable/payable	4,354	2,206
Layaway deposits	919	941
Net cash provided by operating activities	26,014	30,217
Investing activities:		
Sales/redemptions of investment securities	4,094	507
Purchases of investment securities	(4,754)	
Purchases of property and equipment	(1,846)	(3,020)
Net cash used in investing activities	(2,506)	(2,513)
Financing activities:		
Excess tax benefits from stock-based payment arrangements	236	(428)
Cash used to settle withholding taxes on the vesting of nonvested restricted stock	(1,239)	(474)
Net cash used in financing activities	(1,003)	(902)
Net increase in cash and cash equivalents	22,505	26,802
Cash and cash equivalents:		
Beginning of period	58,928	37,263
End of period	$ 81,433	$ 64,065
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 31	$ 31
Cash payments of income taxes	$ 25	$ 289
Supplemental disclosures of noncash investing activities:		
Increase in accrual for purchases of property and equipment	$ 121	$ 810

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

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Citi Trends, Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)
May 3, 2014

1. Basis of Presentation

Citi Trends, Inc. and its subsidiary (the Company) operate as a value-priced retailer of urban fashion apparel and accessories for the entire family. As of May 3, 2014, the Company operated 505 stores in 29 states.

The condensed consolidated balance sheet as of May 3, 2014 and the condensed consolidated statements of income and cash flows for the thirteen-week periods ended May 3, 2014 and May 4, 2013 have been prepared by the Company without audit. The condensed consolidated balance sheet as of February 1, 2014 has been derived from the audited financial statements as of that date, but does not include all required year-end disclosures. In the opinion of management, such statements include all adjustments considered necessary to present fairly the Company s financial position as of May 3, 2014 and February 1, 2014, and its results of operations and cash flows for all periods presented. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s latest Annual Report on Form 10-K for the year ended February 1, 2014.

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by U.S. GAAP for complete financial statements. Operating results for the thirteen weeks ended May 3, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2015.

The following contains references to years 2014 and 2013, which represent fiscal years ending or ended on January 31, 2015 and February 1, 2014, respectively. Fiscal 2014 and fiscal 2013 both have 52-week accounting periods.

2. Use of Estimates

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

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

3. Cash and Cash Equivalents/Concentration of Credit Risk

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

4. Earnings per Share

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

The dilutive effect of stock-based compensation arrangements is accounted for using the treasury stock method. This method assumes that the proceeds the Company receives from the exercise of stock options are used to repurchase common shares in the market. The Company includes as assumed proceeds the amount of compensation cost attributed to future services and not yet recognized, and the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of outstanding options and vesting of nonvested restricted stock. For the thirteen weeks ended May 3, 2014 and May 4, 2013, there were 31,000 and 46,000 stock options, respectively, and 605,000 and 562,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution.

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The following table provides a reconciliation of the average number of common shares outstanding used to calculate basic earnings per share to the number of common shares and common stock equivalents outstanding used in calculating diluted earnings per share for the thirteen weeks ended May 3, 2014 and May 4, 2013:

	Thirteen Weeks Ended	
	May 3, 2014	**May 4, 2013**
Average number of common shares outstanding	14,900,893	14,751,637
Incremental shares from assumed exercises of stock options	637	1,411
Average number of common shares and common stock equivalents outstanding	14,901,530	14,753,048

5. Fair Value Measurement

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

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

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

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

As of May 3, 2014, the Company s investment securities are classified as held-to-maturity since the Company has the intent and ability to hold the investments to maturity. Such securities are carried at amortized cost plus accrued interest and consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Obligations of the U. S. Treasury (Level 1)	$ 1,287	$ 1	$	$ 1,288
Obligations of states and municipalities (Level 2)	4,039	1		4,040
Bank certificates of deposit (Level 2)	2,019			2,019
	$ 7,345	$ 2	$	$ 7,347
Long-term:				
Obligations of the U. S. Treasury (Level 1)	13,840	18		13,858
Obligations of states and municipalities (Level 2)	135			135

Bank certificates of deposit (Level 2)	5,121			5,121
	$ 19,096	$ 18	$	$ 19,114

The amortized cost and fair market value of investment securities as of May 3, 2014 by contractual maturity are as follows (in thousands):

	Amortized Cost	**Fair Market Value**
Mature in one year or less	$ 7,345	$ 7,347
Mature after one year through five years	19,096	19,114
	$ 26,441	$ 26,461

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As of February 1, 2014, the Company s investment securities were classified as held-to-maturity and consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Bank certificates of deposit (Level 2)	6,004			6,004
	$ 6,004	$	$	$ 6,004
Long-term:				
Obligations of the U. S. Treasury (Level 1)	$ 15,152	$ 19	$	$ 15,171
Bank certificates of deposit (Level 2)	4,625			4,625
	$ 19,777	$ 19	$	$ 19,796

The amortized cost and fair market value of investment securities as of February 1, 2014 by contractual maturity were as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	$ 6,004	$ 6,004
Mature after one year through five years	19,777	19,796
	$ 25,781	$ 25,800

There were no changes among the levels in the thirteen weeks ended May 3, 2014.

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

6. Revolving Line of Credit

On October 27, 2011, the Company entered into a five-year, $50 million credit facility with Bank of America to replace its prior $20 million credit facility. The facility includes a $25 million uncommitted accordion feature that under certain circumstances could allow the Company to increase the size of the facility to $75 million. Borrowings, if any, under the facility will bear interest (a) for LIBOR Rate Loans, at LIBOR plus 1.5%, or (b) for Base Rate Loans, at a rate equal to the highest of (i) the prime rate plus 0.5%, (ii) the Federal Funds Rate plus 1.0%, or (iii) LIBOR plus 1.5%. The facility is secured by the Company s inventory, accounts receivable and related assets, but not its real estate, fixtures and equipment, and it contains one financial covenant, a fixed charge coverage ratio, which is applicable and tested only in certain circumstances. The facility has an unused commitment fee of 0.25% and permits the payment of cash dividends subject to certain limitations, including a requirement that there were no borrowings outstanding in the 30 days prior to the dividend payment and no borrowings are expected in the 30 days subsequent to the payment. The Company has had no borrowings under either the existing or prior facility.

7. Income Taxes

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

Work Opportunity Tax Credits (WOTC) and other Federal jobs credits were not available to the Company for the first quarter of 2014 due to the expiration of the program on December 31, 2013. It is possible that Congress will retroactively reinstate the WOTC back to the beginning of 2014; however, due to the uncertainty involved, no WOTC benefits were recorded in the thirteen weeks ended May 3, 2014.

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8. Other Long-Term Liabilities

The components of other long-term liabilities as of May 3, 2014 and February 1, 2014 are as follows (in thousands):

	May 3, 2014	February 1, 2014
Deferred rent	$ 1,738	$ 2,051
Tenant improvement allowances	3,322	3,823
Other	1,754	1,812
	$ 6,814	$ 7,686

9. Commitments and Contingencies

On August 12, 2011, the Company received a letter of determination from the U.S. Equal Employment Opportunity Commission (the EEOC) commencing a conciliation process regarding alleged discrimination against males by the Company in its hiring and promotion practices during the years 2004 through 2006. In its letter of determination, the EEOC sought recovery in the amount of $0.2 million on behalf of a former male employee and in the additional amount of $3.8 million in a settlement fund for a class of unidentified males who sought or considered seeking manager or assistant manager positions in the Company s stores. The EEOC also seeks certain undertakings by the Company with regard to its employment policies and procedures and a reporting obligation to the EEOC with respect to the Company s compliance with these undertakings.

The Company has not received full documentation or information from the EEOC in support of its letter of determination, but has undertaken its own internal analysis of the EEOC s claims and defenses to such claims and has had discussions with the EEOC in that regard. Following discussions with the EEOC regarding possible settlement, the EEOC proposed a settlement amount to be paid by the Company of $2.5 million, with any unclaimed funds following efforts to identify and compensate claimants to be directed to one or more charities. In the interest of reaching a satisfactory conciliation agreement with the EEOC, the Company proposed a total economic settlement offer of $1.0 million to cover all claims and the expenses of administering and complying with the settlement (excluding professional fees), with no reversion of unclaimed funds back to the Company. The Company continues to await the EEOC s response to the Company s most recent proposal regarding settlement. The Company is also evaluating other aspects of the conciliation process established by the EEOC.

On February 24, 2012, a suit was filed in the United States District Court for the Northern District of Alabama, Middle Division, by certain individuals as a purported collective action on behalf of current and former employees of the Company holding store managerial positions. The plaintiffs allege that store managers have been improperly classified as exempt from the obligation to pay overtime in violation of the Fair Labor Standards Act. The Company is vigorously defending the claims that have been asserted in this lawsuit. The trial court has conditionally certified a class of store managers and ruled that store managers in the conditional class who signed arbitration agreements are not subject to arbitration. The trial court s ruling regarding arbitration was affirmed on appeal by a panel of the United States Court of Appeals for the Eleventh Circuit. Notwithstanding the initial actions by the trial court, the conditional class may be subject to decertification at the close of discovery. Because no discovery has been conducted to date, the Company is unable to determine the probability of any particular outcome and it is not reasonably possible to estimate a range of loss with respect to this matter. Accordingly, no accrual for costs has been recorded, and the potential impact of this matter on our financial position, results of operations and cash flows cannot be determined at this time.

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

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

Forward-Looking Statements

Except for specific historical information, many of the matters discussed in this Form 10-Q may express or imply projections of revenues or expenditures, statements of plans and objectives for future operations, growth or initiatives, statements of future economic performance, or statements regarding the outcome or impact of pending or threatened litigation. These, and similar statements, are forward-looking statements concerning matters that involve risks, uncertainties and other factors that may cause the actual performance of the Company to differ materially from those expressed or implied by these statements. All forward-looking information should be evaluated in the context of these risks, uncertainties and other factors. The words believe, anticipate, project, plan, expect, estimate, objective, forecast, goal, intend, or will continue and similar words and expressions generally identify forward-looking statements. The Company believes the assumptions underlying these forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in the forward-looking statements.

The factors that may result in actual results differing from such forward-looking information include, but are not limited to: transportation and distribution delays or interruptions; changes in freight rates; the Company s ability to negotiate effectively the cost and purchase of merchandise; inventory risks due to shifts in market demand; the Company s ability to gauge fashion trends and changing consumer preferences; changes in consumer spending on apparel; changes in product mix; interruptions in suppliers businesses; a deterioration in general economic conditions caused by acts of war or terrorism or other factors; temporary changes in demand due to weather patterns; seasonality of the Company s business; delays associated with building, opening and operating new stores; delays associated with building, opening or expanding new or existing distribution centers; and other factors described in the section titled Item 1A. Risk Factors and elsewhere in the Company s Annual Report on Form 10-K for the fiscal year ended February 1, 2014 and in Part II, Item 1A. Risk Factors and elsewhere in the Company s Quarterly Reports on Form 10-Q and any amendments thereto and in the other documents the Company files with the SEC, including reports on Form 8-K.

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

Overview

We are a value-priced retailer of urban fashion apparel and accessories for the entire family. Our merchandise offerings are designed to appeal to the preferences of fashion conscious consumers, particularly African-Americans. We operated 505 stores in both urban and rural markets in 29 states as of May 3, 2014.

We measure performance using key operating statistics. One of the main performance measures we use is comparable store sales growth. We define a comparable store as a store that has been open for an entire fiscal year. Therefore, a store will not be considered a comparable store until its 13th month of operation at the earliest or until its 24th month at the latest. As an example, stores opened in fiscal 2013 and fiscal 2014 are not considered comparable stores in fiscal 2014. Relocated and expanded stores are included in the comparable store sales results. We also use other operating statistics, most notably average sales per store, to measure our performance. As we typically occupy existing space in established shopping centers rather than sites built specifically for our stores, store square footage (and therefore sales per square foot) varies by store. We focus on overall store sales volume as the critical driver of profitability.

In addition to sales, we measure cost of sales as a percentage of sales and store operating expenses, with a particular focus on labor, as a percentage of sales. These results translate into store level contribution, which we use to evaluate overall performance of each individual store. Finally, we monitor corporate expenses against budgeted amounts. All of the statistics discussed above are critical components of earnings before interest, taxes, depreciation and amortization (EBITDA) and Adjusted EBITDA (comprised of EBITDA, excluding non-cash asset impairment expense), which are considered our most important operating statistics. Although EBITDA and Adjusted EBITDA provide useful information on an operating cash flow basis, they are limited measures in that they exclude the impact of cash requirements for capital expenditures, income taxes and interest expense. Therefore, EBITDA and Adjusted EBITDA should be used as supplements to results of operations and cash flows as reported under U.S. GAAP and should not be used as a singular measure of operating performance or as a substitute for U.S. GAAP results.

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Provided below is a reconciliation of net income to EBITDA and to Adjusted EBITDA for the thirteen-week periods ended May 3, 2014 and May 4, 2013:

	Thirteen Weeks Ended	
	May 3, 2014	**May 4, 2013**
Net income	$ 9,079	$ 6,164
Plus:		
Interest expense	48	47
Income tax expense	5,040	3,650
Depreciation	5,160	5,595
Less:		
Interest income	(53)	(68)
EBITDA	19,274	15,388
Asset impairment		27
Adjusted EBITDA	$ 19,274	$ 15,415

Accounting Periods

The following discussion contains references to fiscal years 2014 and 2013, which represent fiscal years ending or ended on January 31, 2015 and February 1, 2014, respectively. Fiscal 2014 and fiscal 2013 both have 52-week accounting periods. This discussion and analysis should be read with the unaudited condensed consolidated financial statements and the notes thereto.

Results of Operations

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

Thirteen Weeks Ended May 3, 2014 and May 4, 2013

Net Sales. Net sales increased $6.2 million, or 3.4%, to $188.0 million in the thirteen weeks ended May 3, 2014 from $181.8 million in the thirteen weeks ended May 4, 2013. The increase in sales was due to a 4.2% increase in comparable store sales, partially offset by the impact of closing nine stores in fiscal 2013. The increase in comparable store sales was reflected in an increase of almost 6% in the number of customer transactions and a 1% increase in the average number of items per transaction, partially offset by an average unit sale that declined by more than

2%. Comparable store sales changes by major merchandise class were as follows in the first quarter of 2014: Accessories +22%; Home +22%; Children s +1%; Men s -2%; and Women s -7%.

The 4.2% comparable store sales increase in the 504 comparable stores totaled $7.5 million, while the 2013 store closings resulted in a decrease of $1.3 million in sales.

Cost of Sales (exclusive of depreciation). Cost of sales (exclusive of depreciation) increased $0.3 million, or 0.2%, to $114.8 million in the first quarter of 2014 from $114.5 million in last year s first quarter due to the effect of the increase in sales discussed above, almost entirely offset by an improvement in cost of sales as a percentage of sales to 61.0% in the first quarter of 2014 from 63.0% in last year s first quarter. The decrease in cost of sales as a percentage of sales was due primarily to a 170 basis points improvement in the core merchandise margin (initial mark-up, net of markdowns) as the result of improved sales and the resulting need for fewer merchandise markdowns in this year s first quarter. A more conservative inventory position as we entered the first quarter also contributed to the reduction in merchandise markdowns.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $2.1 million, or 4.0%, to $54.0 million in the first quarter of 2014 from $51.9 million in last year s first quarter due to normal inflationary pressure on expenses such as rent, payroll, utilities and employee medical claims, together with some pressure on distribution center and store expense due to a significant increase in merchandise receipts during this year s first quarter. Units received during the first quarter of 2014 were 26% higher than last year s first quarter due primarily to owning less inventory at the beginning of 2014 s first quarter. As a percentage of sales, selling, general and administrative expenses increased slightly to 28.7% in the first quarter of fiscal 2014 from 28.5% in the first quarter of fiscal 2013.

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Depreciation. Depreciation expense decreased $0.4 million, or 7.8%, to $5.2 million in the first quarter of 2014 from $5.6 million in the first quarter of 2013, due to the slowing of our store opening pace in relation to previous years.

Income Tax Expense. Income tax expense increased $1.3 million, or 38.1%, to $5.0 million in this year s first quarter from $3.7 million in the first quarter of 2013 due to an increase in pretax income, partially offset by a decrease in the effective income tax rate to 35.7% from 37.2%.

Net Income. Net income increased 47.3% to $9.1 million in the first quarter of 2014 from $6.2 million in the first quarter of 2013 due to the factors discussed above.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, opening of new stores, remodeling of our existing stores and the improvement of our information systems. In recent years, we have met these cash requirements using cash flow from operations and short-term trade credit. We expect to be able to meet future cash requirements with cash flow from operations, short-term trade credit, existing balances of cash and investment securities and, if necessary, borrowings under our revolving credit facility.

Current Financial Condition. As of May 3, 2014, we had total cash and cash equivalents of $81.4 million compared to $58.9 million as of February 1, 2014. Additionally, we had $7.3 million and $19.1 million of short-term and long-term investment securities, respectively, as of May 3, 2014, compared with $6.0 million and $19.8 million, respectively, as of February 1, 2014. These securities are comprised of bank certificates of deposit and obligations of the U.S. Treasury, states and municipalities. Inventory represented 37.8% of our total assets as of May 3, 2014, compared to 43.4% as of February 1, 2014. Management s ability to manage our inventory can have a significant impact on our cash flows from operations during a given interim period or fiscal year. In addition, inventory purchases can be seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise.

Cash Flows From Operating Activities. Net cash provided by operating activities was $26.0 million in the first quarter of 2014 compared to $30.2 million in the same period of 2013. Sources of cash provided during the first quarter of 2014 included net income adjusted for noncash expenses such as depreciation, loss on disposal of property and equipment, deferred income taxes and stock-based compensation expense, totaling $16.1 million (compared to $13.9 million in the first quarter of 2013). Other significant sources of cash in the first quarter of 2014 were (1) a $13.8 million decrease in inventory (compared to a $33.0 million decrease in the first quarter of fiscal 2013) due to apparel retail seasonality which typically results in having more inventory at the beginning of the spring selling season than at the end, and (2) a $4.4 million change in the income tax receivable/payable (compared to a $2.2 million change in the first quarter of fiscal 2013) due to income tax expense being accrued on first quarter pretax income while no estimated tax payments were due during the quarter. The only significant use of cash from operating activities was an $8.4 million decrease in accounts payable (compared to a $22.2 million decrease in the first quarter of 2013) due to the decline in inventory discussed above.

Cash Flows From Investing Activities. Cash used in investing activities was $2.5 million in the first quarter of both 2014 and 2013. Cash used for purchases of property and equipment totaled $1.8 million and $3.0 million in the first quarter of 2014 and 2013, respectively.

Cash Flows From Financing Activities. Cash flows from financing activities were insignificant in the first thirteen weeks of both 2014 and 2013.

Cash Requirements

Our principal sources of liquidity consist of: (i) cash and cash equivalents (which equaled $81.4 million as of May 3, 2014); (ii) short-term and long-term investment securities (which equaled $7.3 million and $19.1 million, respectively, as of May 3, 2014); (iii) short-term trade credit; (iv) cash generated from operations on an ongoing basis as we sell our merchandise inventory; and (v) a $50 million revolving credit facility. Trade credit represents a significant source of financing for inventory purchases and arises from customary payment terms and trade practices with our vendors. Historically, our principal liquidity requirements have been for working capital and capital expenditure needs.

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

Critical Accounting Policies

The preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. There have been no material changes to the Critical Accounting Policies outlined in the Company s Annual Report on Form 10-K for the year ended February 1, 2014.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our market risk during the thirteen weeks ended May 3, 2014 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended February 1, 2014.

Item 4. Controls and Procedures.

We have carried out an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of May 3, 2014 pursuant to Rules 13a-15 and 15d-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer each concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information has been accumulated and communicated to our management, including the officers who certify our financial reports, as appropriate, to allow timely decisions regarding the required disclosures.

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

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended May 3, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

On August 12, 2011, we received a letter of determination from the U.S. Equal Employment Opportunity Commission (the EEOC) commencing a conciliation process regarding alleged discrimination against males by us in our hiring and promotion practices during the years 2004 through 2006. In its letter of determination, the EEOC sought recovery in the amount of $0.2 million on behalf of a former male employee and in the additional amount of $3.8 million in a settlement fund for a class of unidentified males who sought or considered seeking manager or assistant manager positions in our stores. The EEOC also seeks certain undertakings by us with regard to our employment policies and procedures and a reporting obligation to the EEOC with respect to our compliance with these undertakings.

We have not received full documentation or information from the EEOC in support of its letter of determination, but have undertaken our own internal analysis of the EEOC s claims and defenses to such claims and have had discussions with the EEOC in that regard. Following discussions with the EEOC regarding possible settlement, the EEOC proposed a settlement amount to be paid by us of $2.5 million, with any unclaimed funds following efforts to identify and compensate claimants to be directed to one or more charities. In the interest of reaching a satisfactory conciliation agreement with the EEOC, we proposed a total economic settlement offer of $1.0 million to cover all claims and the expenses of administering and complying with the settlement (excluding professional fees), with no reversion of unclaimed funds back to us. We continue to await the EEOC s response to our most recent proposal regarding settlement. We are also evaluating other aspects of the conciliation process established by the EEOC.

On February 24, 2012, a suit was filed in the United States District Court for the Northern District of Alabama, Middle Division, by certain individuals as a purported collective action on behalf of current and former employees of the Company holding store managerial positions. The plaintiffs allege that store managers have been improperly classified as exempt from the obligation to pay overtime in violation of the Fair Labor Standards Act. We are vigorously defending the claims that have been asserted in this lawsuit. The trial court has conditionally certified a class of store managers and ruled that store managers in the conditional class who signed arbitration agreements are not subject to arbitration. The trial court s ruling regarding arbitration was affirmed on appeal by a panel of the United States Court of Appeals for the Eleventh Circuit. Notwithstanding the initial actions by the trial court, the conditional class may be subject to decertification at the close of discovery. Because no discovery has been conducted to date, we are unable to determine the probability of any particular outcome and it is not reasonably possible to estimate a range of loss with respect to this matter. Accordingly, no accrual for costs has been recorded, and the potential impact of this matter on our financial position, results of operations and cash flows cannot be determined at this time.

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

Item 1A. Risk Factors.

There are no material changes to the Risk Factors described under the section ITEM 1A. RISK FACTORS in the Company s Annual Report on Form 10-K for the fiscal year ended February 1, 2014.

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

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

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Item 6. Exhibits.

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	The following financial information from Citi Trends, Inc. s Quarterly Report on Form 10-Q for the quarter ended May 3, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets as of May 3, 2014 and February 1, 2014, (ii) the Condensed Consolidated Statements of Income for the thirteen-week periods ended May 3, 2014 and May 4, 2013, (iii) the Condensed Consolidated Statements of Cash Flows for the thirteen-week periods ended May 3, 2014 and May 4, 2013, and (iv) Notes to the Condensed Consolidated Financial Statements.*^

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* Included herewith.

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

^ In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed furnished and not filed .

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SIGNATURES

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

CITI TRENDS, INC.

Date: June 10, 2014

By:	/s/ Bruce D. Smith
Name:	Bruce D. Smith
Title:	Executive Vice President, Chief Financial Officer and Secretary