Citi Trends Inc
Form 10-Q
December 11, 2013

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 November 2, 2013

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 November 19, 2013**
Common Stock, $.01 par value	15,450,197 shares

Table of Contents

CITI TRENDS, INC.

FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Citi Trends, Inc.

Condensed Consolidated Balance Sheets

November 2, 2013 and February 2, 2013

(Unaudited)

(in thousands, except share data)

	November 2, 2013	February 2, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 47,585	$ 37,263
Short-term investment securities	18,218	12,771
Inventory	123,203	141,473
Prepaid and other current assets	12,737	10,648
Income tax receivable	1,442	1,134
Deferred tax asset	4,703	6,088
Assets held for sale		1,415
Total current assets	207,888	210,792
Property and equipment, net of accumulated depreciation and amortization of $156,635 and $142,770 as of November 2, 2013 and February 2, 2013, respectively	60,979	70,995
Long-term investment securities	20,052	5,754
Deferred tax asset	6,250	3,863
Other assets	700	741
Total assets	$ 295,869	$ 292,145
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 58,929	$ 62,690
Accrued expenses	17,408	14,435
Accrued compensation	12,080	8,129
Layaway deposits	2,397	660
Total current liabilities	90,814	85,914
Other long-term liabilities	8,416	10,260
Total liabilities	99,230	96,174
Stockholders equity:		
Common stock, $0.01 par value. Authorized 32,000,000 shares; 15,616,665 shares issued as of November 2, 2013 and 15,295,780 shares issued as of February 2, 2013; 15,450,915 shares outstanding as of November 2, 2013 and 15,130,030 outstanding as of February 2, 2013	150	149
Paid-in-capital	82,048	80,380

Retained earnings		114,606		115,607
Treasury stock, at cost; 165,750 shares as of November 2, 2013 and February 2, 2013		(165)		(165)
Total stockholders equity		196,639		195,971
Commitments and contingencies (note 10)				
Total liabilities and stockholders equity	$	295,869	$	292,145

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

Table of Contents

Citi Trends, Inc.

Condensed Consolidated Statements of Operations

Thirty-Nine Weeks Ended November 2, 2013 and October 27, 2012

(Unaudited)

(in thousands, except per share data)

	Thirty-Nine Weeks Ended November 2, 2013		Thirty-Nine Weeks Ended October 27, 2012	
Net sales	$	465,011	$	478,997
Cost of sales		294,878		308,739
Gross profit		170,133		170,258
Selling, general and administrative expenses		(155,976)		(154,733)
Depreciation and amortization		(16,716)		(18,153)
Asset impairment		(1,237)		(660)
Gain on sale of former distribution center		1,526		
Loss from operations		(2,270)		(3,288)
Interest income		213		194
Interest expense		(145)		(163)
Loss before income tax benefit		(2,202)		(3,257)
Income tax benefit		(1,201)		(1,736)
Net loss	$	(1,001)	$	(1,521)
Basic net loss per common share	$	(0.07)	$	(0.10)
Diluted net loss per common share	$	(0.07)	$	(0.10)
Weighted average number of shares outstanding				
Basic		14,789		14,662
Diluted		14,789		14,662

Citi Trends, Inc.

Condensed Consolidated Statements of Operations

Thirteen Weeks Ended November 2, 2013 and October 27, 2012

(Unaudited)

(in thousands, except per share data)

	Thirteen Weeks Ended November 2, 2013		Thirteen Weeks Ended October 27, 2012	
Net sales	$	145,362	$	148,985
Cost of sales		92,074		97,808

Gross profit		53,288		51,177
Selling, general and administrative expenses		(52,148)		(51,132)
Depreciation and amortization		(5,454)		(5,970)
Asset impairment		(556)		(660)
Gain on sale of former distribution center		1,526		
Loss from operations		(3,344)		(6,585)
Interest income		78		66
Interest expense		(49)		(50)
Loss before income tax benefit		(3,315)		(6,569)
Income tax benefit		(1,643)		(2,869)
Net loss	$	(1,672)	$	(3,700)
Basic net loss per common share	$	(0.11)	$	(0.25)
Diluted net loss per common share	$	(0.11)	$	(0.25)
Weighted average number of shares outstanding				
Basic		14,815		14,677
Diluted		14,815		14,677

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

Table of Contents

Citi Trends, Inc.

Condensed Consolidated Statements of Cash Flows

Thirty-Nine Weeks Ended November 2, 2013 and October 27, 2012

(Unaudited)

(in thousands)

	Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012
Operating activities:		
Net loss	$ (1,001)	$ (1,521)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,716	18,153
Asset impairment	1,237	660
Gain on sale of former distribution center	(1,526)	
Loss on disposal of property and equipment	1	14
Deferred income taxes	(1,002)	(601)
Noncash stock-based compensation expense	2,572	1,980
Excess tax benefits from stock-based payment arrangements	294	463
Changes in assets and liabilities:		
Inventory	18,270	(15,174)
Prepaid and other current assets	(2,089)	(478)
Other assets	41	42
Accounts payable	(3,761)	(11,843)
Accrued expenses and other long-term liabilities	1,020	917
Accrued compensation	3,951	(1,615)
Income tax receivable/payable	(602)	7,850
Layaway deposits	1,737	1,941
Net cash provided by operating activities	35,858	788
Investing activities:		
Sales/redemptions of investment securities	3,736	51
Purchases of investment securities	(23,481)	
Proceeds from sale of former distribution center	2,941	
Purchases of property and equipment	(7,829)	(5,798)
Net cash used in investing activities	(24,633)	(5,747)
Financing activities:		
Excess tax benefits from stock-based payment arrangements	(294)	(463)
Proceeds from the exercise of stock options	44	
Shares acquired to settle withholding taxes on the vesting of nonvested restricted stock	(653)	(369)
Net cash used in financing activities	(903)	(832)
Net increase (decrease) in cash and cash equivalents	10,322	(5,791)
Cash and cash equivalents:		
Beginning of period	37,263	41,986
End of period	$ 47,585	$ 36,195
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 95	$ 109

Cash payments (refunds) of income taxes	$	404	$	(8,985)
Supplemental disclosures of noncash investing activities:				
Increase (decrease) in accrual for purchases of property and equipment	$	109	$	(1,315)

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

Table of Contents

Citi Trends, Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)
November 2, 2013

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 November 2, 2013, the Company operated 505 stores in 29 states.

The condensed consolidated balance sheet as of November 2, 2013, the condensed consolidated statements of operations for the thirty-nine and thirteen week periods ended November 2, 2013 and October 27, 2012, and the condensed consolidated statements of cash flows for the thirty-nine week periods ended November 2, 2013 and October 27, 2012 have been prepared by the Company without audit. The condensed consolidated balance sheet as of February 2, 2013 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 November 2, 2013 and February 2, 2013, 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 2, 2013.

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 interim periods ended November 2, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending February 1, 2014.

The following contains references to years 2013 and 2012, which represent fiscal years ending or ended on February 1, 2014 and February 2, 2013, respectively. Fiscal 2013 has a 52-week accounting period and fiscal 2012 had a 53-week accounting period.

2. Use of Estimates

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

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

3. Cash and Cash Equivalents/Concentration of Credit Risk

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

4. Earnings per Share

Basic earnings per common share amounts are calculated using the weighted average number of common shares outstanding for the period. Diluted earnings per common share amounts are calculated using the weighted average number of common shares outstanding plus the additional dilution for all potentially dilutive securities, such as nonvested restricted stock 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 thirty-nine weeks ended November 2, 2013 and October 27, 2012, there were 43,000 and 46,000 stock options, respectively, and 619,000 and 393,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution. For the thirteen weeks ended November 2, 2013 and October 27, 2012, there were 36,000 and 48,000 stock options, respectively, and 639,000 and 476,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution.

Table of Contents

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 thirty-nine and thirteen week periods ended November 2, 2013 and October 27, 2012:

	Thirty-Nine Weeks Ended	
	November 2, 2013	**October 27, 2012**
Average number of common shares outstanding	14,789,320	14,661,910
Incremental shares from assumed exercises of stock options		
Incremental shares from assumed vesting of nonvested restricted stock		
Average number of common shares and common stock equivalents outstanding	14,789,320	14,661,910

	Thirteen Weeks Ended	
	November 2, 2013	**October 27, 2012**
Average number of common shares outstanding	14,815,107	14,676,817
Incremental shares from assumed exercises of stock options		
Incremental shares from assumed vesting of nonvested restricted stock		
Average number of common shares and common stock equivalents outstanding	14,815,107	14,676,817

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 November 2, 2013, 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 states and municipalities (Level 2)	$	2,407	$	1	$		$	2,408
Obligations of the U. S. Treasury (Level 1)		4,999		8				5,007
Bank certificates of deposit (Level 2)		10,812				(1)		10,811
	$	18,218	$	9	$	(1)	$	18,226
Long-term:								
Obligations of the U. S. Treasury (Level 1)	$	15,177	$	15	$	(1)	$	15,191
Bank certificates of deposit (Level 2)		4,875						4,875
	$	20,052	$	15	$	(1)	$	20,066

The amortized cost and fair market value of investment securities as of November 2, 2013 by contractual maturity are as follows (in thousands):

		Amortized Cost		**Fair Market Value**
Mature in one year or less	$	18,218	$	18,226
Mature after one year through five years		20,052		20,066
	$	38,270	$	38,292

Table of Contents

As of February 2, 2013, the Company s investment securities were classified as held-to-maturity and consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Obligations of the U. S. Treasury (Level 1)	$ 4,993	$ 39	$	$ 5,032
Obligations of states and municipalities (Level 2)	1,731	9		1,740
Bank certificates of deposit (Level 2)	6,047			6,047
	$ 12,771	$ 48	$	$ 12,819
Long-term:				
Bank certificates of deposit (Level 2)	$ 5,754	$ 6	$	$ 5,760

The amortized cost and fair market value of investment securities as of February 2, 2013 by contractual maturity were as follows (in thousands):

	Amortized Cost	Fair Market Value
Mature in one year or less	$ 12,771	$ 12,819
Mature after one year through five years	5,754	5,760
	$ 18,525	$ 18,579

There were no changes among the levels in the thirty-nine weeks ended November 2, 2013.

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

6. Impairment of Long-Lived Assets

If facts and circumstances indicate that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. Non-cash impairment expense related to leasehold improvements and fixtures and equipment at underperforming stores totaled $1.2 million and $0.6 million, respectively, in the thirty-nine and thirteen-week periods ended November 2, 2013. Impairment expense totaled $0.7 million in the thirty-nine and thirteen-week periods ended October 27, 2012.

7. 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.

8. Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the

Table of Contents

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.

For the thirty-nine week periods ended November 2, 2013 and October 27, 2012, the Company has utilized the discrete effective tax rate method, as allowed by ASC 740-270, Income Taxes - Interim Reporting, to calculate income taxes. Under the discrete method, the Company determines its tax expense based upon actual results as if the interim period were an annual period. ASC 740 requires companies to apply their estimated full-year tax rate on a year-to-date basis in each interim period unless the estimated full-year tax rate is not reliably predictable. For the thirty-nine-week periods ended November 2, 2013 and October 27, 2012, the Company concluded that the use of the discrete method was more appropriate than the annual effective tax rate method, because the annual rate method would not be reliable due to its sensitivity to minimal changes in forecasted annual pre-tax earnings.

The effective tax rates reflected in income tax benefit for the thirty-nine and thirteen-week periods ended November 2, 2013 and October 27, 2012 include the benefit of various tax credits. Such tax credits are higher during the interim periods of fiscal 2013 than 2012 because they include Work Opportunity Tax Credits (WOTC) which have been available throughout fiscal 2013, but were not extended by Congress in fiscal 2012 until after the third quarter. The benefit from tax credits in the thirty-nine weeks ended November 2, 2013 is partially offset by income tax expense of $0.4 million which resulted from an increase in a valuation allowance in the second quarter of 2013. Such increase occurred when the Company concluded that its ability to utilize certain tax credits in one state was no longer more likely than not.

9. Other Long-Term Liabilities

The components of other long-term liabilities as of November 2, 2013 and February 2, 2013 are as follows (in thousands):

	November 2, 2013	February 2, 2013
Deferred rent	$ 2,389	$ 3,342
Tenant improvement allowances	4,339	5,384
Other	1,688	1,534
	$ 8,416	$ 10,260

10. 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 has 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 has 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 intends to vigorously defend the claims that have been asserted in this lawsuit. The trial court conditionally certified a class of store managers and ruled that the store managers are not subject to arbitration. The size and scope of the class remains undetermined, however, and the decision on arbitration is expected to be subject to appellate review. Also, 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 the Company s financial position, results of operations and cash flows cannot be determined at this time.

Table of Contents

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.

Table of Contents

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 2, 2013 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 November 2, 2013.

We measure performance using key operating statistics. One of the main performance measures we use is comparable store sales growth. We define a comparable store as a store that has been opened for an entire fiscal year. Therefore, a store will not be considered a comparable store until its 13th month of operation at the earliest or until its 24th month at the latest. As an example, stores opened in fiscal 2012 and fiscal 2013 are not considered comparable stores in fiscal 2013. 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