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

Form 10-Q

(Mark One)

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

For the quarterly period ended July 29, 2023

OR

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

Commission File Number 000-51315

CITI TRENDS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	CTRN	NASDAQ Stock Market

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

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

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

Large Accelerated Filer ? Accelerated Filer ? Non-Accelerated Filer ?

Smaller Reporting Company ? Emerging Growth Company ?

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

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

As of August 23, 2023 the registrant had 8,564,057 outstanding shares of common stock, $0.01 par value per share.

CITI TRENDS, INC.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Citi Trends, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(in thousands, except share data)

	July 29, 2023	January 28, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 65,820	$ 103,495
Inventory	134,473	105,794
Prepaid and other current assets	16,741	12,977
Income tax receivable	3,054	615
Total current assets	220,088	222,881
Property and equipment, net of accumulated depreciation of $269,483 and $ 262,525 as of July 29, 2023 and January 28, 2023, respectively	59,084	60,106
Operating lease right of use assets	240,151	257,195
Deferred income taxes	6,101	2,893
Other assets	1,083	1,183
Total assets	$ 526,507	$ 544,258
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 93,680	$ 80,670
Operating lease liabilities	46,540	52,661
Accrued expenses	17,037	16,055
Accrued compensation	11,346	10,823
Layaway deposits	1,259	344
Total current liabilities	169,862	160,553
Noncurrent operating lease liabilities	198,525	214,939
Other long-term liabilities	2,167	2,322
Total liabilities	370,554	377,814
Stockholders' equity:		
Common stock, $0.01 par value. Authorized 32,000,000 shares; 16,368,070 shares issued as of July 29, 2023 and 16,158,494 shares issued as of January 28, 2023; 8,564,057 shares outstanding as of July 29, 2023 and 8,354,481 shares outstanding as of January 28, 2023	160	160
Paid in capital	103,621	102,445
Retained earnings	319,383	331,050
Treasury stock, at cost; 7,804,013 shares held as of July 29, 2023 and 7,804,013 shares held as of January 28, 2023	(267,211)	(267,211)
Total stockholders' equity	155,953	166,444
Commitments and contingencies (Note 6)		
Total liabilities and stockholders' equity	$ 526,507	$ 544,258

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

Citi Trends, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands, except per share amounts)

	Thirteen Weeks Ended	
	July 29, 2023	July 30, 2022
Net sales	$ 173,554	$ 185,012
Cost of sales (exclusive of depreciation)	(107,226)	(114,589)
Selling, general and administrative expenses	(69,543)	(68,481)
Depreciation	(4,708)	(5,272)
Loss from operations	(7,923)	(3,330)
Interest income	887	2
Interest expense	(77)	(78)
Loss before income taxes	(7,113)	(3,406)
Income tax benefit	2,081	870
Net loss	$ (5,032)	$ (2,536)
Basic net loss per common share	$ (0.61)	$ (0.31)
Diluted net loss per common share	$ (0.61)	$ (0.31)
Weighted average number of shares outstanding		
Basic	8,225	8,165
Diluted	8,225	8,165

Citi Trends, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands, except per share amounts)

	Twenty-Six Weeks Ended	
	July 29, 2023	July 30, 2022
Net sales	$ 353,242	$ 393,227
Cost of sales (exclusive of depreciation)	(220,885)	(241,600)
Selling, general and administrative expenses	(140,350)	(139,507)
Depreciation	(9,389)	(10,717)
Gain on sale-leasebacks	—	34,920
(Loss) Income from operations	(17,382)	36,323
Interest income	1,910	2
Interest expense	(152)	(154)
(Loss) Income before income taxes	(15,624)	36,171
Income tax benefit (expense)	3,957	(8,504)
Net (loss) income	$ (11,667)	$ 27,667
Basic net (loss) income per common share	$ (1.42)	$ 3.34
Diluted net (loss) income per common share	$ (1.42)	$ 3.34
Weighted average number of shares outstanding		
Basic	8,203	8,284
Diluted	8,203	8,284

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

Citi Trends, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Twenty-Six Weeks Ended	
	July 29, 2023	July 30, 2022
Operating activities:		
Net (loss) income	$ (11,667)	$ 27,667
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	9,389	10,717
Non-cash operating lease costs	25,662	25,302
Loss on disposal of property and equipment	23	10
Deferred income taxes	(3,208)	454
Insurance proceeds related to operating activities	—	1,575
Non-cash stock-based compensation expense	1,984	1,939
Gain on sale-leaseback	—	(34,920)
Changes in assets and liabilities:		
Inventory	(28,679)	(19,480)
Prepaid and other current assets	(3,764)	(2,466)
Other assets	100	65
Accounts payable	12,437	(16,268)
Accrued expenses and other long-term liabilities	(31,237)	(24,086)
Accrued compensation	523	(12,891)
Income tax receivable/payable	(2,439)	3,361
Layaway deposits	915	841
Net cash used in operating activities	(29,961)	(38,180)
Investing activities:		
Purchases of property and equipment	(6,905)	(18,438)
Insurance proceeds related to investing activities	—	1,370
Proceeds from sale-leasebacks	—	45,513
Net cash (used in) provided by investing activities	(6,905)	28,445
Financing activities:		
Cash used to settle withholding taxes on the vesting of nonvested restricted stock	(809)	(2,139)
Repurchases of common stock	—	(10,000)
Net cash used in financing activities	(809)	(12,139)
Net (decrease) increase in cash and cash equivalents	(37,675)	(21,874)
Cash and cash equivalents:		
Beginning of period	103,495	49,788
End of period	$ 65,820	$ 27,914
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 79	$ 79
Cash payments of income taxes	$ 1,519	$ 4,689
Supplemental disclosures of non-cash investing activities:		
Accrual for purchases of property and equipment	$ 1,485	$ 1,419

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

Citi Trends, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(in thousands, except share amounts)

	Common Stock		Paid in	Retained	Treasury Stock		
	Shares	Amount	Capital	Earnings	Shares	Amount	Total
Balances — January 28, 2023	16,158,494	$160	$102,445	$331,050	7,804,013	$(267,211)	$166,444
Vesting of nonvested shares	—	1	—	—	—	—	1
Issuance of nonvested shares	1,500	—	—	—	—	—	—
Forfeiture of nonvested shares	(9,647)	—	—	—	—	—	—
Stock-based compensation expense	—	—	935	—	—	—	935
Net share settlement of nonvested shares	(33,432)	(1)	(782)	—	—	—	(783)
Net loss	—	—	—	(6,635)	—	—	(6,635)
Balances — April 29, 2023	16,116,915	$160	$102,598	$324,415	7,804,013	$(267,211)	$159,962
Issuance of nonvested shares	259,136	—	—	—	—	—	—
Forfeiture of nonvested shares	(6,581)	—	—	—	—	—	—
Stock-based compensation expense	—	—	1,049	—	—	—	1,049
Net share settlement of nonvested shares	(1,400)	—	(26)	—	—	—	(26)
Net loss	—	—	—	(5,032)	—	—	(5,032)
Balances — July 29, 2023	16,368,070	$160	$103,621	$319,383	7,804,013	$(267,211)	$155,953

	Common Stock		Paid in	Retained	Treasury Stock		
	Shares	Amount	Capital	Earnings	Shares	Amount	Total
Balances — January 29, 2022	16,090,365	$159	$101,037	$272,158	7,473,155	$(257,211)	$116,143
Vesting of nonvested restricted stock units	—	1	—	—	—	—	1
Issuance of nonvested shares	109,157	—	—	—	—	—	—
Issuance of common stock under incentive plan, net of shares withheld for taxes	15,977	—	—	—	—	—	—
Forfeiture of nonvested shares	(15,761)	—	—	—	—	—	—
Stock-based compensation expense	—	—	2,277	—	—	—	2,277
Net share settlement of nonvested shares	(40,345)	(1)	(2,127)	—	—	—	(2,128)
Repurchase of common stock	—	—	—	—	170,436	(5,317)	(5,317)
Net income	—	—	—	30,203	—	—	30,203
Balances — April 30, 2022	16,159,393	$159	$101,187	$302,361	7,643,591	$(262,528)	$141,179
Issuance of nonvested shares under incentive plan	29,938	—	—	—	—	—	—
Forfeiture of nonvested shares	(5,379)	—	—		—	—	—
Stock-based compensation expense	—	—	(338)	—	—	—	(338)
Net share settlement of nonvested shares	(527)	—	(12)	—	—	—	(12)
Repurchase of common stock	—	—	—	—	160,422	(4,683)	(4,683)
Net loss	—	—	—	(2,536)	—	—	(2,536)
Balances — July 30, 2022	16,183,425	$159	$100,837	$299,825	7,804,013	$(267,211)	$133,610

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

Citi Trends, Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)
July 29, 2023

1. Significant Accounting Policies

Basis of Presentation
Citi Trends, Inc. and its subsidiary (the “Company”) is a leading specialty value retailer of apparel, accessories and home trends for way less spend primarily for African American and multicultural families. As of July 29, 2023, the Company operated 611 stores in urban, suburban and rural markets in 33 states.

The condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim reporting and are unaudited. In the opinion of management, the condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. The condensed consolidated balance sheet as of January 28, 2023 is derived from the audited financial statements in the Company’s Annual Report on Form 10-K for the fiscal year ended January 28, 2023 (the “2022 Form 10-K”). These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the 2022 Form 10-K. Operating results for the second quarter of 2023 are not necessarily indicative of the results that may be expected for the fiscal year as a result of the seasonality of the business and the current economic uncertainty.

Fiscal Year
The following contains references to fiscal years 2023 and 2022, which represent fiscal years ending or ended on February 3, 2024 and January 28, 2023, respectively. Fiscal 2023 has a 53-week accounting period, and fiscal 2022 had a 52-week accounting period.

2. 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.

3. Earnings per Share

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

The dilutive effect of stock-based compensation arrangements is accounted for using the treasury stock method. The Company includes as assumed proceeds the amount of compensation cost attributed to future services and not yet recognized. For the second quarter of 2023 and 2022, there were 328,000 and 236,000 shares of nonvested restricted stock, respectively, excluded from the calculation of diluted earnings per share because of antidilution. For the twenty-six weeks ended July 29, 2023 and July 30, 2022, there were 215,000 and 229,000 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 weighted 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:

	Thirteen Weeks Ended	
	July 29, 2023	July 30, 2022
Weighted average number of common shares outstanding	8,224,762	8,164,765
Incremental shares from assumed vesting of nonvested restricted stock	—	—
Weighted average number of common shares and common stock equivalents outstanding	8,224,762	8,164,765

	Twenty-Six Weeks Ended	
	July 29, 2023	July 30, 2022
Weighted average number of common shares outstanding	8,203,497	8,283,522
Incremental shares from assumed vesting of nonvested restricted stock	—	—
Weighted average number of common shares and common stock equivalents outstanding	8,203,497	8,283,522

4. Revolving Credit Facility

In October 2011, the Company entered into a five-year, $50 million credit facility with Bank of America. The facility was amended in August 2015 and May 2020 to extend the maturity dates. The facility was further amended in April 2021 to modify terms and extend the maturity date to April 15, 2026. In May 2023, the facility was amended to replace the London Interbank Offered Rate (“LIBOR”) with the Secured Overnight Financing Rate (“SOFR”). The amended facility provides a $75 million credit commitment and a $25 million uncommitted “accordion” feature that under certain circumstances could allow the Company to increase the size of the facility to $100 million. 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 0.20% and permits the payment of cash dividends subject to certain limitations. Borrowings under the credit facility bear interest (a) for SOFR Loans, at a rate equal to the SOFR Rate plus a SOFR adjustment equal to 0.10% plus either 1.25%, 1.50% or 1.75%, or (b) for Base Rate Loans, at a rate equal to the highest of (i) the prime rate, (ii) the Federal Funds Rate plus 0.5% or (iii) the Eurodollar Rate plus 1.0%, plus, in each case either 0.25%, 0.50% or 0.75%, based in any such case on the average daily availability for borrowings under the facility.

As of July 29, 2023, the Company had no borrowings under the credit facility and $0.6 million of letters of credit outstanding.

5. 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. If there is a change in tax rates, the Company would recognize the impact of such change in income in the period that includes the enactment date.

The Company has historically used the annual effective tax rate method to calculate income taxes. For the first half of 2023, the Company used the discrete effective tax rate method to determine its tax expense based upon interim results. The Company determined that since small changes in estimated ordinary income would result in significant changes in the estimated annual effective tax rate, the historical method would not provide a reliable estimate for the first half of 2023.

6. Commitments and Contingencies

The Company from time to time is involved in various legal proceedings incidental to the conduct of its business, including claims by customers, landlords, 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, the Company establishes appropriate reserves.

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In January 2023, the Company experienced a disruption of its back office and distribution center IT systems, which was due to what is known as Hive ransomware (the "January 2023 cyber disruption"). In connection with this incident, third party consultants and forensic experts were engaged to assist with the restoration and remediation of the Company's systems and, with the assistance of law enforcement, to investigate the incident. The Company does not retain sensitive customer data on its systems.

In connection with the January 2023 cyber disruption, three putative class action lawsuits have been filed against the Company in the United States District Court for the Southern District of Georgia. These matters, Sienna Thomas v. Citi Trends, Inc.; Yeimy Sambrano v. Citi Trends, Inc.; and Sabrina Green-Fogg v. Citi Trends, Inc., were filed on June 27, 2023, July 7, 2023, and July 14, 2023, respectively. The plaintiffs allege harm in connection with the January 2023 cyber disruption and assert a variety of claims seeking unspecified monetary damages and other related relief. The Company is vigorously defending these lawsuits. In addition, the Attorneys General of Alabama, Connecticut, Indiana and Texas have sent inquiry letters to the Company regarding the January 2023 cyber disruption, which the Company is answering. At this early date, the Company is unable to estimate the range of potential losses that may be associated with these actions or whether it may be subject to other lawsuits, claims or inquiries.

While legal proceedings are subject to uncertainties and the outcome of any such matter is not predictable and it is possible that we could incur losses associated with these proceedings, the Company does not believe, based on the information available to it at the time of this filing, that any legal proceedings pending or threatened against it will have a material adverse effect on its financial condition, results of operations or liquidity.

7. Stock Repurchases

Repurchases of Common Stock

The Company periodically repurchases shares of its common stock under board-authorized repurchase programs. Such repurchases may be made in the open market, through block trades or through other negotiated transactions. Share repurchases were as follows (in thousands, except per share data):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 29, 2023	**July 30, 2022**	**July 29, 2023**	**July 30, 2022**
Total number of shares purchased	—	160	—	331
Average price paid per share (including commissions)	$ —	$ 29.17	$ —	$ 30.22
Total investment	$ —	$ 4,683	$ —	$ 10,000

At July 29, 2023, $50.0 million remained available under the Company's stock repurchase authorization.

8. Revenue

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

Sales Returns
The Company allows customers to return merchandise for up to 30 days after the date of sale. Expected refunds to customers are recorded based on estimated margin using historical return information.

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

those products and sell their products to similar classes of customers.

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In the following table, the Company's revenue from contracts with customers is disaggregated by "CITI" or major merchandise category. The percentage of net sales for each CITI with the merchandise assortment was approximately:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 29, 2023	July 30, 2022	July 29, 2023	July 30, 2022
Ladies	27 %	27 %	28 %	28 %
Kids	21 %	21 %	22 %	21 %
Accessories & Beauty	18 %	18 %	18 %	18 %
Mens	17 %	18 %	16 %	17 %
Footwear	9 %	8 %	8 %	8 %
Home & Lifestyle	8 %	8 %	8 %	8 %

9. Leases

The Company leases its retail store locations, distribution centers, and certain office space and equipment. Leases for store locations are typically for a term of five years with options to extend for one or more five-year periods. In April 2022, the Company completed a sale-leaseback of its distribution center in Darlington, South Carolina that resulted in a gain of $34.9 million and a 20-year lease term with the option to extend for six additional periods of five years each. In September 2022, the Company completed a sale-leaseback of its distribution center in Roland, Oklahoma that resulted in a gain of $29.2 million and a 15-year lease term with the option to extend for six additional periods of five years each.

The Company analyzes all leases at inception to determine if a right-of-use asset and lease liability should be recognized. Leases with an initial term of 12 months or less and leases with mutual termination clauses are not included on the condensed consolidated balance sheets. The lease liability is measured at the present value of future lease payments as of the lease commencement date.

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 29, 2023	July 30, 2022	July 29, 2023	July 30, 2022
Operating lease cost	$ 15,617	$ 15,022	$ 31,408	$ 28,883
Variable lease cost	2,919	2,580	5,779	4,913
Short term lease cost	385	373	778	719
Total lease cost	$ 18,921	$ 17,975	$ 37,965	$ 34,515

Future minimum lease payments as of July 29, 2023 are as follows (in thousands):

Fiscal Year	Lease Costs	
Remainder of 2023	$ 27,108	
2024	58,778	
2025	48,309	
2026	37,454	
2027	27,329	
Thereafter	121,557	
Total future minimum lease payments	320,535	
Less: imputed interest	(75,470)	(1)
Total present value of lease liabilities	$ 245,065	(2)

(1) Calculated using the discount rate for each lease.

(2) Includes short-term and long-term portions of operating lease liabilities.

Supplemental cash flows and other information related to operating leases are as follows (in thousands, except for weighted average amounts):

	Twenty-Six Weeks Ended	
	July 29, 2023	July 30, 2022
Cash paid for operating leases	$ 36,865	$ 29,012
Right of use assets obtained in exchange for new operating lease liabilities	$ 10,242	$ 58,745
Weighted average remaining lease term (years) - operating leases	7.73	7.26
Weighted average discount rate - operating leases	4.72%	3.84%

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

Forward-Looking Statements

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

The factors that may result in actual results differing from such forward-looking information include, but are not limited to: uncertainties relating to general economic conditions, including inflation, energy and fuel costs, unemployment levels, and any deterioration whether caused by acts of war, terrorism, political or social unrest (including any resulting store closures, damage or loss of inventory) or other factors; changes in market interest rates and market levels of wages; natural disasters such as hurricanes; uncertainty and economic impact of pandemics, epidemics or other public health emergencies such as the ongoing COVID-19 pandemic; transportation and distribution delays or interruptions; changes in freight rates; the Company's ability to attract and retain workers; 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 confidence and consumer spending patterns; competition within the industry; competition in our markets; the duration and extent of any economic stimulus programs; changes in product mix; interruptions in suppliers' businesses; the ongoing assessment and impact of the January 2023 cyber disruption we identified on January 14, 2023, including legal, reputational, financial and contractual risks resulting from the January 2023 disruption, and other risks related to cybersecurity, data privacy and intellectual property; the results of pending or threatened litigation; temporary changes in demand due to weather patterns; seasonality of the Company's business; delays associated with building, opening, remodeling 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 January 28, 2023, 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.

Executive Overview

We are a leading specialty value retailer of apparel, accessories and home trends for way less spend primarily for African American and multicultural families. Our high-quality and trend-right merchandise offerings at everyday low prices are designed to appeal to the fashion and trend preferences of value-conscious customers. As of July 29, 2023, we operated 611 stores in urban, suburban and rural markets in 33 states.

Uncertainties and Challenges

General Economic Conditions

We expect that our operations in the short-term will continue to be influenced by general economic conditions, including the recent inflationary pressures, which are particularly impactful to the communities we serve. Given the macro-economic environment, we expect low-income families to remain under pressure through the majority of fiscal 2023. In addition, we continue to monitor the impacts on our business of unemployment levels, wage inflation, interest rates, inflation rates, housing costs, energy costs, consumer confidence, consumer perception of economic conditions, costs to source our merchandise and supply chain disruptions.

Seasonality and Weather Patterns

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. In addition, sales of clothing are directly impacted by the timing of the seasons to which the clothing relates. While we have expanded our product offerings to become a one-stop-shop, traffic to our stores is still influenced by weather patterns to some extent.

Cyber Disruption

In January 2023, we experienced a disruption of our back office and distribution center IT systems, which was due to what is known as Hive ransomware (the “January 2023 cyber disruption”). In connection with this incident, we engaged third party consultants and forensic experts to assist with the restoration and remediation of the Company’s systems and, with the assistance of law enforcement, to investigate the incident. We do not retain sensitive customer data on our systems. The impact of the January 2023 cyber disruption is not expected to be material to our full year fiscal 2023 financial results.

In the first half of fiscal 2023, the January 2023 cyber disruption related costs, net of an expected insurance receivable, totaled $1.7 million, comprised of incremental inventory processing costs, third-party consulting services and legal counsel. In fiscal 2022, cyber disruption related costs incurred totaled $0.1 million, primarily comprised of third-party consulting services and legal counsel. We do have cyber insurance, and we are working diligently with our insurance carriers on claims to recover costs incurred. We anticipate that our financial costs related to the January 2023 cyber disruption will ultimately be covered by insurance, subject to a retention. We expect to incur ongoing costs related to the cyber disruption, including costs to enhance data security, and plan to take further steps to prevent unauthorized access to, or manipulation of, our systems and data. Several putative class action lawsuits have been filed against the Company and several inquiries have been made to the Company with respect to the January 2023 cyber disruption. See Note 6 to the Financial Statements for more information.

Basis of Presentation

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

The following discussion contains references to fiscal years 2023 and 2022, which represent fiscal years ending or ended on February 3, 2024 and January 28, 2023, respectively. Fiscal 2023 has a 53-week accounting period and fiscal 2022 had a 52-week accounting period. This discussion and analysis should be read with the unaudited condensed consolidated financial statements and the notes thereto contained in Part 1, Item 1 of this Report.

Results of Operations

The following discussion of the Company’s financial performance is based on the unaudited condensed consolidated financial statements set forth herein. 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 as a result of the seasonality of our business and the current economic uncertainty.

Key Operating Statistics

We measure performance using key operating statistics. One of the main performance measures we use is comparable store sales growth. We define a comparable store as a store that has been opened for an entire fiscal year. Therefore, a store will not be considered a comparable store until its 13th month of operation at the earliest or until its 24th month at the latest. As an example, stores opened in fiscal 2022 and fiscal 2023 are not considered comparable stores in fiscal 2023. Relocated and expanded stores are included in the comparable store sales results. Stores that are closed permanently or for an extended period are excluded from 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.

Thirteen Weeks Ended July 29, 2023 and July 30, 2022

Net Sales. Net sales decreased $11.4 million, or 6.2%, to $173.6 million in the second quarter of 2023 from $185.0 million in the second quarter of 2022. The decrease in sales was due to a 5.3% decrease in comparable store sales and a decrease of $1.8 million from net store opening and closing activity. The decrease in comparable store sales was the result of continued inflationary pressures in the second quarter of 2023 that are particularly impactful to our core customers.

Cost of Sales (exclusive of depreciation). Cost of sales (exclusive of depreciation) decreased $7.4 million, or 6.4%, to $107.2 million in the second quarter of 2023 from $114.6 million in the second quarter of 2022. Cost of sales as a percentage of sales decreased to 61.8% from 61.9%. The change of 10 basis points was due to an increase of 50 basis points in the core merchandise margin (initial mark-up, net of markdowns) due primarily to lower markdowns, partially offset by an increase of 30 basis points in freight costs due to the deleveraging effect of lower sales and an increase of 10 basis points in shrinkage.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $1.0 million, or 1.6%, to $69.5 million in the second quarter of 2023 from $68.5 million in the second quarter of 2022. The increase was driven by (1) $2.4 million of one-time items that reduced expenses in the second quarter of last year (primarily consisting of an insurance gain and an adjustment to accrued vacation); (2) higher rent expense this year related to the sale-leasebacks of our distribution centers; and (3) higher incentive compensation this year due to the reversal last year of certain performance-based awards that were determined to be improbable of vesting. These increases were partially offset by lower insurance expense due primarily to an actuarial adjustment for future losses, lower professional fees and lower payroll expenses. As a percentage of sales, Selling, general and administrative expenses increased to 40.1% in the second quarter of 2023 from 37.0% in the second quarter of 2022, due to the factors discussed above and the deleveraging effect of lower sales.

Depreciation. Depreciation expense decreased $0.6 million, or 10.7%, to $4.7 million in the second quarter of 2023 from $5.3 million in the second quarter of 2022.

Income Tax Benefit. Income tax benefit was $2.1 million in the second quarter of 2023 compared to benefit of $0.9 million in the second quarter of 2022 due primarily to a higher pretax loss in the current period. For the second quarter of 2023, we used the discrete effective tax rate method to determine income tax expense based upon interim period results.

Net Loss. Net loss was $5.0 million in the second quarter of 2023 compared to net loss of $2.5 million in the second quarter of 2022 due to the factors discussed above.

Twenty-Six Weeks Ended July 29, 2023 and July 30, 2022

Net Sales. Net sales decreased $40.0 million, or 10.2%, to $353.2 million in the first twenty-six weeks of 2023 from $393.2 million in the same period of 2022. The decrease in sales was due to a 10.0% decrease in comparable store sales and a $1.6 million decrease from net store opening and closing activity. The decrease in comparable store sales was the result of continued inflationary pressures in the first twenty-six weeks of 2023 that are particularly impactful to our core customers.

Cost of Sales (exclusive of depreciation). Cost of sales (exclusive of depreciation) decreased $20.7 million, or 8.6%, to $220.9 million in the first twenty-six weeks of 2023 from $241.6 million in the same period of 2022. Cost of sales as a percentage of sales increased to 62.5% in the first twenty-six weeks of 2023 from 61.4% in the same period of 2022. The change of 110 basis points was due to an increase of 90 basis points in freight costs, a decrease of 10 basis points in the core merchandise margin (initial mark-up, net of markdowns) and an increase of 10 basis points in shrinkage due primarily to the deleveraging effect of lower sales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $0.9 million, or 0.6%, to $140.4 million in the first twenty-six weeks of 2023 from $139.5 million in the same period of 2022. The increase was due to (1) $2.4 million of one-time items that reduced expenses in the second quarter of last year (primarily consisting of an insurance gain and an adjustment to accrued vacation); (2) an incremental $1.2 million of costs related to the cyber disruption; and (3) higher rent expense this year related to the sale-leasebacks of our distribution centers. These increases were partially offset by lower insurance expense due to lower claims and an actuarial adjustment for future losses, lower professional fees and lower payroll costs. As a percentage of sales, Selling, general and administrative expenses increased to 39.7% in the first twenty-six weeks of 2023 from 35.5% in the first twenty-six weeks of 2022, due to the factors discussed above and the deleveraging effect of lower sales.

Depreciation. Depreciation expense decreased $1.3 million, or 12.4%, to $9.4 million in the first twenty-six weeks of 2023 from $10.7 million in the same period last year.

Gain on sale-leaseback. In the first quarter of 2022, we completed a sale-leaseback transaction for our distribution center in Darlington, South Carolina that resulted in a $34.9 million gain.

Income Tax Benefit (Expense). Income tax benefit was $4.0 million in the first twenty-six weeks of 2023 compared to income tax expense of $8.5 million in the first twenty-six weeks of 2022 due to pretax loss this year compared to pretax income last year that included the gain on sale leaseback. For the first half of 2023, we used the discrete effective tax rate method to determine income tax expense based upon interim period results.

Net (Loss) Income. Net loss was $11.7 million in the first twenty-six weeks of 2023 compared to net income of $27.7 million in the same period of 2022 due to the factors discussed above.

Liquidity and Capital Resources

Capital Allocation

Our capital allocation strategy is to maintain adequate liquidity to prioritize investments in opportunities to profitably grow our business and maintain current operations, then to return excess cash to shareholders through our repurchase programs. Our quarter-end cash and cash equivalents balance was $65.8 million compared to cash and cash equivalents of $27.9 million at the end of the second quarter last year. Until required for other purposes, we maintain cash and cash equivalents in deposit or money market accounts.

Our principal sources of liquidity consist of: (i) cash and cash equivalents on hand; (ii) short-term trade credit arising from customary payment terms and trade practices with our vendors; (iii) cash generated from operations on an ongoing basis; and (iv) a revolving credit facility with a $75 million credit commitment.

Inventory

Our quarter-end inventory balance was $134.5 million, compared with $142.1 million at the end of the second quarter last year. The decrease was primarily due to a planned reduction in our packaway inventory, partially offset by a strategic increase in our average in-store inventory.

Capital Expenditures

Capital expenditures in the first twenty-six weeks of 2023 were $6.9 million, a decrease of $11.5 million over the first twenty-six weeks of 2022 as we pared back our investments in new stores and remodels. We anticipate capital expenditures in fiscal 2023 in the range of $15 to $20 million, primarily for opening five new stores and remodeling ten to twenty stores, combined with ongoing investments in our systems.

Share Repurchases

We did not repurchase any shares of our common stock in the first half of 2023. During the first half of 2022, we returned $10.0 million to shareholders through share repurchases. See Part II of this Report and Note 7 to the Financial Statements for more information.

Revolving Credit Facility

We have a revolving credit facility that matures in April 2026 and provides a $75 million credit commitment and a $25 million uncommitted “accordion” feature. Additional details of the credit facility are in Note 4 to the Financial Statements. At the end of the second quarter of 2023, we had no borrowings under the credit facility and $0.6 million in letters of credit outstanding.

Cash Flows

Cash Flows From Operating Activities. Net cash used in operating activities was $30.0 million in the first twenty-six weeks of 2023 compared to $38.2 million in the same period of 2022. Sources of cash this year included net loss adjusted for non-cash expenses totaling $22.2 million (compared to net income adjusted for non-cash items of $32.7 million in the first twenty-six weeks of 2022) and an increase of $12.4 million in accounts payable (compared to a $16.3 million decrease in the same period last year).

Significant uses of cash from operating activities in the first twenty-six weeks of 2023 included (1) a $31.2 million decrease in accrued expenses and other long-term liabilities (compared to a $24.1 million decrease in the first twenty-six weeks of 2022) due primarily to payments of operating lease liabilities; and (2) a $28.7 million increase in inventory (compared to a $19.5 million increase in the same period last year).

Cash Flows From Investing Activities. Cash used in investing activities was $6.9 million in the first twenty-six weeks of 2023 compared to cash provided of $28.4 million in the same period last year. Cash used in the first twenty-six weeks of 2023 consisted of purchases of property and equipment. Cash provided by investing activities in the first twenty-six weeks of 2022 consisted of $45.5 million net proceeds from the sale-leaseback transaction, partially offset by $18.4 million for purchases of property and equipment.

Cash Flows From Financing Activities. Cash used in financing activities was $0.8 million in the first twenty-six weeks of 2023 compared to $12.1 million in the same period last year. Cash used in the first twenty-six weeks of 2023 consisted of payments to settle withholding taxes on restricted stock that vested. Cash used in the first twenty-six weeks of 2022 consisted of $10.0 million of repurchases of our common stock and payments of $2.1 million to settle withholding taxes on restricted stock that vested.

Cash Requirements and Commitments

Our principal cash requirements consist of (1) inventory purchases; (2) capital expenditures to invest in our infrastructure; and (3) operational needs, including salaries, occupancy costs, taxes and other operating costs. We may also use cash to fund any share repurchases, make any required debt payments and satisfy other contractual obligations. Historically, we have met these cash requirements using cash flow from operations and short-term trade credit. As of July 29, 2023, our contractual commitments for operating leases totaled $245.1 million (with $46.5 million due within 12 months). See Note 9 to the Financial Statements for more information regarding lease commitments.

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 our Annual Report on Form 10-K for the fiscal year ended January 28, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our market risk during the twenty-six weeks ended July 29, 2023 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended January 28, 2023.

Item 4. Controls and Procedures.

We have carried out an evaluation under the supervision and with the participation of management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of July 29, 2023 pursuant to Rules 13a-15 and 15d-15 of the Exchange Act. Based on that evaluation, the principal executive officer and the principal financial officer 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 July 29, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 6 to the Financial Statements for information regarding legal matters.

Item 1A. Risk Factors.

There have been no material changes to the Risk Factors described under the section “ITEM 1A. RISK FACTORS” in our Annual Report on Form 10-K for the fiscal year ended January 28, 2023.

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

Information on Share Repurchases

The Company did not repurchase any shares in the second quarter of 2023. At July 29, 2023, $50.0 million remained available under the Company’s stock repurchase authorization.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

3.1	Third Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 7, 2018).
3.2	Certificate of Change of Registered Agent and/or Registered Office (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on October 31, 2022).
3.3	Fourth Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on October 31, 2022).
10.1	Form of Restricted Stock Unit Award Agreement for Employees under the Citi Trends, Inc. 2021 Incentive Plan (Performance Based Vesting – EBITDA Target).+
31.1	Certification of Principal 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 Principal Financial Officer, Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
32.1	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+†
101	Inline XBRL Document Set for the condensed consolidated financial statements and accompanying notes in Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q.+
104	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set.+

+ Included herewith.

* indicates management contract for compensatory plan or arrangement.

† 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.

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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 her capacity as the Registrant's Chief Financial Officer (Principal Financial Officer).

CITI TRENDS, INC.

Date: September 6, 2023

By:	/s/ Heather Plutino
Name:	Heather Plutino
Title:	Chief Financial Officer