FAIR ISAAC CORP
Form 10-K
November 23, 2010

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

Form 10-K

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended September 30, 2010**
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]** **For the transition period from to**

Commission File Number 1-11689
Fair Isaac Corporation
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**94-1499887** *(I.R.S. Employer Identification No.)*
901 Marquette Avenue, Suite 3200 **Minneapolis, Minnesota** *(Address of principal executive offices)*	**55402-3232** *(Zip Code)*

Registrant s telephone number, including area code:
612-758-5200

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

(Title of Class)	**(Name of Each Exchange on Which Registered)**
Common Stock, $0.01 par value per share	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file report pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ   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 þ   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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. (Check one):

Large accelerated filer þ	Accelerated filer o	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 þ

As of March 31, 2010, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $770,150,790 based on the last transaction price as reported on the New York Stock Exchange on such date. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purposes.

The number of shares of common stock outstanding on October 31, 2010 was 39,887,143 (excluding 48,969,640 shares held by the Company as treasury stock).

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on February 1, 2011.

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FORWARD LOOKING STATEMENTS

Statements contained in this Report that are not statements of historical fact should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act). In addition, certain statements in our future filings with the Securities and Exchange Commission (SEC), in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other statements concerning future financial performance; (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services; (iii) statements of assumptions underlying such statements; (iv) statements regarding business relationships with vendors, customers or collaborators; and (v) statements regarding products, their characteristics, performance, sales potential or effect in the hands of customers. Words such as believes, anticipates, expects, intends, targeted, sh potential, goals, strategy, and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in Item 1A of Part I, Risk Factors, below. The performance of our business and our securities may be adversely affected by these factors and by other factors common to other businesses and investments, or to the general economy. Forward-looking statements are qualified by some or all of these risk factors. Therefore, you should consider these risk factors with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Such forward-looking statements speak only as of the date on which statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events or circumstances. Readers should carefully review the disclosures and the risk factors described in this and other documents we file from time to time with the SEC, including our reports on Forms 10-Q and 8-K to be filed by the Company in fiscal 2011.

PART I

Item 1. *Business*

GENERAL

Fair Isaac Corporation (NYSE: FICO) (together with its consolidated subsidiaries, the Company , which may also be referred to in this report as we, us, our, and FICO) provides products and services that enable businesses to automat improve and connect decisions to enhance business performance. Our predictive analytics, which includes the industry-standard FICO® Score, and our Decision Management systems power hundreds of billions of customer decisions each year.

We were founded in 1956 on the premise that data, used intelligently, can improve business decisions. Today, we help thousands of companies in over 80 countries use our Decision Management technology to target and acquire customers more efficiently, increase customer value, reduce fraud and credit losses, lower operating expenses, and enter new markets more profitably. Most leading banks and credit card issuers rely on our solutions, as do insurers, retailers and healthcare organizations. We also serve consumers through online services that enable people to purchase and understand their FICO® Scores, the standard measure in the United States of credit risk, empowering them to manage their financial health.

More information about us can be found on our principal website, www.fico.com. We make our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, as well as amendments to those reports, available free of charge through our website as soon as reasonably practicable after we electronically file them with the SEC. Information on our website is not part of this report.

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PRODUCTS AND SERVICES

We help businesses automate, improve and connect decisions across the enterprise, an approach we commonly refer to as Decision Management. Most of our solutions address customer decisions, including customer targeting and acquisition, account origination, customer management, fraud management, collections and recovery. We also help businesses improve noncustomer decisions such as transaction and claims processing, and network integrity review. Our solutions enable users to make decisions that are more precise, consistent and agile, and that systematically advance business goals. This helps our clients to reduce the cost of doing business, increase revenues and profitability, reduce losses from risks and fraud, and increase customer loyalty.

Our Segments

Effective October 1, 2009, we implemented an organizational restructuring resulting in a consolidation of our operating segment structure from four segments to three. We now deliver Decision Management through products and services that we categorize into the following three operating segments:

Applications. This segment includes the former Strategy Machine SolutionsTM segment, excluding our myFICO® solutions for consumers, and associated professional services. Our Applications products are pre-configured Decision Management applications designed for a specific type of business problem or process, such as marketing, account origination, customer management, fraud and insurance claims management.

Scores. This segment includes our business-to-business scoring solutions and services, our myFICO® solutions for consumers (previously included in the Strategy Machine Solutions segment), and associated professional services. Our scoring solutions give our clients access to analytics that can be easily integrated into their transaction streams and decision-making processes. Our scoring *solutions* are distributed through major credit reporting agencies, as well as services through which we provide our scores to clients directly.

Tools. This segment includes the former Analytic Software Tools segment and associated professional services. The Tools segment is composed of software tools that clients can use to create their own custom Decision Management applications.

The former Professional Services segment, which represents delivery and integration services, has been included within the applicable segment to which the services relate and is no longer its own segment.

Comparative segment revenues, operating income and related financial information for fiscal 2010, 2009 and 2008 are set forth in Note 20 to the accompanying consolidated financial statements.

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Key Products and Services by Operating Segment

Operating Segment	**Key Products and Services**
Applications	
Marketing	FICO® Precision Marketing Manager
	FICO® Retail Action Manager
Originations	FICO® LiquidCredit® service
	FICO® Capstone® Decision Manager
	FICO® Capstone® Decision Accelerator
Customer Management	FICO® TRIAD® Customer Manager
	FICO® Transaction Scores
Fraud	FICO™ Falcon® Fraud Manager
	FICO™ Insurance Fraud Manager
	FICO™ Fraud Predictor with Merchant Profiles FICO™ Falcon® ID solution
	FICO™ Card Alert Service
Collections & Recovery	FICO® Debt Manager™ solution
	FICO™ Recovery Management System™ solution (RMS™)
	FICO® Network Services
	FICO™ PlacementsPlus® service
Analytics	FICO® Predictive Analytics
	FICO™ Custom Decision Optimization
Scores	
Business-to-business	FICO® Scores
	FICO® Expansion® Scores
	FICO® Revenue Scores
	FICO® Bankruptcy Scores
	FICO® Insurance Scores Property PredictR™, a FICO® Insurance Score
	FICO® PreScore® Service
Business-to-consumer	myFICO® service
	Score Watch® subscription
Tools	FICO™ Blaze Advisor® business rules management system
	FICO™ Model Builder
	FICO™ Decision Optimizer
	FICO™ Xpress Optimization Suite

Our Solutions

Our solutions involve four fundamental disciplines:

Analytics to identify the risks and opportunities associated with individual clients, prospects and transactions, in order to detect patterns such as fraud, and to improve the design of decision logic or strategies;

Data management and profiling that bring extensive consumer information to every decision;

Software such as rules management systems that implement business rules, models and decision strategies, often in a real-time environment; and

Consulting services that help clients make the most of investments in FICO applications, tools and analytics in the shortest possible time.

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All of our solutions are designed to help businesses make decisions that are faster, more precise, more consistent and more agile, while reducing costs and risks incurred in making decisions.

Applications

We develop industry-tailored Decision Management applications, categorized as Applications, which apply analytics, data management and Decision Management software to specific business challenges and processes. These include credit offer prescreening, insurance claims management and others. Our Applications primarily serve clients in the banking, insurance, healthcare, and retail sectors. Within our Applications segment our customer management solutions accounted for 14%, 15% and 15% of total revenues in each of fiscal 2010, 2009 and 2008, respectively, our fraud solutions accounted for 20%, 20% and 18% of total revenues in each of these periods, respectively, and our marketing solutions accounted for 11%, 9% and 7% for each of these periods, respectively.

Marketing Applications

The chief offering for marketing is our FICO® Precision Marketing Manager. The Precision Marketing Manager solution is a suite of products, capabilities and services designed to integrate the technology and analytic services needed to perform context-sensitive customer acquisition, cross-selling and retention programs. The Precision Marketing Manager solution enables companies that offer multiple products and use multiple channels (companies such as large financial institutions, consumer branded goods companies, pharmaceutical companies, retail merchants and hospitality companies) to execute more efficient and profitable customer interactions. Services offered under the Precision Marketing Manager brand name include customer data integration services; services that enable real-time marketing through direct consumer interaction channels; campaign management and optimization services; interactive tools that automate the design, execution and collection of customer response data across multiple channels; and customer data collection, management and profiling services.

A number of our marketing products and services are designed for specific industries, such as retail. For example, a product for retailers is our FICO® Retail Action Manager, which determines the optimal products to recommend to consumers based on purchase propensity.

Originations Applications

We provide solutions that enable banks, credit unions, finance companies, installment lenders and other companies to automate and improve the processing of requests for credit or service. These solutions increase the speed and efficiency with which requests are handled, reduce losses and increase approval rates through analytics that assess applicant risk, and reduce the need for manual review by loan officers.

Our solutions include the web-based FICO® LiquidCredit® service, which is primarily focused on credit decisions and is offered largely to mid-tier banking institutions. In addition, we offer FICO® Capstone® Decision Manager, an end-user software solution for application decisioning and processing and FICO® Capstone® Decision Accelerator, a rules-based application based on our FICO™ Blaze Advisor® business rules management system. We also offer custom and consortium-based credit risk and application fraud models.

Customer Management Applications

Our customer management products and services enable businesses to automate and improve decisions on their existing customers. These solutions help businesses decide which customers to cross-sell, what additional products and services to offer, whether customer risk levels have increased or decreased, when and how much to change a customer s credit line, what pricing adjustments to make in response to account performance or promotional goals, and how to treat delinquent and high-risk accounts.

We provide customer management solutions for:

Banking. In banking, our leading account and customer management product is the FICO® TRIAD® Customer Manager. The solution is an adaptive control system, so named because it enables businesses to rapidly adapt to changing business and internal conditions by designing and testing new strategies in a champion/challenger environment. The TRIAD system is the world s leading credit account management system, and our adaptive control systems are used by more than 250 issuers. The current version of the TRIAD system enables users to manage risk and communications at both the account and customer level from a single platform. We also offer transaction-based neural network models (the term neural network is defined under Technology later in this section) called FICO® Transaction Scores, which help card issuers identify high-risk behavior more quickly and thus manage their credit card accounts more profitably. We market and sell TRIAD end-user software licenses, maintenance, consulting services, and strategy design and evaluation. Additionally, we provide TRIAD services and similar credit account management services through third-party credit card processors worldwide, including the two largest processors in the U.S., First Data Resources, Inc. and Total System Services, Inc.

Insurance. We provide property and casualty insurers with Decision Management solutions that enable them to create, test and implement decision strategies for areas such as cross-selling, pricing, claims handling, retention, prospecting and underwriting.

Fraud Applications

Our fraud management products improve our clients profitability by predicting the likelihood that a given transaction or customer account is experiencing fraud. Our fraud products analyze customer transactions in real time and generate recommendations for immediate action, which is critical to stopping third-party fraud, as well as first-party fraud and deliberate misuse of account privileges. These applications can also detect some organized fraud schemes, such as skimming or organized bust-out fraud, that are too complex and well-hidden to be identified by other methods.

Our solutions are designed to detect and prevent a wide variety of fraud and risk types across multiple industries, including credit and debit payment card fraud; deposit account fraud; identity fraud; technical fraud and bad debt; healthcare fraud; Medicaid and Medicare fraud; and property and casualty insurance fraud, including workers compensation fraud. FICO fraud solutions protect merchants, financial institutions, insurance companies, government agencies and employers from losses and damaged customer relationships caused by fraud and related criminal behavior.

Our leading fraud detection solution is FICO™ Falcon® Fraud Manager, recognized as the leader in global payment card fraud detection. Falcon Fraud Manager s neural network predictive models and patented profiling technology, both further described below in the Technology section, examine transaction, cardholder and merchant data to detect a wide range of credit and debit card fraud quickly and accurately. Falcon Fraud Manager analyzes card transactions in real time, assesses the risk of fraud, and takes the user-defined steps to prevent fraud while expediting legitimate transactions.

FICO™ Fraud Predictor with Merchant Profiles is used in conjunction with Falcon Fraud Manager to improve fraud detection rates by analyzing merchant profile data. The merchant profiles include characteristics that reveal, for example, merchants that have a history of higher fraud volumes, and which purchase types and ticket sizes have most often been fraudulent at a particular merchant.

FICO™ Falcon® ID solution enables lenders to control identity fraud across the customer lifecycle. Falcon ID solution relies on multiple sources of data and complex statistical modeling techniques to identify activity that is at high risk of stemming from identity theft. It also provides business rules management that companies can use to identify and resolve cases that appear to involve identity theft.

FICO^{tm} Insurance Fraud Manager, which uses predictive modeling to detect claims fraud, abuse and errors before payment, and identify suspicious providers as soon as aberrant behavior patterns emerge. FICO offers versions tailored to Healthcare and Workers Compensation.

In addition to the Falcon products, we offer FICO^{tm} Card Alert Service. Card Alert Service is a solution for fighting debit and ATM fraud in the U.S. The Card Alert Service identifies and reports counterfeit payment cards to issuers before the majority of them incur fraud losses. The service analyzes daily transactions across

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multiple financial institutions, and uses this data to pinpoint multi-card fraud and identify common points of compromise.

Collections & Recovery Applications

Our leading solutions in this area are the FICO® Debt Manager™ solution and the FICO™ Recovery Management System™ (RMS) solution. The Debt Manager solution automates the full cycle of collections and recovery, including early collections, late collections, asset disposal, agency placement, recovery, litigation, bankruptcy, asset management and residual balance recovery. The RMS solution is focused on the later phases of distressed debt management, including bankruptcy and agency management. Companies using the Debt Manager solution and the RMS solution in the U.S. can access partner services such as collection agencies and attorneys via FICO® Network Services, which provides web-based access to and from thousands of third-party collections and recovery service providers, as well as access to multiple data sources and FICO solutions hosted in ASP mode. We also provide the FICO™ PlacementsPlus® service, an account placement optimization and management system.

Analytics

We perform custom predictive, descriptive and decision modeling and related analytic projects for clients in multiple industries and to address multiple business processes across the customer life cycle. This work leverages our analytic methodologies and expertise to solve risk management and marketing challenges for a single business, using that business s data and industry best practices to develop a highly customized solution. Most of this work falls under predictive analytics, decision analysis and optimization, which provide greater insight into customer preferences and future customer behavior. Within decision analysis and optimization, we apply data and proprietary algorithms to the design of customer treatment strategies.

Scores

We develop the world s leading credit scores based on third-party data. Our FICO® Scores are used in most U.S. credit decisions, by most of the major banks and credit card organizations as well as by mortgage and auto loan originators. These scores provide a consistent and objective measure of an individual s credit risk. Credit grantors use the FICO® Scores to prescreen solicitation candidates, to evaluate applicants for new credit and to review existing accounts. The FICO® Scores are calculated based on proprietary scoring models. The scores produced by these models are available through each of the three major credit reporting agencies in the United States: TransUnion, Experian and Equifax. Users generally pay the credit reporting agencies scoring fees based on usage, and the credit reporting agencies share these fees with us.

The most recent version of the FICO® Score for U.S. lenders is the FICO® 8 Score. This substantially upgraded version, available at the three major credit reporting agencies, includes enhancements that increase its predictive power, as well as enhancements that consider authorized user accounts (accounts where another consumer is added as a user of the primary cardholder s account) while limiting the possibility that such accounts are used to artificially inflate scores.

Our scoring portfolio also includes the FICO® Expansion® Score, which provides scores on U.S. consumers who do not have traditional FICO® Scores, generally because they have too few credit accounts being reported to the credit reporting agencies. The score analyzes multiple sources of non-traditional credit data such as subscription memberships, deposit account activity and utility payment histories. The resulting scores have the same 300 850® score range as the traditional FICO® Score.

In fiscal 2010, the FICO® Economic Impact Index became available at Equifax. It is the first market-ready economic consumer risk measure available for portfolio stress testing as well as individual credit decisions.

Our other solutions include the FICO® Credit Capacity Index™, the first market-ready predictive analytic to assess a consumer s ability to pay new debt and is available for use with four credit reporting agencies data in markets worldwide.

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The FICO® Score Trends Service is a comprehensive reporting package that allows lenders to drill down into industry FICO® Score trends, indexed by a range of criteria such as industry, geography and time period, in order to regularly analyze their own portfolios, and improve their risk management and forecasting.

Through the combination of these scoring solutions, FICO offers a comprehensive market-ready solution for giving lenders a 360 degree view of the customer, encompassing the risk view (FICO® Score), market view (FICO® Score Trends Service), opportunity view (FICO® Credit Capacity Index™) and economic view (FICO® Economic Impact Index).

Outside of the United States and Canada, we offer, or are close to launching, the FICO® Score, for consumer and/or SME lending, through credit reporting agencies in 11 markets worldwide. We have installed client-specific versions of the FICO® Score in 11 countries. Like FICO® Scores in North America, these scores help lenders in multiple countries leverage the FICO® Score s predictive analysis to assess the risk of prospects, applicants and borrowers. FICO® Scores are in use or being implemented in 20 different countries across five continents.

In addition to the scoring solutions noted above, we also offer marketing and bankruptcy scores known as FICO® Revenue Scores and FICO® Bankruptcy Scores through the U.S. credit reporting agencies; an application fraud, revenue and bankruptcy score available in Canada; and commercial credit scores delivered by both U.S. and U.K. credit reporting agencies, and soon to be released in Singapore.

We have also developed scoring systems for insurance underwriters and marketers. Such systems use the same underlying statistical technology as our FICO® risk scores, but are designed to predict applicant or policyholder insurance loss risk for automobile or homeowners coverage. Our insurance scores are available in the U.S. from TransUnion, Experian, Equifax and ChoicePoint, Inc., and in Canada from Equifax. We also offer an insurance score called the Property PredictR™ score, which analyzes property inspection database data from an insurance services provider, Millennium Information Services, Inc., to calculate the loss risk of a property.

We provide credit bureau scoring services and related consulting directly to users in banking through the FICO® PreScore® service for prescreening solicitation candidates.

Through our myFICO® service, we provide solutions based on our analytics to consumers, sold directly by us or through distribution partners. Consumers can use the myFICO.com website to purchase their FICO® Scores, the credit reports underlying the scores, explanations of the factors affecting their scores, and customized advice on how to manage their scores. Customers can use the myFICO service to simulate how taking specific actions would affect their FICO Score. Consumers can also purchase Equifax s Score Watch® subscriptions, which deliver alerts via email and SMS or text messages when the user s scores or balances change. The myFICO products and subscription offerings are available online at www.myfico.com in partnership with two major U.S. credit reporting agencies: Equifax Inc. (Equifax) and TransUnion Corporation (TransUnion). The myFICO products and subscription offerings are also available to consumers through lenders, financial portals and numerous other partners.

Tools

We provide end-user software products that businesses use to build their own tailored Decision Management applications. In contrast to our packaged Applications developed for specific industry applications, our Tools support the addition of Decision Management capabilities to virtually any application or operational system. These tools are sold as licensed software, and can be used by themselves or together to advance a client s Decision Management initiatives. We use these tools as common software components for our own Decision Management applications, described above in the Applications section. They are also key components of our Decision Management architecture, described in the Technology section. We also partner with third-party providers within given industry markets and with major software companies to embed our tools within existing applications.

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The principal products offered are software tools for:

Rules Management. The FICO™ Blaze Advisor® business rules management system is used to design, develop, execute and maintain rules-based business applications. The Blaze Advisor system enables businesses to more quickly develop complex decision-making applications, respond to changing customer needs, implement regulatory compliance and reduce the total cost of day-to-day operations. The Blaze Advisor system is sold as an end-user tool and is also the rules engine within several of our Decision Management applications. The Blaze Advisor system, available in six languages, is a multi-platform solution that supports Web Services and service-oriented architectures (SOA), Java 2 Enterprise Edition (J2EE) platforms, Microsoft .NET and COBOL for z/OS mainframes, and is the first rules engine to support Java, .NET and COBOL deployment of the same rules. It also incorporates the exclusive Rete III rules execution technology, which improves the efficiency and speed with which the Blaze Advisor system is able to process and execute complex, high-volume business rules.

Model Development. FICO™ Model Builder enables the user to develop and deploy sophisticated predictive models for use in automated decisions. This software is based on the methodology and tools FICO uses to build both client-level and industry-level predictive models, which we have evolved over more than 40 years. The predictive models produced can be embedded in custom production applications or one of our Decision Management applications and can also be executed in the FICO Blaze Advisor system.

Optimization. FICO™ Xpress Optimization Suite includes Xpress-Mosel, a powerful compiled modeling and programming language specifically designed for the rapid modeling and deployment of optimization problems; Xpress-Optimizer, sophisticated, robust optimization algorithms for solving large optimization problems; and Xpress-IVE, a complete visual development environment for Xpress-Mosel under Windows, incorporating a Mosel program editor, compiler and execution environment. The Xpress tools are licensed to end users, consultants and independent software vendors in several industries, and Xpress-Optimizer is embedded in FICO™ Decision Optimizer software. Decision Optimizer is a software tool that enables complex, large-scale optimizations involving dozens of networked action-effect models, and enables exploration and simulation of many optimized scenarios along an efficient frontier of options. The data-driven strategies produced by these tools can be executed by the FICO™ Blaze Advisor® system or one of our Decision Management applications.

COMPETITION

The market for our advanced solutions is intensely competitive and is constantly changing. Our competitors vary in size and in the scope of the products and services they offer. We encounter competition from a number of sources, including:

in-house analytic and systems developers;

scoring model builders;

enterprise resource planning (ERP) and customer relationship management (CRM) packaged solutions providers;

business intelligence solutions providers;

business process management and business rules management providers;

providers of credit reports and credit scores;

providers of automated application processing services;

data vendors;

neural network developers and artificial intelligence system builders;

third-party professional services and consulting organizations;

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- providers of account/workflow management software; and
- software companies supplying modeling, rules, or analytic development tools.

We believe that none of our competitors offers the same mix of products as we do, has the same expertise in predictive analytics and their integration with Decision Management software, and can offer the enhanced lifecycle management capabilities we offer in areas like banking. However, certain competitors may have larger shares of particular geographic or product markets.

Applications

The competition for our Applications varies by both application and industry.

In the marketing services market, we compete with Acxiom, Epsilon, Equifax, Experian, Harte-Hanks, InfoUSA, KnowledgeBase, Merkle and TargetBase, among others. We also compete with traditional advertising agencies and companies own internal information technology and analytics departments.

In the origination market, we compete with Experian, Equifax, and CGI, among others.

In the customer management market, we compete with Experian, among others.

In the fraud solutions market, we mainly compete with NICE Systems, ID Analytics, Experian, SAS, Retail Decisions plc, Norkom and ACI Worldwide, a division of Transaction Systems Architects, in the banking market; IBM and ViPS in the healthcare segment; and SAS, Infoglide Software Corporation, NetMap Analytics and Magnify in the property and casualty and workers compensation insurance market.

In the collections and recovery solutions market, we mainly compete with CGI, Experian, and various boutique firms for software and ASP servicing and in-house scoring and computer science departments, along with the three major U.S. credit reporting agencies and Experian-Scorex for scoring and optimization projects.

In the insurance and healthcare solutions market, we mainly compete with Emdeon, Ingenix, ViPS, MedStat, Detica, SAS, Verisk Analytics and IBM.

Scores

In this segment, we compete with both outside suppliers and in-house analytics and computer systems departments for scoring business. Major competitors among outside suppliers of scoring models include the three major credit reporting agencies in the U.S. and Canada, which are also our partners in offering our scoring solutions; Experian and Experian-Scorex (U.S. partner), TransUnion and TransUnion International, Equifax, VantageScore (a joint venture entity established by the major U.S. credit reporting agencies), CRIF and other credit reporting agencies outside the United States; and other data providers like LexisNexis and ChoicePoint, some of which also represent FICO partners.

For our direct-to-consumer services that deliver credit scores, credit reports and consumer credit education services, we compete with our credit reporting agency partners and their affiliated companies, as well as with Trilegiant, InterSections and others.

Tools

Our primary competitors in this segment include IBM, SAS, SPSS (acquired by IBM), Angoss, Computer Associates International and Pegasystems.

Competitive Factors

We believe the principal competitive factors affecting our markets include: technical performance; access to unique proprietary databases; availability in ASP format; product attributes like adaptability, scalability, interoperability, functionality and ease-of-use; product price; customer service and support; the effectiveness of sales and marketing efforts; existing market penetration; and our reputation. Although we believe our products and services compete favorably with respect to these factors, we may not be able to maintain our competitive position against current and future competitors.

MARKETS AND CUSTOMERS

Our products and services serve clients in multiple industries, including primarily banking, insurance, retail and healthcare. End users of our products include 88 of the 100 largest financial institutions in the United States, and more than half of the largest 100 banks in the world. Our clients also include more than 400 insurers, including the top ten U.S. property and casualty insurers; more than 200 retailers and general merchandisers, including about one-third of the top 100 U.S. retailers; more than 100 government or public agencies; and more than 150 healthcare and pharmaceuticals companies, including eight of the world s top ten pharmaceuticals companies. Nine of the top ten companies on the 2010 *Fortune* 500 list use FICO s solutions.

In addition, our consumer services are marketed to an estimated 200 million U.S. consumers whose credit relationships are reported to the three major credit reporting agencies.

In the United States, we market our products and services primarily through our own direct sales organization that is organized around vertical markets. Sales groups are based in our headquarters and in field offices strategically located both in and outside the United States. We also market our products through indirect channels, including alliance partners and other resellers.

During fiscal 2010, 2009 and 2008, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for 20%, 19%, and 19% of our total revenues, respectively.

Outside the United States, we market our products and services primarily through our subsidiary sales organizations. Our subsidiaries license and support our products in their local countries as well as within other foreign countries where we do not operate through a direct sales subsidiary. We also market our products through resellers and independent distributors in international territories not covered by our subsidiaries direct sales organizations.

Our largest market segments outside the United States are the United Kingdom and Canada. In addition, we have delivered products to users in over 80 countries.

Revenues from international customers, including end users and resellers, amounted to 35%, 32% and 33% of our total revenues in fiscal 2010, 2009 and 2008, respectively. See Note 20 to the accompanying consolidated financial statements for a summary of our operating segments and geographic information.

TECHNOLOGY

We specialize in analytics, software and data management technologies that analyze data and drive business processes and decision strategies. We maintain active research in a number of fields for the purposes of deriving greater insight and predictive value from data, making various forms of data more usable and valuable to the model-building process, and automating and applying analytics to the various processes involved in making high-volume decisions in real time.

Because of our pioneering work in credit scoring and fraud detection, we are widely recognized as the leader in predictive analytics. In addition, our Blaze Advisor software is consistently ranked as a leader in rules management systems. In all our work, we believe that our tools and processes are among the very best commercially available, and that we are uniquely able to integrate advanced analytic, software and data technologies into mission-critical business solutions that offer superior returns on investment.

Recent product releases support our integrated technical architecture for Decision Management, which ensures interoperability across FICO systems. Our intention is to bring greater flexibility, higher analytic performance and better decisions across the lifecycle. Building on FICO s broad and deep experience in developing Decision Management applications, the architecture is service-oriented, designed for easy standards-based integration with our clients core systems and will support and deliver ever more powerful analytics that operate both within specific stages of the customer lifecycle and across them. This Decision

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Management architecture contains capabilities from existing FICO products, from new and existing components and from third-party providers. We have developed the architecture s components and are continuing to migrate our software products onto the architecture. This migration takes the form of successive product releases that also provide immediate client value through added functionality.

The technologies listed below are all supported by the Decision Management architecture, which will create tighter integration between our Decision Management Applications, as well as our Tools.

Principal Areas of Expertise

Predictive Modeling. Predictive modeling identifies and mathematically represents underlying relationships in historical data in order to explain the data and make predictions or classifications about future events. Our models summarize large quantities of data to amplify its value. Predictive models typically analyze current and historical data on individuals to produce easily understood metrics such as scores. These scores rank-order individuals by likely future performance, e.g., their likelihood of making credit payments on time, or of responding to a particular offer for services. We also include in this category models that detect the likelihood of a transaction being fraudulent. Our predictive models are frequently operationalized in mission-critical transactional systems and drive decisions and actions in near real time. A number of analytic methodologies underlie our products in this area. These include proprietary applications of both linear and nonlinear mathematical programming algorithms, in which one objective is optimized within a set of constraints, and advanced neural systems, which learn complex patterns from large data sets to predict the probability that a new individual will exhibit certain behaviors of business interest. We also apply various related statistical techniques for analysis and pattern detection within large datasets.

Decision Analysis and Optimization. Decision analysis refers to the broad quantitative field that deals with modeling, analyzing and optimizing decisions made by individuals, groups and organizations. Whereas predictive models analyze multiple aspects of individual behavior to forecast future behavior, decision analysis analyzes multiple aspects of a given decision to identify the most effective action to take to reach a desired result. We have developed an integrated approach to decision analysis that incorporates the development of a decision model that mathematically maps the entire decision structure; proprietary optimization technology that identifies the most effective strategies, given both the performance objective and constraints; the development of designed testing required for active, continuous learning; and the robust extrapolation of an optimized strategy to a wider set of scenarios than historically encountered. Our optimization capabilities also include a proprietary mathematical modeling and programming language, an easy-to-use development environment, and a state-of-the-art set of optimization algorithms. These capabilities allow us to solve a large variety of optimization problems across all industries.

Transaction Profiling. Transaction profiling is a patent-protected technique used to extract meaningful information and reduce the complexity of transaction data used in modeling. Many of our products operate using transactional data, such as credit card purchase transactions, or other types of data that change over time. In its raw form, this data is very difficult to use in predictive models for several reasons. First, an isolated transaction contains very little information about the behavior of the individual who generated the transaction. In addition, transaction patterns change rapidly over time. Finally, this type of data can often be highly complex. To overcome these issues, we have developed a set of proprietary techniques that transform raw transactional data into a mathematical representation that reveals latent information, and which make the data more usable by predictive models. This profiling technology accumulates data across multiple transactions of many types to create and update profiles of transaction patterns. These profiles enable our neural network models to efficiently and effectively make accurate assessments of, for example, fraud risk and credit risk within real-time transaction streams.

Customer Data Integration. Decisions made on customers or prospects can benefit from data stored in multiple sources, both inside and outside the enterprise. We have focused on developing data integration processes that are able to assemble and integrate those disparate data sources into a unified view of the customer or household, through the application of persistent keying technology.

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Decision Management Software. In order to make a decision strategy operational, the various steps and rules need to be programmed or exported into the business software infrastructure, where it can communicate with front-end, customer-facing systems and back-end systems such as billing systems. We have developed software systems, sometimes known as decision engines and business rules management systems, which perform the necessary functions to execute a decision strategy. Our software includes very efficient programs for these functions, facilitating, for example, business user definition of extremely complex decision strategies using graphic user interfaces; simultaneous testing of hundreds of decision strategies in champion/challenger (test/control) mode; high-volume processing and analysis of transactions in real time; integration of multiple data sources; and execution of predictive models for improved behavior forecasts and finer segmentation. Decision Management software is an integral part of our Decision Management Applications, described earlier.

Research and Development Activities

Our research and development expenses were $73.6 million, $73.6 million and $77.8 million in fiscal 2010, 2009 and 2008, respectively. We believe that our future success depends on our ability to continually maintain and improve our core technologies, enhance our existing products, and develop p;Sachse has served as a director of Mattress Firm since February 2019, and previously served as a director of XO Group Inc., a media and technology company that provides content, tools, products and services for couples who are planning weddings, creating a home, and starting a family, from February 2010 until December 2018 and from October 2006 through April 2007, and as an observer to the board from April 2007 to February 2010. Mr. Sachse also previously served as a director of Charitybuzz Inc., a for-profit internet company that raises funds for nonprofit organizations through online charity auctions with celebrities and brands, from 2012 until 2015. Prior to serving in these roles, Mr. Sachse was President and Chief Operating Officer of The Bon Marche, a department store chain launched in Seattle. He began his retail career with Macy s, Inc. in Kansas City. He also served as Executive Vice President/General Merchandise Manager at Macy s East and later as Vice Chair/Director of Stores of Macy s East.

Mr. Sachse s substantial experience as an executive of companies with significant operations in the online industry, his financial expertise and his extensive experience in the retail industry make him well qualified to serve on our board of directors.

Our board of directors unanimously recommends that stockholders vote FOR each of the nominees listed above on the enclosed proxy card.

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OUR BOARD OF DIRECTORS

Directors

Our board of directors currently consists of seven directors, Brian P. Carney, Jonathan Duskin, Laurens M. Goff, Margaret L. Jenkins, Barbara Levy, John S. Lupo and Bruce D. Smith. Our board of directors is currently divided into three classes of directors. At the 2018 annual meeting of stockholders, stockholders approved amendments to the Company s Second Amended and Restated Certificate of Incorporation to phase out the classification of the terms of our directors and to provide instead for the annual election of our directors. Prior to the amendments, our board of directors was divided into three classes, with each class serving three-year terms. Our Class I directors, Mr. Goff, Ms. Jenkins and Mr. Smith, have terms expiring at the 2021 annual meeting, our Class II directors, Messrs. Carney and Lupo and Ms. Levy, have terms expiring at the 2019 annual meeting, and our Class III director, Mr. Duskin, has a term expiring at the 2020 annual meeting. Now, commencing with this 2019 annual meeting of stockholders, our directors will be elected to one-year terms of office after the current terms of the directors of each class expire at the 2019, 2020 and 2021 annual meetings of stockholders. Beginning with the 2021 annual meeting of stockholders, the entire board of directors will be elected annually by stockholders.

The biographical information for the directors standing for election at the 2019 Annual Meeting is set forth above in Proposal 1 (election of directors). The following sets forth selected biographical information for our other directors.

Continuing Class III Director with a term expiring in 2020.

Jonathan Duskin. Mr. Duskin, age 51, has served as a director since May 2017, and is a member of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Since July 2009, Mr. Duskin has served as the Chief Executive Officer of Macellum Capital Management, LLC, which operates a New York-based pooled investment fund. From 2005 to 2008, Mr. Duskin served as a Managing Director and Partner at Prentice Capital Management, LP, an investment management firm, and from 2002 to 2005, Mr. Duskin served as a Managing Director at S.A.C. Capital Associates LLC, a New York-based hedge fund. From 1998 to 2002, Mr. Duskin served as a Managing Director at Lehman Brothers Inc., an investment bank, and served as Head of Product Management and Chairman of the Investment Policy Committee within the Research Department. Mr. Duskin currently serves on the board of directors of Christopher & Banks Corporation and previously served on the boards of directors of The Wet Seal, Inc., Whitehall Jewelers, Inc. and Furniture.com Inc.

Mr. Duskin s considerable business, financial services and retail investment expertise, having provided financial services to a variety of public and private companies, as well as his prior service on the boards and committees of public companies and his familiarity with the retail industry, qualifies Mr. Duskin to serve on our board of directors.

Continuing Class I Directors with terms expiring in 2021.

Laurens M. Goff. Mr. Goff, age 46, has served as a director since November 2013, and is Chairman of the Compensation Committee and a member of the Audit Committee and the Nominating and Corporate Governance Committee. Mr. Goff is a co-founder and Managing Partner of Stone-Goff Partners, a private equity firm founded in 2010 that is focused on investing in private companies in the lower middle market. Prior to that, he was Managing Partner of Goff Management, a predecessor firm, which he founded in 2007. Mr. Goff began his career in the investment banking division of Furman Selz LLC. He subsequently joined Hampshire Equity Partners, a middle market buyout firm, where he spent over eight years sourcing, executing and managing private equity investments, including Citi Trends prior to its initial public offering in 2005.

Mr. Goff s extensive business and financial experience described above, as well as his knowledge of Citi Trends attained from serving as a director and through his role at Hampshire where Citi Trends was a portfolio holding prior to the Company s initial public offering, qualifies him to serve on our board of directors.

Margaret L. Jenkins. Ms. Jenkins, age 67, has served as a director since October 2017, and is a member of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Ms. Jenkins is a retired marketing and advertising executive with extensive experience in consumer marketing and retail advertising. Ms. Jenkins served as a director of PVH Corp., an international apparel manufacturer and retailer, from June 2006 through May 2014. She has also served as Senior Vice President, Chief Marketing Officer of Denny s Corporation, a restaurant company, from 2002 to 2007 and as Chief Marketing Officer of El Pollo Loco restaurants from 1999 through mid-2002. Ms. Jenkins held several management positions with Taco Bell Corp. and PepsiCo International Foodservice. Her career in advertising included account management of brands such as McDonald s, Sunny Delight Beverages and the Atlantic Richfield Company (ARCO). Ms. Jenkins is Chair of the Board of Directors of the Prisma Health Upstate, one of the largest healthcare providers in the Southeast.

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Ms. Jenkins extensive marketing, advertising and management experience described above, as well as her performance as a director on boards of both public and not-for-profit companies, qualifies her to serve on our board of directors.

Bruce D. Smith. Mr. Smith, age 60, has served as our President, Chief Executive Officer, Secretary and Director since March 2018, our Acting Chief Executive Officer from March 2017 through March 2018, and as our Chief Operating Officer, Chief Financial Officer and Secretary from March 2015 through March 2018. Mr. Smith served as our Executive Vice President and Chief Financial Officer from March 2010 to March 2015 and as our Senior Vice President and Chief Financial Officer from April 2007 to March 2010. From 2005 to March 2007, Mr. Smith served as Executive Vice President, Chief Financial Officer and Treasurer of Hancock Fabrics, Inc. (Hancock), a specialty retailer of fabrics and related accessories, and served as the Senior Vice President, Chief Financial Officer and Treasurer of Hancock from 1996 until 2005. From 1991 to 1996, Mr. Smith served as Executive Vice President and Chief Financial Officer of Fred s, Inc. From 1980 to 1991, Mr. Smith was a Senior Manager with Price Waterhouse (now PricewaterhouseCoopers LLP). Mr. Smith is a certified public accountant.

Mr. Smith s years of experience with Citi Trends, including his current role as President and Chief Executive Officer, and the retail industry, and his extensive knowledge of the Company, its operations, business, and industry qualify him to serve on our board of directors.

Nomination and Selection of Directors

The Nominating and Corporate Governance Committee identifies and evaluates potential director candidates in a variety of ways. Recommendations may come from current members of our board of directors, professional search firms, members of management, stockholders or other persons. In assessing the qualifications of potential nominees, the Nominating and Corporate Governance Committee may rely on personal interviews or discussions with the candidate and others familiar with the candidate s professional background, on third-party background and reference checks and on such other due diligence information as reasonably available. The Nominating and Corporate Governance Committee must be satisfied that the candidate possesses the highest professional and personal ethics and values and has broad experience at the policy-making level in business before it would recommend a candidate as a nominee to our board of directors, and the nominee must meet the following minimum qualifications:

- demonstrates personal integrity and moral character;
- shows a willingness to apply sound and independent business judgment for the long-term interests of stockholders of the Company;
- possesses relevant business or professional experience, technical expertise or specialized skills;
- exhibits personality traits and background that appear to fit with those of the other directors to produce a collegial and cooperative board responsive to the Company s needs; and

maintains the ability to commit sufficient time to effectively carry out the substantial duties of a director.

Neither the board nor the Nominating and Corporate Governance Committee has a formal diversity policy with regard to the consideration of diversity in identifying director candidates; however, the charter for the Nominating and Corporate Governance Committee provides that the committee will review candidates experience, integrity, competence, skills diversity of experience, gender, race, ethnicity and ages, and dedication in the context of the needs of the board. Accordingly, in connection with its evaluation of each candidate, the committee takes into account how all of these factors pertaining to a candidate may complement or supplement those skills of other board members. This helps to explain how our board, consisting of seven members, represents such a wide range of experiences, including executive, financial, merchandising, retail operations, distribution, marketing and advertising.

The Nominating and Corporate Governance Committee evaluates nominees submitted by stockholders in the same manner as nominees from other sources. Stockholders may recommend nominees for consideration at the annual meeting by submitting the names and supporting information to the Secretary of the Company at: Stockholder Nominations, Citi Trends, Inc., 104 Coleman Boulevard, Savannah, Georgia 31408. Such submissions must be delivered or mailed to the Secretary and received not less than 90 calendar days and not more than 120 calendar days prior to the first anniversary of the previous year s annual meeting. The submission should include a current resume and curriculum vitae of the candidate, a statement describing the candidate s qualifications and contact information for personal and professional references. The submission must also include certain information about the stockholder who is submitting the nominee and must comply with all of the requirements set forth in the Company s bylaws.

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Agreements with Stockholders

On April 11, 2019, the Company entered into a Settlement Agreement with Macellum SPV III, LP, Macellum Management, LP, Macellum Advisors GP, LLC, and Jonathan Duskin (collectively, Macellum). Macellum beneficially owns approximately 3.8% of the outstanding shares of Company s common stock. The Settlement Agreement settled the Company s election contest with Macellum in connection with the 2019 annual meeting.

The Settlement Agreement provides that: (i) John S. Lupo, a member of our board of directors and the current Chairman of the board, will retire and not stand for re-election as a member of our board of directors at the 2019 annual meeting, (ii) the Company will nominate Peter R. Sachse for election to our board of directors at the 2019 annual meeting with a term expiring at the 2020 annual meeting of stockholders of the Company, (iii) the Company will take all such action as is necessary to increase the size of the Board by one member and to appoint an additional independent director (the New Independent Director) to fill the vacancy so created upon approval by a majority of our board of directors, with a term expiring at the 2020 annual meeting, no later than September 30, 2019, and (iv) the Company will not nominate more than seven incumbent directors for re-election at the 2020 annual meeting and will take all such action as is necessary to decrease the size of our board of directors to seven members immediately following the 2020 annual meeting, unless our board of directors unanimously agrees that our board of directors should remain at eight directors following the 2020 annual meeting.

In addition, the Settlement Agreement provides that: (a) Macellum will withdraw its director nominations submitted to the Company in connection with the 2019 annual meeting, and will cease all solicitation efforts in connection with the 2019 annual meeting, (b) the Company will reimburse Macellum for its documented out-of-pocket costs, fees and expenses incurred by Macellum in connection with its proxy solicitation activities in connection with the Company s 2017 annual meeting of stockholders and the 2019 annual meeting in an amount not to exceed $500,000, (c) Macellum will not nominate any candidates for election to our board of directors, participate in any proxy solicitation or take certain other actions with respect to the Company at least until the completion of the 2020 annual meeting; provided, however, that if Mr. Duskin, Mr. Sachse (or any replacement thereof), or the New Independent Director is not nominated for election at the 2020 annual meeting, then such prohibitions shall terminate and will not be effective for the 2020 annual meeting (the Standstill Period), and (d) during the Standstill Period, and for so long as Macellum owns at least 3.0% of the Company s outstanding common stock, in the event Mr. Sachse is unable or unwilling to serve as a director for any reason (other than on account of the failure of Mr. Sachse to be elected at the 2019 annual meeting), Macellum will have the right to select a replacement director, subject to such replacement director meeting certain minimum qualifications and being approved by a majority of our board of directors.

Majority Voting Policy

In an uncontested election, nominees for director are elected by a majority of the votes cast at the annual meeting with respect to that director. That means that the number of shares voted for a director must exceed the number of votes cast against that director. If a nominee who currently serves as a director is not re-elected, Delaware law provides that the director would continue to serve on the board of directors as a holdover director. In accordance with our bylaws and Corporate Governance Guidelines, each director submits an advance, contingent, irrevocable resignation that the board of directors may accept if stockholders do not re-elect that director. In that situation, our Nominating and Corporate Governance Committee would make a recommendation to the board of directors about whether to accept or reject the resignation, or whether to take other action instead. Within 90 days from the date that the election results were certified, the board of directors would act on the Nominating and Corporate Governance Committee s recommendation and publicly disclose its decision and the rationale behind it.

In accordance with our bylaws, in a contested election, nominees for director are elected by the vote of a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. An election is contested if, as of a date that is 14 days in advance of the date we file our definitive proxy statement (regardless of whether or not thereafter revised or supplemented) with the Securities and Exchange Commission (the SEC), the number of nominees exceeds the number of directors to be elected. This means that the nominees receiving the highest number of affirmative votes will be elected.

Director Independence

The Company s standards for determining director independence require the assessment of directors independence each year. A director cannot be considered independent unless our board of directors affirmatively determines that he or she does not have any relationship with management or the Company that may interfere with the exercise of his or her independent judgment.

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Our board of directors has assessed the independence of each non-employee director and each nominee for director under the Company s guidelines and the independence standards of NASDAQ, the Sarbanes-Oxley Act of 2002, as amended, and the rules and regulations promulgated by the SEC. Our board of directors affirmatively determined that all six non-employee directors (Messrs. Carney, Duskin, Goff and Lupo and Mses. Jenkins and Levy) are independent.

Board Leadership Structure

Separate Chairman and CEO

The board has separated the role of Chairman of the board of directors and Chief Executive Officer (CEO) since March 2015. Our board of directors does not have a set policy with respect to the separation of the offices of the Chairman and CEO, as the board believes it is in the best interests of the Company to make that determination based on the position and direction of the Company and the membership of the board of directors. Mr. Lupo is currently the Chairman and has served as the Chairman since June 2018. Since Mr. Lupo is not standing for re-election at the 2019 annual meeting, the board of directors has chosen Brian P. Carney to serve as the Chairman effective as of the conclusion of the 2019 annual meeting.

Lead Independent Director

The Company s Corporate Governance Guidelines provide for the appointment of a lead independent director at any time when the Chairman is not independent. Our board of directors believes that the appointment of a lead independent director and the use of regular executive sessions of the independent directors, along with the board s independent committee system and majority of independent directors, allow it to maintain effective oversight of management. Our board of directors recognizes that depending on the circumstances, other leadership models might be appropriate. Accordingly, our board regularly reviews and reassesses its leadership structure.

The Company does not currently have a lead independent director, since the Chairman of the board of directors, Mr. Lupo, is an independent director. When there is a lead independent director, he or she would preside at all meetings of our board of directors at which the Chairman is not present, including executive sessions of the independent directors. Our board has adopted guidelines that provide for the lead independent director to fulfill the following functions:

- Serve as a liaison, as needed, between the directors and the Chairman of the board of directors;
- Call meetings of the independent directors, when appropriate;
- If requested by Company management or stockholders, ensure that he or she is available, as appropriate, for consultation with management and/or direct communication with stockholders;
- Be the focal point for stockholder communications addressed to independent directors;

Recommend the retention of outside advisors who report directly to the board of directors as he or she may determine is necessary or appropriate; and

Assist in the annual evaluation of the Chief Executive Officer, and, if an officer other than the Chief Executive Officer is serving as Chairman of the board of directors, such other officer. For the officer serving as Chairman of the board of directors, such evaluation shall include an evaluation of such officer s effectiveness as Chairman of the board of directors and as an officer of the Company and an annual evaluation of his or her interactions with directors and ability to provide leadership and direction to the full board of directors.

Retirement Age Policy and Director Tenure

It is the general policy of the Company that any individual older than 75 years will be ineligible for a position on the board of directors. Additionally, once a sitting member of the board of directors is over the age of 75 he or she is ineligible for re-nomination at the next annual meeting of stockholders.

The board of directors does not believe it is advisable to limit the number of terms for which an individual may serve as a director. Directors who have served on the board of directors for an extended period of time are able to provide valuable insight into the Company s business based on their experience and understanding of the Company s history, policies and objectives. The board of directors believes that it can, as necessary, utilize the nominating process to elect or appoint new directors to obtain new ideas and viewpoints regarding the Company s business and affairs. An individual director s repeated nomination is dependent upon such director s performance evaluation, as well as a suitability review, each to be conducted by the Nominating and Corporate Governance Committee regarding each director nomination recommendation. The average tenure of the board of directors is 5.7 years, with four newly appointed directors within the last three years.

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Board Risk Oversight

Our management team is responsible for identifying, assessing and managing our exposure to risk, while our board of directors is responsible for providing oversight of risk management. The oversight role performed by our board of directors and its committees includes, among other things, the following:

- Review of risks associated with our long-term strategic plan and annual budgets;
- Meetings with various members of management regarding initiatives being undertaken in their respective areas, including, among others, merchandising, real estate, finance, human resources and information services;
- Private meetings with our independent registered public accounting firm, our Chief Financial Officer, and our Director of Internal Audit and Loss Prevention;
- Performance of a comprehensive risk assessment, including those significant risk factors discussed in Item 1A of our Annual Report on Form 10-K;
- Review and approval of our Investment Policy; and
- Review of legal matters.

Our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee each have responsibility for addressing risks inherent within their areas of oversight. In accordance with its charter, the Audit Committee is responsible for assisting the board of directors with its oversight of our overall risk management profile, our financial reporting risks and risks related to data protection and cybersecurity matters. The Compensation Committee s responsibilities related to risk include ensuring that compensation policies have a fair balance of risk and reward. The Nominating and Corporate Governance Committee s primary risk-related responsibilities deal with the development and recommendation of appropriate corporate governance guidelines, oversight to ensure compliance with such guidelines, and oversight of the Company s corporate social responsibility efforts (including the alignment of such efforts with the Company s overall strategy). Each of the committee chairs regularly reports to the board regarding significant issues addressed.

Board of Directors Committees

The board of directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, each comprised solely of the independent members of our board of directors, Messrs. Carney, Duskin, Goff and Lupo and Mses. Jenkins and Levy.

Audit Committee

The Audit Committee, currently consisting of all six of the Company s independent directors, reviews our internal accounting procedures and consults with and reviews the services provided by our independent registered public accounting firm. All members of the Audit Committee satisfy NASDAQ s audit committee member independence requirements. Mr. Carney is the Chairman of the Audit Committee. The board of directors has determined that Mr. Carney, Mr. Duskin and Mr. Goff each qualify as an audit committee financial expert as defined by the rules of the SEC. During fiscal 2018, the Audit Committee met 9 times.

The Audit Committee was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Audit Committee oversees the Company s accounting and financial reporting processes, both internal and external, and audits of the Company s financial statements, on behalf of the board of directors. The principal duties and responsibilities of the Audit Committee, among other things, are to:

- have direct responsibility for the appointment, selection, compensation, retention, replacement and oversight of the work of our independent registered public accounting firm, including prescribing what services are allowable and approving in advance all services provided by them;

- evaluate the experience, qualifications and performance of the lead partner of the independent registered public accounting firm and the senior members of the independent registered public accounting firm s engagement team;

- discuss with the internal auditors and the independent registered public accounting firm the overall scope and plans for their respective audits and the results of their respective audits;

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review our annual audited financial statements and quarterly unaudited financial statements, and discuss the statements with management and the independent registered public accounting firm and review our earnings press releases, as well as financial information and earnings guidance, if any, provided to analysts and rating agencies;

review and discuss with management, the internal auditors and the independent registered public accounting firm the adequacy and effectiveness of our internal controls, including our ability to monitor and manage business risk, legal and ethical compliance programs and financial reporting;

oversee the Company s overall risk management profile, including financial risk and risks related to data protection and cybersecurity matters;

review and approve all related party transactions consistent with the rules applied to companies listed on The NASDAQ Stock Market; and

establish procedures regarding complaints received by us or our employees regarding accounting, accounting controls or auditing matters.

The Audit Committee is required to report regularly to our board of directors to discuss any issues that arise with respect to the quality or integrity of our financial statements, our compliance with legal or regulatory requirements, the performance and independence of our independent registered public accounting firm, or the performance of the internal audit function. The Audit Committee s work is guided by a written charter which has been approved and adopted by the board of directors. A copy of the current Audit Committee charter is available in the Investor Relations section of the Company s website located at *http://www.cititrends.com*. The information set forth on this website should not be deemed filed with, and is not incorporated by reference into, this proxy statement or any of the Company s other filings under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically so provides.

Compensation Committee

The Compensation Committee, currently consisting of all six of the Company s independent directors, reviews and determines the compensation and benefits of the Company s executive officers and administers our incentive and equity-based compensation plans. All members of the Compensation Committee satisfy NASDAQ s compensation committee member independence requirements. Mr. Goff is the Chairman of the Compensation Committee. The Compensation Committee has adopted a written charter, a copy of which is available in the Investor Relations section of the Company s website at *http://www.cititrends.com*. During fiscal 2018, the Compensation Committee met 6 times. The principal duties and responsibilities of the Compensation Committee, among other things, are to:

review and approve corporate goals and objectives relevant to our CEO s compensation, evaluate the CEO s performance in light of these goals and objectives, and determine and approve the CEO s compensation based on such evaluation;

make recommendations to our board of directors regarding compensation for our other executive officers, including the salaries and awards under our incentive compensation plans and equity-based plans;

review and administer the Company s incentive and equity-based compensation plans;

review and make recommendations to our board of directors concerning compensation arrangements for non-employee members of our board of directors;

oversee, in consultation with management, regulatory compliance with respect to compensation matters;

review the Company s overall compensation systems and determine whether any incentive compensation arrangements encourage excessive risk-taking;

review and approve any severance or similar termination payments proposed or made to any of our current or former executive officers; and

review and approve any employment contracts or other contractual arrangements resulting in any payment to any employee of the Company proposed to be made as a result of a change in control of the Company.

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The Compensation Committee has the discretion to delegate all or a portion of its duties and responsibilities to a subcommittee of the Compensation Committee. In addition, the Compensation Committee has delegated limited authority to a committee consisting of our CEO to grant awards under the 2012 Incentive Plan to non-executive employees of the Company. The Compensation Committee has the authority and resources to engage compensation consultants and legal, accounting or other advisors to provide the committee with advice and information in connection with carrying out its responsibilities. The Compensation Committee engaged Korn Ferry (Korn Ferry or the Compensation Consultant) in 2017 to provide advice on the Company s executive and director compensation practices.

See Compensation Discussion and Analysis elsewhere in this proxy statement for a discussion of the role of the Compensation Consultant and executive officers in the compensation process and further discussion of the processes and procedures of the Compensation Committee. See also Compensation Committee Report elsewhere in this proxy statement.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee currently consists of all six of the Company s independent directors. Ms. Levy is the Chair of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee has adopted a written charter, a copy of which is available in the Investor Relations section of the Company s website at *http://www.cititrends.com*. During fiscal 2018, the Nominating and Corporate Governance Committee met 5 times. The principal duties and responsibilities of the Nominating and Corporate Governance Committee, among other things, are to:

- review the composition of our board of directors and committee structure and evaluate the performance of the board, its directors and its committees;

- identify individuals qualified to become board members, consistent with criteria approved by our board of directors;

- select and recommend individuals as nominees to serve as directors at annual meetings of our stockholders and nominate individuals to fill any vacancies;

- develop and recommend to our board of directors a set of corporate governance principles applicable to us and periodically review and assess such corporate governance principles and the Company s governing documents;

- review the institutional and other affiliations of our board members and nominees for directors for any potential conflicts of interest and make recommendations to our board of directors with respect to the determination of director independence; and oversee the Company s corporate social responsibility efforts, including the alignment of such efforts with the Company s overall strategy and external reporting on matters of interest to the Company s stakeholders.

Risk and Employee Compensation

We believe that Citi Trends compensation policies do not create risks that are reasonably likely to have a material adverse effect on the Company. Instead, we believe that our compensation structure encourages a fair balance of risk and reward. The process undertaken by the board of directors to determine that the compensation policies do not create unnecessary risk includes detailed reviews of the assumptions used in the budget on which annual cash incentives are based. In addition, the board of directors participates in the strategic planning process to ensure that the goals and planned strategies to achieve such goals are aligned between management and the board. As a retail company operating only a one-store concept, we are not subject to many of the issues that cause employees in other industries to take excessive and unnecessary risks in order to maximize their compensation. We believe that the components of our employee-wide compensation program are consistent in form with similar companies. Also, the performance targets for our named executive officers are at the consolidated company level, not at individual division or subsidiary levels, and there is a balance between annual cash incentive compensation and long-term equity incentives to enhance the likelihood that management will not make decisions in the short-term to earn cash incentives at the risk of achieving long-term success.

Code of Business Conduct and Ethics

We have adopted a written Code of Business Conduct and Ethics applicable to our directors, executive officers (including our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions) and employees in accordance with the rules of The NASDAQ Stock Market and the SEC. Our Code of Business Conduct and Ethics is designed to deter wrongdoing and to promote:

honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest;

full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the SEC and in all other public communications;

compliance with applicable laws, rules and regulations, including insider trading compliance; and

accountability for adherence to the code and prompt internal reporting of violations of the code, including illegal or unethical behavior regarding accounting or auditing practices.

The Code of Business Conduct and Ethics is available on the Company s website at *http://www.cititrends.com.* In the event of any amendment or waiver of the Code of Business Conduct and Ethics applicable to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, such amendment or waiver will be posted on our website. Our directors, executive officers and employees are required to affirm annually their compliance with the Code of Business Conduct and Ethics.

Compensation Committee Interlocks and Insider Participation

No current member of the Compensation Committee serves or has ever served as one of our executive officers or employees. None of our executive officers serves or has ever served as a member of the board of directors or the compensation committee of any entity that has one or more executive officers serving on our board of directors or our Compensation Committee.

Meetings and Attendance

During fiscal 2018, the board of directors and the committees thereof held 37 meetings. Each director attended over 97% of the aggregate of the total number of meetings held by the board of directors and the total number of meetings held by all committees of the board of directors on which he or she served, which meetings were held when he or she was a director and a member of such committees.

We do not have a formal policy regarding attendance by directors at our annual meeting of stockholders but invite, expect and encourage all directors to attend. All of the individuals who were directors at the time of the 2018 annual meeting of stockholders attended such meeting.

Stock Ownership Guidelines for Directors and Executives

In order to align the financial interests of our directors and certain executive officers with the long-term interests of our stockholders, we have Stock Ownership Guidelines (the Guidelines). Under the current Guidelines, as amended in March 2017, each of our non-employee directors is expected to retain all of his or her shares of common stock until they attain stock ownership with a fair market value equal to at least three times the annual base cash retainer paid to directors (excluding committee and attendance fees).

Bruce D. Smith, our President and Chief Executive Officer, is similarly expected to retain shares of common stock equal to three times his annual base salary. Shares of common stock owned directly or indirectly count toward meeting the Guidelines; however, shares of unvested time-based restricted stock and unearned performance-based restricted shares do not count.

As of February 2, 2019, each of our non-employee directors, with the exception of Ms. Levy, who joined the board of directors in August 2016, and Ms. Jenkins, who joined the board of directors in October 2017, owned shares with a fair market value in excess of the Guidelines requirements and are, therefore, in compliance with the Guidelines. Neither Ms. Levy nor Ms. Jenkins has disposed of any shares of common stock since joining the board of directors, therefore, they are also in compliance with the Guidelines. Mr. Smith owned shares with a fair market value in excess of the Guidelines requirements as of February 2, 2019.

Stockholder Engagement

The Company recognizes the value of the views and input of its stockholders. The Company reaches out to and engages with its stockholders on various topics, including corporate governance, compensation, performance, strategy and other matters. We believe that having regular engagement with our stockholders strengthens our relationships with stockholders and helps us to better understand stockholders views on our policies and practices and other matters of importance to our business.

Communications with our Board of Directors

Stockholders and other interested parties may communicate directly with our board of directors, the non-management directors as a group or individual directors. All communications should be in writing and should be directed to the Secretary of the Company at: Stockholder Communications, Citi Trends, Inc., 104 Coleman Boulevard, Savannah, Georgia 31408. The sender should indicate in the address whether it is intended for the entire board of directors, the non-management directors as a group or an individual director. Each communication received by the Secretary will be forwarded to the intended recipients.

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AUDIT COMMITTEE REPORT

The Audit Committee reviews the Company s financial reporting process on behalf of the board of directors. Management has primary responsibility for the financial statements, the reporting process, and maintaining an effective system of internal controls over financial reporting. The Audit Committee has adopted a written charter, a copy of which is available in the Investor Relations section of the Company s website at *http://www.cititrends.com*.

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management the audited financial statements in the Annual Report on Form 10-K for the 2018 fiscal year. The Audit Committee has also discussed with KPMG LLP, the Company s independent registered public accounting firm during the 2018 fiscal year, the matters required to be discussed by PCAOB Auditing Standard No. 1301, *Communications with Audit Committees*.

The Audit Committee has received and reviewed the written disclosures and the letter from KPMG LLP required by applicable requirements of the PCAOB regarding KPMG LLP s communications with the Audit Committee concerning independence and has discussed with KPMG LLP its independence from the Company.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the board of directors that the audited financial statements of the Company be included in the Company s Annual Report on Form 10-K for the fiscal year ended February 2, 2019 for filing with the SEC.

Submitted by the Audit Committee of the board of directors:

Brian P. Carney, Chairman

Jonathan Duskin

Laurens M. Goff

Margaret L. Jenkins

Barbara Levy

John S. Lupo

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COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed the Compensation Discussion and Analysis section of this proxy statement and discussed that disclosure with management. Based on its review and discussions with management, the committee recommended to our board of directors that the Compensation Discussion and Analysis be included in the Company s proxy statement for the 2019 annual meeting of stockholders and incorporated by reference into the Company s Annual Report on Form 10-K for the fiscal year ended February 2, 2019.

The undersigned members of the Compensation Committee have submitted this Report to the Board of Directors.

Submitted by the Compensation Committee of the board of directors:

Laurens M. Goff, Chairman

Brian P. Carney

Jonathan Duskin

Margaret L. Jenkins

Barbara Levy

John S. Lupo

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EXECUTIVE OFFICERS

The following table sets forth the names, ages and positions of our current executive officers.

Name	Age	Position(s)
Bruce D. Smith	60	President, Chief Executive Officer and Secretary
Ivy D. Council	62	Executive Vice President of Human Resources and Chief Compliance Officer
Stuart C. Clifford	65	Senior Vice President and Chief Financial Officer
James A. Dunn	62	Senior Vice President of Store Operations
Charles D. Crowell	66	Senior Vice President of Supply Chain
Brian D. Lattman	48	Senior Vice President and General Merchandise Manager
Christina K. Short	47	Senior Vice President and General Merchandise Manager

The following sets forth selected biographical information for our executive officers who are not directors.

Ivy D. Council. Ms. Council has served as our Executive Vice President of Human Resources and Chief Compliance Officer since March 2012 and as our Senior Vice President of Human Resources since January 2007. In 2006, Ms. Council served as Vice President of Human Resources for Baja Fresh Restaurants, a division of Wendy s, Inc. From 2003 to 2006, Ms. Council served as Executive Vice President of Human Resources for Pasta Pomodoro Restaurants and as a director of such entity from 2001 through 2002. Prior to that, Ms. Council served as Senior Vice President of Human Resources for Ross Stores, Inc.

Stuart C. Clifford. Mr. Clifford has served as our Senior Vice President and Chief Financial Officer since March 2018, as our Vice President, Finance since October 2014 and as our Director of Accounting since July 2007. Prior to joining the Company, Mr. Clifford served in various financial and operational positions with Friedman s Jewelers, from Finance Director in 1992 through Senior Vice President of Store Operations in 2004.

James A. Dunn. Mr. Dunn has served as our Senior Vice President of Store Operations since 2006 and as our Vice President of Store Operations since 2001. From January to April 2001, Mr. Dunn was our Director of Training and Development and from 2000 to 2001, was one of our Regional Managers. Prior to joining the Company, Mr. Dunn was a Store Manager at Staples from 1999 to 2000. Prior to that, Mr. Dunn was a Regional Manager at Dress Barn, where he supervised 77 stores and 10 district managers.

Charles D. Crowell. Mr. Crowell has served as our Senior Vice President of Supply Chain since April 2011. From 2004 to March 2011, Mr. Crowell served as Vice President, Distribution for Hecht s, a division of May Department Stores Company, and Macy s, Inc. upon the merger of the two companies. Mr. Crowell served as Vice President, Distribution Services for The Home Depot from 1997 to 2002 where he was responsible for the operations of a worldwide network of 62 distribution facilities. Prior to that, Mr. Crowell served as Vice President of Transportation and Distribution for Best Products.

Brian D. Lattman. Mr. Lattman has served as our Senior Vice President, General Merchandise Manager since March 2018, and as our Vice President, General Merchandise Manager from March 2017 to March 2018. Mr. Lattman served as Divisional Merchandise Manager from the time he joined the Company in August 2016 to March 2017. From June 2013 to August 2016, Mr. Lattman served as President and Chief Merchandising Officer of dELiA*s and Alloy Apparel, online apparel retailers. Mr. Lattman was the President of Merchandising and Sales for Lany Group, a private label apparel manufacturer from 2005 to 2013. Prior to that, Mr. Lattman was the Vice President, Chief Merchandising Officer of Norstan Apparel Shops, a ladies apparel retailer.

Christina K. Short. Ms. Short has served as our Senior Vice President, General Merchandise Manager since March 2018, and as our Vice President, General Merchandise Manager from March 2017 to March 2018. Ms. Short served as Vice President of Planning and Allocation, Divisional Merchandise Manager, from October 2016 to March 2017, and as Vice President of Planning and Allocation from February 2015 to October 2016. From the time Ms. Short joined the Company in March 2013 to February 2015, she was a merchandise buyer. From 2011 to 2013, Ms. Short was a buyer at ideeli Inc., an online apparel retailer, after spending 11 years at TJX Companies, Inc. in various capacities in the merchandise planning, allocation and buying areas.

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

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

In the paragraphs that follow, we will give an overview and analysis of the material elements of our compensation program and policies, the material compensation decisions we have made under those programs and policies with respect to our named executive officers, and the material factors that we considered in making those decisions. This information should be read in conjunction with the compensation tables, related narratives and notes contained later in this proxy statement, containing specific information about the compensation earned or paid in fiscal 2018 to the following individuals, whom we refer to as our named executive officers (positions shown are those held by the respective officers during fiscal 2018):

Bruce D. Smith, our President, Chief Executive Officer and Secretary,

Ivy D. Council, our Executive Vice President of Human Resources and Chief Compliance Officer,

Stuart C. Clifford, our Senior Vice President and Chief Financial Officer,

Brian D. Lattman, Senior Vice President and General Merchandise Manager, and

Christina K. Short, Senior Vice President and General Merchandise Manager.

The discussion below is intended to help you understand the detailed information provided in the compensation tables and put that information into context within our overall compensation program.

Summary of Fiscal 2018

The Company made progress on a number of financial and operational fronts in fiscal 2018. Total sales for the year ended February 2, 2019 increased 1.9% to $770 million, including a 1.6% increase in comparable store sales for the 52 weeks in fiscal 2018 when compared with the same 52-week period of 2017. In addition to sales increases, we exercised tight control over expenses and continued to grow our store base, while also working on several initiatives that are in various stages of providing us with opportunities to improve our merchandising capabilities and reduce our cost structure. Net income in 2018 improved to $21.4 million, or $1.64 per diluted share, compared with $14.6 million, or $1.03 per diluted share in 2017. Even when 2017 net income is adjusted for proxy contest expenses and the impact of tax reform, adjusted net income per diluted share increased 30% to $1.64 per diluted share from $1.26 per diluted share in 2017. Our compensation program is designed to align the interests of management and stockholders and to link Company performance with executive pay, such that the Company s achievement of challenging financial goals results in payment of annual incentives to our executive officers. While we made progress in a number of areas during 2018, we did not reach our financial goals. Accordingly, as discussed in the Annual Cash Incentives section below, we attained 88.2% of our Adjusted EBITDA target, resulting in no cash incentives being paid to our named executive officers.

Adjusted net income per diluted share is a non-GAAP measure. See the reconciliations under Key Operating Statistics on page 23 of our Form 10-K for the fiscal year ended on February 2, 2019 for a reconciliation to GAAP net income.

Consideration of Last Year s Advisory Stockholder Vote on Executive Compensation

At the annual meeting of stockholders held on June 6, 2018, approximately 98% of the shares cast were voted to approve the compensation of the Company s named executive officers, as discussed and disclosed in the 2018 proxy statement. This is consistent with a pattern of high stockholder approval of our executive compensation program, as 95% or more of the shares cast at each of our three most recent annual meetings were voted to approve the compensation of our named executive officers.

Our board of directors and the Compensation Committee appreciate and value the views of our stockholders and regularly solicit their input on matters such as executive compensation, board composition, and other more general governance topics. In considering the results of the consistently high advisory votes on executive compensation, the Compensation Committee concluded that the compensation paid to our named executive officers and the Company s overall pay practices enjoy strong stockholder support.

In light of the very strong stockholder support of the compensation paid to our named executive officers evidenced by the results of this advisory vote, the Compensation Committee decided to retain our general approach to executive compensation and did not make significant changes to our executive compensation programs for 2018. Going forward, future advisory votes on executive compensation, and direct communication with our stockholders on the subject, will serve as an additional tool to guide the Compensation Committee in evaluating the alignment of the Company s executive compensation programs with the interests of the Company and its stockholders.

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Objective of Our Compensation Program

In order to maintain a critical advantage in our competitive marketplace, we believe our compensation program should be designed to provide market-competitive compensation and benefits that will enable us to attract and retain a talented, diverse workforce dedicated to the long-term success of the Company. In furtherance of those goals, our compensation program is designed to:

- enable the Company to attract, retain and motivate a team of high quality executives who will create long-term stockholder value;
- create opportunities to participate in the ownership of the Company and to share in the value the executives help create, both directly and through managing those that report to them; and
- provide rewards that are proportional to each executive s contribution to our success by including an individual component as well as an overall corporate performance component.

Our compensation philosophy emphasizes each individual s responsibility for high achievement and provides a strong link between pay and performance on both an individual and Company level. Our management team and the Compensation Committee will continue to develop and refine our compensation philosophy, program and practices over time, with the goal of maximizing stockholder value.

How We Determine and Assess Executive Compensation

Role of the Compensation Committee and Executive Officers

The Compensation Committee plays an integral role in the strategic direction and administration of the compensation structure of the Company. The Compensation Committee and our CEO work together to ensure that the compensation paid to our named executive officers is in line with our compensation philosophy and furthers our long-term goals.

Our CEO recommends to the Compensation Committee base salary, target annual cash incentive amounts and formulas, and long-term equity incentive grants for our executive officers (other than himself), after forming qualitative judgments regarding individual performance within each executive s areas of direct responsibility, as well as how such performance serves the entire Company, and after having discussions with the Compensation Committee and other members of management regarding appropriate levels of compensation. The Compensation Committee reviews such recommendations and determines whether, in light of our compensation philosophy, the recommended compensation levels are appropriate. This determination includes consideration of recommendations by the Compensation Consultant as described below. Upon such determination, the Compensation Committee formally approves the compensation levels for recommendation to the board of directors. Our CEO is not involved with any aspect of determining his own compensation. The Compensation Committee independently sets the CEO s total compensation package, taking into account the same factors as for the other executive officers.

Compensation Consultant

The Compensation Committee has the authority to directly engage outside compensation consultants and other experts to assist in fulfilling its duties. As discussed in further detail in the following section, the Compensation Committee engaged Korn Ferry in 2017 to provide an analysis of the Company s compensation practices and to provide the Compensation Committee with survey data and an update on current compensation trends. The Compensation Committee assessed the independence of the Compensation Consultant against specific criteria under applicable SEC and NASDAQ rules and concluded that no conflict of interest exists that would prevent Korn Ferry from independently advising the Compensation Committee. The Compensation Consultant does not have any relationship or arrangement with the Company other than their engagement as a consultant to the Compensation Committee.

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Market Data

Periodically, the Compensation Committee reviews the compensation practices of a group of public companies selected from an industry peer group comprised primarily of specialty apparel retailers that are similar in size to the Company. The latest peer group analysis was conducted in 2017, at which time the peer group used by the Compensation Consultant consisted of the apparel retailers indicated below. The Compensation Committee believes that the companies comprising this peer group represented appropriate comparisons due to the similarity in business and financial characteristics. They were all either direct or tangential business competitors or geographically situated and similarly sized such that we considered them to be competitors for recruitment and retention purposes.

Boot Barn Holdings, Inc.	Hibbett Sports, Inc.
The Buckle Inc.	New York & Company, Inc.
The Cato Corporation	Shoe Carnival, Inc.
Christopher & Banks Corporation	Stage Stores, Inc.
Destination Maternity Corporation	Stein Mart, Inc.
Destination XL Group, Inc.	Tilly s, Inc.
Five Below, Inc.	Zumiez Inc.
Francesca s Holdings Corporation	

As part of its analysis in 2017, the Compensation Committee also reviewed compensation information provided by the Compensation Consultant from its proprietary 2017 survey of more than 140 retail companies. The Compensation Consultant s analysis focused on the following areas of compensation:

- base salary,
- annual cash incentives,
- total cash compensation (the sum of base salary and annual cash incentives),
- long-term equity incentives (a variable incentive vesting over a multi-year period), and
- total direct compensation (the sum of total cash compensation and long-term equity incentives).

We do not strive to set our executive officers targeted total direct compensation at a specific level relative to the median reflected in the Compensation Consultant s peer group study or retail company survey. Instead, the data is used as a guide and is combined with the experience and judgment of the Compensation Committee s members to determine the reasonableness of total direct compensation appropriate for each individual within the context of the Company s performance. The 2017 analysis by the Compensation Consultant indicated that total direct compensation at target levels for the majority of our executive officers was at or below median in relation to the peer group or retail survey, as applicable. The Compensation Committee did not engage a compensation consultant in 2018 prior to the setting of the executive officers compensation levels for the year, therefore, it continued to reference the 2017 study referenced herein for purposes of evaluating the compensation of executive officers for 2018.

The allocation of our executive officers total direct compensation among base salary, annual cash incentives and long-term equity incentives is based on the Compensation Committee s judgment, taking into consideration market practices reflected in previous and current peer group and retail surveys, together with a goal of providing a fair balance of risk and reward through an allocation that includes a reasonable mix of both fixed and variable components.

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Elements of our Compensation Program

Our executive officer compensation program consists of the following elements: base salary, annual cash incentives, long-term equity incentives, and certain other benefits.

Base Salary

Base salaries fulfill the fixed portion of our compensation program. Base salaries are set annually by the Compensation Committee based on a variety of factors, including peer group information, a qualitative review of the executive s performance and contributions to the Company during the year and over a number of years, the oversight and direct managerial skills of our executives, and changes in responsibilities, if any. After considering these factors, the Compensation Committee approved adjustments to certain of our named executive officers base salaries in March 2018 as shown below:

Name and Principal Position during fiscal 2018	Fiscal 2017 Base Salary Rate	Fiscal 2018 Base Salary Rate	% Change
Bruce D. Smith (1) President and Chief Executive Officer	$ 500,000	$ 550,000	10.0%
Ivy D. Council Executive Vice President of Human Resources and Chief Compliance Officer	$ 311,000	$ 319,000	2.6%
Christina K. Short (2) Senior Vice President and General Merchandise Manager	$ 290,000	$ 310,000	6.9%
Brian D. Lattman (3) Senior Vice President and General Merchandise Manager	$ 290,000	$ 310,000	6.9%
Stuart C. Clifford (4) Senior Vice President and Chief Financial Officer	$ 175,000	$ 225,000	28.6%

(1) Mr. Smith s base salary was increased in connection with his promotion to President and Chief Executive Officer on March 15, 2018.
(2) Ms. Short s base salary was increased in connection with her promotion to Senior Vice President and General Merchandise Manager on March 18, 2018.
(3) Mr. Lattman s base salary was increased in connection with his promotion to Senior Vice President and General Merchandise Manager on March 18, 2018.
(4) Mr. Clifford s base salary was increased in connection with his promotion to Senior Vice President and Chief Financial Officer on March 15, 2018.

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Annual Cash Incentives

We measure our overall financial performance based on a number of financial metrics, of which the most important are (1) earnings before interest, taxes, depreciation and amortization (EBITDA) and (2) Adjusted EBITDA, which is comprised of EBITDA, as adjusted for asset impairment expense, a non-cash charge similar in certain respects to depreciation, and other unusual or non-recurring items, such as costs related to litigation, claim judgments or settlements and proxy contest expenses. We believe the Company s performance in these areas allows us to effectively evaluate the Company s success and operational performance in any given year. The Company s success and performance impacts our compensation decisions with respect to our executive officers. We believe that linking our annual cash incentives to these financial metrics, while providing long-term equity incentives that are earned based on stock price appreciation and financial metrics (as described below), provide an effective and balanced approach to executive compensation that is aligned with the interests of our stockholders.

Our annual cash incentive program provides our executive officers with an opportunity to earn cash awards based on the achievement of our budgeted goal for Adjusted EBITDA. Due to the importance of this financial metric to the annual and long-term success of the Company, we strive to make the achievement of this goal each year to be a meaningful challenge to our executive officers. The budgeted Adjusted EBITDA that represents our goal takes into account many key operating and financial factors, including the following:

- Store selling square footage;
- Comparable store sales;
- Average sales per store;
- Gross margin;
- Store and distribution operating expenses as a percentage of sales; and
- Corporate expenses.

Our CEO recommends a target award (as a percentage of base salary) for each executive officer (other than himself) based on the executive s position within the Company and consideration of data provided by the Compensation Consultant, and the Compensation Committee determines the appropriate target award for each executive. For fiscal 2018, each executive officer s target award (as a percentage of base salary) was as follows:

Name	Target Award
Mr. Smith	100%
Ms. Council	65%

Mr. Clifford	50%
Mr. Lattman	50%
Ms. Short	50%

The annual cash incentive program is directly linked to achievement of our budgeted Adjusted EBITDA goals. Items such as unplanned and significant costs related to litigation, claim judgments or settlements and proxy contests are excluded from both the budgeted and actual amounts used in the calculation of Adjusted EBITDA. Since the calculation of cash incentives is based on performance versus budget, the exclusion of items such as these ensures that the inability to accurately budget such items does not positively or negatively influence cash incentives.

Named executive officers can earn between 0% to 200% of their target annual cash incentive based on the actual achievement of Adjusted EBITDA as a percentage of Target Adjusted EBITDA. For 2018, if actual Adjusted EBITDA was equal to 95% of target (threshold performance), then 50% of the target award would be earned, if actual Adjusted EBITDA was equal to 100% of target, then 100% of the target award would be earned, and if actual Adjusted EBITDA was equal to or greater than 120% of target (maximum performance), then 200% of the target award would be earned.

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The graph below reflects the various potential payout levels at different levels of performance:

Performance of Adjusted EBITDA

The Compensation Committee believes it is imperative to structure our compensation program such that our executives are rewarded (or held accountable, as the case may be) for annual performance relative to the Company s goals, and they believe that not paying any cash bonuses in years when the Company does not meet certain minimum thresholds is consistent with this philosophy. Accordingly, if the Company performs well and meets or exceeds its goals for the year, the executives are rewarded, but if the Company doesn t meet its threshold performance targets, then the executives do not earn annual incentives. This is the epitome of a pay-for-performance linkage.

In 2018, the Target Adjusted EBITDA was $51,374,000, representing a 15.0% increase over 2017 s actual Adjusted EBITDA. Actual Adjusted EBITDA for fiscal 2018 was $45,289,000 (there were no adjustments in 2018 for unusual or non-recurring events), or 88.2% of Target Adjusted EBITDA. Because actual Adjusted EBITDA for fiscal 2018 was less than 95% of Target Adjusted EBITDA, no annual cash incentives were earned by the named executive officers.

Actual awards earned in each of the past three years by our named executive officers are shown in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table elsewhere in this proxy statement.

Long-Term Equity Incentives

Long-term equity incentive compensation awards are designed to encourage the creation of long-term value for our stockholders by increasing the retention of qualified key employees and aligning the interests of executive officers with our stockholders through the officers ownership of equity in the Company.

The dollar value of each equity grant is within the discretion of the Compensation Committee and is based on recommendations made by our CEO (with respect to executives other than himself), which take into account the executive s past performance, the executive s position within the Company, and an evaluation of other elements of compensation provided to the executive officer. The Compensation Committee also considers studies performed by the Compensation Consultant to determine the appropriate size of the equity-based awards.

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We believe that grants of restricted stock and restricted stock units provide strong incentives for the creation of long-term stockholder value and provide significant retention value for the executives. In 2018, Mr. Smith received long-term equity incentives with a total grant date value equal to approximately 136% of base pay, split equally between (1) restricted shares that vest over three years based on continued future employment with the Company, (2) restricted stock units that vest in increments of 33.3% each if the Company s stock price averages $30.44; $35.01; and $40.26 over a period of twenty consecutive trading days at any time during the three years after the grant date; and (3) restricted stock units that vest in increments of 33.3% each if the Company s EBITDA reaches $51,374,000, $59,080,000, and $67,942,000 for a trailing 12-month period at any time during the three years after the grant date. The Compensation Committee felt it important to focus Mr. Smith on driving both financial and market performance of the Company, and that Adjusted EBITDA and stock price are appropriate metrics to measure such performance.

The long-term incentive grants to Mses. Council and Short and Messrs. Clifford and Lattman consisted of time-based restricted shares that vest over three years based on continued future employment with the Company with grant date values determined as a percentage of base pay, equal to 65% for Ms. Council (executive vice president) and 50% for Ms. Short and Messrs. Clifford and Lattman (senior vice presidents). As previously discussed, the grant levels were determined as one of several components designed to achieve the desired total direct compensation; however, they were not set to be at any specific level within our peer group. The vesting periods were determined based on consideration of peer group practices and discussions with the Compensation Consultant.

For more information regarding these long-term incentives granted to our named executive officers in fiscal 2018, please see Grants of Plan-Based Awards Table for Fiscal Year 2018 and Outstanding Equity Awards at 2018 Fiscal Year-End Table and the related footnotes elsewhere in this proxy statement.

Other Benefits

Retirement. We maintain the Citi Trends, Inc. 401(k) Profit Sharing Plan, a tax-qualified, defined contribution employee benefit plan in which a substantial majority of our employees, including the named executive officers, are eligible to participate. We match 50% of employee contributions to the plan, up to a maximum of 4% of an employee s total calendar year compensation (subject to IRS limits).

Perquisites. During fiscal 2018, the Company reimbursed Ms. Council $52,800 related to the direct costs associated with the sale of her house resulting from her relocation to Savannah, Georgia. Each executive officer also received life/long-term disability insurance coverage. We did not provide any other special benefits or perquisites to our executive officers. We believe these perquisites are reasonable in light of peer group practices. We provide health and welfare benefits to our executive officers on the same basis as we provide to all of our salaried employees.

Employment Agreements and Severance Agreements. We have entered into severance agreements with all of our named executive officers, which provide severance benefits in the event their employment is terminated by the Company without Cause (as defined in the severance agreement) or in connection with a Change in Control (as defined in the severance agreement) of the Company. Each severance agreement provides that if the Company terminates an executive s employment without Cause or if the executive terminates his or her employment within twelve months of a Change in Control, provided that within such period the executive s job duties have been materially diminished or compensation has been materially decreased, the Company will provide the executive with separation payments of twelve months base salary. The Company provides these involuntary termination severance benefits to protect individuals from events outside their control and to offer compensation packages similar to those commonly found in our market for competing executive talent. Furthermore, the Company provides these benefits to protect the Company against disruption in the event of a Change in Control. We believe that these severance agreements serve as an important retention element of the compensation package provided to these officers and acts to mitigate self-serving behavior during a potential Change in Control by providing a safety net to our executives in the event the employment relationship is severed. The potential severance benefits payable to our named executive officers are described in Potential Payments upon Termination or Change in Control elsewhere in this proxy statement.

Equity Grant Practices

The Company has a practice of generally making equity awards on pre-established dates. Annual equity awards are presented to the Compensation Committee for approval at a regularly scheduled Compensation Committee meeting, usually held in March of each year. Equity awards are also given to employees throughout the year as they are hired or promoted into positions eligible for those awards. We make decisions on equity grants based solely on our compensation and retention objectives and our established measurements of the value of these awards.

Stock Ownership Guidelines

As described above under Stock Ownership Guidelines for Directors and Executives in Board of Directors and Committees of the Board of Directors, our CEO is expected to retain all shares of common stock (except for shares withheld to pay withholding taxes) until such point that the owned stock has a fair market value equal to at least three times annual base salary.

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Compensation Recoupment (Clawback) Policy

In November 2014, our board of directors adopted the Citi Trends, Inc. Compensation Recoupment Policy (the Clawback Policy). Pursuant to the Clawback Policy, in the event of a restatement of the Company s financial results as a result of material non-compliance with financial reporting requirements, the Compensation Committee will review the incentive compensation, including equity awards and non-equity incentive compensation, that the Company s executive officers received or realized based on the erroneous financial results reported by the Company (covered compensation). If any covered compensation would have been lower had the covered compensation been calculated based on the Company s restated financial results, the Compensation Committee will, as and to the extent it deems appropriate and as permitted by applicable law, recoup any portion of covered compensation paid to certain executives in excess of what would have been paid based on the restated financial results. The Compensation Committee shall seek recovery from any executive officer whose misconduct is determined by the Compensation Committee to have caused or contributed to the requirement for the restatement, unless the Compensation Committee determines that the cost of recovery would exceed the amount sought to be recovered. The Clawback Policy applies to all current and former executive officers of the Company.

The Clawback Policy applies in addition to any right of recoupment against the Company s Chief Executive Officer and Chief Financial Officer pursuant to the Sarbanes-Oxley Act of 2002. The policy does not apply in any situation where a restatement is not the result of material non-compliance with financial reporting requirements, such as any restatement due to a change in applicable accounting rules, standards or interpretations, a change in segment designations or the discontinuance of an operation.

Anti-Hedging Policy; Policy on Pledging

We have an insider trading policy that sets forth guidelines and restrictions applicable to transactions involving our stock by our directors, officers and employees. Among other things, this policy prohibits our directors, officers and employees from engaging in purchases or sales of puts, calls, options or other derivative securities based on the Company s securities. These hedging transactions are prohibited because they would allow directors, officers and employees to continue to own the covered securities, but without the full risks and rewards of ownership. When that occurs, their interests and the interests of the Company and its stockholders may be misaligned and may signal a message to the trading market that may not be in the best interests of the Company and its stockholders at the time it is conveyed. The insider trading policy also prohibits directors and officers from engaging in short sales of the Company s securities.

Our insider trading policy, which is available on our corporate website at *http://www.cititrends.com*, prohibits any pledging of the Company s securities as collateral for a loan by a director or executive officer.

Tax and Accounting Considerations

Section 162(m) of the Internal Revenue Code generally denies a corporate tax deduction for annual compensation exceeding $1 million paid to a company s named executive officers. Prior to enactment of the Tax Cuts and Jobs Act of 2017, this limitation generally did not apply to compensation paid to the chief financial officer or to compensation paid based on achievement of pre-established performance goals if certain requirements were met.

In prior years, in connection with making decisions on executive compensation, the Compensation Committee took into consideration the provisions of Section 162(m), with the intent to maximize the effectiveness of our compensation programs by taking into consideration the requirements of performance-based compensation under Section 162(m), while also maintaining flexibility and reserving the right to award non-deductible compensation as it deemed appropriate.

With the repeal of the exemption from Section 162(m) s deduction limit for performance-based compensation, effective for taxable years beginning on or after January 1, 2018, compensation paid to our covered executive officers in excess of $1 million will not be deductible, except for certain arrangements in place as of November 2, 2017 that qualify for transition relief under the new 162(m) rules.

2018 Fiscal Year Compensation Tables

Summary Compensation Table

The following table sets forth the cash and other compensation that we paid to our named executive officers, or that was otherwise earned by our named executive officers, for their services in all capacities during fiscal years 2016, 2017 and 2018. Fiscal 2018 and fiscal 2016 were each comprised of 52 weeks, while fiscal 2017 was comprised of 53 weeks.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	All Other Compensation ($)(3)	Total ($)
Bruce D. Smith (4)	2018	544,616		637,028		6,258	1,187,902
President and Chief Executive Officer	2017	503,739		450,100	575,447	4,869	1,534,155
	2016	459,039		283,861		4,612	747,512
Stuart C. Clifford (5) Senior Vice President and Chief Financial Officer	2018	219,791		112,523		8,522	340,836
Ivy D. Council Executive Vice President of Human Resources and Chief Compliance	2018	318,796		207,368		56,364	582,528
Officer	2017	316,981		202,150	241,771	8,348	769,250
	2016	310,519		202,150		8,619	521,288
Christina K. Short (6) Senior Vice President and General Merchandise Manager	2018	308,462		155,020		5,502	468,984
Brian D. Lattman (6) Senior Vice President and General Merchandise Manager	2018	308,462		155,020		810	464,292

(1) Reflects the grant-date fair value of restricted stock awards granted to named executive officers and performance-based restricted stock units granted to Mr. Smith, computed in accordance with FASB ASC Topic 718. The fair value of time-based grants of restricted stock is based on the closing price of the Company s common stock on the date of grant, and the fair value of performance-based grants of restricted stock units is estimated using a lattice model with the following assumptions for 2018: (1) risk-free rate of return: 2.49%; (2) volatility: 41%; and (3) term: three years. The aggregate grant date fair value of the performance-based RSUs awarded to Mr. Smith, assuming the highest level of performance will be achieved, is $499,998.

(2) Reflects the value of cash incentive compensation earned under our annual cash incentive program.

(3) All Other Compensation in 2018 for Ms. Council includes reimbursement of the $52,800 commission on the sale of her house in connection with her relocation to Savannah, Georgia. Additionally, 2018 All Other Compensation includes amounts for each officer related to life and long-term disability insurance coverage and amounts representing the Company s 401(k) matching contributions, to the extent the officers participate in such programs.

(4) Mr. Smith was promoted to President and Chief Executive Officer on March 15, 2018. Mr. Smith served as Acting Chief Executive Officer from the beginning of the year up to March 15, 2018.

(5) Mr. Clifford was promoted to Senior Vice President and Chief Financial Officer on March 15, 2018. Mr. Clifford served as Vice President, Finance from the beginning of the year up to March 15, 2018.

(6) Ms. Short and Mr. Lattman were both promoted to Senior Vice President, General Merchandise Manager on March 18, 2018. Both served as Vice President, General Merchandise manager from the beginning of the year up to March 18, 2018.

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CEO Pay Ratio

As required by Item 402(u) of Regulation S-K under the Exchange Act, we are providing the following information regarding the ratio of the annual total compensation of our median employee to the annual total compensation of Bruce D. Smith, our President and Chief Executive Officer. The pay ratio figures below are considered to be a reasonable estimate, calculated in a manner that is consistent with the requirements of Item 402(u) of Regulation S-K.

For the fiscal year ended February 2, 2019, our last completed fiscal year:

- annual total compensation of the employee who represents our median compensated employee (other than our CEO) was $15,800;

- annual total compensation of our CEO was $1,187,902.

Accordingly, for fiscal year 2018, the ratio of CEO pay to median employee pay (other than the CEO) was 75:1.

Determining the Median Employee

Employee Population:

The Company used our employee population data as of February 2, 2019 as the reference date for identifying our median employee. As of such date, our employee population consisted of 5,506 individuals, over 90% of which were hourly employees, and all of whom were located in the United States. For purposes of the pay ratio calculation our employee population consists of all full- and part-time employees at all locations.

Methodology for Determining Our Median Employee, Compensation Measure and Annual Total Compensation of Median Employee:

In identifying the median employee from our employee population, we chose gross pay for the final payroll in fiscal 2018 as our consistently applied compensation measure. We then annualized the compensation of all full-time and part-time permanent employees who were employed in said pay period (ended February 2, 2019). We did not make any cost-of-living adjustments. With respect to the annual total compensation of the median employee, we calculated such employee s compensation for 2018 in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K. The median employee s compensation includes items shown in the Summary Compensation Table above, primarily base pay, bonus, company 401(k) contributions and other compensation.

Annual Total Compensation of CEO

As noted above, Mr. Smith was promoted from Acting Chief Executive Officer to President and Chief Executive Office on March 15, 2018. We calculated the annual total compensation of Mr. Smith for purposes of this CEO pay ratio disclosure by including the compensation Mr. Smith earned for the entire year in which he served in either capacity.

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Grants of Plan-Based Awards Table for Fiscal Year 2018

The following table sets forth the individual grants of awards made to each of our named executive officers during fiscal year 2018.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#) (2)	Grant Date Fair Value of Stock and Option Awards ($) (3)
		Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)		
Mr. Smith		275,000	550,000	1,100,000					
	3/20/18							8,401	250,014
						8,400 (4)			137,000
						8,401 (5)			250,014
Mr. Clifford	3/20/18	56,250	112,500	225,000				3,781	112,523
Ms. Council	3/20/18	103,675	207,350	414,700				6,968	207,368
Ms. Short	3/20/18	77,500	155,000	310,000				5,209	155,020
Mr. Lattman	3/20/18	77,500	155,000	310,000				5,209	155,020

(1) Represents threshold, target and maximum payout values pursuant to our annual cash incentive program for fiscal year 2018 performance. For more information on our annual cash incentive program, see the description contained in the Compensation Discussion and Analysis elsewhere in this proxy statement. In each case, the actual amount earned pursuant to our annual cash incentive program by each named executive officer is reported under the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.

(2) Represents awards of time-based restricted stock under the 2012 Incentive Plan, which vest in three equal installments on the first three anniversaries of the grant date. The restricted stock was granted pursuant to a form of award agreement which is filed as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended July 28, 2012.

(3) Reflects the grant-date fair value of restricted stock awards and restricted stock units computed in accordance with FASB ASC Topic 718. The fair value of time-based grants of restricted stock is based on the closing price of the Company s common stock on the date of grant, and the fair value of performance-based grants of restricted stock units is estimated using a lattice model with the following assumptions: (1) risk-free rate of return: 2.49%; (2) volatility: 41%; and (3) term: three years.

(4) Reflects the target payout level of performance-based restricted stock units that vest in 33.3% increments if the Company s stock price averages $30.44, $35.01 and $40.26 over a period of twenty consecutive trading days at any time during the three years following the grant date.

(5) Reflects the target payout level of performance-based restricted stock units that vest in 33.3% increments if the Company s EBITDA exceeds $51,374,000, $59,080,000 and $67,942,000 for a trailing twelve-month period at any time during the three years following the grant date.

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Employment Agreements

Letter agreements with Mr. Smith (March 2007) and Ms. Council (December 2006) provided for an annual gross starting salary of $250,000 and $200,000, respectively, and participation in our annual bonus plan. Mr. Smith s letter agreement was superseded by his new letter agreement (March 2018) that he received upon being named President and Chief Executive Officer. The letter agreements may be terminated by the executive or us at any time for any reason or no reason. See Potential Payments Upon Termination or Change in Control for further information concerning severance agreements and employment non-compete, non-solicit and confidentiality agreements between the Company and each of the named executive officers.

Outstanding Equity Awards at 2018 Fiscal Year-End Table

The following table provides information concerning unvested restricted stock and restricted stock units outstanding as of February 2, 2019 for each of our named executive officers.

	Stock Awards			
	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($) (1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (1)
Mr. Smith	8,401 (2)	171,296	5,601 (6)	114,204
	5,000 (3)	101,950	8,400 (7)	171,276
	6,581 (4)	134,187		
	3,467 (5)	70,692		
Mr. Clifford	3,781 (2)	77,095		
	2,190 (4)	44,654		
	1,088 (5)	22,184		
Ms. Council	6,968 (2)	142,078		
	7,230 (4)	147,420		
	3,809 (5)	77,666		
Ms. Short	5,209 (2)	106,212		
	755 (3)	15,394		
	3,405 (4)	69,428		
	1,728 (5)	35,234		
Mr. Lattman	5,209 (2)	106,212		
	679 (3)	13,845		
	1,874 (4)	38,211		
	2,511 (8)	51,199		

(1) Market value is based on the closing stock price of $20.39 on February 1, 2019, the last trading day of our 2018 fiscal year.

(2) Restricted shares were awarded on March 20, 2018 under the 2012 Incentive Plan and vest in three equal installments on the first three anniversaries of the grant date.
(3) Restricted shares were awarded on March 22, 2017 under the 2012 Incentive Plan and vest in three equal installments on the first three anniversaries of the grant date.
(4) Restricted shares were awarded on March 14, 2017 under the 2012 Incentive Plan and vest in three equal installments on the first three anniversaries of the grant date.
(5) Restricted shares were awarded on March 15, 2016 under the 2012 Incentive Plan and vest in three equal installments on the first three anniversaries of the grant date.
(6) Restricted stock units were awarded on March 20, 2018 under the Citi Trends, Inc. 2012 Incentive Plan. These units are payable in shares of Common Stock and will be earned and vest based on the achievement of an average closing price of the Company s Common Stock equaling or exceeding certain threshold amounts for 20 consecutive trading days. The restricted stock units expire if the threshold amounts are not reached prior to March 20, 2021.
(7) Restricted stock units were awarded on March 20, 2018 under the Citi Trends, Inc. 2012 Incentive Plan. These units are payable in shares of Common Stock and will be earned and vest based on the achievement of the Company s EBITDA for the trailing 12-month period equaling or exceeding certain threshold amounts. The restricted stock units expire if the threshold amounts are not reached prior to March 20, 2021.
(8) Restricted shares were awarded on August 29, 2016 under the 2012 Incentive Plan and vest in three equal installments on the first three anniversaries of the grant date.

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Option Exercises and Stock Vested Table for Fiscal Year 2018

The following table sets forth information concerning each vesting of restricted stock during the last completed fiscal year for each of the named executive officers.

	Stock Awards	
Name	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(1)
Mr. Smith	22,269	638,246
Mr. Clifford	2,892	70,482
Ms. Council	10,018	244,773
Ms. Short	4,973	123,708
Mr. Lattman	3,788	111,508

(1) Reflects the fair market value of the shares on the vesting date.

Potential Payments Upon Termination or Change in Control

As discussed in the Other Benefits section of the Compensation Discussion and Analysis, the Company has entered into severance agreements with each of the named executive officers. Each severance agreement provides that if the Company terminates an executive s employment without Cause (as defined in the severance agreement) or if the executive terminates his or her employment within twelve months of a Change in Control (as defined in the severance agreement), provided that within such period the executive s job duties have been materially diminished or compensation has been materially decreased, the Company will provide the executive with separation payments of twelve months base salary, and will pay the executive the full monthly cost, less applicable tax withholdings, to maintain the same level of group health insurance maintained by the executive as of his separation from service for twelve months.

Cause generally means (i) commission of an act of fraud or dishonesty; (ii) conviction of a felony or a crime involving embezzlement, conversion of property or moral turpitude; (iii) engaging in willful or reckless misconduct or gross negligence in connection with Company property or activities which adversely affects the Company; (iv) material breach of any obligations as an employee or stockholder as set forth in certain Company policies; or (v) failure or refusal to perform any material duty or responsibility or a breach of fiduciary obligations to the Company.

The Company has also entered into an Employment Non-Compete, Non-Solicit and Confidentiality Agreement with each of the named executive officers. Each non-compete agreement provides that upon a separation from the Company, the executive will not disclose confidential information relating to the Company, will not compete with the Company or render similar services to a competitor of the Company for a period of one year, will not solicit any vendor or supplier of merchandise to the Company on behalf of a competitor for a period of eighteen months and will not recruit Company personnel for a period of two years.

Pursuant to the terms of our 2012 Incentive Plan, and/or the applicable award agreements, all outstanding options and unvested time-based restricted stock will become 100% vested upon the occurrence of a change in control. The following table summarizes the approximate value of the payments and benefits that each of our named executive officers would receive if the Company had terminated such executive s employment at the close of business on February 2, 2019 or if a change in control of the Company had occurred as of such date. The amounts shown in the table exclude distributions under our 401(k) retirement plan that are generally available to all of our salaried employees.

	Mr. Smith	Mr. Clifford	Ms. Council	Ms. Short	Mr. Lattman
Termination By Company Without Cause (Not in Connection with a Change in Control					
Cash Severance (1)	$ 550,000	$ 225,000	$ 319,000	$ 310,000	$ 310,000
COBRA Payments	14,111	7,751	7,370	7,370	20,398
Total	$ 564,111	$ 232,751	$ 326,370	$ 317,370	$ 330,398
Termination By Company Without Cause; Qualifying Termination by Executive (In Connection with a Change in Control)					
Cash Severance (1)	$ 550,000	$ 225,000	$ 319,000	$ 310,000	$ 310,000
COBRA Payments	14,111	7,751	7,370	7,370	20,398
Value of Accelerated Unvested Restricted Stock (2)	478,105	143,933	367,163	226,268	209,466
Total	$ 1,042,216	$ 376,684	$ 693,533	$ 543,638	$ 539,864
Change in Control of the Company (Regardless of Termination of Employment)					
Value of Accelerated Unvested Restricted Stock (2)	$ 478,105	$ 143,933	$ 367,163	$ 226,268	$ 209,466
Total	$ 478,105	$ 143,933	$ 367,163	$ 226,268	$ 209,466

(1) Reflects cash severance equal to 12 months of the executive s fiscal year 2018 annual salary.

(2) Reflects the value of time-based restricted stock awards using the closing stock price of the Company s common stock on February 1, 2019 ($20.39), the last trading day of our 2018 fiscal year. Pursuant to the terms of the grants of such awards, the shares become 100% vested upon a change in control of the Company.

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Director Compensation Table for Fiscal Year 2018

The following table sets forth the cash and other compensation paid by the Company to the members of the board of directors of the Company for all services in all capacities during fiscal year 2018, except for Mr. Smith, who was not compensated for his services as a director.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	Total ($)
R. Edward Anderson (2)	34,667		34,667
John S. Lupo (3)	195,250	75,000	270,250
Brian P. Carney	118,250	75,000	193,250
Laurens M. Goff (3)	140,000	75,000	215,000
Barbara Levy	114,750	75,000	189,750
Jonathan Duskin	108,750	75,000	183,750
Margaret L. Jenkins	103,000	75,000	178,000

(1) Reflects the grant-date fair value of 2,397 shares of restricted stock computed in accordance with FASB ASC Topic 718 based on the closing price of the Company s common stock on the date of grant, June 6, 2018. All such shares vest on the first anniversary of the grant date. In prior years, stock awards were issued to directors in March. For fiscal 2018, the date of grant was changed to June in order to coincide with the date of the Company s annual meeting. Consequently, the grant date value of the 2018 award was increased from $60,000 in March 2017 to $75,000 in June 2018 in order to compensate for the additional three months of service from March to June.

(2) Mr. Anderson resigned from the Board on June 30, 2018.

(3) Includes $24,000 for service on the CEO search committee.

The aggregate number of shares of restricted stock held by each of the non-employee directors as of February 2, 2019, was as follows: Mr. Carney, 2,397; Mr. Goff, 2,397; Mr. Lupo, 2,397; Ms. Levy, 2,397; Mr. Duskin, 2,397; and Ms. Jenkins, 2,397. Each of the grants was made pursuant to a restricted stock award agreement, a form of which is filed as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended July 28, 2012. There were no awards of stock options to directors in fiscal 2018, and as of February 2, 2019, no director held any stock options.

Director Compensation

Annual Retainer. During fiscal 2018, all non-employee directors received an annual retainer fee of $84,000 (prorated for any director that served for less than the full year). We also provided the following additional annual retainers: Chairman of the Board, $100,000 (which for 2018, was prorated for the portion of the year in which Mr. Lupo served as Chairman), Lead Independent Director, $25,000 (which for 2018, was prorated for the portion of the year in which Mr. Lupo served as Lead Independent Director); Chair of the Audit Committee, $12,000; Chair of the Compensation Committee, $8,000; and Chair of the Nominating and Corporate Governance Committee, $6,000. Additionally, for the portion of the fiscal year for which he served as non-executive Chairman, Mr. Anderson received a pro-rated Chairman fee of $100,000.

Meeting Fees. Each of our non-employee directors received $2,500 for each board meeting attended and $750 for each telephonic meeting attended. We reimburse all of our non-employee directors for reasonable out-of-pocket expenses in connection with their attendance at the meetings of the board of directors and committees.

Equity Awards. In addition, each non-employee director received restricted stock awards under the 2012 Incentive Plan, as shown in the preceding Director Compensation Table for Fiscal Year 2018.

As noted in Footnote 2 to the Director Compensation Table, Mr. Anderson served as non-executive Chairman of the Board until his resignation in June 2018.

PROPOSAL 2:

ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

In accordance with the requirements of Section 14A of the Exchange Act and related SEC rules, our stockholders have an opportunity to vote to approve, on an advisory (nonbinding) basis, the compensation of our named executive officers. The Company seeks your advisory vote and asks that you support the compensation of our named executive officers as disclosed in this proxy statement.

As discussed in the Compensation Discussion and Analysis beginning on page 20, we have designed our executive compensation program to provide market-competitive compensation that will enable us to attract and retain a talented, diverse workforce. Our compensation program emphasizes each individual s responsibility for high achievement and provides a strong link between pay and performance on both an individual and Company level. Our compensation is designed to reward executives when the Company achieves strong financial and operational results, and likewise to provide reduced pay when financial and operating results are not as strong. We believe the 2018 compensation of our named executive officers is reflective of and consistent with that intent.

This proposal, commonly known as a say-on-pay proposal, gives our stockholders the opportunity to express their views on our named executive officers compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement.

Accordingly, our board of directors invites you to review carefully the Compensation Discussion and Analysis and the tabular and other disclosures on compensation under Executive Compensation , and cast a vote to approve the Company s executive compensation programs through the following resolution:

RESOLVED, that stockholders approve the compensation of the Company s named executive officers, including the Company s compensation philosophy, policies and practices, as discussed and disclosed in the Compensation Discussion and Analysis, the executive compensation tables, and any narrative executive compensation disclosure contained in this proxy statement.

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or our board of directors. The stockholders advisory vote will not overrule any decision made by our board of directors or the Compensation Committee or create or imply any additional fiduciary duty by our directors. Our board of directors and the Compensation Committee value the opinions of our stockholders and to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will consider our stockholders concerns, and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

At the Annual Meeting of Stockholders on May 24, 2017, our stockholders expressed a preference that say-on-pay votes occur every year. Consistent with this preference, the Board determined to continue its policy of having say-on-pay votes every year, and the next stockholder advisory vote is expected to occur at the 2020 annual meeting of stockholders. A vote to recommend the frequency of say-on-pay votes is required every six years, and accordingly, a vote to recommend the frequency of such votes in the future will occur at the 2023 Annual Meeting.

The board of directors recommends that stockholders vote FOR the non-binding, advisory resolution to approve the compensation of the Company s named executive officers.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The Company has adopted a Code of Business Conduct and Ethics which sets forth the Company s policy of prohibiting participation by an employee, officer or director (or his/her family members) in any transaction that could create an actual or apparent conflict of interest with the Company. Transactions prohibited by the Code of Business Conduct and Ethics, among other things, include: conducting business or engaging in a transaction on behalf of the Company with a family member or significant other or with a company in which the person or one of their family members is a significant owner or is associated or employed in a significant role or position; an employee accepting simultaneous employment with a client, credit source, supplier, or competitor, or taking part in any activity that enhances or supports a competitor s position; a director of the Company serving as a director of any other company that competes with the Company; and transactions in which an employee, officer or director invests in a client, credit source, supplier or competitor that compromises his or her responsibilities to the Company.

The Company s Code of Business Conduct and Ethics requires that the Audit Committee review and approve in advance all material related party transactions or business or professional relationships that could present a conflict of interest. All instances involving potential related party transactions or such business or professional relationships must be reported to the CEO who will assess the materiality of the transaction or relationship and elevate the matter to the Audit Committee as appropriate. The Company will report all material related party transactions and such business or professional relationships under applicable accounting rules and the SEC s rules and regulations. Any dealings with a related party will be conducted in such a way as to avoid preferential treatment and assure that the terms obtained by the Company are no less favorable than could be obtained from unrelated parties on an arm s-length basis.

In addition, the charter of the Audit Committee requires the Audit Committee to review and approve all related party transactions as defined by Item 404 of the SEC s Regulation S-K in accordance with NASDAQ listing standards. It is also one of the responsibilities of the Nominating and Corporate Governance Committee, as set forth in its charter, to consider possible conflicts of interests of directors and any related party transactions in connection with the determination of director independence.

During fiscal 2018, the Company had no related party transactions to disclose pursuant to Item 404 of the SEC s Regulation S-K.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own, or are part of a group that owns, more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten percent stockholders are required by regulation of the SEC to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of reports furnished to us, all reports required by Section 16(a) of the Exchange Act to be filed by our directors and executive officers and all beneficial owners of more than ten percent of our common stock outstanding to report transactions in our securities in fiscal 2018 were timely filed.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of March 22, 2019, for the following persons:

each stockholder known by us to own beneficially more than 5% of our common stock;

each of our directors and named executive officers; and

all directors and executive officers as a group.

The table below lists applicable percentage ownership based on 12,185,237 shares of common stock outstanding as of March 22, 2019. We have determined beneficial ownership in the table in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have deemed shares of common stock subject to options held by that person that are currently exercisable or will become exercisable within 60 days of March 22, 2019, to be outstanding, but we have not deemed these shares to be outstanding for computing the percentage ownership of any other person. To our knowledge, except as set forth in the footnotes below, each stockholder identified in the table possesses sole voting and investment power with respect to all shares of common stock shown as beneficially owned by that stockholder.

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Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percentage of Class
Directors and Named Executive Officers:		
Bruce D. Smith President, Chief Executive Officer and Director	114,620	*
Ivy D. Council Executive Vice President of Human Resources and Chief Compliance Officer	75,833	*
Stuart C. Clifford Senior Vice President and Chief Financial Officer	13,840	*
Brian Lattman Senior Vice President and General Merchandise Manager	15,626	*
Christina K. Short Senior Vice President and General Merchandise Manager	11,324	*
John S. Lupo Chairman of the Board	27,480	*
Brian P. Carney Director	30,739	*
Jonathan Duskin Director	489,010	4.01%
Laurens M. Goff Director	15,823	*
Margaret L. Jenkins Director	3,733	*
Barbara Levy Director	7,573	*
Directors and executive officers as a group (13 persons)	876,524	7.19%

* Denotes less than 1%.

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Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percentage of Class
Other Beneficial Owners:		
Dimensional Fund Advisors LP (1) Building One 6300 Bee Cave Road Austin, TX 78746	1,153,066	9.46%
BlackRock, Inc. (2) 55 East 52nd Street New York, NY 10055	1,146,882	9.41%
AllianceBernstein L.P. (3) 1345 Avenue of the Americas New York NY 01015	1,066,606	8.75%
Paradigm Capital Management, Inc. (4) New York, NY 10055	869,700	7.14%

(1) This information is based on a Schedule 13G/A dated as of December 31, 2018 and filed on February 8, 2019. Dimensional Fund Advisors LP (Dimensional) is an investment adviser and furnishes investment advice to four investment companies and serves as investment manager or sub-adviser to certain other commingled funds, group trusts and separate accounts (collectively the Funds). In certain cases, subsidiaries of Dimensional may act as an adviser or sub-adviser to certain Funds, and as such may be deemed to be the beneficial owner of shares held by the Funds. All listed securities are owned by the Funds and Dimensional disclaims beneficial ownership of such securities. Dimensional has sole voting power with respect to 1,106,872 of the shares and sole dispositive power with respect to the listed shares.

(2) This information is based on a Schedule 13G/A filed on February 4, 2019. The shares listed in the table are beneficially owned by the following subsidiaries of BlackRock, Inc.: BlackRock International Limited; BlackRock Advisors, LLC; BlackRock Investment Management (UK) Limited; BlackRock Asset Management Canada Limited; BlackRock (Luxembourg) S.A.; BlackRock (Netherlands) B.V.; BlackRock Fund Advisors; BlackRock Asset Management Ireland Limited; BlackRock Institutional Trust Company; National Association; BlackRock Financial Management, Inc.; BlackRock Japan Co., Ltd.; and BlackRock Investment Management, LLC. BlackRock, Inc. has sole voting power with respect to 1,064,290 of the shares and sole dispositive power with respect to the listed shares.

(3) This information is based on a Schedule 13G/A dated as of December 31, 2018 and filed on February 13, 2019. AllianceBernstein L.P. is a majority owned subsidiary of AXA Equitable Holdings, Inc. and an indirect majority owned subsidiary of AXA SA. AllianceBernstein L.P., in its capacity as an investment adviser, is deemed to have sole voting power with respect to 841,076 of the shares and sole dispositive power with respect to the listed shares.

(4) This information is based on a Schedule 13G/A dated as of December 31, 2018 and filed on February 12, 2019. Paradigm Capital Management, Inc. is an investment adviser with sole voting and dispositive power with respect to the listed shares.

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PROPOSAL 3:

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed KPMG LLP as our independent registered public accounting firm for the fiscal year ending February 1, 2020 and further directed that the appointment of KPMG LLP be submitted for ratification by the stockholders at the annual meeting. KPMG LLP has served as our independent registered public accounting firm since fiscal 2002. We understand that a representative from KPMG LLP will be present at the annual meeting, will have the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

Stockholder ratification of the appointment of KPMG LLP as our independent registered public accounting firm is not required. However, the appointment is being submitted for ratification at the annual meeting with a view toward soliciting the stockholders opinions, which the Audit Committee will take into consideration in future deliberations. In determining whether to reappoint KPMG as our independent auditor, the Audit Committee considered a number of factors, including, among others, the quality of services and sufficiency of resources, the firm s independence and objectivity, communication and interaction with the Audit Committee and management, and the reasonableness of its fees for audit and non-audit services. If the appointment of KPMG LLP is not ratified at the annual meeting, the Audit Committee will consider the engagement of another independent registered public accounting firm. The Audit Committee may terminate the engagement of KPMG LLP as our independent registered public accounting firm without the approval of our stockholders whenever the Audit Committee deems termination necessary or appropriate.

Principal Accounting Fee Information

The following table sets forth the aggregate fees paid or payable to KPMG LLP relating to the audit of our fiscal 2017 and 2018 financial statements and the fees billed to us in 2017 and 2018 by KPMG LLP for other professional services:

	Fiscal 2017	Fiscal 2018
Audit Fees (1)	$ 840,000	$ 840,000
Audit-Related Fees		
Tax Fees		
All Other Fees		
Total	$ 840,000	$ 840,000

(1) Audit fees include amounts billed to us related to the annual audit of our financial statements and interim reviews of the quarterly financial statements filed for fiscal 2017 and fiscal 2018.

Audit Committee Pre-Approval Policy

In accordance with the Audit Committee pre-approval policy, all audit services performed for us by our independent registered public accounting firm were pre-approved by the Audit Committee.

The Audit Committee s pre-approval policy provides that our independent registered public accounting firm shall not provide services that have the potential to impair or appear to impair the independence of the audit role. The pre-approval policy requires our independent registered public accounting firm to provide an annual engagement letter to the Audit Committee outlining the scope of the audit services proposed to be performed during the fiscal year. Upon the Audit Committee s acceptance of and agreement with such engagement letter, the services within the scope of the proposed audit services shall be deemed pre-approved pursuant to the policy.

The pre-approval policy provides for categorical pre-approval of specified audit and permissible non-audit services and requires the specific pre-approval by the Audit Committee, prior to engagement, of such services, other than audit services covered by the annual engagement letter. In addition, services to be provided by our independent registered public accounting firm that are not within the category of pre-approved services must be approved by the Audit Committee prior to engagement, regardless of the service being requested or the dollar amount involved.

Requests or applications for services that require specific separate approval by the Audit Committee are required to be submitted to the Audit Committee by both management and the independent registered public accounting firm, and must include a detailed description of the services to be provided.

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Our policies prohibit us from engaging the independent registered public accounting firm to provide any services relating to bookkeeping or other services related to accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, or contribution-in-kind reports, actuarial services, any management function, legal services or expert services not related to the audit, broker-dealer, investment adviser, or investment banking services or human resource consulting. In addition, we evaluate whether our use of the independent registered public accounting firm for permitted non-audit services is compatible with maintaining the independence of the independent registered public accounting firm.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee is prohibited from delegating to management its responsibilities to pre-approve services to be performed by our independent registered public accounting firm.

The board of directors recommends that stockholders vote FOR ratification of the appointment of KPMG LLP as the independent registered public accounting firm of the Company for the fiscal year ending February 1, 2020.

OTHER BUSINESS

We know of no other matter to come before the annual meeting. However, if any other matter requiring a vote of the stockholders should arise, it is the intention of the persons named as proxies in the enclosed proxy card to vote such proxy in accordance with their best judgment.

STOCKHOLDER PROPOSALS

FOR INCLUSION IN NEXT YEAR S PROXY STATEMENT

Any proposal or proposals by a stockholder pursuant to Rule 14a-8 of the Exchange Act intended to be included in the Company s proxy statement and proxy card relating to the 2020 annual meeting of stockholders must be received by us no later than January 2, 2020. In addition, if you desire to bring business (including director nominations) before our 2020 annual meeting of stockholders, you must comply with the Company s bylaws, which require that you provide written notice of such business to our Secretary at the address of our executive offices, which notice must be received no earlier than February 7, 2020 and no later than March 8, 2020. Nothing in this paragraph shall be deemed to require us to include in our proxy statement and proxy card relating to the 2020 annual meeting of stockholders any stockholder proposal which may be omitted from the proxy materials pursuant to applicable regulations of the SEC in effect at the time such proposal is received.

Notices of intention to present proposals at the 2020 annual meeting should be addressed to the Company, Attention: Secretary, 104 Coleman Boulevard, Savannah, Georgia 31408.

ANNUAL REPORT ON FORM 10-K

Our Annual Report on Form 10-K for the fiscal year ended February 2, 2019, as filed with the SEC, accompanies this proxy statement. A copy of the Annual Report is available, without charge, upon written request directed to our Secretary at the corporate address set forth above.

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ANNUAL MEETING OF STOCKHOLDERS OF

CITI TRENDS, INC.

June 6, 2019

GO GREEN

e-Consent makes it easy to go paperless. With e-Consent, you can quickly access your proxy material, statements and other eligible documents online, while reducing costs, clutter and paper waste. Enroll today via www.astfinancial.com to enjoy online access.

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:

The Notice of Meeting, Proxy Statement, Proxy Card, and the 2018 Annual Report for Citi Trends, Inc. are available at http://ir.cititrends.com/annual-meeting-materials

Please sign, date and mail your proxy card in the envelope provided as soon as possible.

Please detach along perforated line and mail in the envelope provided.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE DIRECTOR NOMINEES LISTED IN PROPOSAL 1

AND FOR PROPOSALS 2 AND 3.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE

1. Election of Brian P. Carney, Barbara Levy and Peter Sachse to serve as directors:

FOR AGAINST ABSTAIN

Brian P. Carney

Barbara Levy

Peter Sachse

2. An advisory vote to approve, on a non-binding basis, the compensation of our named executive officers as set forth in the proxy statement;

3. Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending February 1, 2020;

The shares represented by this proxy, when properly executed, will be voted as specified by the undersigned stockholder(s) in items 1, 2 and 3 herein. If this card contains no specific voting instructions, the shares will be voted FOR each of the director nominees listed in Proposal 1, FOR Proposal 2, and FOR Proposal 3.

THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF THE NOTICE OF ANNUAL MEETING AND PROXY STATEMENT FURNISHED IN CONNECTION THEREWITH, AND HEREBY RATIFIES ALL THAT SAID PROXIES MAY DO BY VIRTUE HEREOF.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder Date: Signature of Stockholder Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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CITI TRENDS, INC.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned, revoking all previous proxies, hereby appoints Bruce D. Smith and Stuart C. Clifford, and each of them acting individually, as the attorney and proxy of the undersigned, with full power of substitution, to vote, as indicated on the reverse side and in their discretion upon such other matters as may properly come before the meeting, all shares which the undersigned would be entitled to vote at the Annual Meeting of the Stockholders of Citi Trends, Inc. to be held on June 6, 2019 and at any adjournment or postponement thereof.

(Continued and to be signed on the reverse side.)