CHARLOTTE RUSSE HOLDING INC
Form 10-Q
April 27, 2007
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

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

COMMISSION FILE NUMBER 000-27677

CHARLOTTE RUSSE HOLDING, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE **(State or Other Jurisdiction of Incorporation)**	**33-0724325** **(I.R.S. Employer Identification No.)**
4645 MORENA BOULEVARD	
SAN DIEGO, CA **(Address of Principal Executive Offices)**	**92117** **(Zip Code)**

(858) 587-1500

(Registrant s Telephone Number, Including Area Code)

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of April 25, 2007, the registrant had 25,324,264 shares of common stock outstanding.

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CHARLOTTE RUSSE HOLDING, INC.

CONSOLIDATED BALANCE SHEETS

	March 31, 2007 (Unaudited)	September 30, 2006 (Audited)	March 25, 2006 (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 98,212,975	$ 90,229,040	$ 52,581,518
Inventories	44,283,700	44,864,617	48,317,616
Landlord allowances receivable	4,626,108	8,183,959	1,914,208
Prepaid rent expense	10,609,507		
Other current assets	3,792,555	3,196,891	4,258,654
Deferred tax assets	6,120,000	6,010,000	16,400,000
Current assets of discontinued operations			7,502,744
Total current assets	167,644,845	152,484,507	130,974,740
Fixed assets, net	187,974,808	177,577,999	162,889,868
Goodwill	28,790,000	28,790,000	28,790,000
Other assets	674,345	666,216	540,304
Total assets	$ 385,083,998	$ 359,518,722	$ 323,194,912
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable, trade	$ 32,744,525	$ 24,418,975	$ 27,911,475
Accounts payable, other	5,065,471	8,162,766	5,101,972
Accrued payroll and related expense	6,455,680	6,908,204	4,466,165
Income and sales taxes payable	2,887,402	5,648,541	2,694,373
Other current liabilities	7,276,460	10,002,442	8,330,077
Current liabilities of discontinued operations			5,096,966
Total current liabilities	54,429,538	55,140,928	53,601,028
Deferred rent	95,885,999	97,773,445	91,162,639
Other liabilities			43,894
Deferred tax liabilities	140,000	150,000	1,790,000
Non-current liabilities of discontinued operations			9,974,186
Total liabilities	150,455,537	153,064,373	156,571,747
Commitments and contingencies			
Stockholders equity:			
Preferred stock, $0.01 par value, 3,000,000 shares authorized, none issued and outstanding			
Common stock, $0.01 par value, 100,000,000 shares authorized; issued and outstanding shares 25,324,264, 24,878,050 and 22,457,666 at March 31, 2007, September 30, 2006, and March 25, 2006, respectively	253,243	248,780	224,577
Additional paid-in capital	75,337,395	64,902,477	55,227,202
Retained earnings	159,037,823	141,303,092	111,171,386

Total stockholders equity	234,628,461	206,454,349	166,623,165
Total liabilities and stockholders equity	$ 385,083,998	$ 359,518,722	$ 323,194,912

See accompanying notes.

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CHARLOTTE RUSSE HOLDING, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	March 31, 2007 (13 weeks)	March 25, 2006 (13 weeks)	March 31, 2007 (26 weeks)	March 25, 2006 (26 weeks)
Net sales	$ 161,091,449	$ 153,709,011	$ 370,330,299	$ 332,204,135
Cost of goods sold, including buying, distribution and occupancy costs	120,749,163	114,148,945	270,312,038	243,653,732
Gross profit	40,342,286	39,560,066	100,018,261	88,550,403
Selling, general and administrative expenses	36,132,223	30,983,354	74,024,428	64,559,335
Operating income	4,210,063	8,576,712	25,993,833	23,991,068
Other income (expense):				
Interest income, net	1,342,512	594,174	2,534,931	946,791
Other charges, net		(66,679)		(129,185)
Total other income	1,342,512	527,495	2,534,931	817,606
Income from continuing operations before income taxes	5,552,575	9,104,207	28,528,764	24,808,674
Income taxes	1,718,438	3,614,371	10,794,033	9,849,044
Income from continuing operations	3,834,137	5,489,836	17,734,731	14,959,630
Loss on discontinued operations, net of tax (Note 2)		17,542,525		19,953,390
Net income (loss)	$ 3,834,137	$ (12,052,689)	$ 17,734,731	$ (4,993,760)
Earnings (loss) per share basic:				
Continuing operations	$ 0.15	$ 0.24	$ 0.70	$ 0.67
Discontinued operations		(0.78)		(0.89)
Basic	$ 0.15	$ (0.54)	$ 0.70	$ (0.22)
Earnings (loss) per share diluted:				
Continuing operations	$ 0.15	$ 0.22	$ 0.70	$ 0.61
Discontinued operations		(0.71)		(0.81)
Diluted	$ 0.15	$ (0.49)	$ 0.70	$ (0.20)
Weighted average shares outstanding:				
Basic	25,316,126	22,444,145	25,180,488	22,328,173
Diluted	25,550,989	24,630,149	25,464,766	24,550,390

See accompanying notes.

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CHARLOTTE RUSSE HOLDING, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended		Six Months Ended	
	March 31, 2007	**March 25, 2006**	**March 31, 2007**	**March 25, 2006**
	(13 weeks)	**(13 weeks)**	**(26 weeks)**	**(26 weeks)**
Operating Activities				
Net income (loss)	$ 3,834,137	$ (12,052,689)	$ 17,734,731	$ (4,993,760)
Adjustments to reconcile net income to net cash provided by (used in) operating activities of continuing operations:				
Net loss from discontinued operations		17,542,525		19,953,390
Depreciation and amortization	9,431,236	7,839,879	17,328,847	15,648,165
Amortization of construction allowances	(5,093,444)	(2,771,383)	(6,176,269)	(5,579,894)
Landlord construction allowances	4,616,867	708,936	5,069,755	4,849,013
Deferred rent	(685,047)	226,335	(780,932)	552,195
Stock based compensation	744,000	316,000	1,059,720	936,000
Loss on disposal of assets	1,039,154	95,489	1,186,837	249,438
Deferred income taxes	480,000	822,500	(120,000)	332,500
Changes in operating assets and liabilities				
Inventories	(4,785,678)	(6,988,139)	580,917	(3,184,209)
Other current assets	(239,792)	1,789,672	(7,647,320)	4,918,109
Accounts payable, trade	698,034	4,642,868	8,325,550	487,115
Accounts payable, other	(832,477)	(3,210,102)	(3,097,295)	(1,674,791)
Accrued payroll and related expense	1,970,531	(2,143,657)	(452,524)	1,293,960
Income and sales taxes payable	(10,758,865)	(4,483,211)	(2,761,139)	(401,437)
Other current liabilities	(3,188,095)	(7,388,204)	(1,603,912)	(1,456,938)
Net cash provided by (used in) operating activities of continuing operations	(2,769,439)	(5,053,181)	28,646,966	31,928,856
Net cash used in operating activities of discontinued operations		(1,441,903)		(3,016,152)
Net cash provided by (used in) operating activities	(2,769,439)	(6,495,084)	28,646,966	28,912,704
Investing Activities				
Purchases of fixed assets	(16,407,048)	(2,731,991)	(30,014,340)	(13,327,526)
Other assets	11,820	(30,616)	(28,352)	20,378
Net cash used in investing activities of continuing operations	(16,395,228)	(2,762,607)	(30,042,692)	(13,307,148)
Net cash provided by (used in) investing activities of discontinued operations		291,591		(224,217)
Net cash used in investing activities	(16,395,228)	(2,471,016)	(30,042,692)	(13,531,365)
Financing Activities				
Proceeds from issuance of common stock	(152,303)	370,391	6,620,151	1,980,244
Excess tax benefits from option exercises	642,210	1,200,447	2,759,510	1,590,447
Net cash provided by financing activities	489,907	1,570,838	9,379,661	3,570,691

Net increase (decrease) in cash and cash equivalents	(18,674,760)	(7,395,262)	7,983,935	18,952,030
Cash and cash equivalents at beginning of the period	116,887,735	59,976,780	90,229,040	33,629,488
Cash and cash equivalents at end of the period	$ 98,212,975	$ 52,581,518	$ 98,212,975	$ 52,581,518

See accompanying notes.

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CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited)

1. Interim Financial Statements

The accompanying unaudited consolidated financial statements of Charlotte Russe Holding, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures required by accounting principles generally accepted in the United States for complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited financial statements contain all material adjustments, including normal recurring accruals, necessary to present fairly the Company s financial position, results of operations and cash flows for the periods indicated, and have been prepared in a manner consistent with the audited financial statements for the fiscal year ended September 30, 2006.

Due to the seasonal nature of the Company s business, the results of operations for the six month period ended March 31, 2007 are not necessarily indicative of the results of a full fiscal year.

These financial statements should be read in conjunction with the audited financial statements and the footnotes for the fiscal year ended September 30, 2006 included in the Company s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on December 13, 2006.

2. Discontinued Operations

The Company s efforts to reposition the Rampage stores proved unsuccessful and management determined that sufficient indicators of impairment of the Rampage long-lived assets existed as of March 25, 2006. These assets principally consisted of the store leasehold improvements, store fixtures and store equipment. As a result, a $22.5 million non-cash impairment charge was recorded in the second quarter of fiscal 2006 to write down substantially all of the carrying value of the Rampage long-lived assets as of March 25, 2006.

During the third quarter of fiscal 2006, management completed an evaluation of the strategic alternatives for the Rampage stores. That review indicated that certain assets for a majority of the 64 Rampage stores could be sold, based upon specific interest shown by other retailers, while the remaining stores could either be closed or converted to the Charlotte Russe format. In the fourth quarter of fiscal 2006, the lease rights, store fixtures and equipment associated with 43 Rampage store locations were sold for approximately $13.6 million. Of the remaining 21 Rampage stores in operation at the beginning of the fourth quarter, the Company converted eight stores into Charlotte Russe locations and returned 13 properties back to their respective landlords prior to the end of fiscal 2006.

As a result, operating results for all Rampage stores during fiscal 2006 have been segregated and shown as discontinued operations in the accompanying Consolidated Statements of Operations. Details of those results were as follows:

	Three Months Ended March 25, 2006 (13 weeks)	Six Months Ended March 25, 2006 (26 weeks)
Net sales	$ 17,359,712	$ 40,318,783
Loss from operations	$ 6,592,081	$ 10,590,199
Impairment charges	22,500,000	22,500,000
Loss from operations	29,092,081	33,090,199
Income tax benefit	11,549,556	13,136,809
Net loss on discontinued operations	$ 17,542,525	$ 19,953,390

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CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

2. Discontinued Operations (*continued*)

In addition, the Company has segregated the assets and liabilities related to the Rampage stores and shown them as assets and liabilities of discontinued operations in the accompanying Consolidated Balance Sheets. As of September 30, 2006 and March 31, 2007, there were no assets or liabilities that required segregation.

3. Stock Based Compensation

Under the 1999 Equity Incentive Plan (the Plan), the Company grants stock options to purchase common stock to some of its employees and non-employee directors at prices equal to the market value of the common stock on the date of grant. At March 31, 2007, there were a total of 3,250,000 shares authorized under the Plan of which 1,158,959 were outstanding and 920,000 were available for future issuance. There were 188,797 shares available for future purchase under the Company s Employee Stock Purchase Plan (ESPP) at March 31, 2007.

The Company recognized the following stock based compensation expense for its stock option and employee stock purchase plans as follows:

	Three Months Ended		Six Months Ended	
	March 31, 2007 (13 weeks)	March 25, 2006 (13 weeks)	March 31, 2007 (26 weeks)	March 25, 2006 (26 weeks)
Cost of goods sold	$ 141,293	$ 57,600	$ 194,500	$ 257,600
Selling, general and administrative expenses	602,707	258,400	865,220	678,400
Compensation expense	744,000	316,000	1,059,720	936,000
Income tax benefit	293,136	125,452	417,530	371,592
Reduction of net income	$ 450,864	$ 190,548	$ 642,190	$ 564,408
Reduction of earnings per share:				
Basic	$ 0.02	$ 0.01	$ 0.03	$ 0.03
Diluted	$ 0.02	$ 0.01	$ 0.03	$ 0.03

4. Net Income Per Common Share

Basic earnings per share is calculated based on the weighted average outstanding common shares. Diluted earnings per share is calculated based on the weighted average outstanding shares and potentially dilutive stock options and warrants. In accordance with Statement of Financial Accounting Standards, or SFAS, No. 128, *Earnings Per Share,* the following table reconciles net income and share amounts utilized to calculate basic and diluted net income per common share.

	Three Months Ended		Six Months Ended	
	March 31, 2007	March 25, 2006	March 31, 2007	March 25, 2006
	(13 weeks)	(13 weeks)	(26 weeks)	(26 weeks)
Income from continuing operations	$ 3,834,137	$ 5,489,836	$ 17,734,731	$ 14,959,630
Loss on discontinued operations		(17,542,525)		(19,953,390)
Net income (loss)	$ 3,834,137	$ (12,052,689)	$ 17,734,731	$ (4,993,760)
Weighted average number of shares:				
Basic	25,316,126	22,444,145	25,180,488	22,328,173
Effect of dilutive warrants		1,858,858		1,855,611
Effect of dilutive stock options	234,863	327,146	284,278	366,606
Diluted	25,550,989	24,630,149	25,464,766	24,550,390

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CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

4. Net Income Per Common Share (*continued*)

The calculation of dilutive shares excludes the effect of the following options and warrants that are considered anti-dilutive:

	Three Months Ended		Six Months Ended	
	March 31, 2007	March 25, 2006	March 31, 2007	March 25, 2006
	(13 weeks)	(13 weeks)	(26 weeks)	(26 weeks)
Anti-dilutive options and warrants	475,709	678,115	479,684	663,778

5. Unredeemed Gift Card Income

Sales of gift cards are recorded as a liability included within accrued expenses and other current liabilities in the Consolidated Balance Sheets. As the gift cards are redeemed for merchandise, the Company records revenue. Over time, some portion of the gift cards issued is not redeemed. Beginning with the second quarter of fiscal 2006, the liability balance is adjusted to recognize estimated unredeemed amounts under the redemptive recognition method. This method records gift card breakage as additional sales on a proportional basis over the redemption period based on historical redemption trends. Upon adoption of this method of accounting, the Company s net sales included an adjustment of $2.0 million to reduce gift card liabilities for estimated unredeemed amounts as of the beginning of the second quarter of fiscal 2006.

6. Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is in the process of determining the impact that the adoption of FIN 48 will have on its financial position and results of operations.

In June 2006, the FASB ratified the consensuses of Emerging Issues Task Force (EITF) Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement* (EITF 06-3). EITF 06-3 indicates that the income statement presentation on either a gross basis or a net basis of the taxes within the scope of the issue is an accounting policy decision. The Company s accounting policy is to present the taxes within the scope of EITF 06-3 on a net basis. The adoption of EITF 06-3 in the first fiscal quarter of 2007 did not result in a change to the Company s accounting policy and, accordingly, did not have a material effect on the Company s consolidated financial statements.

7. Commitments and Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of its operations. As of the date of this filing, the Company is not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on the Company s business, financial condition or results of operations.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

We have made statements in this quarterly report on Form 10-Q that are forward-looking statements. You can identify these statements by forward-looking words such as anticipate, believe, continue, could, estimate, expect, forecast, intend, may, possible, potenti and will, or other similar words, phrases or expressions. We have based these forward-looking statements on our current expectations and projections about future events. Statements and financial discussion and analysis contained in this quarterly report on Form 10-Q that are not historical facts are forward-looking statements. These statements discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to us, based on our current beliefs as well as assumptions made by us and information currently available to us. Although we believe these forward-looking statements are reasonable, they are based upon a number of assumptions concerning future conditions, any or all of which may ultimately prove to be inaccurate.

Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation: the risks described under the heading Risk Factors in this quarterly report on Form 10-Q; changes in consumer demand; changes in consumer fashion taste; and changes in business strategies and decisions. The factors identified above are believed to be important factors (but not necessarily all of the important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement. Unpredictable or unknown factors could also have material adverse effects on us. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including shopping mall traffic and shopping patterns, timing of openings for new shopping malls or our stores, fashion trends, national or regional economic influences, and weather. All forward-looking statements included in this quarterly report on Form 10-Q are expressly qualified in their entirety by the foregoing cautionary statements.

Except as required under the federal securities laws and rules and regulations of the Securities and Exchange Commission, or SEC, we undertake no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

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RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Consolidated Financial Statements and Notes thereto included elsewhere in this quarterly report on Form 10-Q. The following table sets forth our operating results, expressed as a percentage of net sales, and Charlotte Russe store numbers for the periods indicated. These operating results are not necessarily indicative of the results that may be expected for any future period.

The extra 53rd week in fiscal 2006 caused a 1-week shift in our 2007 fiscal calendar, referred to as the Retail Calendar Shift, resulting in the end of the first three fiscal quarters of 2007 being shifted forward one week relative to their ending dates last year. Due to seasonal influences near the quarter end dates, year-over-year comparisons during fiscal 2007 are impacted by the Retail Calendar Shift. This was most significant during the first and second quarters of fiscal 2007. For example, the robust selling week between Christmas and New Year s Day was included in the first quarter of fiscal 2007; whereas, the same week had been included in the second quarter last year. The impact of the Retail Calendar Shift on comparisons of sales, gross profit and operating margins between these two quarters and prior year results should be taken into consideration; and, year-to-date comparisons may provide more meaningful information.

	Three Months Ended		Six Months Ended	
	March 31, 2007	March 25, 2006	March 31, 2007	March 25, 2006
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	75.0	74.3	73.0	73.3
Gross profit	25.0	25.7	27.0	26.7
Selling, general and administrative expenses	22.4	20.1	20.0	19.5
Operating income	2.6	5.6	7.0	7.2
Interest income, net	0.9	0.4	0.7	0.3
Other charges, net		(0.1)		(0.0)
Income from continuing operations before income taxes	3.5	5.9	7.7	7.5
Income taxes	1.1	2.3	2.9	3.0
Income from continuing operations	2.4	3.6	4.8	4.5
Loss on discontinued operations		(11.4)		(6.0)
Net income (loss)	2.4%	(7.8)%	4.8%	(1.5)%
Charlotte Russe stores open at end of period	395	354	395	354

Three Months Ended March 31, 2007 Compared to the Three Months Ended March 25, 2006

Net Sales. Our net sales increased to $161.1 million from $153.7 million, an increase of $7.4 million, or 4.8%, over the same quarter last year. This increase reflects the impact of a 4.8% increase in comparable store sales which was calculated against prior year sales that have been adjusted to align with comparable weeks this year. In addition, it reflects the contribution of additional net sales from 3 net store openings (net of 3 closures) during the quarter ended March 31, 2007, as well as other stores opened in prior fiscal periods that did not qualify as comparable stores. We estimate that the Retail Calendar Shift negatively impacted the second quarter net sales by about $9.0 million, and overall sales would

have increased 10.7% had it not been for the Retail Calendar Shift.

Gross Profit. Gross profit represents net sales less cost of goods sold, which includes buying, distribution and occupancy costs. Our gross profit increased to $40.3 million from $39.6 million, an increase of $0.7 million, or 2.0%, from the same quarter last year. This increase in amount was primarily due the result of higher net sales offset by the sales impact of the calendar shift noted above and the non-recurring $2.0 million cumulative

adjustment for unredeemed gift card liabilities during the second quarter last year. As a percentage of net sales, gross profit decreased to 25.0% from 25.7%, or 0.7 percentage points, from the same quarter last year. The decrease in gross profit as a percentage of net sales was principally due to increased store rent and occupancy costs (2.3 percentage point impact), inclusive of the impact of the calendar shift noted above which caused these expenses to be spread over a lower average store sales volume, last year s non-recurring gift card liability adjustment (1.3 percentage point impact), higher shrinkage expense (0.9 percentage point impact), higher buying department expenses (0.3 percentage point impact) and other factors (0.1 percentage point impact). These unfavorable factors were partially offset by higher initial mark-up (2.3 percentage point impact) and reduced markdown expense (1.9 percentage point impact).

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased to $36.1 million from $31.0 million, an increase of $5.1 million, or 16.6%, over the same quarter last year. This increase in amount was attributable to new store expansion and increased corporate expenses, specifically higher store payroll and operating expenses and higher central office payroll and related expenses. As a percentage of net sales, selling, general and administrative expenses increased to 22.4% from 20.1%, or 2.3 percentage points, from the same quarter last year. The increase in expenses as a percentage of net sales was principally due to increased store compensation and home office expenses (1.9 percentage point impact), inclusive of the impact of the calendar shift noted above which caused these expenses to be spread over a lower average store sales volume, higher store operating expenses (0.3 percentage point impact) and other factors (0.1 percentage point impact).

Income Taxes. Our effective tax rate of 39.4% for fiscal 2007 approximates our statutory income tax rate and is less than the 39.7% rate utilized in the same quarter last year due to the anticipation of lower state income tax rates than reflected in last year s accruals. In that regard, we made a $0.4 million adjustment to this quarter s expense for the over-accrual of state income tax expense during fiscal 2006 that was identified upon filing our various fiscal 2006 state tax returns in 2007.

Income from Continuing Operations. Our income from continuing operations decreased to $3.8 million from $5.5 million, a decrease of $1.7 million, or 30.2%, from the same quarter last year. The decrease was primarily due to the $2.0 pre-tax cumulative adjustment for unredeemed gift card liabilities during the second quarter last year and the impact of the calendar shift noted above. As a result, the growth of gross profit was more than offset by the growth of selling, general and administrative expenses. The net unfavorable impact of these factors was partially offset by reduced income tax expense.

Loss on Discontinued Operations. As a result of their disposition in fiscal 2006, our Rampage stores met the criteria to be classified as discontinued operations as defined by generally accepted accounting principles. We incurred a net loss of $17.5 million in the second quarter of fiscal 2006 which included a $22.5 million pre-tax impairment charge. Due to the disposition of these stores prior to the beginning of fiscal 2007, no such losses were incurred in the second quarter of fiscal 2007.

Six Months Ended March 31, 2007 Compared to the Six Months Ended March 25, 2006

Net Sales. Our net sales increased to $370.3 million from $332.2 million, an increase of $38.1 million, or 11.5%, over the same period last year. This increase reflects $28.6 million of additional net sales from 8 net store openings (net of 3 closures) during the first six months of fiscal 2007 and net sales from stores opened in prior fiscal years that did not qualify as comparable stores. The increase in net sales also benefited from a 3.1% increase in comparable store sales, adjusted to align with comparable weeks last year, which resulted in additional sales of $9.5 million compared to the same period last year.

Gross Profit. Gross profit represents net sales less cost of goods sold, which includes buying, distribution and occupancy costs. Our gross profit increased to $100.0 million from $88.6 million, an increase of $11.4 million, or 13.0%, over the same period last year. This increase in amount was primarily the result of higher net sales. As a percentage of net sales, gross profit increased to 27.0% from 26.7%, or 0.3 percentage points, from

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the same period last year. Gross profit as a percentage of net sales reflected higher initial mark-up (1.5 percentage point impact) and reduced markdown expense (0.7 percentage point impact). These favorable factors were offset by last year s gift card liability adjustment (0.6 percentage point impact), increased store rent and occupancy costs (0.6 percentage point impact), higher freight costs (0.3 percentage point impact), higher shrinkage expense (0.3 percentage point impact) and other factors (0.1 percentage point impact).

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased to $74.0 million from $64.6 million, an increase of $9.4 million, or 14.7%, over the same period last year. This increase in amount was attributable to new store expansion and increased corporate expenses, specifically higher store payroll and operating expenses and higher central office payroll and related expenses. As a percentage of net sales, selling, general and administrative expenses increased to 20.0% from 19.5%, or 0.5 percentage points, from the same period last year. The increase in expenses as a percentage of net sales was principally due to higher store payroll and related expenses (0.4 percentage point impact) and higher store operating expenses (0.2 percentage point impact), offset by other factors (0.1 percentage point impact).

Income Taxes. Our effective tax rate of 39.4% for fiscal 2007 approximates our statutory income tax rate and is less than the 39.7% rate utilized in the same quarter last year due to the anticipation of lower state income tax rates than reflected in last year s accruals. In that regard, we made a $0.4 million adjustment to fiscal 2007 expenses for the over-accrual of state income tax expense during fiscal 2006 that was identified upon filing our various fiscal 2006 state tax returns in fiscal 2006.

Income from Continuing Operations. Our income from continuing operations increased to $17.7 million from $15.0 million, an increase of $2.7 million, or 18.6%, over the same period last year. The increase was primarily due to an increase in gross profit which was partially offset by an increase in selling, general and administrative expenses and income taxes.

Loss on Discontinued Operations. As a result of their disposition in fiscal 2006, our Rampage stores met the criteria to be classified as discontinued operations as defined by generally accepted accounting principles. We incurred a net loss of $20.0 million in the first six months of fiscal 2006 which included a $22.5 million pre-tax impairment charge. Due to the disposition of these stores prior to the beginning of fiscal 2007, no such losses were incurred in the first six months of fiscal 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our working capital requirements vary consistent with the seasonality of our business. Our capital requirements result primarily from capital expenditures related to new store openings, remodels and information system implementations. We have historically satisfied our cash requirements principally through cash flow from operations. Due to the rapid turnover of our inventory, we generate trade payables and other accrued liabilities sufficient to offset most of our working capital requirements, and this allows us to generally operate with limited working capital investment. As of March 31, 2007, we had working capital of approximately $113.2 million which included cash and cash equivalents of $98.2 million.

The following chart provides a summary of our sources and uses of cash during the first six months of fiscal 2007 and 2006:

	Six Months Ended	
	March 31, 2007	**March 25, 2006**

	(26 weeks)	(26 weeks)
Net cash provided by operating activities	$ 28,646,966	$ 28,912,704
Net cash used in investing activities	(30,042,692)	(13,531,365)
Net cash provided by financing activities	9,379,661	3,570,691
Change in cash position	$ 7,983,935	$ 18,952,030

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During the first six months of fiscal 2007, our net cash provided by operations decreased $0.3 million over the same period of the prior fiscal year due to a $6.6 million increase in working capital primarily associated with increased prepaid rents which was partially offset by a $2.8 million increase in income from continuing operations, a $0.8 million improvement of other factors and a $3.0 million improvement in cash provided from discontinued operations as a result of disposing of the Rampage assets. Net cash used in investing activities primarily consists of capital expenditures. It increased $16.5 million during the first six months of fiscal year 2007 as a result of increased capital spending associated with implementation of the new point-of-sale systems to our stores, funding for 17 remodeled stores (compared to 2 remodeled stores in the same period of the prior fiscal year), opening of 11 new stores (compared to 14 new stores in the same period of the prior fiscal year), and increased investments in our information systems and other corporate projects. Net cash provided from financing activities primarily consists of cash and income tax benefits associated with stock option and warrant exercises offset by securities offering costs paid by us. It increased $5.8 million in the first six months of fiscal 2007 due to a greater number of stock option exercises during the period.

We expect to continue to invest in capital expenditures to support our growth. After taking into account new store construction, existing store remodeling and other corporate capital projects, total capital expenditures for fiscal 2007 are projected to range from approximately $65.0 million to $75.0 million.

We currently have a $40.0 million secured revolving credit facility, referred to as the Credit Facility, with Bank of America, N.A., which expires on June 30, 2010. Under the terms of the Credit Facility, we may borrow up to the maximum borrowing limit of $40.0 million less any outstanding letters of credit, and we have set the initial loan ceiling amount at $30.0 million. Interest on the Credit Facility is payable quarterly, at our option, at either (i) the Bank s prime rate plus 0.50% to 1.00% or (ii) 1.00% to 1.50% over the average interest settlement rate for deposits in the London interbank market banks subject to certain adjustments. Our ability to receive loan advances under the Credit Facility is subject to our continued compliance with various covenants, representations and warranties, and conditions, including but not limited to negative covenants against the incurrence of debt or liens. The Credit Facility also contains events of default customary for facilities of this type and provides that, upon the occurrence of an event of default, payment of all outstanding loans may be accelerated and/or the lenders commitments may be terminated. Pursuant to this agreement, we and our wholly-owned subsidiaries have (i) provided an unconditional guarantee of the full and punctual payment of obligations under the Credit Facility, (ii) pledged certain of our securities to the collateral agent as security for the full payment and performance of our obligations under the Credit Facility and (iii) granted a security interest in essentially all of our personal property as security for the full payment and performance of our obligations under the Credit Facility. At March 31, 2007, there was no outstanding debt under the Credit Facility and we were in compliance with the terms of the bank credit agreement. As of March 31, 2007, we had $25.4 million of borrowing availability under the Credit Facility.

We believe that our cash flows from operations, our current cash balance and the funds available under our Credit Facility will be sufficient to meet our working capital needs and contemplated capital expenditure requirements through fiscal 2007. If our cash flow from operations should decline significantly, it may be necessary for us to seek additional sources of capital or to reduce planned new store openings.

LETTERS OF CREDIT

Pursuant to the terms of the Credit Facility, we can issue up to $20.0 million of documentary or standby letters of credit. The outstanding commitments under the Credit Facility at March 31, 2007 totaled approximately $4.6 million, including $2.2 million in standby letters of credit.

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CONTRACTUAL AND COMMERCIAL OBLIGATIONS

Our commitment to make future payments under long-term contractual obligations and commercial obligations as of March 31, 2007 was as follows:

	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
			(in thousands)		
Contractual Obligations					
Operating leases	$ 447,019	$ 68,735	$ 134,918	$ 114,819	$ 128,547
Other obligations	30,686	30,686			
	$ 477,705	$ 99,421	$ 134,918	$ 114,819	$ 128,547
Commercial Obligations					
Documentary letters of credit	$ 2,422	$ 2,422	$	$	$
Standby letters of credit	2,222	2,222			
	$ 4,644	$ 4,644	$	$	$

During fiscal 2006, we sold lease rights for 43 locations that were formerly operated as Rampage stores to Forever 21 Retail, Inc., and its parent company guaranteed its obligations under the leases it assumed. In the event of default, we could be liable for obligations associated with 39 real estate leases which have future lease payments (undiscounted) of approximately $50.8 million through the end of fiscal 2016 which are not reflected in the tables above. The scheduled future minimum rentals for these leases over fiscal years 2007, 2008, 2009, 2010, 2011 and thereafter are $9.1 million, $8.5 million, $8.6 million, $8.2 million, $7.1 million and $9.3 million, respectively. We believe that the likelihood of material liability being triggered under these leases is remote, and no liability has been accrued for these contingent lease obligations as of March 31, 2007.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reported periods.

As a retailer of women s apparel and accessories, our financial statements are affected by several critical accounting policies, many of which affect management s use of estimates and judgments, as described in the notes to the consolidated financial statements.

On an on-going basis, management evaluates its estimates and judgments regarding revenues, inventories, long lived assets, intangible assets, accrued liabilities, stock based compensation, self-insurance programs, income taxes and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The

results from this evaluation form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, alternative estimates and judgments could be derived which would differ from the estimates being used by management. Actual results could differ from any or all of these estimates.

Revenue

We sell merchandise directly to retail customers and recognize revenue at the point of sale. Customers have the right to return merchandise to us, and we maintain a reserve for the financial impact of returns which occur subsequent to the current reporting period.

Our policy with respect to gift cards is to record revenue as the gift cards are redeemed for merchandise. Prior to their redemption, unredeemed gift cards are recorded as a liability and are included within other current liabilities. Beginning with the second quarter of fiscal 2006, we adjust the gift card liability balances on a quarterly basis to recognize estimated unredeemed amounts under the redemptive recognition method. This method records gift card breakage as additional sales on a proportional basis over the redemption period based on historical redemption trends. Such adjustments are included in net sales and operating income.

Inventory

Our merchandise is initially offered for sale at a regular price, but is often marked down prior to the ultimate sale of all units that were purchased. We utilize the retail method of accounting for our inventory valuation, which inherently reduces the inventories carrying value as permanent markdowns are initiated. In addition, we maintain a reserve for the financial impact of markdowns that we believe are likely to be encountered in the future. If actual demand or market conditions are more or less favorable than those projected by management, the level of the reserve for future markdowns would be subject to change in subsequent reporting periods.

We also provide for estimated inventory losses for damaged, lost or stolen inventory for the period from the last physical inventory to the financial statement date. These estimates are based on historical experience and other factors.

We receive certain allowances from our vendors primarily related to distribution center handling expenses or defective merchandise. These allowances are reflected as a reduction of merchandise inventory in the period they are received and allocated to cost of sales during the period in which the items were sold.

Goodwill and Long-lived Assets

We have recorded a goodwill asset of $32.9 million that arose from the acquisition of our business in September 1996. Subsequent amortization of $4.1 million reduced its carrying value to $28.8 million. This asset is tested for possible impairment on at least an annual basis in accordance with Statement of Financial Accounting Standards, or SFAS, No. 142, Goodwill and Other Intangibles, utilizing discounted cash flow valuation techniques and reference to the market value of our outstanding common stock. No impairment adjustments have been required to date. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, we assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include a significant underperformance relative to historical or projected future operating results, a significant change in the manner of the use of the asset or a significant negative industry or economic trend. Upon determining that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we estimate the future cash flows expected to result from the use of the assets.

Based upon a review of the carrying value of the long-lived assets of the Rampage stores compared with the estimated future discounted and non-discounted cash flows from the operations of the Rampage stores, we recorded a non-cash impairment charge of $22.5 million in the second quarter of fiscal 2006. This resulted from our unsuccessful efforts to reposition the 64 Rampage stores and the significant deterioration in financial results during the second quarter of fiscal 2006. This charge represented a write down of substantially all of the carrying value of the Rampage long-lived assets.

We sold the lease rights, store fixtures and equipment associated with 43 Rampage store locations during the fourth quarter of fiscal 2006. Of the remaining 21 Rampage stores in operation at the beginning of the fourth quarter, we converted eight stores into Charlotte Russe locations and returned 13 properties back to their respective landlords prior to the end of fiscal 2006.

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Operating Leases

We record rent expense on noncancellable leases containing known future scheduled rent increases on a straight-line basis over the respective leases beginning when we receive possession of the leased property for construction purposes. The difference between rent expense and rent paid is accounted for as deferred rent. Landlord construction allowances and other such lease incentives are recorded as deferred lease credits, and are amortized on a straight-line basis over the life of the lease as a reduction to rent expense.

Stock Based Compensation

We estimate the fair value of stock options granted using the Black-Scholes option-pricing formula and a multiple option award approach. This fair value is then amortized over the requisite service periods of the awards. This option-pricing model requires the input of highly subjective assumptions, including the option s expected life, price volatility of the underlying stock, risk free interest rate and expected dividend rate. As stock-based compensation expense is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R), Share-Based Payment, requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

Self-Insurance Liabilities

Based on our assessment of risk and cost efficiency, we self-insure and purchase insurance policies to provide for workers compensation, employee group medical benefits, general liability, property losses and director s and officer s liability. We estimate risks and record a liability based upon historical claim experience, insurance deductibles, severity factors and other actuarial assumptions. While we believe that our risk assessments are appropriate, to the extent that future occurrences and claims differ from our historical experience, additional charges for insurance may be recorded in future periods.

Income Taxes

We account for income taxes using the liability method as prescribed by SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Inherent in the measurement of these deferred balances are certain judgments and interpretations of existing tax law and other published guidance. No valuation allowance has been provided for deferred tax assets, since we anticipate that the full amount of these assets should be realized in the future. Our effective tax rate considers our judgment of expected tax liabilities in the various taxing jurisdictions within which we are subject to tax. The recorded amounts of income tax are subject to adjustment upon audit, changes in interpretation and changes in judgment utilized in determining estimates.

Off-Balance Sheet Arrangements

As of March 31, 2007, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

RECENT ACCOUNTING PRONOUNCEMENTS

Information with respect to recent accounting pronouncements is incorporated by reference to Note 6 to our consolidated financial statements for the period ended March 31, 2007, on page 8.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risks relate primarily to changes in interest rates. We bear this risk in two specific ways. First, the Credit Facility carries a variable interest rate that is tied to market indices and, therefore, our statements of operations and our cash flows will be exposed to changes in interest rates. As of March 31, 2007, we had no borrowings against the Credit Facility. However, we may borrow funds under the Credit Facility as needed.

The second component of interest rate risk involves the short-term investment of excess cash in short-term, investment-grade interest-bearing securities. These investments are considered to be cash equivalents and are shown that way on our balance sheet. If there are changes in interest rates, those changes would affect the investment income we earn on these investments and, therefore, impact our cash flows and results of operations.

We believe our market risk exposure is minimal.

ITEM 4. CONTROLS AND PROCEDURES

Disclosures Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures as such item is defined under Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2007 to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During our fiscal quarter ended March 31, 2007, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our operations. As of the date of this filing, we are not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

You should consider carefully the following information about the risks described below, together with the other information contained in this quarterly report on Form 10-Q and in our other filings with the SEC, before you decide to buy or maintain an investment in our common stock. We believe the risks described below are the risks that are material to us as of the date of this quarterly report. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock. The risks set forth below with an asterisk (*) next to the title include certain substantive revisions to the risks set forth in our annual report on Form 10-K for the fiscal year ended September 30, 2006 and our subsequent filings with the SEC.

RISKS RELATING TO OUR BUSINESS

Our success depends on our ability to identify and rapidly respond to consumer fashion tastes.

The fashion retail industry is subject to rapidly evolving fashion trends and shifting consumer demands. Accordingly, our success is heavily dependent both on the priority our target customers place on fashion and on our ability to anticipate, identify and capitalize upon emerging fashion trends in a timely manner. Current fashion tastes place significant emphasis on a fashionable look. In the past this emphasis has increased and decreased through fashion cycles and decreased emphasis has adversely affected our results. If we do not anticipate, identify or react appropriately and timely to changes in styles, trends, desired images or brand preferences, it may lead to, among other things, excess inventories and higher markdowns, as well as decreased appeal of our Charlotte Russe brand.

We intend to continue to open new stores, which could strain our resources and cause us to operate our business less effectively.

Our growth will largely depend on successfully opening and operating new stores. During fiscal 2006, we opened 40 new Charlotte Russe stores, closed three stores and converted eight Rampage stores into Charlotte Russe locations. This represented a 13.2% net increase from the number of Charlotte Russe stores open at the end of fiscal 2005. We intend to continue to increase our number of stores for at least the next several years.

In order to support our planned expansion we will need to continually monitor and upgrade our management information and other systems. This expansion also will place increased demand on our managerial, operational, and administrative resources. These increased demands and operating complexities could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our individual stores and our company as a whole and slow our new store growth.

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Our planned expansion involves a number of risks that could prevent or delay the successful opening of new stores as well as impact the performance of our existing stores.

Our ability to open and operate new stores successfully depends on many factors, including, among others, our ability to:

- identify suitable store locations, the availability of which is outside of our control;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- source sufficient levels of inventory to meet the needs of new stores;
- hire, train and retain store personnel;
- successfully integrate new stores into our existing operations; and
- identify and satisfy the fashion preferences of new geographic areas.

In addition, some of our new stores will be opened in regions of the United States in which we currently have few or no stores. The expansion into new markets may present competitive, merchandising and distribution challenges that are different from those currently encountered in our existing markets. Any of these challenges could adversely affect our business and results of operations. In addition, to the extent our new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets.

A decline in general economic conditions may lead to reduced consumer demand for our apparel and accessories.

Consumer spending habits, including spending for the fashionable apparel and related accessories that we sell, are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. A general slowdown in the United States economy and an uncertain economic outlook could adversely affect consumer spending habits and mall traffic, which could result in lower net sales than expected and could cause us to slow our expansion plans.

Our stores are heavily dependent on the customer traffic generated by shopping malls.

Most of our store locations are not sufficiently concentrated to make significant marketing expenditures cost effective. As a result, we depend heavily on locating our stores in prominent locations within successful shopping malls in order to generate customer traffic. We cannot control the development of new shopping malls, the availability or cost of appropriate locations within existing or new shopping malls or the success of

individual shopping malls.

Our market share may be adversely impacted at any time by a significant number of competitors.

We operate in a highly competitive environment characterized by low barriers to entry. We compete against a diverse group of retailers, including national and local specialty retail stores, regional retail chains, traditional department stores and, to a lesser extent, mass merchandisers. Our market share and results of operations may be adversely impacted by this significant number of competitors. Many of our competitors also are larger and have substantially greater resources than we do.

We rely on our good relationships with vendors to implement our business strategy successfully.

Our business is dependent on continued good relations with our vendors. In particular, we believe that we generally are able to obtain attractive pricing and other terms from vendors because we are perceived as a desirable customer. Our merchandise strategy also relies in large part on our ability to obtain much of our merchandise from our vendors within one to two months from the date of order. Our failure to maintain good relations with our vendors could increase our exposure to changing fashion cycles, which may in turn lead to increased inventory markdown rates.

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If at any time our comparable store sales and quarterly results of operations decline or do not meet the expectations of research analysts, the price of our common stock could decline substantially.

Our quarterly results of operations for our stores have fluctuated in the past and can be expected to continue to fluctuate in the future. For instance, our quarterly comparable store sales percentages have ranged as high as positive 21.0% and as low as negative 6.6% over the last 10 fiscal quarters and we expect low single-digit comparable store sales percentage increases during the third quarter of fiscal 2007. Our net sales and operating results are typically lower in the second quarter of our fiscal year due to the traditional retail slowdown immediately following the winter holiday season. In addition, the calendar shift caused by having a 53rd week in fiscal 2006 had the effect of transferring the week between Christmas and New Year s Day into the first quarter of fiscal 2007, which increased our net sales in the first quarter of fiscal 2007, but negatively impacted our net sales during the second quarter of fiscal 2007. Our comparable store sales and quarterly results of operations are affected by a variety of factors, including:

- the timing of new store openings and the relative proportion of new stores to mature stores;
- fashion trends;
- calendar shifts of holiday or seasonal periods;
- our ability to maintain appropriate inventory levels;
- changes in our merchandise mix;
- timing of promotional events;
- general economic conditions and, in particular, the retail sales environment;
- actions by competitors or mall anchor tenants; and
- weather conditions.

We rely on our management team to implement our business strategy successfully.

Our success depends to a significant extent upon the continued services of our key personnel, including senior management, who are at will employees and have made a significant contribution to our business. If any of our key personnel were to leave us, such a loss could reduce future sales, increase costs or both. Our success in the future will also depend upon our ability to attract, train and retain talented and qualified personnel.

The failure to efficiently complete the planned replacement of certain of our technology and information systems could negatively impact our business.(*)

The efficient operation of our business is heavily dependent on information systems. In particular, we rely upon technology and information systems for inventory control, point-of-sale processing and other critical information. We periodically review, improve and, under certain circumstances, replace information systems to provide enhanced support to all operating areas. We are in the process of installing an upgraded point-of-sale system at each of our stores which we expect will be completed prior to the end of fiscal 2007. If such upgrades and enhancements to the point-of-sale system, or any other systems, are not successfully implemented, then the current systems may not be able to continue to adequately support our information requirements.

The loss of, or disruption of operations in, either of our two distribution centers could negatively impact our business.

Our merchandise is distributed through two facilities that use automated systems for sorting apparel and shipping merchandise. We depend on the orderly operation of our facilities and distribution processes, as well as sufficient shipping resources. Disruptions in these operations due to fire, earthquake or other catastrophic events, employee matters, shipping problems or other events could result in delays in the delivery of merchandise to our stores.

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The effects of war or acts of terrorism could adversely affect our business.

The continued threat of terrorism, heightened security measures and military action in response to acts of terrorism has disrupted commerce and has intensified concerns regarding the United States economy. Any further acts of terrorism, particularly directed at malls, or new or extended hostilities may disrupt commerce and undermine consumer confidence, which could negatively impact our sales by causing mall traffic or consumer spending to decline.

Failure of our suppliers to use acceptable ethical business practices could negatively impact our business.

We require our suppliers to operate in compliance with applicable laws, rules and regulations regarding working conditions, employment practices, environmental compliance and trademark and copyright licensing. However, we do not control their labor and other business practices. If one of our suppliers violate labor or other laws or implements labor or other business practices that are regarded as unethical, the shipment of finished products to us could be interrupted, orders could be canceled, relationships could be terminated and our reputation could be damaged. If one of our suppliers fails to procure necessary license rights to trademarks, copyrights or patents, legal action could be taken against us that could impact the salability of our inventory and expose us to financial obligations to a third party. Any of these events could have a material adverse effect on our sales and results of operations.

Our business could be adversely impacted by unfavorable international conditions.

We receive apparel and other merchandise from foreign sources, both purchased directly in foreign markets and indirectly through domestic vendors with foreign sources. To the extent that any of our vendors are located overseas or rely on overseas sources for a large portion of their products, any event causing a disruption of imports, including the imposition of import restrictions, could harm our ability to source product. This disruption could materially limit the merchandise that we would have available for sale and reduce our revenues and earnings. The flow of merchandise from our vendors could also be adversely affected by financial or political instability, or war, in or affecting any of the countries in which the goods we purchase are manufactured or through which they flow.

Trade restrictions in the form of tariffs or quotas, or both, that are applicable to the products that we sell also could affect the import of those products and could increase the cost and reduce the supply of products available to us. Any material increase in tariff levels, or any material decrease in quota levels or available quota allocation, could negatively impact our business. Further, changes in tariffs or quotas for merchandise imported from individual foreign countries could lead us to shift our sources of supply among various countries. Any shift we might undertake in the future could result in a disruption of our sources of supply and lead to a reduction in our revenues and earnings. Supply chain security initiatives undertaken by the United States government that impede the normal flow of product could also negatively impact our business.

We may be liable for any defaults with respect to the leases for our recently disposed Rampage stores.

We recently sold the lease rights, store fixtures and equipment for 43 Rampage store locations to Forever 21 Retail, Inc., and Forever 21, Inc., the parent company of Forever 21 Retail, guaranteed Forever 21 Retail s obligations under the leases that it assumed in connection with the transaction. In the event Forever 21 Retail or Forever 21 defaults on their obligations under certain of these leases or the guarantee, we may be liable for any damages or costs associated with such a default, which could adversely impact our future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

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Dividends

We have never declared nor paid dividends on our common stock and we do not intend to pay any dividends on our common stock in the foreseeable future. We currently intend to retain earnings to finance future operations and expansion. Moreover, under the terms of the Credit Facility, stock dividends and distributions are restricted.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our Annual Meeting of Stockholders on February 14, 2007, during which seven directors were elected to our Board of Directors with 23,084,361 votes tendered, representing 91.2% of the 25,311,364 shares eligible to vote. Individual vote totals were as follows:

Name of Director	Votes For	Votes Withheld
Paul R. Del Rossi	21,883,075	1,201,286
Mark A. Hoffman	22,180,615	903,746
Allan W. Karp	20,276,799	2,807,562
Leonard H. Mogil	20,892,808	2,191,553
Mark J. Rivers	22,349,622	734,739
Jennifer C. Salopek	22,055,482	1,028,879
Bernard Zeichner	21,171,476	1,912,885

In addition, a proposal to amend our Amended and Restated Bylaws to permit our Board of Directors to fix the authorized number of directors from time to time was approved having received 22,352,922 favorable votes, representing 96.8% of the votes cast, and 731,439 votes against with 2,227,003 shares abstaining.

ITEM 5. OTHER INFORMATION

Not applicable.

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ITEM 6. EXHIBITS

3.1	Amended and Restated Bylaws of Charlotte Russe Holding, Inc.
10.1	Second Amendment to Employment Agreement by and between Charlotte Russe Holding, Inc. and Mark A. Hoffman dated February 14, 2007
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this quarterly report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on the 27th day of April, 2007.

CHARLOTTE RUSSE HOLDING, INC.

By: /s/ DANIEL T. CARTER
Daniel T. Carter

Executive Vice President and

Chief Financial Officer