CHARLOTTE RUSSE HOLDING INC
Form 10-Q
July 22, 2009
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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 JUNE 27, 2009

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

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, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

The number of shares of common stock outstanding as of July 21, 2009 was 21,044,791.

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PART I. FINANCIAL INFORMATION

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CHARLOTTE RUSSE HOLDING, INC.

CONSOLIDATED BALANCE SHEETS

	June 27, 2009 (Unaudited)	September 27, 2008 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,991,613	$ 45,462,083
Inventories	53,486,272	62,986,139
Landlord allowances receivable	440,848	6,920,100
Deferred tax assets	7,479,012	7,479,012
Other current assets	10,581,595	7,727,668
Total current assets	131,979,340	130,575,002
Fixed assets, net	205,879,013	224,346,059
Goodwill	28,790,000	28,790,000
Long-term deferred taxes	3,189,763	3,958,197
Other long-term assets	887,179	1,006,203
Total assets	$ 370,725,295	$ 388,675,461
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable, trade	$ 35,908,481	$ 39,753,574
Accounts payable, other	6,109,348	14,974,051
Accrued payroll and related expense	4,663,433	8,049,185
Sales taxes payable	2,558,652	2,654,624
Other current liabilities	9,873,571	9,289,175
Total current liabilities	59,113,485	74,720,609
Deferred rent	113,295,232	118,604,954
Other liabilities	1,400,052	2,099,878
Total liabilities	173,808,769	195,425,441
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; 21,025,870 and 20,871,389 shares issued and outstanding at June 27, 2009 and September 27, 2008, respectively	210,259	208,714
Additional paid-in capital	65,661,022	64,520,843
Retained earnings	131,045,245	128,520,463
Total stockholders equity	196,916,526	193,250,020
Total liabilities and stockholders equity	$ 370,725,295	$ 388,675,461

See accompanying notes.

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CHARLOTTE RUSSE HOLDING, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 27, 2009 (13 weeks)	June 28, 2008 (13 weeks)	June 27, 2009 (39 weeks)	June 28, 2008 (39 weeks)
Net sales	$ 202,711,091	$ 193,232,962	$ 634,617,025	$ 616,527,615
Cost of goods sold, including buying, distribution and occupancy costs	146,754,550	141,599,061	483,284,954	451,309,927
Gross profit	55,956,541	51,633,901	151,332,071	165,217,688
Selling, general and administrative expenses	45,080,512	41,272,866	145,408,977	127,412,775
Impairment of long-lived assets			1,550,137	839,806
Operating income	10,876,029	10,361,035	4,372,957	36,965,107
Other income:				
Interest income, net	22,266	297,876	261,409	2,311,359
Total other income	22,266	297,876	261,409	2,311,359
Income before income taxes	10,898,295	10,658,911	4,634,366	39,276,466
Income tax expense	4,642,674	4,082,364	2,109,584	14,465,887
Net income	$ 6,255,621	$ 6,576,547	$ 2,524,782	$ 24,810,579
Earnings per share				
Basic	$ 0.30	$ 0.31	$ 0.12	$ 1.05
Diluted	$ 0.29	$ 0.31	$ 0.12	$ 1.04
Weighted average shares outstanding:				
Basic	20,935,758	20,989,953	20,917,099	23,609,819
Diluted	21,295,552	21,167,994	21,135,791	23,771,641

See accompanying notes.

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CHARLOTTE RUSSE HOLDING, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	June 27, 2009 (39 weeks)	**June 28, 2008 (39 weeks)**
Operating Activities		
Net income	$ 2,524,782	$ 24,810,579
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	34,068,280	32,494,883
Amortization of construction allowances	(10,860,908)	(10,645,739)
Stock-based compensation	1,758,375	2,315,924
Deferred rent	1,100,854	2,529,189
Impairment of long-lived assets	1,550,137	839,806
Loss on disposal of assets	115,983	732,145
Deferred income taxes		(241,200)
Changes in operating assets and liabilities:		
Inventories	9,499,867	9,610,680
Prepaid rent		10,789,305
Landlord allowance receivable	6,479,252	(1,619,895)
Other current assets	(2,853,927)	(928,706)
Accounts payable, trade	(3,845,093)	347,694
Accounts payable, other	(8,864,703)	(117,284)
Accrued payroll and related expense	(3,385,752)	(741,758)
Sales taxes payable	(95,973)	(76,941)
Long term contracts	98,872	89,915
Landlord construction allowances	4,450,331	17,370,339
Other current liabilities	584,397	2,832,934
Other liabilities	(699,825)	860,959
Net cash provided by operating activities	31,624,949	91,252,829
Investing Activities		
Purchases of fixed assets	(17,230,953)	(38,723,770)
Purchases of other assets	(16,249)	(175,420)
Net cash used in investing activities	(17,247,202)	(38,899,190)
Financing Activities		
Proceeds from issuance of common stock	151,783	672,499
Excess tax benefits from option exercises		53,709
Repurchases of Common Stock		(75,390,000)
Net cash provided by (used in) financing activities	151,783	(74,663,792)
Net increase (decrease) in cash and cash equivalents	14,529,530	(22,310,153)
Cash and cash equivalents at beginning of the period	45,462,083	68,212,148

Cash and cash equivalents at end of the period	$ 59,991,613	$ 45,901,995

See accompanying notes.

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CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Charlotte Russe Holding, Inc. (the Company) have been prepared in accordance with generally accepted accounting principles (GAAP) 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 GAAP 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 27, 2008. Certain amounts have been reclassified in prior periods to conform to the current period presentation. The Company has evaluated all subsequent events through July 22, 2009, the date the financial statements were issued.

The results of operations for the three and nine month periods ended June 27, 2009 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 27, 2008 included in the Company s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on December 9, 2008, and the Company s amended Annual Report on Form 10-K/A, filed with the Securities and Exchange Commission on January 26, 2009.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. These estimates include assessing the valuation of stock-based compensation, recognition of revenues, sales allowances, the valuation of inventories and long-lived assets, including goodwill, income tax and liabilities associated with employee benefit costs, among others. Actual results could differ from those estimates.

Goodwill

Goodwill represents the excess of the cost over the fair value of net assets acquired. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, the Company is required to test goodwill annually for impairment or more frequently if events and circumstances warrant, utilizing a test that begins with an estimate of the fair value of the reporting unit. The Company tests goodwill annually and whenever events or circumstances occur indicating that goodwill might be impaired.

During the first quarter of fiscal 2009, the Company concluded that events had occurred and circumstances had changed, that may indicate the existence of potential impairment of goodwill. These indicators included a significant decline in the Company s stock price, continued deterioration in the retail marketplace, and the related impact the current retail marketplace had on management s expectations for future revenues. As a result, the Company performed an interim assessment of goodwill for impairment in the first quarter of fiscal 2009. Included in the interim testing was a review of the fair market value of the Company as compared to the carrying value of its assets using a discounted cash flow model. The significant factors and assumptions the Company used in its discounted cash flow analysis included: earnings before interest, taxes, depreciation and amortization (EBITDA), the discount rate used to calculate the present value of future cash flows and future capital expenditures. EBITDA assumptions included sales growth assumptions based on the Company s historical sales

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CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

1. Summary of Significant Accounting Policies (*continued*)

trends, as well as gross margin and selling, general and administrative expense growth assumptions based on the historical relationship of those measures compared to sales, adjusting for the current economic conditions. The Company also considered as an indicator of fair market value its total market capitalization based on the trading price of its common stock as of December 27, 2008. However, given the extreme volatility in the stock market during the quarter ended December 27, 2008, as well as the impact that the credit crisis and the recession had on the stock market during that period, and the fact that the carrying value of the Company s assets did not exceed its total market capitalization during any period prior to the first quarter of fiscal 2009, management concluded that it was appropriate to place more reliance on fair market value as calculated by the Company s discounted cash flow model in evaluating goodwill impairment as of December 27, 2008, rather than the total market capitalization. The Company s assessment concluded that step 2 was not required and no impairment of goodwill existed as of December 27, 2008, as the fair value exceeded carrying value.

During the second and third quarters of fiscal 2009, these indicators began to improve, and the Company determined that an interim assessment of goodwill for impairment was not warranted. On March 12, 2009, the Company announced that its Board of Directors had instructed its financial advisor to initiate a sale process. Additionally, beginning in January 2009, the Company s fair market value as indicated by its stock price began to improve, and although the retail marketplace in general has not improved significantly, the Company s results in the latter part of the second quarter were improving. These trends continued into the third quarter, and at June 27, 2009, total market capitalization based on the trading price of the Company s common stock exceeded its net book value. The Company will perform its annual impairment analysis in the fourth quarter.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount of its assets might not be recoverable, the Company, using its best estimates based upon reasonable and supportable assumptions and projections, reviews the carrying value of long-lived assets for impairment based on an estimate of undiscounted future cash flows resulting from the use of those assets in operation. If estimated future undiscounted cash flows are not sufficient to recover the carrying value of the assets, then the Company compares the carrying value to fair value of those assets. Impairment for long-lived assets to be held is measured by comparing the carrying amount of the asset to its fair value. Impairment is reviewed at the lowest levels for which there are identifiable cash flows that are independent of the cash flows of other groups of assets. The Company performs such analysis on an individual store basis and estimates fair values based on an analysis of discounted cash flows. The Company measures impairment for long-lived assets to be disposed of at the lower of the carrying amount or net realizable value (fair market value less cost to dispose).

During the second quarter of fiscal 2009, the Company recorded a $1.6 million impairment charge against the carrying values of long-lived assets. The Company reviewed individual store performance by projecting forecasted sales over each store s remaining lease term, and calculating each store s discounted cash flow. This discounted cash flow was compared to the carrying value of each store s assets. For certain stores, this analysis resulted in an asset carrying value greater than the estimated discounted cash flow. The carrying value of these assets was written down to estimated fair value. In the second quarter of fiscal 2008, the Company recorded a $0.8 million impairment charge. No impairment charges were recorded during the third quarter of fiscal 2009 or 2008.

Changes in events or circumstances used to develop assumptions relied upon in the Company s analysis, may affect the estimated discounted cash flows expected to be derived from long-lived assets. Such changes may either increase or decrease the expected cash flows and could cause additional stores to become impaired and the Company to record additional charges to income.

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CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

1. Summary of Significant Accounting Policies (*continued*)

Vendor Allowances

The Company receives certain allowances from its merchandise vendors primarily related to distribution center handling expenses or defective merchandise. Agreements with vendors for these allowances apply to all shipments and sale of merchandise to the Company. 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 are sold. Vendor allowances included in cost of goods sold totaled $2.7 million and $2.9 million in the third quarter of fiscal 2009 and 2008, respectively, and $10.0 million and $10.2 million in the first nine months of fiscal 2009 and 2008, respectively.

Adoption of Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for the disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009 and is applied prospectively. The Company adopted this statement effective June 27, 2009. There was no material financial statement impact as a result of adoption.

In April 2009, the FASB issued FASB Staff Position (FSP) No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP No. FAS 107-1 and APB 28-1). FSP No. FAS 107-1 and APB 28-1 requires a publicly traded company to include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. FSP No. FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009. The Company adopted this statement effective June 27, 2009. There was no material financial statement impact as a result of adoption.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS No. 162 is effective as of November 15, 2008 for financial statements presented in conformity with GAAP. The Company adopted this statement effective November 15, 2008. There was no material financial statement impact as a result of adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair valued measurements on earnings. SFAS No. 157 applies whenever standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2007. The Company adopted this statement for financial assets and liabilities measured at fair value effective September 28, 2008. There was no material financial statement impact as a result of adoption. In accordance with the guidance of FSP No. 157-2, *Effective Date of FASB Statement No. 157*, the Company has postponed adoption of the standard for non-financial assets and liabilities that are measured at fair value on a non-recurring basis, until the fiscal year beginning after November 15, 2008. Non-financial assets and liabilities that are measured at fair value on a

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CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

1. Summary of Significant Accounting Policies (*continued*)

non-recurring basis include fixed assets and goodwill. The Company does not anticipate adoption will have a material impact on its consolidated financial position, results of operations or liquidity. See Note 4 for more information.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP No. 157-3). FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and is effective as of the issue date, including application to prior periods for which financial statements have not been issued. The Company adopted this statement effective October 10, 2008. There was no material financial statement impact as a result of adoption.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 expands the use of fair value accounting but does not affect existing standards that require assets or liabilities to be carried at fair value. Under SFAS No. 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred (e.g., debt issue costs). The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS No. 159, changes in fair value are recognized in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted this statement effective September 28, 2008. During the first nine months of fiscal 2009, the Company did not elect fair value as an alternative measurement for any financial instruments not previously carried at fair value.

Pending Adoption of Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162* (SFAS No. 168). SFAS No. 168 establishes the Codification as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Following this Statement, the Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. All guidance contained in the Codification carries an equal level of authority. The GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. All nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS No. 168 is effective for interim or annual financial periods ending after September 15, 2009. The Company will adopt this statement effective September 26, 2009, and does not anticipate adoption will have a material impact on its consolidated financial position, results of operations or liquidity.

2. Stock-Based Compensation

Stock Plan Activity

The Company s Board of Directors and stockholders adopted the 2009 Equity Incentive Plan (the 2009 Plan), effective as of April 28, 2009. The 2009 Plan is the successor to and continuation of the Company s 1999

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CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

2. Stock-Based Compensation (*continued*)

Equity Incentive Plan (the 1999 Plan), as of the adoption date of the 2009 Plan. Prior to that time, the Company granted equity awards to certain of its employees and non-employee directors under the 1999 Plan, but no further grants may be granted under the 1999 Plan. All future equity awards will be granted under the 2009 Plan, including any restricted stock, restricted stock units, performance stock units and stock options to purchase common stock (at exercise prices equal to or greater than the market value of the common stock on the date of grant) to certain of the Company s employees and non-employee directors, as the case may be. The 2009 Plan increased the Company s share reserve by 2,575,000 shares. Restricted stock, restricted stock units and options generally vest ratably each year over three years and options expire after 10 years. Performance stock units issued under the 1999 Plan in the second quarter of fiscal 2009 vest ratably each year over four years, subject to the satisfaction of performance goals with a performance period of the Company s 2009 fiscal year.

In the third quarter of fiscal 2009, the Company granted stock options covering a total of 62,500 shares and restricted stock covering an aggregate of 22,500 shares. In the first nine months of fiscal 2009, the Company granted stock options covering a total of 825,700 shares. In addition, the Company granted restricted stock covering an aggregate of 79,000 shares, restricted stock units covering an aggregate of 137,000 shares and performance stock units covering an aggregate of 53,500 shares. Of the 79,000 shares of restricted stock granted, 32,500 are subject to the achievement of a specified total shareholder return at the end of the three year vesting period as compared to certain peer group companies.

At June 27, 2009 there were a total of 4,543,243 shares authorized under the 2009 Plan, of which 1,762,417 were outstanding including 89,334 unvested shares of restricted stock, 137,000 unvested shares subject to restricted stock units and 53,500 unvested shares subject to performance stock units and 2,780,326 were available for future issuance. In addition, there were 144,041 shares available for future purchase under the Company s Employee Stock Purchase Plan (ESPP) at June 27, 2009.

The Company recognized the following stock-based compensation expense under the 1999 Plan, the 2009 Plan and ESPP as follows:

	Three Months Ended		Nine Months Ended	
	June 27, 2009 (13 weeks)	**June 28, 2008 (13 weeks)**	**June 27, 2009 (39 weeks)**	**June 28, 2008 (39 weeks)**
Cost of goods sold	$ 137,147	$ 149,050	$ 434,129	$ 467,626
Selling, general and administrative expenses	116,954	626,042	1,324,246	1,848,298
Compensation expense	$ 254,101	$ 775,092	$ 1,758,375	$ 2,315,924

During the quarter ended June 27, 2009, the Company adjusted estimated forfeitures resulting in a decrease in compensation expense of approximately $350,000.

As of June 27, 2009, there was $3.7 million (before any related tax benefit) of total unrecognized compensation expense related to non-vested stock-based compensation that is expected to be recognized over a weighted average period of 1.5 years.

3. Net Income Per Common Share

The Company computes net income per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic net income per share is calculated by dividing the net income for the period by the weighted average outstanding common shares during the period. Diluted net income per share is calculated by dividing the net

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CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

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

income for the period by the weighted average outstanding shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares subject to restricted stock, restricted stock units or performance stock units that vest, or become issuable upon the exercise of stock options during the period. The Company excludes stock options from the calculation of diluted earnings per share when the combined exercise price, average unamortized fair values and assumed tax benefits upon exercise are greater than the average market price for the Company s common stock because their effect is anti-dilutive. The following table reconciles net income and share amounts utilized to calculate basic and diluted net income per common share.

	Three Months Ended		Nine Months Ended	
	June 27, 2009 (13 weeks)	June 28, 2008 (13 weeks)	June 27, 2009 (39 weeks)	June 28, 2008 (39 weeks)
Net income	$ 6,255,621	$ 6,576,547	$ 2,524,782	$ 24,810,579
Weighted average number of shares:				
Basic	20,935,758	20,989,953	20,917,099	23,609,819
Effect of dilutive stock options	87,378	114,286	285	105,915
Effect of dilutive restricted shares	272,416	63,755	218,407	55,907
Diluted	21,295,552	21,167,994	21,135,791	23,771,641
Net income per share:				
Basic	$ 0.30	$ 0.31	$ 0.12	$ 1.05
Effect of dilutive stock options				(0.01)
Effect of dilutive restricted shares	(0.01)			
Diluted	$ 0.29	$ 0.31	$ 0.12	$ 1.04

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

	Three Months Ended		Nine Months Ended	
	June 27, 2009 (13 weeks)	June 28, 2008 (13 weeks)	June 27, 2009 (39 weeks)	June 28, 2008 (39 weeks)
Anti-dilutive options	854,553	837,951	1,531,609	847,890

4. Fair Value Measurement

The Company adopted SFAS No. 157 effective September 28, 2008 for financial assets and liabilities measured at fair value. SFAS No. 157 defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

4. Fair Value Measurement (*continued*)

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the Company s valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. Where appropriate, the description includes details of the valuation models and the key inputs to those models, as well as any significant assumptions.

Assets and liabilities measured at fair value on a recurring basis:

A portion of the Company s cash balance is comprised of money market funds. The Company uses quoted market prices to determine the fair value of its money market funds, and classifies such items in Level 1.

The following table presents the financial instruments carried at fair value, by caption on the consolidated balance sheets and by SFAS No. 157 valuation hierarchy (as described above) as of June 27, 2009:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total carrying value in the consolidated balance sheet
Money Market Funds	$ 53,606,042	$	$	$ 53,606,042
Total Assets at Fair Value	$ 53,606,042	$	$	$ 53,606,042

Assets and liabilities measured at fair value on a non-recurring basis:

Certain assets and liabilities are measured at fair value on a non-recurring basis and therefore are not included in the table above. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable. Such instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

5. Commitments and Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of its operations.

On June 11, 2008, a complaint was filed against the Company in the Superior Court for the state of California, County of Los Angeles, by two former store employees (Shannon Palm and Kayla Lovato). The complaint is styled as a class action and the causes of action arise out of allegations of failure to pay overtime compensation, failure to provide meal and rest breaks, requiring employees to purchase store product and violations relating to form of payment of wages. The complaint seeks unspecified damages, penalties and

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CHARLOTTE RUSSE HOLDING, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

5. Commitments and Contingencies (*continued*)

attorneys fees. The Company filed a motion for judgment on the pleadings to preclude the majority of the claims from proceeding as a class action. The motion was granted with leave to amend the complaint. On or about December 22, 2008, the plaintiffs filed an amended complaint. On March 25, 2009, the Company filed a motion in response to the amended complaint, which was denied. The Company has sought writ review of that ruling from the California Court of Appeal. To date, the California Court of Appeal has not ruled on the Company s writ petition. The parties are currently engaged in discovery. The Company intends to vigorously defend the case. The outcome of this action is uncertain, and no amounts have been accrued with respect to this matter as of the date of this filing.

On June 4, 2009, the Company filed a lawsuit in the Superior Court for the State of California, County of San Diego (the San Diego Action), against AuBeta Networks Corporation (AuBeta) and Telekenex, Inc. (Telekenex) that seeks declaratory and injunctive relief related to a contract for internet data services between AuBeta and the Company (AuBeta has assigned the contract to Telekenex). On or about June 11, 2009, Telekenex filed a complaint against the Company in the Superior Court for the State of Washington, King County (the Washington Action). To date, the Washington Action has not been served on the Company. The Washington Action asserts breach of the same contract at issue in the San Diego Action and seeks damages in the amount of $1.1 million. The Company denies any liability and intends to vigorously pursue its claims in the San Diego Action and its defenses in the Washington Action. The outcomes of the San Diego Action and Washington Action are uncertain, and no amounts have been accrued with respect to these matters as of the date of this filing.

As of the date of this filing, the Company is not engaged in any other 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.

6. Income Tax

The Company s projected annual effective tax rate for fiscal 2009 is approximately 43.0%. The effective tax rate for the third quarter of fiscal 2009 was 42.6% after certain discrete items.

Included in the unrecognized tax benefits of $1.1 million at June 27, 2009, was $0.7 million of tax benefits that, if recognized, would reduce the Company s annual effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

The Company s policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. The Company has accrued approximately $0.2 million of interest and penalties associated with uncertain tax positions as of June 27, 2009.

The Company is subject to periodic audits by domestic and state tax authorities. By statute, the Company s United States federal returns are subject to examination by the Internal Revenue Service for fiscal years 2006 through 2008. With few exceptions, the fiscal years 2005 to 2008 remain open to examination by state taxing jurisdictions. The Company believes that the accruals for tax liabilities are adequate for all open years based on an assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter.

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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 the financial market and the economy, including the current credit crisis and economic downturn; changes in consumer demand; changes in consumer fashion taste; changes in business strategies and decisions; changes in shopping mall traffic and shopping patterns; timing of openings for new shopping malls or our stores; changes in fashion trends; and weather. 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. 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.

OVERVIEW

We are a growing, mall-based specialty retailer of fashionable, value-priced apparel and accessories. We are focused on providing exciting, fashion-forward merchandise that appeals to customers across age and socioeconomic boundaries, with a core emphasis on the lifestyle trends of young women in their teens and twenties. Our stores offer merchandise at value-oriented prices and the majority of our merchandise is sold under our proprietary Charlotte Russe labels, including Charlotte Russe, Refuge and blu Chic. The remainder of our merchandise consists of nationally-recognized brands popular with our customers. As of June 27, 2009, we operated 501 Charlotte Russe stores throughout 45 states and Puerto Rico.

RECENT EVENTS

Strategic Development

In March 2009, KarpReilly Capital Partners, L.P., or KarpReilly, nominated a slate of three directors to be elected at our 2009 Annual Meeting of Stockholders, or the Annual Meeting. We have a non-classified Board of Directors consisting of five non-employee directors and two employee directors. All seven directors were up for reelection at the Annual Meeting. In April 2009, KarpReilly announced that it was withdrawing its slate of

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nominees for election at the Annual Meeting, in view of the reports issued by RiskMetrics Group and Glass Lewis & Co., which recommended that stockholders support the incumbent nominees. The Annual Meeting took place on Tuesday, April 28, 2009, at which time all incumbent members of the Board of Directors were re-elected.

In January 2009, we announced that our Board of Directors was engaged in a process to evaluate strategic alternatives, including a possible sale of Charlotte Russe. In March 2009, we announced that our Board of Directors had instructed our financial advisor to initiate a sale process, that we had received preliminary expressions of interest from both financial and strategic buyers and that the sale process will enable us to obtain formal indications of interest from potential buyers. In April 2009, we announced that we were encouraged by the progress of the ongoing sales process, including the level of interest from potential buyers. No timetable has been set for completion of the process and there can be no assurance that any transaction will result.

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.

	Three Months Ended		Nine Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	72.4	73.3	76.2	73.2
Gross profit	27.6	26.7	23.8	26.8
Selling, general and administrative expenses	22.2	21.4	22.9	20.7
Impairment of long-lived assets	0.0	0.0	0.2	0.1
Operating income	5.4	5.3	0.7	6.0
Interest income, net		0.2		0.4
Other charges, net				
Income before income taxes	5.4	5.5	0.7	6.4
Income tax expense	2.3	2.1	0.3	2.4
Net income	3.1%	3.4%	0.4%	4.0%
Charlotte Russe stores open at end of period	501	469	501	469

Three Months Ended June 27, 2009 Compared to the Three Months Ended June 28, 2008

Net Sales. Our net sales increased to $202.7 million from $193.2 million, an increase of $9.5 million, or 4.9%, over the same quarter last year. This increase reflects $16.0 million of additional net sales from seven new stores opened during the third quarter of fiscal 2009 and the net sales from stores opened in prior fiscal years that did not qualify as comparable stores. The increase in net sales was partially offset by a 3.6% decrease in comparable store sales, which resulted in $6.5 million of lower sales compared to the same quarter 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 $56.0 million from $51.6 million, an increase of $4.4 million, or 8.4%, over the same quarter last year. This increase in gross profit was primarily the result of higher initial mark ups and lower markdowns. As a percentage of net sales, gross profit increased to 27.6% from 26.7%, or 0.9 percentage points, from the same quarter last year. The increase in gross profit as a percentage of net sales was principally due to a decrease in markdowns (0.9 percentage point impact) and shrinkage (0.3 percentage point impact) as a result of better inventory management, and an increase in initial mark up (0.8 percentage point impact) associated with a more refined buying process. These favorable factors were partially offset by the deleveraging of store rent and occupancy costs as these expenses increased more than the increase in average store sales volume (0.6 percentage point impact) and expenses related to the processing of e-commerce transactions (0.5 percentage point impact).

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased to $45.1 million from $41.3 million, an increase of $3.8 million, or 9.2%, over the same quarter last year. This increase in amount was primarily attributable to higher marketing spend, expenses for proxy solicitation and management transition, as well as costs associated with the review of strategic alternatives and subsequent sale process. As a percentage of net sales, selling, general and administrative expenses increased to 22.2% from 21.4%, or 0.8 percentage points, from the same quarter last year. The increase in expenses as a percentage of net sales was due to expenses for proxy solicitation and management transition, as well as costs associated with the review of strategic alternatives and subsequent sale process (0.6 percentage point impact) and higher marketing expenses associated with a change in marketing strategy (0.5 percentage point impact), partially offset by the net impact of all other factors (0.3 percentage point impact).

Transition and Other Costs. Included in selling, general and administrative expenses in the second quarter of fiscal 2009 were cash charges of $1.3 million related to expenses for proxy solicitation and management transition, as well as costs associated with the review of strategic alternatives and subsequent sale process. There were no such costs in the third quarter of fiscal 2008.

Income Taxes. Our effective tax rate was 42.6% for the third quarter of fiscal 2009 compared to 38.3% in the same quarter last year. The increase of our effective tax rate is primarily due to a fiscal 2008 reversal of tax accruals and deferred tax assets after the completion and filing of tax returns for fiscal 2008 and fiscal 2009 expenses anticipated to be in excess of amounts deductible for income tax purposes.

Net Income. The Company s net income decreased to $6.3 million from $6.6 million, a decrease of $0.3 million, or 4.9% over the same quarter last year. The decrease was primarily due to higher rent and occupancy, higher marketing spend and the impact of transition costs related to expenses for proxy solicitation and management transition, as well as costs associated with the review of strategic alternatives and subsequent sale process. These unfavorable factors were partially offset by higher initial mark ups and lower markdowns.

Nine Months Ended June 27, 2009 Compared to the Nine Months Ended June 28, 2008

Net Sales. Our net sales increased to $634.6 million from $616.5 million, an increase of $18.1 million, or 2.9%, over the corresponding period last year. This increase reflects $59.2 million of additional net sales from 16 new stores opened during the first nine months of fiscal 2009 and the net sales from stores opened in prior fiscal years that did not qualify as comparable stores. The increase in net sales was partially offset by a 7.1% decrease in comparable store sales, which resulted in $41.1 million of lower sales compared to the corresponding period last year.

Gross Profit. Our gross profit decreased to $151.3 million from $165.2 million, a decrease of $13.9 million, or 8.4%, over the corresponding period last year. This decrease in gross profit was primarily the result of higher markdowns and higher rent and occupancy costs. As a percentage of net sales, gross profit decreased to 23.8% from 26.8%, or 3.0 percentage points, from the corresponding period last year. The decrease in gross profit as a percentage of net sales was principally due to deleveraging of store rent and occupancy costs as these expenses increased more than the increase in average store sales volume (1.8 percentage point impact), higher markdowns (1.5 percentage point impact), expenses related to the processing of e-commerce transactions (0.4 percentage point impact) and all other factors (0.2 percentage point impact). These unfavorable factors were partially offset by an increase in initial mark up (0.6 percentage point impact) associated with a more refined buying strategy and a decrease in shrinkage (0.3 percentage point impact) as a result of better inventory management.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased to $145.4 million from $127.4 million, an increase of $18.0 million, or 14.1%, over the corresponding period last year. This increase in amount was attributable to new store expansion, specifically higher store payroll and operating expenses and transition costs related to expenses for proxy solicitation, management transition and severance, as well as costs associated with the review of strategic alternatives and subsequent sale process, and increased marketing spend. As a percentage of net sales, selling, general and administrative expenses increased to 22.9% from 20.7%, or 2.2 percentage points, from the corresponding period last year. The increase in expenses as a percentage of net sales was attributable to new store expansion, specifically higher store payroll and operating expenses, (1.2 percentage point impact), expenses for proxy solicitation, management transition and severance, as well as costs associated with the review of strategic alternatives and subsequent sale process (0.8 percentage point impact) and higher marketing related expenses (0.3 percentage point impact) associated with a change in marketing strategy, partially offset by the net impact of all other factors (0.1 percentage point impact).

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Impairment of Long-Lived Assets. We recorded a $1.6 million non-cash asset impairment charge during the first nine months of fiscal 2009 compared to $0.8 million in the corresponding period last year. In fiscal 2009, these charges were primarily attributable to two Charlotte Russe stores and were based on our recoverability assessments of the carrying value of long-lived assets conducted in accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Transition and Other Costs. Included in selling, general and administrative expenses in fiscal 2009 were cash charges of $5.0 million related to expenses for proxy solicitation, management transition and severance, as well as costs associated with the review of strategic alternatives and subsequent sale process. There were no such costs in the first three quarters of fiscal 2008.

Income Taxes. Our effective tax rate was 45.8% for the first three quarters of fiscal 2009 compared to 36.8% for the first three quarters of fiscal 2008. Our annual effective tax rate is anticipated to be 43.0%.

Net Income. The Company s net income decreased to $2.5 million from $24.8 million, a decrease of $22.3 million, or 89.8% over the corresponding period last year. The decrease was primarily due to lower gross margins, higher store operating expenses, including rent and occupancy, and the impact of transition costs related to expenses for proxy solicitation, management transition and severance, as well as costs associated with the review of strategic alternatives and subsequent sale process.

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 and remodels. 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 June 27, 2009, we had working capital of approximately $72.9 million, which included cash and cash equivalents of $60.0 million. Our cash equivalents have a weighted average maturity of 45 days and an average credit quality of AAA as defined by Moody s. At June 27, 2009, all cash equivalents are invested in money market funds with an objective of seeking current income consistent with capital preservation and maintenance of a high degree of liquidity. These funds purchase only first-tier securities including obligations issued by the U.S. Treasury and foreign governments, commercial paper and notes and bonds issued by U.S. and foreign corporations. At June 27, 2009, we did not hold auction rate securities.

The following chart provides a summary of our sources and uses of cash during the first nine months of fiscal 2009 and 2008:

	Nine Months Ended	
	June 27, 2009 (39 weeks)	**June 28, 2008 (39 weeks)**
Net cash provided by operating activities	$ 31,624,949	$ 91,252,829
Net cash used in investing activities	(17,247,202)	(38,899,190)
Net cash provided by/(used in) financing activities	151,783	(74,663,792)
Change in cash position	$ 14,529,530	$ (22,310,153)

During the first nine months of fiscal 2009, our net cash provided by operations decreased $59.6 million versus the same period of the prior fiscal year. The decrease was due to a lower net income recognized in the first nine months of fiscal 2009 compared to the corresponding period of the prior year ($22.3 million), differences in the timing of payments between the periods ($12.9 million), a decrease in landlord construction allowances ($12.9 million), differences in the timing of rent payments ($10.8 million) and the net impact of other factors ($0.7 million).

Net cash used in investing activities primarily consists of capital expenditures. It decreased $21.7 million during the first nine months of fiscal year 2009 as a result of reduced spending on capital expenditures and 16 stores opened in the first nine months of fiscal year 2009 as compared to 39 stores opened in the corresponding period last year.

Net cash provided from financing activities primarily consists of cash, income tax benefits associated with stock options and purchases through the Company s employee stock purchase plan. It increased by $74.8 million in the first nine months of fiscal 2009 compared to the prior year period largely due to the purchase in April 2008 of 4,080,000 shares of our common stock in a modified Dutch Auction tender offer. The shares were purchased at a price of $18.00 per share, for a total cash expenditure of $75,390,000, including fees and expenses related to the tender offer. The increase was partially offset by a decline in the number of stock option exercises during the first nine months of 2009 versus the same period in fiscal 2008.

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, primarily related to information technology, total capital expenditures for fiscal 2009 are projected to be approximately $30.4 million. Of that amount, $15.4 million will be used for new stores, $5.6 million will be used for remodels and other store related capital items and $9.4 million will be used for corporate, information technology and other projects. During the first nine months of fiscal 2009, total capital expenditures totaled $17.2 million. Of that amount $7.9 million was used for new stores, $3.1 million was used for remodels and other store related capital items and $6.2 million was used for corporate, information technology and other projects. In the first nine months of fiscal 2009, we opened 16 stores, bringing our total square footage to 3,546,000 as of June 27, 2009, and closed two stores. Consistent with our new strategic plan, we are taking a conservative and thoughtful approach to new store development. We expect to open 20 new stores in fiscal 2009, reflecting our decision to pull back from the aggressive pace of recent years as we focus on improving the productivity of our existing stores and driving enhanced performance.

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 June 27, 2009, there was $8.6 million outstanding under the Credit Facility to secure letters of credit and we were in compliance with the terms of the bank credit agreement. As of June 27, 2009, we had $21.4 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 2009. 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, store remodels or other expenditures. Due to the current credit crisis and other negative macroeconomic indicators, additional sources of capital may not be available on favorable terms, if at all. If adequate sources of capital are not available on favorable terms, we may be required to further reduce planned new store openings and other capital projects.

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CONTRACTUAL AND COMMERCIAL OBLIGATIONS

Our commitment to make future payments under long-term contractual obligations and commercial obligations as of June 27, 2009, was as follows:

	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
			(in thousands)		
Contractual Obligations					
Operating leases	$ 541,523	$ 84,716	$ 160,121	$ 131,793	$ 164,893
Purchase commitments	85,270	31,520	35,000	18,750	
	$ 626,793	$ 116,236	$ 195,121	$ 150,543	$ 164,893
Commercial Obligations					
Documentary letters of credit	$ 6,802	$ 6,802	$	$	$
Standby letters of credit	1,759	1,759			
	$ 8,561	$ 8,561	$	$	$

Liabilities associated with uncertain tax positions, currently estimated at $1.3 million (including interest), are not included in the table above as we cannot reasonably estimate when, if ever, an amount would be paid to a government agency. Ultimate settlement of these liabilities is dependent on factors outside of our control, such as examinations by each agency and expiration of statutes of limitation for assessment of additional taxes.

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 $27.1 million through the end of fiscal 2016 which are not reflected in the tables above. The scheduled future minimum rentals for these leases over the next year, one to three years, three to five years, and thereafter are $8.4 million, $12.6 million, $5.1 million and $1.0 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 June 27, 2009.

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, goodwill, 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.

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Revenue

We sell merchandise directly to retail customers and generally 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. 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. Recognized gift card income was not material to periods presented.

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 carrying value of inventory 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 merchandise vendors primarily related to distribution center handling expenses or defective merchandise. Agreements with vendors for these allowances apply to each shipment and sale of merchandise to Charlotte Russe. 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. Vendor allowances included in cost of goods sold totaled $2.7 million and $10.0 million in the third quarter and first nine months of fiscal 2009, respectively.

Goodwill

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 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.

During the first quarter of fiscal 2009, we concluded that events had occurred and circumstances had changed, that may indicate the existence of potential impairment of goodwill. These indicators included a significant decline in our stock price, continued deterioration in the retail marketplace, and the related impact the current retail marketplace had on our expectations for future revenues. As a result, we performed an interim assessment of goodwill for impairment in the first quarter of fiscal 2009. Included in the interim testing was a review of our fair market value as compared to the carrying value of our assets using a discounted cash flow model. The significant factors and assumptions we used in our discounted cash flow analysis included: earnings before interest, taxes, depreciation and amortization, or EBITDA, the discount rate used to calculate the present value of future cash flows and future capital expenditures. EBITDA assumptions included sales growth assumptions based on our historical sales trends, as well as gross margin and selling, general and administrative expense growth assumptions based on the historical relationship of those measures compared to sales, adjusting for the current economic conditions. We also considered as an indicator of fair market value our total market capitalization based on the trading price of our common stock as of December 27, 2008. However, given the extreme volatility in the stock market during the quarter ended December 27, 2008, as well as the impact that the credit crisis and the recession had on the stock market during that period, and the fact that the carrying value of our assets did not exceed our total market capitalization during any period prior to the first quarter of fiscal 2009, we concluded that it was appropriate to place more reliance on fair market value as calculated by our discounted cash flow model in evaluating goodwill impairment as of December 27, 2008, rather than the total market capitalization. Our assessment concluded that step 2 was not required and no impairment of goodwill existed as of December 27, 2008, as the fair value exceeded carrying value.

During the second quarter of fiscal 2009, these indicators began to improve, and we determined that an interim assessment of goodwill for impairment was not warranted. On March 12, 2009, we announced that our Board of Directors had instructed our financial advisor to initiate a sale process. Additionally, beginning in January 2009, our fair market value as indicated by our stock price began to improve, and although the retail marketplace in general has not improved significantly, our results in the latter part of the second quarter were improving. These trends continued into the third quarter, and at June 27, 2009, total market capitalization based on the trading price of our common stock exceeded our net book value. We will perform our annual impairment analysis in the fourth quarter.

Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount of our assets might not be recoverable, using our best estimates based upon reasonable and supportable assumptions and projections, we review the carrying value of long-lived assets for impairment based on an estimate of undiscounted future cash flows resulting from the use of those assets in operation. If estimated future undiscounted cash flows are not sufficient to recover the carrying value of the assets, then we compare the carrying value to the fair value of those assets. Impairment for long-lived assets to be held is measured by comparing the carrying amount of the asset to its fair value. Impairment is reviewed at the lowest levels for which there are identifiable cash flows that are independent of the cash flows of other groups of assets. We perform such analysis on an individual store basis and estimate fair values based on an analysis of discounted cash flows. We measure impairment for long-lived assets to be disposed of at the lower of the carrying amount or net realizable value (fair market value less cost to dispose).

During the second quarter of fiscal 2009, we recorded a $1.6 million impairment charge against the carrying values of long-lived assets. We reviewed individual store performance by projecting forecasted sales over each store s remaining lease term, and calculating each store s discounted cash flow. This discounted cash flow was compared to the carrying value of each store s assets. For certain stores, this analysis resulted in an asset carrying value greater than the estimated discounted cash flow. The carrying value of these assets was written down to estimated fair value. During the second quarter of fiscal 2008, we recorded a $0.8 million impairment charge. No impairment charges were recorded during the third quarter of fiscal 2009 or 2008.

Changes in events or circumstances used to develop assumptions relied upon in our analysis, may affect the estimated discounted cash flows expected to be derived from long-lived assets. Such changes may either increase or decrease the expected cash flows and could cause additional stores to become impaired and could require us to record additional charges to income.

Operating Leases

We record rent expense on non-cancelable 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 non market-based stock options granted using the Black-Scholes option-pricing formula and a multiple option award approach. We estimate the fair value of market-based stock options granted using a Monte Carlo simulation. The fair value is then amortized over the requisite service periods of the awards. Both option-pricing models require 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.

We grant two types of restricted stock service-based and market-based shares. The fair value of the service-based shares is the price of the stock on the date of award multiplied by the number of shares awarded. The total fair value of the share is established upon award and is recognized ratably over the period from the date of the award until the date the shares are unrestricted after the period of the requisite service. The fair value of the market-based shares is the price of the stock on the date of award multiplied by the number of shares awarded adjusted for the expected outcome of the market-based condition. The expected outcome is based on an assessment of possible outcomes of the market condition. The fair value of the shares is established upon award and is recognized ratably until the date the shares are unrestricted. The fair value compensation cost established upon award is recognized as long as the employee stays through the required service period and is not adjusted for the actual outcome of the market condition.

We also grant restricted stock units and performance stock units. The fair value of the restricted stock units is the price of the stock on the date of award multiplied by the number of shares awarded. The total fair value is recognized ratably over the period from the date of the award until the date the shares are unrestricted after the period of the requisite service. The fair value of the performance stock units is the price of the stock on the date of award multiplied by the number of shares awarded, adjusted for the expected outcome of the performance based condition. The expected outcome is based on an assessment of the probability that the performance condition will be achieved. The fair value of the shares is established upon award and is recognized ratably from the date it is determined that the achievement of the performance condition is probable, until the date the shares are unrestricted. The probability of the achievement of the performance condition is reviewed quarterly and an adjustment is made to compensation expense if there is any change in the expected outcome.

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

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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.

Effective September 30, 2007, we adopted the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, or FIN 48. In accordance with FIN 48, we recognize tax benefits only when it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If the recognition threshold is met, we measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

Off-Balance Sheet Arrangements

As of June 27, 2009, 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.

ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

Information with respect to recent accounting pronouncements is incorporated by reference to Note 1 of our consolidated financial statements included herein for the quarter ended June 27, 2009.

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 statement of income and our cash flows will be exposed to changes in interest rates. As of June 27, 2009, we had $8.6 million outstanding under the Credit Facility to secure letters of credit.

The second component of interest rate risk involves the short-term investment of excess cash in money market funds. 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

Disclosure 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

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our disclosure controls and procedures were effective as of June 27, 2009 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 third fiscal quarter ended June 27, 2009, 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.

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.

On June 11, 2008, a complaint was filed against us in the Superior Court for the state of California, County of Los Angeles, by two former store employees (Shannon Palm and Kayla Lovato). The complaint is styled as a class action and the causes of action arise out of allegations of failure to pay overtime compensation, failure to provide meal and rest breaks, requiring employees to purchase store product and violations relating to form of payment of wages. The complaint seeks unspecified damages, penalties and attorneys fees. We filed a motion for judgment on the pleadings to preclude the majority of the claims from proceeding as a class action. The motion was granted with leave to amend the complaint. On or about December 22, 2008, the plaintiffs filed an amended complaint. On March 25, 2009, we filed a motion in response to the amended complaint, which was denied. We have sought writ review of that ruling from the California Court of Appeal. To date, the California Court of Appeal has not ruled on our writ petition. The parties are currently engaged in discovery. We intend to vigorously defend the case. The outcome of this action is uncertain, and no amounts have been accrued with respect to this matter as of the date of this filing. As of the date of this filing, we are not engaged in any other 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.

On June 4, 2009, we filed a lawsuit in the Superior Court for the State of California, County of San Diego (the San Diego Action), against AuBeta Networks Corporation (AuBeta) and Telekenex, Inc. (Telekenex) that seeks declaratory and injunctive relief related to a contract for internet data services between AuBeta and us (AuBeta has assigned the contract to Telekenex). On or about June 11, 2009, Telekenex filed a complaint against us in the Superior Court for the State of Washington, King County (the Washington Action). To date, the Washington Action has not been served on us. The Washington Action asserts breach of the same contract at issue in the San Diego Action and seeks damages in the amount of $1.1 million. We deny any liability and intend to vigorously pursue our claims in the San Diego Action and our defenses in the Washington Action. The outcomes of the San Diego Action and Washington Action are uncertain, and no amounts have been accrued with respect to these matters as of the date of this filing.

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 consist of or include, as the case may be, certain substantive revisions to the risks set forth in our annual report on Form 10-K for the fiscal year ended September 27, 2008.

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. The current challenges facing the United States economy and the presently uncertain economic outlook have adversely affected consumer spending habits and mall traffic and are likely to continue to do so in the foreseeable future, which could continue to impact our net sales and cause us to slow our expansion plans. If economic conditions continue to worsen it may be necessary for us to seek additional sources of capital and to substantially reduce planned new store openings and other capital projects. Due to the current credit crisis and other negative macroeconomic indicators, additional sources of capital may not be available on favorable terms, if at all. If adequate sources of capital are not available on favorable terms, we may be required to further reduce planned new store openings and other capital projects.

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. 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. We opened seven new Charlotte Russe stores and closed two stores in the third quarter of fiscal 2009. Year to date, we have opened 16 new stores and closed two stores. This represented a 3% increase from the number of Charlotte Russe stores open at the end of fiscal 2008. We intend to continue to increase our number of Charlotte Russe stores for at least the next several years, although we expect to modulate our growth rate in the near term due to the challenging economic climate at the present time and consistent with our new strategic plan.

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.

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.

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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 financial viability or success of individual shopping malls. If mall operators experience financial difficulties or bankruptcy, including as a result of the current challenges facing the United States economy, customer traffic in the affected malls could decrease, which in turn could adversely affect our sales and results of operations.

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

Our success depends to a significant extent upon the services of our key personnel, including senior management, who are at will employees and make significant contributions to our business. In the first quarter of fiscal 2009, we hired three new executive officers and promoted two members of management to executive officer positions. This management team is focused on pursuing our strategic plan and executing on its key areas. 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, integrate, train and retain talented and qualified personnel.

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.

The price of our common stock could fluctuate or decline substantially due to fluctuations in our comparable store sales and quarterly results of operations or other factors.*

Our quarterly results of operations for our individual stores have fluctuated in the past and can be expected to continue to fluctuate in the future, which could cause the price of our common stock to fluctuate or decline substantially. For instance, our quarterly comparable store sales percentages for the Charlotte Russe stores have ranged as high as positive 2.5% and as low as negative 9.1% over the last eight fiscal quarters. 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. Our comparable store sales and quarterly results of operations are affected by a variety of factors, including:

- general economic conditions, such as the current credit crisis and associated economic downturn, and, in particular, the retail sales environment;
- calendar shifts of holiday or seasonal periods;
- our ability to maintain appropriate inventory levels;

- fashion trends;
- changes in our merchandise mix and timing of promotional events;
- the timing of new store openings and the relative proportion of new stores to mature stores;
- actions by competitors or mall anchor tenants; and
- weather conditions.

In addition, announcements by other retailers, the trading volume of our common stock, changes in estimates of our performance by securities analysts, repurchases of our common stock or other strategic transactions, acquisition proposals and the general condition of the financial markets could cause our stock price to fluctuate substantially.

The failure to efficiently complete any upgrades or enhancements to 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. If such upgrades and enhancements 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, our distribution center could negatively impact our business.

Our merchandise is distributed through our facility that uses automated systems for sorting apparel and shipping merchandise. We depend on the orderly operation of our facility 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.

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.

It is our policy to 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 violates 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.

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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 Rampage stores disposed of in fiscal 2006.

In fiscal 2006, we 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

None.

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

None.

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

On April 28, 2009, our Annual Meeting of Stockholders was held in San Diego, California. 14,071,878 votes were tendered at the Annual Meeting, representing 67% of the 20,999,870 shares outstanding and entitled to vote. The following matters were addressed at the Annual Meeting:

(1) The election of seven directors to hold office until the 2010 Annual Meeting of Stockholders.

For Michael J. Blitzer, the voting results were as follows:

For: 13,474,083

Withhold: 597,795

For Paul R. Del Rossi, the voting results were as follows:

For: 13,473,583

Withhold: 598,295

For Emilia Fabricant, the voting results were as follows:

For: 13,575,275

Withhold: 496,603

For John D. Goodman, the voting results were as follows:

For: 13,474,464

Withhold: 597,414

For Herbert J. Kleinberger, the voting results were as follows:

For: 13,474,360

Withhold: 597,518

For Leonard H. Mogil, the voting results were as follows:

For: 13,574,952

Withhold: 496,926

For Jennifer C. Salopek, the voting results were as follows:

For: 12,918,252

Withhold: 1,153,626

(2) The approval of the Charlotte Russe Holding, Inc. 2009 Equity Incentive Plan. The voting results were as follows:

For: 9,833,037

Against: 4,232,421

Abstain: 6,420

(3) The ratification of the selection by the Audit Committee of our Board of Directors of Ernst & Young LLP as our independent auditors for the fiscal year ending September 26, 2009. The voting results were as follows:

For: 13,646,214

Against: 425,363

Abstain: 301

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

3.1	Certificate of Incorporation of Charlotte Russe Holding, Inc., as amended (Incorporated by reference to Exhibit 3.1 to Registration Statement 333-84297 filed October 15, 1999)
3.2	Certificate of Amendment to the Certificate of Incorporation of Charlotte Russe Holding, Inc. (Incorporated by reference to Exhibit 3.2 to Registration Statement 333-84297 filed October 15, 1999)
3.3	Amended and Restated Bylaws of Charlotte Russe Holding, Inc. (Incorporated by reference to Exhibit 3.1 to our Form 8-K filed December 5, 2008)
10.1	Charlotte Russe Holding, Inc. 2009 Equity Incentive Plan (Incorporated by reference to Exhibit 99.1 to our Form 8-K filed May 4, 2009)
10.2	First Amendment to Amended and Restated Offer Letter dated May 18, 2009, by and between Charlotte Russe Holding, Inc. and Frederick G. Silny
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 22nd day of July, 2009.

CHARLOTTE RUSSE HOLDING, INC.

By: /s/ JOHN D. GOODMAN
John D. Goodman
Chief Executive Officer

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