

CHARLOTTE RUSSE HOLDING INC

Form 10-Q

April 19, 2002

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 19, 2002

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 30, 2002

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

COMMISSION FILE NUMBER 0-27677

CHARLOTTE RUSSE HOLDING, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction
of Incorporation or Organization)

33-0724325
(I.R.S. Employer
Identification No.)

4645 MORENA BOULEVARD, SAN DIEGO, CA 92117
(Address, including Zip Code, of Registrant's Principal Executive Offices)

(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 No

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

COMMON STOCK, par value \$0.01 per share, number of shares outstanding as of April 18, 2002: 21,180,683 shares.

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| | March 30, 2002 | September 29, 2001 |
|---|-------------------|-----------------------|
| | (unaudited) | (audited) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 11,532,232 | \$ 10,031,398 |
| Inventories | 25,187,136 | 23,536,420 |
| Other current assets | 2,921,809 | 2,560,153 |
| Deferred tax assets | 4,000,000 | 3,700,000 |
| | <hr/> | <hr/> |
| Total current assets | 43,641,177 | 39,827,971 |
| Fixed assets, net | 90,048,014 | 77,350,576 |
| Goodwill, net | 28,790,000 | 28,790,000 |
| Other assets | 1,426,533 | 1,452,387 |
| | <hr/> | <hr/> |
| Total assets | \$ 163,905,724 | \$ 147,420,934 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable trade | \$ 23,179,665 | \$ 19,607,137 |
| Accounts payable other | 3,348,405 | 4,825,946 |
| Accrued payroll and related expense | 2,669,265 | 1,931,838 |
| Income and sales taxes payable | 2,636,131 | 5,091,687 |
| Other current liabilities | 7,984,294 | 5,928,411 |
| | <hr/> | <hr/> |
| Total current liabilities | 39,817,760 | 37,385,019 |
| Notes payable to bank | | |
| Deferred rent | 6,963,451 | 5,574,982 |
| Other liabilities | 178,883 | 269,470 |
| Deferred tax liabilities | 1,900,000 | 2,000,000 |
| | <hr/> | <hr/> |
| Total liabilities | 48,860,094 | 45,229,471 |
| Commitments | | |
| Stockholders' equity: | | |
| Preferred Stock \$0.01 par value, 3,000,000 shares authorized, none issued and outstanding | | |
| Common Stock \$0.01 par value, 100,000,000 shares authorized, issued and outstanding shares 21,180,683 at March 30, 2002 and 20,802,747 at September 29, 2001 | 211,807 | 208,028 |
| Additional paid-in capital | 41,859,186 | 40,038,464 |
| Deferred compensation | (225,000) | (372,000) |
| Retained earnings | 73,199,637 | 62,316,971 |
| | <hr/> | <hr/> |
| Total stockholders' equity | 115,045,630 | 102,191,463 |
| | <hr/> | <hr/> |
| Total liabilities and stockholders' equity | \$ 163,905,724 | \$ 147,420,934 |
| | <hr/> | <hr/> |

See accompanying notes.

Table of Contents**CHARLOTTE RUSSE HOLDING, INC.****CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)**

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | March 30, 2002 | March 31, 2001 | March 30, 2002 | March 31, 2001 |
| Net sales | \$ 86,069,774 | \$ 64,037,474 | \$ 198,007,892 | \$ 157,080,175 |
| Cost of goods sold, including buying, distribution and occupancy costs | 63,240,942 | 45,405,560 | 142,886,501 | 107,101,611 |
| Gross profit | 22,828,832 | 18,631,914 | 55,121,391 | 49,978,564 |
| Selling, general and administrative expenses | 17,198,466 | 13,172,584 | 37,216,115 | 30,743,073 |
| Amortization of goodwill | | 223,842 | | 447,684 |
| Operating income | 5,630,366 | 5,235,488 | 17,905,276 | 18,787,807 |
| Other income (expense): | | | | |
| Interest income, net | 82,207 | 168,744 | 83,715 | 209,337 |
| Other charges, net | (70,260) | (73,807) | (148,556) | (140,522) |
| Total other income (expense) | 11,947 | 94,937 | (64,841) | 68,815 |
| Income before income taxes | 5,642,313 | 5,330,425 | 17,840,435 | 18,856,622 |
| Income taxes | 2,139,511 | 1,970,256 | 6,957,769 | 7,448,366 |
| Net income | \$ 3,502,802 | \$ 3,360,169 | \$ 10,882,666 | \$ 11,408,256 |
| Earnings per share: | | | | |
| Basic | \$ 0.17 | \$ 0.16 | \$ 0.52 | \$ 0.56 |
| Diluted | \$ 0.15 | \$ 0.14 | \$ 0.46 | \$ 0.49 |
| Weighted average shares outstanding: | | | | |
| Basic | 20,948,770 | 20,532,662 | 20,887,675 | 20,440,085 |
| Diluted | 23,699,708 | 23,433,770 | 23,607,835 | 23,284,617 |

See accompanying notes.

Table of Contents**CHARLOTTE RUSSE HOLDING, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | March 30, 2002 | March 31, 2001 | March 30, 2002 | March 31, 2001 |
| Operating Activities | | | | |
| Net income | \$ 3,502,802 | \$ 3,360,169 | \$ 10,882,666 | \$ 11,408,256 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 3,205,925 | 2,513,502 | 6,384,758 | 4,886,827 |
| Deferred rent | 723,542 | 426,335 | 1,388,468 | 935,381 |
| Amortization of deferred compensation | 27,000 | 36,000 | 54,000 | 72,000 |
| Loss on disposal of asset | | 216,856 | 23,745 | 216,856 |
| Deferred income taxes | (300,000) | (250,000) | (400,000) | (140,000) |
| Changes in operating assets and liabilities: | | | | |
| Inventories | (9,064,914) | (5,394,135) | (1,650,715) | (2,842,225) |
| Other current assets | 1,021 | (251,850) | (361,656) | (255,096) |
| Accounts payable trade | 9,317,888 | 5,312,716 | 3,572,528 | 5,811,501 |
| Accounts payable other | 1,599,141 | (110,878) | (1,477,541) | (4,150,279) |
| Accrued payroll and related expense | (1,152,840) | (725,945) | 737,427 | 265,760 |
| Income and sales taxes payable | (4,211,567) | (6,351,237) | (1,411,051) | (619,476) |
| Other current liabilities | (1,544,774) | (2,347,668) | 2,100,900 | 1,617,242 |
| Other liabilities | (105,586) | | (90,587) | |
| Net cash provided by (used in) operating activities | 1,997,638 | (3,566,135) | 19,752,942 | 17,206,747 |
| Investing Activities | | | | |
| Purchases of fixed assets | (11,793,473) | (2,828,411) | (19,061,523) | (9,911,891) |
| Other assets | 10,026 | (76,922) | (18,564) | 11,102 |
| Net cash used in investing activities | (11,783,447) | (2,905,333) | (19,080,087) | (9,900,789) |
| Financing Activities | | | | |
| Payments on capital leases | (24,951) | (19,911) | (45,017) | (39,478) |
| Proceeds from notes payable to bank | | | 11,000,000 | 6,300,000 |
| Payments on notes payable to bank | | | (11,000,000) | (6,300,000) |
| Proceeds from issuance of common stock | 782,695 | 2,206,050 | 872,996 | 2,420,474 |
| Net cash provided by financing activities | 757,744 | 2,186,139 | 827,979 | 2,380,996 |
| Net increase (decrease) in cash and cash equivalents | (9,028,065) | (4,285,329) | 1,500,834 | 9,686,954 |
| Cash and cash equivalents at beginning of the period | 20,560,297 | 17,801,635 | 10,031,398 | 3,829,352 |

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| | | | | |
|--|---------------|---------------|---------------|---------------|
| Cash and cash equivalents at end of the period | \$ 11,532,232 | \$ 13,516,306 | \$ 11,532,232 | \$ 13,516,306 |
|--|---------------|---------------|---------------|---------------|

See accompanying notes.

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CHARLOTTE RUSSE HOLDING, INC.
Notes to Consolidated Financial Statements
(Unaudited)

1. Interim Financial Statements

The accompanying unaudited consolidated financial statements of Charlotte Russe Holding, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures required by accounting principles generally accepted in the United States for complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited financial statements contain all material adjustments, consisting of 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 as of September 29, 2001.

Due to the seasonal nature of the Company's business, the results of operations for the six month period ended March 30, 2002 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 29, 2001 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

2. Net Income Per Common Share

In accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share, the following table reconciles income and share amounts utilized to calculate basic and diluted net income per common share.

| | Three Months Ended | | Six Months Ended | |
|------------------------------------|--------------------|-------------------|-------------------|-------------------|
| | March 30, 2002 | March 31, 2001 | March 30, 2002 | March 31, 2001 |
| Net income | \$ 3,502,802 | \$ 3,360,169 | \$ 10,882,666 | \$ 11,408,256 |
| Earnings per share: | | | | |
| Basic | \$ 0.17 | \$ 0.16 | \$ 0.52 | \$ 0.56 |
| Effect of dilutive stock options | (0.01) | (0.01) | (0.02) | (0.02) |
| Effect of dilutive warrants | (0.01) | (0.01) | (0.04) | (0.05) |
| Diluted | \$ 0.15 | \$ 0.14 | \$ 0.46 | \$ 0.49 |
| Weighted average number of shares: | | | | |
| Basic | 20,948,770 | 20,532,662 | 20,887,675 | 20,440,085 |
| Effect of dilutive stock options | 878,220 | 1,012,006 | 860,590 | 980,376 |
| Effect of dilutive warrants | 1,872,718 | 1,889,102 | 1,859,570 | 1,864,156 |
| Diluted | 23,699,708 | 23,433,770 | 23,607,835 | 23,284,617 |

Table of Contents**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 that are forward-looking statements. In some cases you can identify these statements by forward-looking words such as may, will, should, expects, plans, anticipates, believes, estimates, intends, predicts, the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties, and assumptions about us, may include, among other things, projections of our future financial performance, our anticipated growth strategies, anticipated trends in our business and consumer preferences especially with respect to the impact of economic weakness on consumer spending, as well as projections relating to our anticipated rate of new store openings, anticipated store opening costs, capital expenditures, inventory turnover rates and vendor delivery times. These statements are only predictions based on our current expectations and projections about future events. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors discussed in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on December 13, 2001.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report might not occur.

Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Financial Statements and Notes thereto of the Company included elsewhere in this Form 10-Q. The following table sets forth our operating results, expressed as a percentage of net sales, and store information 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 | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | March 30, 2002 | March 31, 2001 | March 30, 2002 | March 31, 2001 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 73.5 | 70.9 | 72.2 | 68.2 |
| Gross profit | 26.5 | 29.1 | 27.8 | 31.8 |
| Selling, general and administrative expenses | 19.9 | 20.6 | 18.8 | 19.6 |
| Amortization of goodwill | 0.0 | 0.3 | 0.0 | 0.2 |
| Operating income | 6.6 | 8.2 | 9.0 | 12.0 |
| Interest income, net | 0.1 | 0.2 | 0.1 | 0.1 |
| Other charges, net | (0.1) | (0.1) | (0.1) | (0.1) |
| Income before income taxes | 6.6 | 8.3 | 9.0 | 12.0 |
| Income taxes | 2.5 | 3.1 | 3.5 | 4.7 |
| Net income | 4.1% | 5.2% | 5.5% | 7.3% |
| Number of stores open at end of period | 224 | 156 | 224 | 156 |

Three Months Ended March 30, 2002 Compared to the Three Months Ended March 31, 2001

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Net Sales. Our net sales increased to \$86.1 million from \$64.0 million, an increase of \$22.1 million, or 34.4%, over the prior fiscal year. This increase reflects \$23.8 million of additional net sales from the 12 new stores opened during the three months ended March 30, 2002, as well as other stores opened in prior fiscal periods that did not qualify as comparable stores. This increase was partially offset by a 2.8% decrease in our comparable store sales, which resulted in decreased sales of \$1.7 million compared to the same period last year. Net sales during the three months ended March 30, 2002 were positively affected by Easter occurring two weeks earlier than in the prior fiscal year.

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Gross Profit. Gross profit represents net sales less cost of goods sold, which includes buying, distribution and occupancy costs. Our gross profit increased to \$22.8 million from \$18.6 million, an increase of \$4.2 million, or 22.5%, over the same period last year. This increase was the result of higher net sales, offset in part by decreased gross profit margins. As a percentage of net sales, gross profit decreased to 26.5% from 29.1%. The decrease as a percentage of net sales was principally due to higher occupancy expenses, higher markdown expenses and partially offset by lower freight costs and higher initial markups. Although the opening of the Ontario, California distribution center did not impact gross profit during the three months ended March 30, 2002, gross profits during the balance of fiscal 2002 will be offset by increased expenses related to the operation of the distribution center.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased to \$17.2 million from \$13.2 million, an increase of \$4.0 million, or 30.6%, over the same period last year. This increase was attributable to new store expansion and increased corporate expenses. As a percentage of net sales, selling, general and administrative expenses decreased to 19.9% from 20.6%, primarily due to the impact of leveraging corporate expenses over a higher sales base.

Amortization of Goodwill. Our amortization of goodwill was discontinued as of the first quarter of fiscal 2002; therefore, this expense decreased \$0.2 million compared to the same period last year.

Income Taxes. Our effective tax rate of 37.9% compares to an effective tax rate of 37.0% for the same period of the prior fiscal year.

Net Income. Our net income increased to \$3.5 million from \$3.4 million, an increase of \$0.1 million, or 4.2%, from the same period last year. This increase was primarily due to the increase in gross profit being partially offset by an increase in selling, general and administrative expenses.

Six Months Ended March 30, 2002 Compared to the Six Months Ended March 31, 2001

Net Sales. Our net sales increased to \$198.0 million from \$157.0 million, an increase of \$41.0 million, or 26.1%, over the same period last year. This increase reflects \$52.7 million of additional net sales from the 36 new stores opened during the six months ended March 30, 2002, as well as other stores opened in prior fiscal years that did not qualify as comparable stores. This increase was partially offset by an 8.1% decrease in our comparable store sales, which resulted in decreased sales of \$11.7 million compared to the prior fiscal year. Net sales during the six months ended March 30, 2002 were positively affected by Easter occurring two weeks earlier than in the prior fiscal 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 \$55.1 million from \$50.0 million, an increase of \$5.1 million, or 10.3%, over the same period last year. This increase was the result of higher net sales, offset in part by decreased gross profit margins. As a percentage of net sales, gross profit decreased to 27.8% from 31.8%. The decrease as a percentage of net sales was principally due to higher occupancy expenses and markdown expenses. Although the opening of the Ontario, California distribution center did not impact gross profit during the six months ended March 30, 2002, gross profits during the balance of fiscal 2002 will be offset by increased expenses related to the operation of the distribution center.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased to \$37.2 million from \$30.7 million, an increase of \$6.5 million, or 21.1%, over the same period last year. This increase was attributable to new store expansion, increased corporate expenses and higher marketing expenses. As a percentage of net sales, selling, general and administrative expenses decreased to 18.8% from 19.6%, primarily due to the impact of leveraging corporate expenses over a higher sales base.

Amortization of Goodwill. Our amortization of goodwill was discontinued as of the first quarter of fiscal 2002; therefore, this expense decreased \$0.4 million compared to the same period last year.

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Income Taxes. Our effective tax rate of 39.0% approximates our statutory income tax rates.

Net Income. Our net income decreased to \$10.9 million from \$11.4 million, a decrease of \$0.5 million, or 4.6%, over the same period last year. This decrease was primarily due to the increase in gross profit being more than offset by an increase in selling, general and administrative expenses.

Liquidity and Capital Resources

Our capital requirements result primarily from capital expenditures related to new store openings. We have historically satisfied our cash requirements principally through cash flow from operations, although we have also used borrowings under our unsecured credit facility. Due to rapid turnover of inventory, we generate trade payables and other accrued liabilities sufficient to offset our working capital requirements, and this allows us to generally operate with negative working capital. As of March 30, 2002, we had net working capital of approximately \$3.8 million which included cash and cash equivalents of \$11.5 million.

Net cash provided by operations was \$19.8 million for the six months ended March 30, 2002 compared with \$17.2 million during the six months ended March 31, 2001. Cash flows from operating activities for the period were primarily generated by income from operations and changes in working capital account balances.

Net cash used in investing activities was \$19.1 million for the six months ended March 30, 2002 compared with \$9.9 million during the six months ended March 31, 2001. Cash used in investing activities related to new store openings, the upgrade of our information systems and other corporate expenditures, including \$9.8 million for the build-out of our Ontario, California distribution center during the six months ended March 30, 2002.

In the six months ended March 30, 2002 and March 31, 2001, we opened 36 and 22 new stores, respectively. During fiscal 2002, we plan to open at least 55 new Charlotte Russe and Rampage stores. We also continue to test our Charlotte's Room concept, and we opened two additional stores during the first quarter of fiscal 2002. We anticipate that total capital expenditures during fiscal 2002 will approximate \$33.0 million. We plan to fund these expenditures with cash flows from operations and from borrowings under the \$15.0 million revolving credit facility, as may be required.

Net cash provided by financing activities was \$0.8 million for the six months ended March 30, 2002 compared with \$2.4 million during the six months ended March 31, 2001. Financing activities primarily represent the proceeds of stock option exercises.

We believe that cash flows from operations, our current cash balance and funds available under our revolving credit facility will be sufficient to meet our working capital needs and contemplated capital expenditure requirements for the next 12 months.

Inflation

We do not believe that inflation has had a material adverse impact on our business or operating results during the periods presented. There can be no assurance, however, that our business will not be affected by inflation in the future.

Critical Accounting Policies and Estimates

Management Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires management to make estimates

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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.

On an on-going basis, management evaluates its estimates and judgments regarding inventories, receivables, fixed assets, intangible assets, accrued liabilities, 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.

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

Our merchandise is initially offered for sale at a regular price, but is often marked down prior to the ultimate sale of all such units. We utilize the retail method of accounting for our inventory valuation that inherently reduces the inventories' carrying value as 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 have recorded a goodwill asset that arose from the acquisition of the business in September 1996. This asset is tested for possible impairment on at least an annual basis in accordance with SFAS No. 142, *Goodwill and Other Intangibles*. The carrying value of investments in our stores and other operations is reviewed for impairment on at least an annual basis in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of*. In prior years, we established reserves for stores which have been closed, and no other stores are contemplated for closure at this time. Should the business prospects for our company or its stores deteriorate, or if we decide not to continue to develop our Charlotte's Room concept, write downs of these assets might be required.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risks relate primarily to changes in interest rates. We borrow money, when necessary, on a revolving basis under our \$15.0 million revolving credit facility to fund capital expenditures and other working capital needs. Our revolving credit facility carries a variable interest rate pegged to market indices and, therefore, our statements of income and our cash flows may be impacted by changes in interest rates. As of March 30, 2002, there was no amount outstanding under the revolving credit facility.

Another component of interest rate risk involves the short-term investment of excess cash in short-term, investment-grade interest-bearing securities. These are considered to be cash equivalents and are shown that way on our balance sheets. Changes in interest rates affect the investment income we earn on our investments and, therefore, impact our cash flows and results of operations.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES

Unregistered Sales of Securities

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 revolving credit facility, dividends, distributions and capital stock redemptions are restricted to \$5.0 million or less in any fiscal year, of which up to \$2.5 million may be cash dividends paid on a non-cumulative basis.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

An annual meeting of stockholders was held on February 12, 2002. The following directors were re-elected, each having received no less than 16,951,810 votes in favor, or 83.1% of the votes cast: Messrs. Del Rossi, Gould, Karp, Mogil, Oddi and Zeichner.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits filed herewith: Exhibit 10.25 Amendment #2 to Revolving Credit Agreement, dated as of December 23, 1999, by and among Charlotte Russe, Inc., as Borrower, Charlotte Russe Holding, Inc. as Guarantor, and BankBoston, N.A., as Agent (Exhibit 10.1 to Form 10-Q filed on February, 8, 2000)
- (b) Reports on Form 8-K: No reports were filed on Form 8-K during the quarter with which this report is filed.

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 19th day of April, 2002.

