

CHARLOTTE RUSSE HOLDING INC

Form 10-Q

August 01, 2001

Table of Contents

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 1, 2001

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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## **FORM 10-Q**

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☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

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

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COMMISSION FILE NUMBER 0-27677

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## **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)

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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 July 23, 2001: 20,757,460 shares.

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### **TABLE OF CONTENTS**

#### **PART I. FINANCIAL INFORMATION**

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 2. CHANGES IN SECURITIES

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

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

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURES

---

**Table of Contents**

**CHARLOTTE RUSSE HOLDING, INC.**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

	<u>PAGE NO.</u>
ITEM 1.	
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets as of June 30, 2001(unaudited) and September 30, 2000.	2
Consolidated Statements of Income (unaudited) for the three and nine months ended June 30, 2001 and June 24, 2000. 3	
Consolidated Statements of Cash Flows (unaudited) for the three and nine months ended June 30, 2001 and June 24, 2000. 4	
Notes to Consolidated Financial Statements (unaudited) 5	
ITEM 2.	
MANAGEMENT S DISCUSSION AND ANALYSIS	

OF FINANCIAL  
CONDITION AND  
RESULTS OF  
OPERATIONS 6 ITEM

3.  
QUANTITATIVE  
AND

QUALITATIVE  
DISCLOSURES  
ABOUT MARKET

RISK 10 **PART**

## **II. OTHER**

**INFORMATION** ITEM

1. LEGAL  
PROCEEDINGS 10 ITEM

2. CHANGES IN  
SECURITIES 10 ITEM

3. DEFAULTS  
UPON SENIOR  
SECURITIES 10 ITEM

4. SUBMISSION  
OF MATTERS TO

A VOTE OF  
SECURITY

HOLDERS 10 ITEM

5. OTHER  
INFORMATION 10 ITEM

6. EXHIBITS  
AND REPORTS

ON FORM 8-K 10

## **Table of Contents**

### **CHARLOTTE RUSSE HOLDING, INC.**

#### **CONSOLIDATED BALANCE SHEETS**

	June 30, 2001	September 30, 2000
	(unaudited)	(audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents		
\$8,993,496 \$3,829,352		
Inventories		
21,251,000 15,026,508		
Other current assets		
1,869,535 2,115,376		
Deferred tax assets		
2,800,000 2,160,000		

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Total current assets  
 34,914,031 23,131,236  
 Fixed assets, net  
 68,476,813 54,273,890  
 Goodwill, net  
 28,996,651 29,617,939  
 Other assets  
 1,434,727 1,482,345

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Total assets  
 \$133,822,222 \$108,505,410

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**LIABILITIES AND  
 STOCKHOLDERS' EQUITY**

Current liabilities:

Accounts payable trade  
 \$18,660,770 \$12,767,401  
 Accounts payable other  
 720,799 4,780,008  
 Accrued payroll and related expense  
 3,298,047 2,009,179  
 Income and sales taxes payable  
 1,544,796 3,494,327  
 Other current liabilities  
 5,274,583 4,705,033

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Total current liabilities  
 29,498,995 27,755,948  
 Notes payable to bank

Deferred rent  
 5,148,026 3,677,480  
 Other liabilities  
 255,023 278,098  
 Deferred tax liabilities  
 2,600,000 2,300,000

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Total liabilities

37,502,044 34,011,526

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 - 20,757,460 at  
June 30, 2001 and 20,319,412 at  
September 30, 2000  
207,575 203,194

Additional paid-in capital  
39,496,991 33,980,470

Deferred compensation  
(408,000) (516,000)

Retained earnings  
57,023,612 40,826,220

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Total stockholders' equity

96,320,178 74,493,884

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Total liabilities and stockholders' equity

\$133,822,222 \$108,505,410

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See accompanying notes.

**Table of Contents**

**CHARLOTTE RUSSE HOLDING, INC.**

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## CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30, 2001	June 24, 2000	June 30, 2001	June 24, 2000
Net sales	\$ 78,405,523	\$ 58,694,969	\$ 235,485,698	\$ 168,893,946
Cost of goods sold, including buying, distribution and occupancy costs	55,410,915	39,997,003	162,512,528	115,268,447
Gross profit	22,994,608	18,697,966	72,973,170	53,625,499
Selling, general and administrative expenses	14,877,943	11,071,532	45,621,013	32,679,050
Amortization of goodwill and other intangibles	223,842	223,842	671,526	671,526
Operating income	7,892,823	7,402,592	26,680,631	20,274,923
Other expenses:				
Interest income (expense), net	114,995	(22,517)	324,331	(164,014)
Other charges, net	(91,892)	(68,266)	(232,414)	(196,028)
Total other income (expense)				

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23,103 (90,783) 91,917 (360,042)


Income before income taxes and extraordinary item, net of income taxes

7,915,926 7,311,809 26,772,548 19,914,881

Income taxes

3,126,790 2,955,959 10,575,156 8,065,524


Income before extraordinary item

4,789,136 4,355,850 16,197,392 11,849,357

Extraordinary loss from early debt retirement

311,314


Net income

\$4,789,136 \$4,355,850 \$16,197,392 \$11,538,043


Basic earnings per share:

Income before extraordinary item

\$0.23 \$0.22 \$0.79 \$0.59

Net income  
\$0.23 \$0.22 \$0.79 \$0.58

Diluted earnings per share:

Income before extraordinary item  
\$0.20 \$0.19 \$0.69 \$0.52

Net income  
\$0.20 \$0.19 \$0.69 \$0.51

Weighted average shares outstanding:

Basic  
20,718,658 20,205,485 20,530,928 20,005,961



Diluted

23,593,848 22,877,255 23,398,585 22,780,011

See accompanying notes.

3

## Table of Contents

### CHARLOTTE RUSSE HOLDING, INC.

#### CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

		Three Months Ended		Nine Months Ended	
		June 30, 2001	June 24, 2000	June 30, 2001	June 24, 2000
<b>Operating Activities</b>					
	Net income	\$4,789,136	\$4,355,850	\$16,197,392	\$11,538,043
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization					
		2,727,122	1,932,074	7,613,949	5,527,779
Deferred rent					
		535,165	458,031	1,470,546	1,190,001
Amortization of deferred compensation					
		36,000	36,000	108,000	108,000
Loss on disposal of asset					
		216,856			
Extraordinary loss from early debt retirement					
		532,160			

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### Deferred income taxes

(200,000) 100,000 (340,000) 100,000

### Changes in operating assets and liabilities:

#### Inventories

(3,382,267) (968,027) (6,224,492) (2,453,981)

#### Other current assets

500,937 31,396 245,841 479,396

#### Accounts payable trade

81,868 135,964 5,893,369 886,250

#### Accounts payable other

91,070 1,264,515 (4,059,209) (890,329)

#### Accrued payroll and related expense

1,023,108 (420,266) 1,288,868 (519,764)

#### Income and sales taxes payable

1,450,673 175,592 831,197 353,620

#### Other current liabilities

(1,016,224) (539,368) 601,018

176,570

#### Other liabilities

5,000 (96,593) 5,000 (81,201)

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### Net cash provided by operating activities

6,641,588 6,465,168 23,848,335 16,946,544

### Investing Activities

#### Other assets

(30,112) (86,761) (19,010) 40,993

#### Purchases of fixed assets

(11,433,921) (6,351,759) (21,345,812) (15,833,817)

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### Net cash used in investing activities

(11,464,033) (6,438,520) (21,364,822) (15,792,824)

### Financing Activities

#### Payments on capital leases

(20,065) (93,430) (59,543) (304,206)

#### Payments on notes payable to bank and revolving credit facility

(700,000) (19,700,000)

#### Proceeds from notes payable to bank and revolving credit facility

1,700,000

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Repayments of notes receivable from officers

1,000,000

Proceeds from issuance of common stock

319,700 482,515 2,740,174 14,016,015

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Net cash provided by (used in) financing activities

299,635 (310,915) 2,680,631 (3,288,191)

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Net (decrease) increase in cash and cash equivalents

(4,522,810) (284,267) 5,164,144 (2,134,471)

Cash and cash equivalents at beginning of the period

13,516,306 1,131,821 3,829,352 2,982,025

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Cash and cash equivalents at end of the period

\$8,993,496 \$847,554 \$8,993,496 \$847,554

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See accompanying notes.

**Table of Contents**

**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 30, 2000.

Due to the seasonal nature of the Company's business, the results of operations for the three and nine-month periods ended June 30, 2001 are not necessarily indicative of the results of a full fiscal year.

These financial statements should be read in conjunction with the audited financial statements and the footnotes for the fiscal year ended September 30, 2000 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		Nine Months Ended	
	June 30, 2001	June 24, 2000	June 30, 2001	June 24, 2000
Income before extraordinary item	\$4,789,136	\$4,355,850	\$16,197,392	\$11,849,357
Net income	\$4,789,136	\$4,355,850	\$16,197,392	\$11,538,043

Income before extraordinary item per share:

Basic

\$0.23 \$0.22 \$0.79 \$0.59

Effect of dilutive securities stock options

(0.01) (0.01) (0.03) (0.03)

Effect of dilutive securities warrants

(0.02) (0.02) (0.07) (0.04)

Diluted

\$0.20 \$0.19 \$0.69 \$0.52


Net income:

Basic

\$0.23 \$0.22 \$0.79 \$0.58

Effect of dilutive securities stock options

(0.01) (0.01) (0.03) (0.03)

Effect of dilutive securities warrants

(0.02) (0.02) (0.07) (0.04)


Diluted

\$0.20 \$0.19 \$0.69 \$0.51


Weighted average number of shares:

Basic

20,718,658 20,205,485 20,530,928 20,005,961

Effect of dilutive securities stock options

976,446 881,724 988,440 952,256

Effect of dilutive securities warrants

1,898,744 1,790,046 1,879,217 1,821,794


Diluted

23,593,848 22,877,255 23,398,585 22,780,011

## **Table of Contents**

### **CHARLOTTE RUSSE HOLDING, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

#### **3. Recent Accounting Pronouncements**

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations ( FAS 141 ) and No. 142, Goodwill and Other Intangible Assets ( FAS 142 ). FAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives, but with no maximum life. The amortization provisions of FAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt FAS 142 effective October 1, 2002 but may early adopt in the first fiscal quarter of 2002. The Company is currently evaluating the effect that adoption of the provisions of FAS 142 that are effective October 1, 2002 will have on its results of operations and financial position.

#### **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, future, 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 our prospectus filed with the Securities and Exchange Commission on March 7, 2001.

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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.

6

## Table of Contents

### 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		Nine Months Ended	
	June 30, 2001	June 24, 2000	June 30, 2001	June 24, 2000
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold				
70.7 68.1 69.0 68.2				
Gross profit				
29.3 31.9 31.0 31.8				
Selling, general and administrative expenses				
19.0 18.9 19.4 19.4				
Amortization of goodwill and other intangibles				
0.3 0.4 0.3 0.4				
Operating income				
10.0 12.6 11.3 12.0				
Interest income (expense), net				
0.1 0.0 0.1 (0.1)				
Other charges, net				
(0.1) (0.1) 0.0 (0.1)				

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Income before income taxes and extraordinary item

10.0 12.5 11.4 11.8

Income taxes

3.9 5.1 4.5 4.8

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Income before extraordinary item

6.1 7.4 6.9 7.0

Extraordinary loss from early debt retirement

0.0 0.0 0.0 0.2

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Net income

6.1% 7.4% 6.9% 6.8%

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Number of stores open at end of period

177 123 177 123

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### Three Months Ended June 30, 2001 Compared to Three Months Ended June 24, 2000

**Net Sales.** Our net sales increased to \$78.4 million from \$58.7 million, an increase of \$19.7 million or 33.6% over the same period last year. This increase is attributable primarily to \$23.3 million of net sales for the 21 new stores opened during the three months ended June 30, 2001, as well as other stores opened in prior fiscal periods that did not qualify as comparable stores. Our comparable store sales decreased by 6.6%, reducing the net sales increase by \$3.6 million during the three months ended June 30, 2001.

**Gross Profit.** Gross profit represents net sales less cost of goods sold, which includes buying, distribution and occupancy costs. Our gross profit increased to \$23.0 million from \$18.7 million, an increase of \$4.3 million or 23.0% over the same period last year. This increase is the result of higher net sales offset by a decrease in gross profit margin. As a percentage of net sales, gross profit decreased to 29.3% from 31.9%. The decrease as a percentage of net sales was principally due to higher occupancy, markdown, buying, shrink, and freight expenses, partially offset by higher initial markups.

**Selling, General and Administrative Expenses.** Our selling, general and administrative expenses increased to \$14.9 million from \$11.1 million, an increase of \$3.8 million or 34.4% over the same period last year. This increase is attributable to new store expansion and increased corporate expenses. As a percentage of net sales, selling, general and administrative expenses increased to 19.0% of sales from 18.9% primarily as a result of higher store operating expenses, partially offset by the leveraging of corporate expenses.

**Amortization of Goodwill and Other Intangibles.** Amortization of goodwill and other intangibles remained constant at \$0.2 million during these two periods.

### Table of Contents

**Income Taxes.** Our effective tax rate of 39.5% compares to an effective tax rate of 40.4% for the same period of the prior year. Our effective tax rate exceeds statutory tax rates due to non-deductible amortization of goodwill associated with the acquisition of the business in September 1996.

**Net Income.** Our net income for the three months ended June 30, 2001 increased to \$4.8 million from \$4.4 million, an increase of \$0.4 million or 9.9% over the same period last year. This increase was primarily due to an increase in gross profit, an increase in interest income, and a lower effective income tax rate, partially offset by an increase in selling, general and administrative expenses.

### Nine Months Ended June 30, 2001 Compared to Nine Months Ended June 24, 2000

**Net Sales.** Our net sales increased to \$235.5 million from \$168.9 million, an increase of \$66.6 million or 39.4% over the same period last year. This increase is attributable primarily to \$65.7 million of net sales for the 43 new stores opened during the nine months ended June 30, 2001, as well as other stores opened in prior fiscal periods that did not qualify as comparable stores. Our comparable store sales increased by 0.6% and contributed \$0.9 million to the net sales increase during the nine months ended June 30, 2001.

**Gross Profit.** Gross profit represents net sales less cost of goods sold, which includes buying, distribution and occupancy costs. Our gross profit increased to \$73.0 million from \$53.6 million, an increase of \$19.4 million or 36.1% over the same period last year. This increase is the result of higher net sales offset by a decrease in gross profit margin. As a percentage of net sales, gross profit decreased to 31.0% from 31.8%. The decrease as a percentage of net sales was principally due to higher occupancy, freight, markdown, and shrink expenses, partially offset by higher initial markups.

**Selling, General and Administrative Expenses.** Our selling, general and administrative expenses increased to \$45.6 million from \$32.7 million, an increase of \$12.9 million or 39.6% over the same period last year. This increase is attributable to new store expansion and increased corporate expenses. As a percentage of sales, selling, general and administrative expenses are 19.4% of sales, which is consistent with the same period of the prior year.

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**Amortization of Goodwill and Other Intangibles.** Our amortization of goodwill and other intangibles remained constant at \$0.7 million during these two periods.

**Income Taxes.** Our effective tax rate of 39.5% compares to an effective tax rate of 40.5% for the same period of the prior year. Our effective tax rate exceeds statutory tax rates due to non-deductible amortization of goodwill associated with the acquisition of the business in September 1996.

**Net Income.** Our net income for the nine months ended June 30, 2001 increased to \$16.2 million from \$11.5 million, an increase of \$4.7 million or 40.4% over the same period last year. This increase was primarily due to an increase in gross profit, an increase in interest income, a lower effective income tax rate, and a \$0.3 million charge related to the early repayment of a secured bank credit facility in fiscal 2000, partially offset by an increase in selling, general and administrative expenses.

### Recent Developments

During the third quarter of fiscal 2001, a slowdown in mall traffic, especially in the Southern California region, adversely impacted sales at stores that had been open for at least one year. As a result, comparable store sales declined 6.6% from prior year levels. The sales declines caused store occupancy and payroll expenses to rise as a percent of sales and resulted in reduced operating income margins.

We are cautious about the near-term economic outlook. We have seen no significant improvement in sales trends during the initial weeks of the fourth quarter of fiscal 2001. To the extent that consumer spending remains soft in future quarters, it would be difficult for comparable stores sales and operating income margins to show improvement over their prior year performances.

### 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. At June 30, 2001, we had approximately \$9.0 million of cash and cash equivalents on hand. We had net working capital of approximately \$5.4 million.

Net cash provided by operations was \$23.8 million for the nine months ended June 30, 2001 compared with \$16.9 million during the nine months ended June 24, 2000. Cash flows from operating activities for

### Table of Contents

the period were primarily generated by income from operations and changes in working capital account balances.

Net cash used in investing activities was \$21.4 million for the nine months ended June 30, 2001 compared with \$15.8 million in the nine months ended June 24, 2000. Cash used in investing activities primarily represents capital expenditures for store openings, store remodeling, and fixtures.

In the nine months ended June 30, 2001 and June 24, 2000, we opened 43 and 27 new stores, respectively. During fiscal 2001, we plan to open at least 47 new Charlotte Russe and Rampage stores net of two closures. We will also continue the test of our Charlotte's Room concept, with five new stores expected to be opened during the current fiscal year. We anticipate that total capital expenditures during fiscal 2001 will approximate \$31.0 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 \$2.7 million for the nine months ended June 30, 2001 compared with \$3.3 million of net cash used in financing activities for the nine months ended June 24, 2000. Financing activities for the nine months ended June 30, 2001 primarily represent net proceeds of \$1.8 million from the issuance of 100,000 shares of common stock in connection with our March 7, 2001 offering and the proceeds of stock option exercises.

We believe that cash generated from operations and funds available under our revolving credit facility will be sufficient to fund our store expansion program and working capital requirements for at least 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.

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**Table of Contents**

**CHARLOTTE RUSSE HOLDING, INC.**

**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 June 30, 2001, 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.

**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 expansions. Moreover, under the terms of our 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

- (a) Exhibits: None.
- (b) Reports on Form 8-K No reports were filed on Form 8-K during the quarter for which this report is filed.

10

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**Table of Contents**

**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 1st day of August, 2001.

CHARLOTTE RUSSE HOLDING, INC.

By: /s/ DANIEL T. CARTER

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Daniel T. Carter  
Executive Vice President and Chief Financial Officer