

CHARLOTTE RUSSE HOLDING INC

Form 10-Q

August 01, 2001

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

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 JUNE 30, 2001

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

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CHARLOTTE RUSSE HOLDING, INC.

CONSOLIDATED BALANCE SHEETS

| | June 30, 2001 | September 30, 2000 |
|---------------------------|------------------|--------------------------|
| | (unaudited) | (audited) |
| ASSETS | | |
| 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 |

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

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

**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

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

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

Total stockholders' equity

96,320,178 74,493,884

Total liabilities and stockholders' equity

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

See accompanying notes.

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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.

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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 |
| Operating Activities | | | | |
| 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)

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)

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

Net cash provided by (used in) financing activities

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

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

Cash and cash equivalents at end of the period

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

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 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 | <u>\$4,789,136</u> | <u>\$4,355,850</u> | <u>\$16,197,392</u> | <u>\$11,538,043</u> |

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

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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.

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.

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Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with 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 | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| 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 | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| 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) | | | | |

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

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

Net income

6.1% 7.4% 6.9% 6.8%

Number of stores open at end of period

177 123 177 123

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.

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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

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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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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.

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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 1st day of August, 2001.

CHARLOTTE RUSSE HOLDING, INC.

By: /s/ DANIEL T. CARTER

Daniel T. Carter
Executive Vice President and Chief Financial Officer