

CHARLOTTE RUSSE HOLDING INC  
Form 10-K/A  
May 05, 2005

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-K/A

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 25, 2004

.. 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)

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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**SECURITIES REGISTERED PURSUANT TO SECTION 12 (b) OF THE ACT: NONE**

**SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE ACT:**

**COMMON STOCK, PAR VALUE \$0.01 PER SHARE**

(Title of Each Class)

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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 by check mark if the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act): Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Annual Report on Form 10-K.

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant as of March 26, 2004, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$230,727,000.

Number of shares of common stock outstanding as of December 13, 2004 was 21,968,627.

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### **EXPLANATORY NOTE**

This Annual Report on Form 10-K/A ( Form 10-K/A ) is being filed in order to correct the previously issued consolidated financial statements of Charlotte Russe Holding, Inc., (the Company ) as of September 25, 2004 and September 27, 2003, and for the fiscal years ended September 25, 2004, September 27, 2003 and September 28, 2002, initially filed with the Securities and Exchange Commission (the SEC ) on December 13, 2004 (the Original Filing ). The corrections reflect changes to our lease accounting practices for landlord construction allowances and straight-line rent during construction periods in accordance with accounting principles generally accepted in the United States of America as clarified by the Office of the Chief Accountant of the SEC on February 7, 2005 in a letter to the American Institute of Certified Public Accountants. In addition, the Company concluded that it was appropriate to correct a previously identified immaterial inter-quarterly error by shifting this charge between appropriate quarterly periods. See Note 2: Restatement of Financial Statements under Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data of this Form 10-K/A for additional discussion.

This Form 10-K/A amends and restates only Items 6, 7, 7A, 8 and 9A of Part II and Item 15 of Part IV of the Original Filing to reflect the effects of this restatement of our financial statements for the period presented or as deemed necessary in connection with the completion of restated financial statements. The remaining Items contained within this Form 10-K/A consist of all other Items originally contained on Form 10-K for the fiscal year ended September 25, 2004. These remaining Items are not amended hereby, but are included for the convenience of the reader. Except for the forgoing amended information, this Form 10-K/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates information by reference from the definitive Proxy Statement for the 2005 Annual Meeting of Stockholders, to be filed with the Commission within 120 days after the end of the Registrant's fiscal year covered by this Annual Report on Form 10-K/A.

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The stylized and non-stylized Charlotte Russe, Refuge and trademarks referred to in this Annual Report on Form 10-K/A are federally registered in the United States. These trademarks are the property of Charlotte Russe Holding, Inc. or its subsidiaries. The Rampage® trademark referred to in this Annual Report on Form 10-K/A is federally registered in the United States and is used by Charlotte Russe under a license agreement with Rampage Licensing, LLC. The use of the Rampage trademark by other parties, including other apparel manufacturers and retailers, should not be attributed to our business. All other trademarks or trade names referred to in this Annual Report on Form 10-K/A are the property of their respective owners.

## PART I

### ITEM 1. BUSINESS

#### General

We are a growing, mall-based specialty retailer of fashionable, value-priced apparel and accessories targeting young women in their teens and twenties. We have two distinct, established store concepts: Charlotte Russe and Rampage. As of September 25, 2004, we operated a total of 360 stores throughout 39 states and Puerto Rico. Through our fashion content, merchandise mix, exciting store layout and design, and striking merchandise presentation, we project fashion attitudes that appeal to customers across age and socioeconomic boundaries, with a core emphasis on the fashion and lifestyle needs of young women. Our Charlotte Russe stores offer fashionable, affordable apparel and accessories that have been tested and accepted by the marketplace, thus appealing to women who prefer established fashion trends. Our Rampage stores feature trendsetting apparel and accessories and thus appeal to women who have a flair for making fashion statements and who want runway-inspired fashion, quality and value.

Our Charlotte Russe and Rampage stores are located predominantly in high-visibility, center court mall locations in spaces that average approximately 7,000 square feet. Our stores are designed to create an environment that is exciting to shop and accentuates the fashion, breadth and value of our merchandise selection.

Our broad assortment of merchandise is centered on styles that are affordable, feminine and reflect the latest fashion trends. Our breadth of merchandise enables our customers to assemble coordinated and complete outfits that satisfy many of their lifestyle needs. Both our Charlotte Russe and Rampage store concepts offer merchandise at value-oriented prices, generally below most of our direct mall-based competitors. We estimate that over 80% of our Charlotte Russe merchandise is sold under our proprietary Charlotte Russe labels and over 80% of our Rampage merchandise is sold under our proprietary label. The remainder of our merchandise at these stores consists of nationally-recognized brands popular with our customers.

#### **We are a growing national specialty retailer.**

As of September 25, 2004, we operated 360 stores throughout 39 states and Puerto Rico. Based on our successful track record, favorable demographic trends and a solid infrastructure, we believe we are positioned for continued growth over the next several years. We plan to continue to open new Charlotte Russe and Rampage stores at a measured rate, with up to 60 new Charlotte Russe and Rampage stores planned for fiscal year 2005. We have already opened 8 of these stores and have substantially completed our lease negotiation and evaluation process for 44 of the remainder. We expect to open these new stores in existing markets as well as in markets in which we currently do not have a presence.

We rely on exciting in-store graphics and window displays to convey our fashion-forward orientation in both our Charlotte Russe and Rampage stores. We have also leveraged these successful marketing efforts to promote awareness of our Charlotte Russe brands on a national level through a national print marketing campaign.

#### **Our business strategy differentiates us from our competitors.**

The elements of our business strategy combine to create a merchandise assortment that appeals to consumers from a broad range of socioeconomic, demographic and cultural profiles and

that differentiates us from our competitors. We believe this broad consumer appeal, coupled with our superior new store cash returns on investment, creates a highly portable store concept and a significant opportunity for growth. The principal elements of our business strategy include the following:

*Offer Consistent Value Pricing.* We offer a broad assortment of fashionable, quality merchandise at prices generally below most of our direct mall-based competitors. We employ this value-pricing strategy across both of our established store concepts, with an average sales price for apparel items at our Charlotte Russe and Rampage stores of approximately \$16.00 and \$28.00, respectively. Because our prices are affordable and our merchandise quality is comparable to higher priced specialty retailers and department stores, we create a strong perception of value that we believe has enabled us to build a broad and loyal base of customers.

*Maintain Distinct Brand Images.* We have created focused and differentiated brand images based on fashion attitude, value pricing and quality. These images are consistently communicated through all aspects of our business, including merchandise assortments, in-store visual merchandising and marketing materials. We also enhance brand recognition by offering an estimated 80% of our Charlotte Russe merchandise under our proprietary Charlotte Russe labels and approximately 80% of our Rampage merchandise under our proprietary label. We believe that both of our established brands provide opportunities for expansion of our current merchandise categories and entry into new product categories.

*Target a Highly Desirable Market.* Our Charlotte Russe and Rampage stores target young women in their teens and twenties, a large and growing demographic. The teenage and early twenties population is expected to grow at a rate faster than that of the overall United States population according to the United States Census Bureau.

*Offer Broad, Exciting Merchandise Assortment.* Our merchandising strategy is founded on offering a broad assortment of apparel and accessories that conveys a consistent fashion attitude. Our merchandise includes ready-to-wear apparel such as knit and woven tops, dresses, shorts, pants and skirts, as well as accessories such as shoes, handbags and jewelry that enable our customers to create distinct ensembles complemented by color coordinated and fashion-forward items. Our merchandise assortment is vogueish enough to attract teenage customers and yet stylish enough to retain those women as they mature into young adults. We maintain a fresh and exciting shopping environment by frequently introducing new merchandise into our stores and by regularly updating our merchandise displays. In addition, our stores provide a comfortable and spacious environment that accentuates the breadth of our merchandise offerings.

*Capitalize on Strong Store Economics.* Based on our experience with store openings for our two established concepts, we estimate that the average net investment to open these new stores is approximately \$400,000, which includes capital expenditures, net of landlord contributions, and initial inventory, net of payables. All new stores opened since our acquisition in fiscal 1996 that have operated for more than a year generated average net sales of approximately \$1.7 million and store-level operating cash flow in excess of \$350,000, or approximately 20.3% of net sales. Accordingly, these stores generated an average cash return on investment of over 90% in their first year of operation. For the 131 stores opened in fiscal 2002 and 2003, we achieved average net sales of \$1.6 million per store and store-level operating cash flow of approximately \$295,000, or 18.8% of net sales. This group of newer stores generated an average cash return on investment of approximately 89% in their first year of operations. In light of recent economic conditions, we are targeting future store openings that will generate, on average, cash returns on investment in excess of 80% for the first year of operation.

*Leverage Highly Experienced Management Team.* We believe our management is positioned to capitalize on the strong economics of the Charlotte Russe and Rampage concepts and to successfully execute our national expansion program. Our two executive officers and our active Chairman of the Board have an average of more than 25 years of retailing experience, including experience with national retailers such as Contempo Casuals, Guess?, Pacific Sunwear, Claire's Stores and Price Club. In addition, our 15 Vice Presidents average over 21 years of retailing experience, and our total of 18 executives have been with us for an average of 8 years.

*Actively Manage Inventory.* A key aspect of our merchandising strategy is our test-and-reorder philosophy. This strategy allows us to minimize our inventory risk by ordering small quantities of fashion merchandise to test customer acceptance before placing larger purchase commitments. Our test-and-reorder strategy is successful in large part because we deal primarily with domestic vendors, which in our experience has generally resulted in short lead times of three to six weeks. These short lead times, together with our ability to monitor store sales on a daily basis, permit us to quickly react to sell-through trends and fashion preferences. We have one of the higher inventory turn rates in the industry, and we believe that our approach to managing our merchandise mix has contributed to strong merchandise gross margins.

**Our target customers are young, fashion-conscious women.**

We target young, fashion-conscious women. Our Charlotte Russe customer is a woman who desires established trends at substantial value. She is a hip teenager seeking the current fashion trends, as well as the fashionable working woman looking for career dressing. Regardless of her age, the Charlotte Russe customer is feminine and body conscious. Our Rampage stores cater to women with definitive fashion sense who set rather than follow trends. Our Rampage customer is hip, eclectic, body conscious and tapped into pop culture. She wants her look to be cutting-edge, while recognizing the value of competitive pricing.

**We offer established fashion and cutting-edge merchandise.**

*Charlotte Russe.* Our Charlotte Russe stores provide an exciting, fashionable assortment of merchandise that complements virtually every facet of our customers' lifestyle. Our merchandise reflects established fashion trends and includes a broad offering of ready-to-wear apparel, including knit and woven tops, dresses, shorts, pants and skirts, as well as seasonal items such as prom dresses and outerwear. This product assortment allows us to be fashionable enough to attract teenage customers and yet stylish enough to retain customers as they become young working women. We believe Charlotte Russe stores offer a higher percentage of dresses as compared to other specialty retailers to better meet our customers' broad lifestyle needs for casual, social and special occasion wear. Our typical dresses range in price from \$19.99 to \$60.00. By offering a product mix that reflects a more mature stage of the fashion cycle, our Charlotte Russe stores are able to learn from the experience of our Rampage stores with emerging trends in order to more quickly identify fashion that has a broad market appeal. Charlotte Russe stores also offer a broad assortment of accessories, such as lingerie, shoes, jewelry, handbags and cosmetics. Our expansive accessories category enables us to offer the convenience of one-stop shopping to our customers, enabling them to complement their ready-to-wear clothing with color coordinated items and fashion-forward accessories. Over 80% of the merchandise sold in our stores carries our proprietary Charlotte Russe labels. Our average sales price for apparel items is \$16.00, and the average sales price for all of our merchandise, including accessories, is \$12.00.

*Rampage.* Our Rampage stores offer essentially the same breadth of ready-to-wear apparel as our Charlotte Russe stores, but the merchandise reflects emerging trends and therefore a more

cutting-edge look. The retail prices for our typical dresses range from \$69.00 to \$89.00. There is also less emphasis on the career customer in our Rampage stores. Over 80% of the Rampage merchandise is offered under our proprietary label. We work with our vendors to design a majority of the merchandise that is carried in our Rampage stores. We also have established a standard fit for all of our apparel to ensure consistent sizing among our merchandise. Our Rampage stores also offer specialty accessories that complement our higher-end merchandise. By offering the latest in emerging fashions, our Rampage stores are able to command price points that are higher than those of Charlotte Russe, but still below those of its competitors. The average sales price for apparel items in our Rampage stores is \$28.00, and the average sales price for all of our merchandise, including accessories, is \$23.00.

**Our visual merchandising strengthens our brand name and creates an exciting shopping environment.**

Our merchandising presentation for our retail apparel concepts communicates a clear fashion point-of-view to our customers and encourages the purchase of coordinated outfits. Our visual merchandising team for the Charlotte Russe and Rampage stores also makes use of body forms in store windows as well as on the selling floor to enhance our merchandise presentation.

Within our Charlotte Russe stores, we seek to create an inviting environment for our broad product offerings. We generally group our apparel merchandise by fashion casual, wear-to-work and going-out lifestyles. Our offerings are complemented with lingerie, shoes and other accessories. We believe that presenting apparel merchandise by lifestyles, when accompanied with boutiques of various accessories, creates an attractive atmosphere for our customers and that the breadth and depth of our product offerings makes us a destination location for their shopping needs.

At our Rampage stores, we employ an equally effective visual merchandising strategy in order to capture the interest of our customers. Our Rampage merchandise is generally grouped by lifestyles with an emphasis on color and fashion trends to keep the stores vibrant, hip and visually stimulating. Our store size allows us to provide an expansive and diverse offering of merchandise. Our store window displays and in-store graphics accentuate the fashion, quality and cutting-edge style of our merchandise.

**We order primarily from domestic sources and utilize a test-and-reorder strategy.**

We purchase all of our inventory from third party vendors. A key aspect of our merchandising strategy is our test-and-reorder philosophy. Our experienced buying staff uses sophisticated information systems to track the weekly sell-through of each merchandise item by classification, style, color and size, and then places appropriate reorders for popular merchandise. Accordingly, our test-and-reorder strategy enables us to quickly react to sell-through trends and fashion preferences.

Our test-and-reorder strategy is successful in large part because we deal with domestic vendors, which has generally resulted in short lead times of three to six weeks. We have established relationships with over 600 vendors to meet our ongoing fashion and inventory needs. We are beginning an initiative to optimize our purchasing by decreasing our number of vendors. We believe that we generally are able to obtain attractive pricing and other terms from vendors because of their desire to be associated with the Charlotte Russe and Rampage images and the rapid consumer feedback provided by our test-and-reorder philosophy. We maintain a buying office in the CaliforniaMart in Los Angeles, the primary apparel center in southern California, to facilitate constant dialogue and feedback between our buying staff and our vendors. During the



fiscal year ended September 25, 2004, our top five vendors accounted for approximately 14.3% of our total purchases and no single vendor accounted for more than 3.4% of our total purchases.

**We manage our inventory through merchandise planning and allocation.**

Our merchandise planning and allocation team works closely with our merchants and store personnel to meet the requirements of individual stores for appropriate merchandise in sufficient quantities. This team is also responsible for managing inventory levels, allocating merchandise to stores and replenishing inventory based upon information generated by our management information systems. Our planning department allocates merchandise for new store openings based on estimated units per square foot, and all new stores are fully stocked prior to opening. Our inventory control systems monitor current inventory levels at each store and for our operations as a whole. If necessary, we shift slow moving inventory to other stores for sell-through prior to instituting corporate-wide markdowns. We also monitor recent selling history within each store by merchandise classification, style, color and size.

**We distribute merchandise through our modern facilities.**

Our merchandise is distributed through two modern distribution facilities: our 265,000 square foot distribution facility in Ontario, California, which we opened in April 2002, and our 125,000 square foot distribution facility (which includes our corporate offices) in San Diego, California, which we opened in April 1998. Both of these facilities use automated systems for sorting apparel by store and facilitating packaging for display in our stores. In addition, our Ontario facility also uses an automated system for sorting accessories by store. Our Ontario facility services the Charlotte Russe stores, and our San Diego facility (which until April 2002 served all our stores) services Rampage stores. We estimate that we have the distribution capacity to service at least 700 stores.

We estimate that over 90% of our apparel merchandise is currently pre-ticketed by our vendors. This pre-ticketing by vendors allows us to ship merchandise more quickly, reduces labor costs and enhances inventory management. Our merchandise is generally shipped to stores within 24 hours of receipt at the distribution center for delivery on common carrier within one to five business days. Our merchandise is available for sale in our stores the same day it is received and, accordingly, the time period from receipt of goods at our distribution center to display in our stores is typically less than seven days. Each store generally receives three to five merchandise shipments per week. We believe our current distribution operations are sufficient to accommodate our expected store growth and expanded product offerings through the next several years.

**We have stores throughout the United States.**

As of September 25, 2004, we operated 294 Charlotte Russe stores and 66 Rampage stores throughout 39 states and Puerto Rico. The number of our stores located in each state is shown in the following map:

The following table highlights the number of stores, by geographic region, opened in each of the last five fiscal years:

	<u>California</u>	<u>Northeast</u>	<u>Southwest</u>	<u>Southeast</u>	<u>Midwest &amp; Other</u>	<u>Total</u>
Store count at September 25, 1999	40	9	19	23	5	96
<b>Fiscal 2000</b>						
Stores opened	4	14	9	6	7	40
	44	23	28	29	12	136
<b>Fiscal 2001</b>						
Stores opened	7	13	8	8	18	54
Stores closed	(1)			(1)		(2)
	50	36	36	36	30	188
<b>Fiscal 2002</b>						
Stores opened	2	15	15	12	19	63
	52	51	51	48	49	251
<b>Fiscal 2003</b>						
Stores opened	4	19	11	12	24	70
Stores closed (Charlotte's Room)	(4)	(1)	(4)	(1)		(10)
	52	69	58	59	73	311
<b>Fiscal 2004</b>						
Stores opened	5	10	6	12	16	49
Store count at September 25, 2004	57	79	64	71	89	360

**We seek to locate our stores in large, commanding spaces in high traffic areas of strong regional malls.**

Our stores, which average approximately 7,000 square feet, provide a comfortable and spacious shopping environment that accentuates the breadth of our merchandise offering. The target square footage for our new Charlotte Russe stores is 6,500 to 7,000 and the target square footage for our new Rampage stores is 4,500 to 5,000. To distinguish our stores, we also seek prominent center court locations with distinctive architectural features, such as high angled ceilings, which our store designers and visual merchandisers can use to create striking displays, facades and entrances. We believe that specialized store design features, including finished ceilings, classic lighting and detailed features, help create a differentiated store environment unique to young women apparel retailers in the mall. We have historically been able to locate and profitably operate our stores in a variety of malls catering to different socioeconomic, demographic and cultural profiles.

We seek to identify favorable store locations in existing or new markets with criteria that include:

a careful assessment of mall traffic;

the performance of other retailers within the mall and in particular those serving our target customers;

the proposed location within the mall;

population and demographic characteristics of the area; and

projected profitability and cash return on investment.

Immediately after site approval, we simultaneously negotiate lease terms and begin planning the store layout and design. We typically open a new store within three months after lease execution and delivery of space. We also continually evaluate our stores to assess the need for remodeling or possible closure based on economic factors.

Although we currently engage an independent real estate consultant to assist us in site selection and lease negotiations, we expect to develop the capabilities to perform these functions internally.

### **Store Operations**

Our store operations are currently organized into four regions: a Western region with 7 districts; a Northeastern region with 14 districts; a Southeastern and Texas region with 17 districts; and a Midwestern region with 10 districts. Each region is managed by a regional manager and each district is managed by a district manager. Each district manager is responsible for from six to eleven stores in his or her district. Individual store personnel generally consist of a store manager, one or two assistant managers and seven to ten sales associates, the number of which generally increases during our peak selling seasons. Our store managers are responsible primarily for customer service training and hiring store level staff. Merchandise selections, inventory management and visual merchandising strategies for each store are determined at the corporate level. Our regional, district, and store managers receive a base compensation plus incentive compensation based on sales goals.

Our commitment to customer satisfaction and service is an integral part of building customer loyalty. We strive to hire enthusiastic sales personnel and provide them with extensive training to create a sales staff with a strong fashion sense, a focus on customer service and a willingness to assist customers with assembling, accessorizing and coordinating outfits.

Our standard training program for store managers includes an initial three week session at a store managed by one of our training managers, as well as frequent regional and district meetings. In addition, our training manual provides practical information and skill development for all store level positions. We develop new store managers by promoting from within and selectively hiring from other retail organizations. In anticipation of our continued store expansion, we will continue to increase the number of people in our store manager training program as appropriate to support our proposed expansion strategy.

### **We continually invest in and upgrade our information technology systems.**

We are committed to investing in and continually upgrading our information technology systems, as we believe those systems are critical to implementing our expansion strategy in an efficient manner and to maintaining a competitive industry position. Our information technology systems address an array of operations information, including among others things, our stock keeping unit and classification inventory tracking, purchase order management, merchandise distribution, automated ticket making, general ledger, sales audit, accounts payable, fixed asset management, payroll, integrated financials and point-of-sale information. Through automated nightly two-way electronic communication with each store, we upload sales information, payroll hours, carton receipts and messages to our host system and download new merchandise pricing, price changes for existing merchandise, and system maintenance tasks to the point-of-sale devices. Our planning department evaluates information obtained through daily polling and, accordingly, implements merchandising decisions regarding inventory levels, reorders, price changes and allocation of merchandise to stores. In 2003, we implemented a new planning and reporting

software system, and we are currently implementing a new inventory software system that became operational for our Rampage stores at the end of fiscal 2004 and that we anticipate will become operational for our Charlotte Russe stores after the 2004 holiday season.

**We compete with other retailers primarily on the basis of timeliness of fashions, breadth of merchandise, brand recognition, pricing and quality.**

We currently compete against a diverse group of retailers, including national and local specialty retail stores, regional retail chains, traditional retail department stores and, to a lesser extent, mass merchandisers. The primary competitors of Charlotte Russe are Forever 21, Express and Wet Seal. The primary competitors of Rampage are bebe, Arden B and Guess?. Our competitors sell a broad assortment of apparel and accessories that are similar and often identical to those we sell. Furthermore, our competitors may at times sell their merchandise at prices lower than what we charge for comparable merchandise. We believe that the principal bases upon which we compete in our industry are timeliness of fashions, breadth of merchandise, brand recognition, pricing and quality. We believe that we have a significant competitive advantage over our competitors because of our exciting shopping environment. Our stores provide a feminine look that is exciting to shop and accentuates the value and breadth of our merchandise selection. We also believe that we have a competitive advantage because of high consumer recognition and acceptance of our brands, our strong presence in major shopping malls throughout the United States, our relationship with our vendors and the experience of our management. The retail and apparel industries, however, are highly competitive and characterized by relatively low barriers to entry.

**Our intellectual property is important to our success.**

We believe that our trademarks are important to our success. Our Charlotte Russe, Refuge and trademarks are registered with the United States Patent and Trademark Office.

In connection with the acquisition of our Rampage stores in September 1997, we acquired the exclusive right within the United States to use the Rampage trademark on exterior and interior signage identifying our Rampage stores, as well as the non-exclusive right within the United States to use the Rampage trademark for promotional and advertising materials. The right to market merchandise under the Rampage trademark was retained by Rampage Clothing Company and subsequently transferred to an affiliate, Rampage Licensing, LLC (Rampage Clothing Company and Rampage Licensing, LLC are collectively referred to herein as Rampage Clothing Company); and, accordingly, we do not have the right to use the Rampage trademark on our merchandise. Further, nothing in our license agreement prohibits the sale of merchandise bearing the Rampage trademark by other parties or the licensing of the Rampage trademark to other parties, and Rampage Clothing Company, in fact, has licensed the trademark to other parties. If the product quality or activities of the Rampage Clothing Company or these other parties substantially negatively impact our business reputation, we have the right to terminate the license agreement, subject to certain contractual notice obligations. We pay a royalty under the license agreement equal to the greater of a stated dollar amount or a percentage of net sales during the calendar year at stores operating under the Rampage name. The license agreement has an initial term that expires in 2012 and may be extended for six additional five-year periods provided that net sales under the license exceeds an annual goal for the year ending immediately prior to the beginning of such extension period. In the event we decide to terminate the license agreement prior to the end of the term, we may be required to pay a termination fee as specified in the licensing agreement.

**We consider the relationship with our employees to be good.**

As of September 25, 2004, we employed 1,726 full-time and 4,751 part-time employees. Of our full-time employees, 213 were employed at our corporate offices, 126 were employed at our distribution centers and 1,387 were employed at our store locations. The number of part-time employees fluctuates depending on our seasonal needs. None of our employees is represented by a labor union, and we consider the relationship with our employees to be good.

**Available Information**

We are subject to the information requirements of the Securities Exchange Act of 1934 (the Exchange Act ). Therefore, we file periodic reports, proxy statements, and other information with the Securities and Exchange Commission (the SEC ). Such reports, proxy statements, and other information may be obtained by visiting the Public Reference Room of the SEC at 450 Fifth Street, NW, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically.

Our Internet address is <http://www.charlotte-russe.com>. We make available through our Internet website our Annual Report on form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as amended, as soon as reasonably practicable after such reports and amendments are electronically filed with or furnished to the SEC.

We have adopted a code of ethics for our principal executive officer, principal financial officer and other individuals performing similar accounting and finance functions for us. This code of ethics is available via the Internet on our website. In the future, should amendments to the code of ethics be required, such amendments will also be posted on our website.

**ITEM 2. PROPERTIES**

We operated 360 stores throughout 39 states and Puerto Rico as of September 25, 2004. We currently lease all of our store locations. Most leases have an initial term of at least ten years and do not contain options to extend the lease. Our leases, however, often allow for termination by us after three years if sales at that site do not exceed specified levels, although in many instances we are required to pay back a portion of any landlord allowances received. We lease space containing approximately 125,000 square feet for our executive offices and distribution center in San Diego, California. This lease is for a term of twelve years and is scheduled to expire on August 31, 2009. We have entered into a ten and a half year lease, scheduled to expire on July 17, 2012, for space containing approximately 265,000 square feet for our Ontario, California distribution center. We believe our distribution capacity at the San Diego facility and the Ontario, California facility should be sufficient to accommodate our expected store growth through the next several years. We also lease approximately 16,200 square feet, which includes an allocation of adjoining common area space, at the CaliforniaMart in Los Angeles. This lease expires April 30, 2010.

The following table highlights the number of stores, by concept, in each state:

	<b>Charlotte</b>		
	<b>Russe</b>	<b>Rampage</b>	<b>Total</b>
Alabama	1		1
Arizona	11	3	14
California	45	12	57
Colorado	4	1	5
Connecticut	5	1	6
Delaware	1		1
Florida	33	10	43
Georgia	9	3	12
Hawaii	2		2
Iowa	1	1	2
Illinois	16	5	21
Indiana	5		5
Kansas	2		2
Kentucky	2		2
Louisiana	2		2
Maryland	3	2	5
Massachusetts	4	2	6
Michigan	14	1	15
Minnesota	6	1	7
Missouri	6	1	7
Nebraska	2		2
Nevada	6	2	8
New Hampshire	3		3
New Jersey	10	4	14
New Mexico	1		1
New York	16	6	22
North Carolina	4		4
Ohio	11	1	12
Oklahoma	5		5
Oregon	2		2
Pennsylvania	12	2	14
Puerto Rico	4	1	5
Rhode Island	1		1
South Carolina	4		4
Tennessee	5		5
Texas	23	5	28
Utah	3		3
Vermont	1		1
Virginia	5	1	6
Wisconsin	4	1	5
Store count at September 25, 2004	294	66	360

### ITEM 3. LEGAL PROCEEDINGS

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

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



Not applicable.

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**PART II**
**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Market Information and Holders**

Our common stock began trading on the Nasdaq National Market under the symbol CHIC on October 20, 1999, following our initial public offering. The following table sets forth the range of high and low closing sales prices of the common stock as reported by the Nasdaq National Market:

	<u>High</u>	<u>Low</u>
<b>Fiscal Year Ended September 25, 2004</b>		
First Quarter	\$ 15.15	\$ 10.15
Second Quarter	\$ 18.70	\$ 12.16
Third Quarter	\$ 21.75	\$ 16.21
Fourth Quarter	\$ 21.76	\$ 11.09
<b>Fiscal Year Ended September 27, 2003</b>		
First Quarter	\$ 14.48	\$ 7.86
Second Quarter	\$ 12.80	\$ 7.83
Third Quarter	\$ 11.28	\$ 8.03
Fourth Quarter	\$ 12.85	\$ 10.40

As of December 13, 2004, the number of holders of record of our common stock was approximately 18 and the number of beneficial holders of our common stock was estimated to be in excess of 1,500. On December 13, 2004, the closing price of our common stock as reported by the Nasdaq National Market was \$10.38 per share.

**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, under the terms of our revolving credit facility, we are prohibited from making any dividends, distributions or capital stock redemptions.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The shares disclosed in column (c) in the schedule below include 234,683 shares of common stock issuable under the 1999 Employee Stock Purchase Plan.

**Equity Compensation Plan Information**

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options warrants and rights</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by security holders	3,655,610	\$ 5.41	986,483
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>3,655,610</b>	<b>\$ 5.41</b>	<b>986,483</b>

Please see Note 7 in the notes to the consolidated financial statements for more information regarding our equity compensation plans.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data has been restated to reflect adjustments to the original Form 10-K that are further discussed in Explanatory Note in the forepart of this Form 10-K/A and in the Note 2: Restatement of Financial Statements under Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data of this Form 10-K/A. The data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K/A.

	Fiscal Year Ended (1)				
	Sept. 30, 2000	Sept. 29, 2001	Sept. 28, 2002	Sept. 27, 2003	Sept. 25, 2004
(dollars in thousands, except per share and sales per foot data) (Restated)					
<b>Statement of Income Data:</b>					
Net sales	\$245,260	\$324,825	\$409,382	\$456,622	\$539,404
Cost of goods sold	167,828	228,145	297,250	344,133	403,760
Gross profit	77,432	96,680	112,132	112,489	135,644
Selling, general and administrative expenses	46,122	63,181	76,516	90,896	111,270
Store closing costs				4,900	(325)
Amortization of goodwill	828	828			
Operating income	30,482	32,671	35,616	16,693	24,699
Interest income (expense), net	(593)	425	164	118	303
Other charges, net	(270)	(314)	(290)	(270)	(275)
Income before income taxes	29,619	32,782	35,490	16,541	24,727
Provision for income taxes	12,109	12,559	13,841	6,451	9,643
Net income	\$17,510	\$20,223	\$21,649	\$10,090	\$15,084
<b>Earnings per share (2):</b>					
Basic	\$0.87	\$0.98	\$1.03	\$0.48	\$0.70
Diluted	\$0.77	\$0.86	\$0.91	\$0.43	\$0.63
<b>Weighted average shares outstanding (2):</b>					
Basic (000 s)	20,084	20,596	21,045	21,240	21,567
Diluted (000 s)	22,845	23,428	23,694	23,507	23,993
<b>Selected Operating Data:</b>					
Number of stores open at end of period	136	188	251	311	360
Average square footage per store (3)	7,380	7,169	7,087	7,149	7,034
Sales per square foot (4)	\$286	\$277	\$259	\$229	\$228
Comparable store sales increase (decrease) (5)	2.80%	(1.7)%	(5.4)%	(10.1)%	(0.4)%
Average store sales (6)	\$2,129	\$2,010	\$1,839	\$1,629	\$1,619
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$3,829	\$10,031	\$13,553	\$22,967	\$30,713
Working capital (deficiency)	(4,722)	2,357	12,917	26,055	43,091
Total assets	132,337	181,387	227,070	261,444	301,680
Total long-term debt					

Total stockholders equity	71,986	98,415	124,025	134,929	155,613
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- (1) Our results of operations for fiscal 2000 included 53 weeks. All other periods presented included 52 weeks.
- (2) See Notes 1 and 11 of the notes to the consolidated financial statements for the method used to calculate the earnings per share and weighted average shares outstanding.
- (3) Our average square footage per store is based on all open stores at the end of the period.
- (4) Our sales per square foot consist of net sales divided by the time weighted average of gross square footage of all open stores.
- (5) Our comparable store percentages are based on net sales, and stores are considered comparable beginning on the first day of the month following the fourteenth full month of sales.
- (6) Our average store sales are based on the time weighted average of all open stores in the period.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following 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 Annual Report on Form 10-K/A. The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risks Relating to Our Business" in this section.

### **OVERVIEW**

We were founded in 1975 and opened our first store in Carlsbad, California. In September 1996, two funds managed by Saunders Karp & Megrue Partners, LLC, a private equity firm, together with Bernard Zeichner, acquired the business. Mr. Zeichner undertook several strategic initiatives for a national new store expansion program, including hiring a number of other senior executives with national retail experience, and upgrading our information systems, distribution systems and facilities. In September 1997, we launched our second distinct retail concept by acquiring 16 stores and a license to use the Rampage name on retail stores. In August 2001, we further enhanced our management team with the addition of Mark Hoffman as Chief Operating Officer. Mr. Hoffman began a strategic evaluation of our infrastructure needs, including senior management, systems, distribution facilities and merchandising strategy. In July 2003, Mr. Hoffman was promoted to Chief Executive Officer, and Mr. Zeichner became Chairman of the Board of Directors.

In the five fiscal years ended September 25, 2004, we grew from 96 stores to 360 stores, representing a compound annual growth rate of 30.3%, and increased our annual revenues from \$177.5 million in fiscal 1999 to \$539.4 million in fiscal 2004, representing a compound annual growth rate of 24.9%. Beginning in the third quarter of fiscal 2001, we experienced successive quarters of comparable store sales declines through the first quarter of fiscal 2004 that resulted in a 23.5% decline in average annual sales per store. As a result, beginning in late fiscal 2003, we began to initiate a series of management and operational changes intended to improve our merchandise assortments, in-store presentation and financial performance.

Our sales trends improved during the second and third quarters of fiscal 2004 which contributed to improved profitability. During the fourth quarter ending in September, however, sales slowed down as offerings at the Charlotte Russe stores failed to reflect enough wear-now Summer fashion due to an early conversion to early-Fall assortments. At the same time, the repositioning of the Rampage brand had become more difficult as more of the merchandise reflected elevated initial retail prices and corresponding elevations of product quality, fabrication, fit and detailing. Management acknowledged that it would take time to attract targeted customers to the elevated assortments, and it estimated that the Rampage stores would continue to experience negative comparable sales trends during the first half of fiscal 2005.

Sales for October 2004 and November 2004, the first two months of the first quarter of fiscal 2005, have been disappointing. Offerings at the Charlotte Russe stores have not met with customer acceptance and the anticipated progression of improvements at the Rampage stores has not materialized. The negative comparable store sales trend that re-emerged in the fourth quarter of fiscal 2004 is expected to continue through the first quarter of fiscal 2005. With the resulting decline in average store volumes, significant pressure on operating margins is expected and earnings for the first quarter of fiscal 2005 are expected to be down sharply from the prior year levels. In addition, Donna Desrosiers, General Merchandise Manager for the Charlotte Russe chain, resigned effective December 6, 2004. We have initiated an executive search for her replacement.

### **RESTATEMENT OF FINANCIAL STATEMENTS**

We reviewed our lease accounting practices in response to the letter issued on February 7, 2005 by the Office of the Chief Accountant of the SEC to the American Institute of Certified Public Accountants (the SEC Letter ) expressing its views regarding certain operating lease accounting issues and their application under generally accepted accounting principles ( GAAP ). Our lease accounting practices had not changed materially over the years. Our external independent auditors had been aware of our lease accounting practices, similar to those used by many other companies in the retail and restaurant industries, and had not suggested that they were not in accordance with GAAP. When reviewed against GAAP as set forth in the SEC Letter, we determined that our historical method of accounting for construction period straight-line rent and landlord construction allowances was not in accordance with GAAP.

Specifically, we previously reflected the unamortized portion of construction allowances as a reduction of capital expenditures rather than recording those transactions as a deferred rent credit. In addition, we previously recognized straight-line rent expense for leases beginning on the rent commencement date (i.e., store opening date), which had the effect of excluding the build-out period from the calculation of the period over which rent is expensed.

As a result, we restated our previously issued audited financial statements, as follows:

We no longer offset construction allowances against capital expenditures. The unamortized portion of construction allowances is recorded as a deferred rent credit rather than as a reduction to the cost of leasehold improvements. Depreciation expense has been increased to reflect the adjustment to capital expenditures with an equal and offsetting credit against rent expense during the contractual lease term.

We no longer recognize rent in accordance with the contractual lease commencement dates. Straight-line rent is imputed starting when we receive possession of the leased property for construction purposes. Preopening expense is recognized during the construction period with an equal and offsetting credit against rent expense during the contractual lease term.

As a result, excluding tax impacts, the correction of this accounting required us to record additional deferred rent, increase fixed assets and adjust retained earnings on the consolidated balance sheets. In connection with the restatement of all prior periods for these changes in lease accounting practices, we also corrected for a previously identified immaterial inter-quarterly error by shifting this charge between appropriate quarters. See Note 2: Restatement of Financial Statements under Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data of this Form 10-K/A for additional disclosures.



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**RESULTS OF OPERATIONS**

The following table sets forth our operating results, expressed as a percentage of sales, and store information for the periods indicated.

	Fiscal Year		
	2002	2003	2004
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	72.6	75.4	74.9
Gross profit	27.4	24.6	25.1
Selling, general and administrative expenses	18.7	19.8	20.5
Store closing costs	0.0	1.1	0.0
Operating income	8.7	3.7	4.6
Interest income, net	0.1	0.0	0.1
Other charges, net	(0.1)	(0.1)	(0.1)
Income before income taxes	8.7	3.6	4.6
Income taxes	3.4	1.4	1.8
Net income	5.3%	2.2%	2.8%
Number of stores open at end of period	251	311	360

**Fiscal Year Ended September 25, 2004 Compared to Fiscal Year Ended September 27, 2003**

*Net Sales.* Our net sales increased to \$539.4 million from \$456.6 million, an increase of \$82.8, or 18.1%, over the prior fiscal year. This increase reflects \$84.5 million of additional net sales from the 49 new stores opened during fiscal 2004 as well as other stores opened in prior fiscal years that did not qualify as comparable stores. This increase was partially offset by a 0.4% decrease in comparable store sales, which resulted in decreased sales of \$1.7 million compared to 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 \$135.6 million from \$112.5 million, an increase of \$23.1 million, or 20.6%, over the prior fiscal year. This increase was primarily the result of higher net sales. As a percentage of net sales, gross profit increased to 25.1% from 24.6%. The increase as a percentage of net sales was principally due to improved product gross margins as higher initial markup more than offset a higher markdown expense.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased to \$111.3 million from \$90.9 million, an increase of \$20.4 million, or 22.4%, over the prior fiscal year. This increase was attributable to new store expansion and increased corporate expenses, specifically higher store payroll and operating expenses and higher central office payroll and related expenses. As a percentage of net sales, selling, general and administrative expenses increased to 20.5% from 19.8% primarily due to higher store payroll expenses.



*Store Closing Costs.* Fiscal 2004 includes a pre-tax reversal of \$325,000 of costs previously incurred in fiscal 2003 associated with the closure of 10 Charlotte s Room stores.

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

*Net Income.* Our net income increased to \$15.1 million from \$10.1 million, an increase of \$5.0 million, or 49.5%, over the prior fiscal year. The increase was primarily due to an increase in gross profit which was partially offset by an increase in selling, general and administrative expenses, reduction in store closing costs, and an increase in income taxes.

### **Fiscal Year Ended September 27, 2003 Compared to Fiscal Year Ended September 28, 2002**

*Net Sales.* Our net sales increased to \$456.6 million from \$409.4 million, an increase of \$47.2 million or 11.5%, over the prior fiscal year. This increase reflects \$85.4 million of additional net sales from 70 new stores opened during fiscal 2003 as well as other stores opened in prior fiscal years that did not qualify as comparable stores. This increase was partially offset by a 10.1% decline in comparable store sales, which resulted in decreased sales of \$38.2 million compared to 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 \$112.5 million from \$112.1 million, an increase of \$0.4 million, or 0.3%, over the prior fiscal 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 24.6% from 27.4%. The decrease in gross profit as a percentage of net sales was principally due to higher occupancy expenses as these relatively fixed charges were spread over a smaller average store sales base.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased to \$90.9 million from \$76.5 million, an increase of \$14.4 million, or 18.8%, over the prior fiscal year. This increase was attributable to new store expansion and increased corporate expenses, specifically higher store payroll and operating expenses and higher central office payroll and related expenses. As a percentage of net sales, selling, general and administrative expenses increased to 19.8% from 18.7% primarily due to higher store operating expenses as these charges were spread over a smaller average store sales base.

*Store Closing Costs.* Fiscal 2003 includes a \$4.9 million pre-tax charge associated with the closure of 10 Charlotte s Room stores. No such charges were incurred in the prior fiscal year.

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

*Net Income.* Our net income decreased to \$10.1 million from \$21.6 million, a decrease of \$11.5 million, or 53.4%, over the prior fiscal year. The decrease was primarily due to a decrease in gross profit as a percentage of sales, an increase in selling, general and administrative expenses, store closing costs, offset by a decrease in income taxes.



## QUARTERLY RESULTS AND SEASONALITY

We have historically experienced and expect to continue to experience seasonal and quarterly fluctuations in our net sales and operating income. As is the case with many retailers of apparel and related merchandise, our business is subject to seasonal influences, characterized by strong sales during the back-to-school, Easter and winter holiday seasons. The strength of each of these three seasons generally provides relatively balanced sales during our first, third and fourth fiscal quarters. We typically experience lower net sales and net income during the second quarter of each fiscal year. Our quarterly results of operations may fluctuate significantly as a result of a variety of factors, including the timing of new store openings, fashion trends and shifts in timing of certain holidays, as well as other factors discussed in the section entitled *Risks Relating to Our Business*.

The following table includes our unaudited quarterly results of operations data for each of the eight quarters during the two-year period ended September 25, 2004. This data has been derived from our unaudited consolidated financial statements. We believe that this information has been prepared on the same basis as our audited consolidated financial statements and that all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the selected quarterly information when read in conjunction with our audited consolidated financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K/A.

Fiscal Year 2003				Fiscal Year 2004			
Three Months Ended				Three Months Ended			
Dec. 28, 2002	Mar. 29, 2003	Jun. 28, 2003	Sep. 27, 2003	Dec. 27, 2003	Mar. 27, 2004	Jun. 26, 2004	Sept. 25, 2004

*(dollars in thousands, except per share data)*

**Statement of Operations Data:**

Net sales	\$133,329	\$93,098	\$107,186	\$123,009	\$149,291	\$118,776	\$133,044	\$138,293
Gross profit	36,647	17,576	25,870	32,396	39,027	25,115	36,179	35,323
Operating income (loss)	12,314	(8,676)	4,154	8,901	10,661	118	8,875	5,045
Net income (loss)	7,479	(5,322)	2,516	5,417	6,480	76	5,424	3,104

**Earnings Per Share:**

Basic earnings (loss) per share	\$0.35	(\$0.25)	\$0.12	\$0.25	\$0.30	\$0.00	\$0.25	\$0.14
Dil								