

CHARLOTTE RUSSE HOLDING INC
Form DEFC14A
March 25, 2009

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

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant ..

Filed by a Party other than the Registrant x

Check the appropriate box:

- Preliminary Proxy Statement
- .. Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

CHARLOTTE RUSSE HOLDING, INC.
(Name of Registrant as Specified in Its Charter)

KARPREILLY CAPITAL PARTNERS, L.P.
KARPREILLY GP I, LLC
ALLAN W. KARP
CHRISTOPHER K. REILLY
WILLIAM P. LOGAN
HEZY SHAKED

GABRIEL BITTON
(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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.. Fee paid previously with preliminary materials:

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

KARPREILLY CAPITAL PARTNERS, L.P.

March 25, 2009

Dear Fellow Stockholder:

KarpReilly Capital Partners, L.P. (“KarpReilly LP”) and the other participants in this solicitation (collectively, the “KarpReilly Group” or “we”) are the beneficial owners of an aggregate of 1,868,203 shares of common stock of Charlotte Russe Holding, Inc. (“Charlotte Russe” or the “Company”), representing approximately 8.9% of the outstanding shares of common stock of the Company. For the reasons set forth in the attached Proxy Statement, the KarpReilly Group believes that the Board of Directors of the Company is not acting in the best interests of its stockholders. The KarpReilly Group is therefore seeking your support at the annual meeting of stockholders (the “Annual Meeting”) scheduled to be held on April 28, 2009 at 9:00 a.m. local time at the Hyatt Regency La Jolla at Aventine located at 3777 La Jolla Village Drive, San Diego, California 92122, for the following:

1. To elect the KarpReilly Group’s slate of three (3) director nominees to the Company’s Board of Directors in opposition to the Company’s incumbent directors;
2. To approve the Charlotte Russe Holding, Inc. 2009 Equity Incentive Plan; and
3. To ratify the selection of Ernst & Young LLP as the Company’s independent auditors for the fiscal year ending September 26, 2009.

We are not seeking control of the Board of Directors. Through the attached Proxy Statement, we are soliciting proxies to elect not only our three (3) director nominees, but also the candidates who have been nominated by Charlotte Russe other than Emilia Fabricant, Leonard H. Mogil and Jennifer C. Salopek. This gives stockholders the ability to vote for the total number of directors (seven (7)) up for election at the Annual Meeting. The names, backgrounds and qualifications of Charlotte Russe’s nominees, and other information about them, can be found in the Company’s proxy statement. There is no assurance that any of Charlotte Russe’s nominees will serve as directors if our nominees are elected.

The KarpReilly Group urges you to carefully consider the information contained in the attached Proxy Statement and then support its efforts by signing, dating and returning the enclosed GOLD proxy card today.

If you have already voted a proxy card furnished by the Company’s management, you have every right to change your vote by signing, dating and returning a later dated proxy.

If you have any questions or require any assistance with your vote, please contact Okapi Partners, which is assisting us, at its address and toll-free number listed on the following page.

Thank you for your support.

/s/ Allan W. Karp
Allan W. Karp
KarpReilly Capital Partners, L.P.

If you have any questions, require assistance in voting your GOLD proxy card, or need additional copies of KarpReilly L.P.'s proxy materials, please call Okapi Partners at the phone numbers listed below.

Okapi Partners
780 Third Avenue, 30th Floor
New York, NY 10017
Stockholders Call Toll-Free at: (877) 259-6290
Banks and Brokers Call Collect at: (212) 297-0720
info@okapipartners.com

2009 ANNUAL MEETING OF STOCKHOLDERS
OF
CHARLOTTE RUSSE HOLDING, INC.

PROXY STATEMENT
OF
KARPREILLY CAPITAL PARTNERS, L.P.

PLEASE SIGN, DATE AND MAIL THE ENCLOSED GOLD PROXY CARD TODAY

KarpReilly Capital Partners, L.P., a Delaware limited partnership (“KarpReilly LP”), KarpReilly GP I, LLC, a Delaware limited liability company (“KarpReilly GP”), Allan W. Karp (“Mr. Karp”), Christopher K. Reilly (“Mr. Reilly”), William P. Logan (“Mr. Logan”), Hezy Shaked (“Mr. Shaked”) and Gabriel Bitton (“Mr. Bitton”) (collectively, the “KarpReilly Group”) are significant stockholders of Charlotte Russe Holding, Inc., a Delaware corporation (“Charlotte Russe” or the “Company”). The members of the KarpReilly Group are participants in this solicitation. The KarpReilly Group believes that the Board of Directors of the Company (the “Board”) is not acting in the best interests of its stockholders. The KarpReilly Group is therefore seeking your support at the annual meeting of stockholders scheduled to be held on April 28, 2009 at 9:00 a.m. local time at the Hyatt Regency La Jolla at Aventine located at 3777 La Jolla Village Drive, San Diego, California 92122, including any adjournments or postponements thereof and any meeting which may be called in lieu thereof (the “Annual Meeting”), for the following:

1. To elect the KarpReilly Group’s director nominees, Allan W. Karp, Hezy Shaked and Gabriel Bitton (the “KarpReilly Nominees”), to serve as directors until the 2010 annual meeting of stockholders and until their respective successors shall have been elected and qualified, in opposition to the Company’s incumbent directors whose terms expire at the Annual Meeting;
2. To approve the Charlotte Russe Holding, Inc. 2009 Equity Incentive Plan; and
3. To ratify the selection of Ernst & Young LLP as the Company’s independent auditors for the fiscal year ending September 26, 2009.

This Proxy Statement is soliciting proxies to elect not only the three (3) KarpReilly Nominees, but also the candidates who have been nominated by the Company other than Emilia Fabricant, Leonard H. Mogil and Jennifer C. Salopek. This gives stockholders who wish to vote for the KarpReilly Nominees the ability to vote for seven (7) nominees in total.

As of the date of this Proxy Statement, the members of the KarpReilly Group were the beneficial owners of an aggregate of 1,868,203 shares of common stock of the Company, par value \$0.01 per share (the “Shares”), which currently represent approximately 8.9% of the issued and outstanding Shares. The KarpReilly Group is entitled to vote 1,548,174 Shares at the Annual Meeting, as 320,029 Shares were acquired after the Record Date (as defined below).

Charlotte Russe has set the record date for determining stockholders entitled to notice of and to vote at the Annual Meeting as February 27, 2009 (the "Record Date"). The mailing address of the principal executive offices of Charlotte Russe is 4645 Morena Boulevard, San Diego, California 92117. Stockholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting. According to Charlotte Russe, as of the Record Date, there were 20,999,870 Shares outstanding and entitled to vote at the Annual Meeting. The participants in this solicitation intend to vote all of their Shares which they are entitled to vote (i) FOR the election of the KarpReilly Nominees and the candidates who have been nominated by the Company other than Emilia Fabricant, Leonard H. Mogil and Jennifer C. Salopek, (ii) FOR the approval of the Charlotte Russe Holding, Inc. 2009 Equity Incentive Plan, and (iii) FOR the ratification of the appointment of Ernst & Young LLP as described herein.

This proxy statement (this "Proxy Statement") and the enclosed GOLD proxy card are first being furnished to stockholders on or about March 26, 2009.

THIS SOLICITATION IS BEING MADE BY THE KARPREILLY GROUP AND NOT ON BEHALF OF THE BOARD OF DIRECTORS OR MANAGEMENT OF THE COMPANY. THE KARPREILLY GROUP IS NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING. SHOULD OTHER MATTERS, WHICH THE KARPREILLY GROUP IS NOT AWARE OF A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING, THE PERSONS NAMED AS PROXIES IN THE ENCLOSED GOLD PROXY CARD WILL VOTE ON SUCH MATTERS IN THEIR DISCRETION.

THE KARPREILLY GROUP URGES YOU TO SIGN, DATE AND RETURN THE GOLD PROXY CARD IN FAVOR OF THE ELECTION OF THE KARPREILLY NOMINEES.

IF YOU HAVE ALREADY SENT A PROXY CARD FURNISHED BY CHARLOTTE RUSSE MANAGEMENT TO THE COMPANY, YOU MAY REVOKE THAT PROXY AND VOTE FOR THE ELECTION OF THE KARPREILLY NOMINEES AND THE CANDIDATES WHO HAVE BEEN NOMINATED BY THE COMPANY OTHER THAN EMILIA FABRICANT, LEONARD H. MOGIL AND JENNIFER C. SALOPEK BY SIGNING, DATING AND RETURNING THE ENCLOSED GOLD PROXY CARD. THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE ANNUAL MEETING BY DELIVERING A WRITTEN NOTICE OF REVOCATION OR A LATER DATED PROXY FOR THE ANNUAL MEETING TO THE KARPREILLY GROUP, C/O OKAPI PARTNERS, WHICH IS ASSISTING IN THIS SOLICITATION, OR TO THE SECRETARY OF CHARLOTTE RUSSE, OR BY VOTING IN PERSON AT THE ANNUAL MEETING.

**IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS
FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON APRIL 28, 2009**

The proxy materials are available at <http://www.myproxyonline.com/okapimaterials>.

IMPORTANT

Your vote is important, no matter how few Shares you own. The KarpReilly Group urges you to sign, date and return the enclosed GOLD proxy card today to vote FOR the election of the KarpReilly Nominees.

- If your Shares are registered in your own name, please sign and date the enclosed GOLD proxy card and return it to the KarpReilly Group, c/o Okapi Partners, in the enclosed envelope today.
- If your Shares are held in a brokerage account or bank, you are considered the beneficial owner of the Shares, and these proxy materials, together with a GOLD voting form, are being forwarded to you by your broker or bank. As a beneficial owner, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your Shares on your behalf without your instructions.
- Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.

Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Even if you return the Company's proxy card marked "withhold" as a protest against the incumbent directors, it will revoke any proxy card you may have previously sent to the KarpReilly Group. Remember, you can vote for our three nominees only on our GOLD proxy card. So please make certain that the latest dated proxy card you return is the GOLD proxy card.

If you have any questions regarding your proxy,
or need assistance in voting your Shares, please call:

Okapi Partners
780 Third Avenue, 30th Floor
New York, NY 10017
Stockholders Call Toll-Free at: (877) 259-6290
Banks and Brokers Call Collect at: (212) 297-0720
info@okapipartners.com

BACKGROUND OF THE SOLICITATION

- In September 1996, Saunders Karp & Megrue Partners, LLC (“SKM”), a private equity investment firm co-founded by Mr. Karp, acquired a 95% interest in the Company, then a privately-owned 35-store chain operating primarily in Southern California. Mr. Karp was the partner from SKM responsible for the Charlotte Russe investment since its inception.
- From the time of SKM’s acquisition of the Company until 2007 when SKM exited its investment, the Company grew from 35 stores to over 400 stores and saw annual revenues increase from \$71 million in fiscal 1996 to \$741 million in fiscal 2007, or approximately 24% compounded annual growth. The equity valuation of the Company grew from approximately \$18 million at the time of the acquisition to \$600 million at the time of SKM’s final exit.
- In October 1999, the Company completed its initial public offering of common stock (the “IPO”). SKM remained invested as one of the Company’s largest stockholders from 1999 to 2007, with Mr. Karp serving as its representative on the Board during this time.
- In February 2007, SKM sold its remaining shares in Charlotte Russe, and on July 2, 2007, Mr. Karp resigned as a director of Charlotte Russe after almost 11 years. The stock closed at \$26.10 per Share on July 2, 2007.
- On November 20, 2007, representatives of KarpReilly, LLC, an affiliate of KarpReilly LP, requested a brief, confidential due diligence period for the purpose of making a proposal to acquire the Company. This request was denied by the Board.
- On July 20, 2008, at the request of the Board, Mark A. Hoffman retired as President, Chief Executive Officer and a director of the Company. Soon after, on July 30, 2008, two other top executives, Patricia K. Johnson, Executive Vice President and Chief Financial Officer, and Patricia A. Shields, Executive Vice President, General Merchandise Manager, resigned from the Company.
- On July 20, 2008, Leonard H. Mogil, a member of the Board, was appointed interim Chief Executive Officer by the Board. Mr. Mogil retired in August 2001 from an executive position at Phillips-Van Heusen Corporation and has no experience as a chief executive officer of a public company or of a company similar to the Company’s business. Effective August 14, 2008, Mr. Mogil was also named interim Chief Financial Officer by the Board.

- On August 13, 2008, the Board adopted a stockholder rights plan or “poison pill.”
- Between August 4, 2008 and November 12, 2008, KarpReilly LP accumulated an aggregate of 1,172,162 Shares.
- On November 12, 2008, KarpReilly LP submitted a non-binding, fully financed, all cash proposal to the Board to acquire all of the outstanding Shares at a valuation range of between \$9.00 and \$9.50 per Share (the “KarpReilly Acquisition Proposal”). KarpReilly LP requested a 21-day due diligence period to enable it to finalize its proposal. The offer represented a premium of 31-38% over the closing price of the Shares on November 11, 2008, the trading day prior to KarpReilly LP’s announcement.
- On November 19, 2008, the Board sent a letter to KarpReilly LP denying its request for access to due diligence materials. The Board made no attempt to contact KarpReilly or discuss its interest in acquiring the Company.
- On November 24, 2008, as a result of the Board’s response, KarpReilly LP filed an amendment to its Schedule 13D announcing the withdrawal of the KarpReilly Acquisition Proposal.
- On December 4, 2008, the Board amended the Company’s bylaws to establish procedures that stockholders must comply with in order to be able to nominate directors, or make other proposals, at annual and special meetings of stockholders of the Company.
- On January 21, 2009, the Company announced its financial results for the first quarter of fiscal 2009, reporting a 9.1% decrease in comparable store sales and a net loss of \$2.9 million, as compared to the \$14.0 million of net income reported by the Company in the first quarter of fiscal 2008. The Company also announced that comparable store sales are expected to be in the negative mid- to high-single digits, and net loss per diluted share is expected to be in the range of \$0.10 to \$0.20, for its second quarter of fiscal 2009. In conjunction with this announcement, the Company announced that the Board was engaged in a process to evaluate strategic alternatives, including a possible sale of the Company.
- Immediately prior to these announcements on January 21, 2009, the Company’s common stock closed at \$4.93 per Share, as compared to \$6.89 per Share immediately prior to the KarpReilly Acquisition Proposal.
- On March 5, 2009, in accordance with the Company’s bylaws, Mr. Karp delivered to the Company his notice of intention to nominate the KarpReilly Nominees for election to the Board at the Annual Meeting.
- On March 12, 2009, the Company announced that it was initiating a sale process.

REASONS FOR THE SOLICITATION

The KarpReilly Group is seeking your support for the election of the KarpReilly Nominees. We believe the election of the KarpReilly Nominees represents the best means for stockholders to maximize the value of their Shares. The KarpReilly Nominees have extensive experience relevant to the Company and to the ability to fully pursue efforts to increase stockholder value, as further discussed in their biographical extracts below. If elected to the Board, the KarpReilly Nominees will endeavor to use their experience to work with the rest of the Board, oversee the Company with a goal of implementing the strategic and operational changes espoused by the KarpReilly Group, as well as exploring any other viable alternatives to maximize stockholder value. There can be no assurance that these goals will be achieved if the KarpReilly Nominees are elected.

We believe that the current Board is not acting in the best interests of stockholders

We believe that the Board has made a number of decisions which have resulted in a precipitous decline in stockholder value. Most importantly, we believe that, without a change in the Board, the current Board and executive management will continue to erode, not create, stockholder value.

- We believe the Board mishandled the “requested” retirement of the former CEO. In July 2008, the Board requested Mark Hoffman, then the Company’s President and CEO, to retire, without, in our view, a viable back-up plan. Ten days later, the Company’s Chief Financial Officer and General Merchandise Manager quit on their own accord, and issued a joint statement that they resigned “because we do not feel comfortable with the level of collaboration with the board of directors.” The Board named one of its own, Leonard H. Mogil, as interim CEO and CFO, and subsequently paid this retired apparel executive total compensation of \$678,000 in cash, stock and perquisites for what proved to be an assignment of less than four months. This upheaval occurred right before the critical back-to-school and holiday seasons, during which the Company reported negative same store sales of 3.8% and 9.1% in its fourth and first quarters, respectively. Compare these results to those of the Company’s peer group, which averaged negative same store sales of 0.3% and 4.9% during the comparable quarters.¹
- In response to this serious management void, the Board hired a new team with little to no junior fast-fashion experience. To replace the talented and experienced operators who left the Company, the Board hired two executives (not including the CFO) with minimal junior fast-fashion experience whose former companies (Mervyn’s and babystyle) have filed for bankruptcy protection. We believe that the combined base salary of \$1.5 million that the Board agreed to pay these two executives is in excess of the base salaries paid by the Company’s peers. We also believe that the almost \$500,000 in signing bonuses and over 500,000 Shares in the form of stock awards given to these two executives by the Board is inappropriate both in light of their relevant experience and for a company of Charlotte Russe’s size and market value.

¹ We have used the same peer group selected by the Company in its latest proxy statement to measure its compensation practices against the market: Aéropostale Inc. (NYSE: ARO), Bebe Stores, Inc. (Nasdaq: BEBE), Buckle, Inc. (NYSE: BKE), Guess?, Inc. (NYSE: GES), Hot Topic, Inc. (Nasdaq: HOTT), J. Crew Group, Inc. (NYSE: JCG), Pacific Sunwear of California, Inc. (Nasdaq: PSUN), Skechers USA, Inc. (NYSE: SKX), Tween Brands, Inc. (NYSE: TWB), Urban Outfitters, Inc. (Nasdaq: URBN), Wet Seal, Inc. (Nasdaq: WTSLA). These results do not include WTSLA, which has not yet reported its most recent quarterly results.

- We believe the Board has wasted time and money on outside consultants to review strategic initiatives. The Board began its 'strategic review' of the Company's operations in January 2008 in which it retained outside consultants to evaluate Charlotte Russe's market position – for almost an entire year. The Board has not disclosed who the consulting firm was or how much was invested in this project, but so far the only tangible results we've seen are additional marketing expenses (a brand ambassador and celebrity stylist) and a \$65 million supply agreement with a premium denim brand to offer \$88-\$98 jeans. We believe this is a huge departure from Charlotte Russe's value proposition to its customers and is exactly the kind of strategic misstep that occurs when a Board relies on consultants.²
- We believe the Board has acted to entrench itself at the expense of stockholders. Consider the following: In November 2007, representatives of KarpReilly, LLC requested a brief, confidential due diligence period for the purpose of making a proposal to acquire the Company, a request that was summarily denied by the Board. A few months later, the Board adopted a poison pill. On November 12, 2008, KarpReilly LP submitted a non-binding, fully financed, all cash proposal to the Board to acquire all of the outstanding Shares at a valuation range of between \$9.00 and \$9.50 per Share, and requested a 21-day due diligence period to enable it to finalize its proposal. Without engaging in any dialogue with KarpReilly LP, the Board rejected this request. Two weeks later, the Board amended the Company's bylaws to institute complex procedures that stockholders must comply with in order to be able to nominate directors, or make other proposals, at annual and special meetings of stockholders of the Company.

Perhaps these entrenchment actions should come as no surprise, given the Board members' increase of their own compensation and their minimal stock ownership. In fiscal 2008, the Board amended its own director compensation policy, resulting in the non-employee directors receiving between \$166,000 and \$307,000 in cash and stock awards, despite the Company's declining performance. In addition, the seven current directors own only 35,750 Shares (as well as 127,267 currently exercisable options) between them. Based upon the foregoing, we have serious concerns as to whether the Board's interests are truly aligned with those of the Company's stockholders.

We believe Charlotte Russe's financial performance and stock price lag behind its peers

Looking at the performance of Charlotte Russe stock over the last five years, there is a significant discrepancy between the performance while Mr. Karp was a director and the performance since then, both on an absolute basis and relative to its peer group. From December 2003 through June 2007, at a time when Mr. Karp was an active participant on the Board, the Company's stock price meaningfully out-performed the S&P Apparel Retail Index and compared favorably to its peer group.

²We believe that investors in the Company would certainly find both the identity of the consultants the Board entrusted to develop a new strategic plan for the Company over the course of almost one year, and the amount of fees paid to outside consultants for this substantial project, to be important information, although the Company may not be required to disclose this information under SEC rules.

By contrast, after Mr. Karp resigned from the Board until the end of 2008, although all companies reflected in the chart below have faced difficult economic conditions that likely played a part in these declines, the Company's stock price underperformed the S&P Apparel Retail Index and its peer group by 29% and 16%, respectively.

We believe that the Company's stock performance during this time reflects the market's lost confidence in the Board's decision-making, particularly after Mr. Hoffman's "requested" retirement in July 2008 and KarpReilly's rebuffed acquisition proposal in November 2008.

Charlotte Russe's financial performance has also suffered under the current Board, as the Company has underperformed its peer group significantly since June 2007, despite having faced the same economic conditions as its competitors (dollars in thousands).

We believe the KarpReilly Group has the experience, knowledge, relationships and judgment to improve the Company's operational and financial performance

- We believe our nominees will immediately bring an "ownership" mentality to Board-level decision-making. All three KarpReilly Nominees have spent the last 20 years investing their own capital to grow retail and apparel businesses – Mr. Karp as a consumer-focused private equity investor and Mr. Shaked and Mr. Bitton as owners and operators of successful retail / apparel brands. Further, the three KarpReilly Nominees collectively beneficially own 8.9% of the Company, with KarpReilly LP directly owning 1,612,203 Shares, Mr. Karp directly owning 201,274 Shares, Mr. Bitton directly owning 50,000 Shares and Mr. Shaked directly owning no Shares. The existing Board owns less than 0.2% of the Company's outstanding Shares – of which at most 2,500 Shares were purchased on the open market. As Board members, every aspect of our decision-making – from setting Board compensation, to structuring compensation and option plans for senior management, to critical budgeting and capital expenditure decisions – will be done with an ownership mentality. In our view, this discipline has been lacking on the Charlotte Russe Board since Mr. Karp left the Board.
- We will work to restore financial discipline to the Company. Since Mr. Karp left the Board in July 2007, Charlotte Russe has seen a dramatic increase in SG&A expenses, Board compensation, senior management compensation and consulting expenses. At the same time, same store sales have fallen significantly, the growth of new stores has been curtailed and gross margin has eroded in excess of 500 basis points. This has led to a significant reduction in profitability – with the Company even losing money in its 2009 fiscal first quarter (including the holiday season) for the first time since it went public, a turnaround of \$24.5 million in lost EBITDA alone as compared to the first fiscal quarter of 2008. The current Board's response appears to be a \$3 million reduction in overhead. We will advocate right-sizing the Company's overhead structure to be consistent with its current levels of store performance, growth and profitability. We believe these are actions every responsible owner-operator of a business should be taking in this difficult environment.
- We believe that a critical evaluation of the current senior management team is essential to improve the Company's performance. There has been a wholesale realignment of management personnel precipitated by the Board's requested retirement of Mark Hoffman. While we have not worked with most of the senior executives, we are concerned by their lack of junior fast-fashion experience. The fast-moving, competitive junior fashion retailing business places unique demands on management, and we are uncomfortable with the concept of a senior management team attempting to learn the intricacies of this complex business, in a dismal retail environment, while in positions of such responsibility. If elected, the KarpReilly Nominees will assess management's capabilities and, if necessary, seek to have the Board address the shortcomings.

- We believe our slate of director nominees brings directly relevant and current retailing, apparel and brand management experience to the Board. Our slate includes a CEO who owns and runs a growing retailer of branded apparel (Mr. Shaked), a President who owns and runs a wholesaler and multi-unit retailer of branded apparel (Mr. Bitton), and a private equity investor who is a senior partner in private equity funds that currently own interests in seven companies that are multi-unit retail and restaurant operators. The current slate of outside Board directors includes three consultants (Ms. Salopek, Mr. Kleinberger and Mr. Blitzer, two of whom (Ms. Salopek and Mr. Kleinberger) are with the same firm) and one retiree (Mr. Mogil, who formerly worked at Phillips Van Heusen with Mr. Blitzer).

We are skeptical of the Board's current process to pursue a sale of the Company

In November 2007, after announcement of Charlotte Russe's fourth quarter results, the stock traded down significantly. Mr. Karp, who had resigned from the Board four months earlier, remained personally a significant stockholder of the Company and was concerned about the ability of the Board to effectively manage the Company. His firm, KarpReilly LLC, made a private proposal to acquire 100% of the Company that, subject to a brief due diligence period, would represent "a very substantial premium to the recent trading range for the Company's stock". On the date of this proposal, the Company's stock closed at \$14.41 per Share. The Board rejected this proposal.

Again, in November 2008, now owning a larger stake in the Company and seriously concerned about the Board's actions and the significant management turnover, KarpReilly made a proposal to the Board to acquire 100% of the Company for cash at a significant premium to the stock price of \$6.89 per Share. The Board again rejected this proposal without engaging in any discussions with KarpReilly.

Finally, on March 12, 2009, seven days after KarpReilly nominated a slate of directors, the Company announced the initiation of a sale process. As a significant stockholder, we do not understand the Board's decision-making. After rejecting a proposal in November 2007 with the stock at \$14.41 per Share and the Company performing well, and again rejecting a proposal at a significant premium to the stock price of \$6.89 per Share in November 2008, the Board now elects to begin a sale process in one of the worst economic environments since the Great Depression, coming off the worst first fiscal quarter in the Company's recent history and projecting continued losses in the second quarter.

In view of the Company's financial condition and projected performance, the operational improvements we believe are needed, the difficulties in obtaining financing for acquisition opportunities and the current Share price, we have serious doubts that an offer to acquire the Company will emerge from this process at a level that would be attractive to stockholders. As a major stockholder, we certainly are not supportive of a sale of the Company at distressed levels. For these reasons, we question the Board's decision to conduct a sale process and will not be a participant as a potential buyer in the process.