

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For quarterly period ended September 25, 2004**

**OR**

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

For the transition period from.....to.....

*Commission File Number: 0-10345*

**CACHE, INC.**

(Exact name of registrant as specified in its Charter)

Florida

(State or other jurisdiction of  
incorporation or organization)

59-1588181

(IRS Employer Identification No.)

1440 Broadway, New York, New York

(Address of principal executive offices)

10018

(zip code)

212-575-3200

(Registrant's telephone number, including area code)

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(Former name, address and former fiscal year, if changed since last report)

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 preceeding 12 months (or for such shorter period than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

**YES [X]      NO [ ]**

As of June 26, 2004, the aggregate market value of the voting stock held by non-affiliated of the registrant (based on the closing price in NASDAQ National Market) was approximately \$182 million.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act 12b-2).

**YES [ ]      NO [X]**

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

Common Stock, \$.01 par value

Class of Stock Outstanding

15,641,000

Outstanding at November 8, 2004

# CACHE, INC. AND SUBSIDIARIES

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CACHE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

ASSETS	September 25, 2004	December 27, 2003	September 27, 2003
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Current Assets:			
Cash and equivalents	\$ 12,830,000	\$ 16,887,000	\$ 22,737,000
Marketable securities	24,094,000	19,746,000	5,393,000
Receivables, net	5,308,000	4,614,000	3,716,000
Inventories, net	31,067,000	26,724,000	27,250,000
Deferred income taxes, net	468,000	936,000	666,000
Prepaid expenses and other current assets	<u>1,954,000</u>	<u>1,239,000</u>	<u>3,374,000</u>
Total current assets	75,721,000	70,146,000	63,136,000
Equipment and leasehold improvements, net	32,466,000	25,010,000	23,099,000
Other assets	830,000	873,000	872,000
Deferred income taxes, net	<u>---</u>	<u>---</u>	<u>31,000</u>
Total assets	<u>\$ 109,017,000</u>	<u>\$ 96,029,000</u>	<u>\$ 87,138,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 17,333,000	\$ 14,362,000	\$ 16,234,000
Accrued compensation	1,192,000	4,675,000	2,250,000
Accrued liabilities	<u>9,602,000</u>	<u>10,075,000</u>	<u>7,908,000</u>
Total current liabilities	28,127,000	29,112,000	26,392,000
Other liabilities	1,230,000	1,088,000	1,077,000
Deferred income taxes, net	1,427,000	687,000	---
Commitments and contingencies			
STOCKHOLDERS' EQUITY			
Common stock, par value \$.01; authorized, 20,000,000 shares; issued and outstanding 15,634,100 shares	156,000	100,000	99,000
Additional paid-in capital	34,307,000	28,361,000	28,182,000
Retained earnings	<u>43,770,000</u>	<u>36,681,000</u>	<u>31,388,000</u>
Total Stockholders' Equity	78,233,000	65,142,000	59,669,000
Total Liabilities and Stockholders' Equity	<u>\$ 109,017,000</u>	<u>\$ 96,029,000</u>	<u>\$ 87,138,000</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

CACHE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THIRTY-NINE WEEKS ENDED  
(Unaudited)

	<u>September 25,</u> <u>2004</u>	<u>September 27,</u> <u>2003</u>
Net sales	\$ 168,711,000	\$ 151,634,000
Cost of sales, including occupancy and buying costs	<u>94,278,000</u>	<u>86,461,000</u>
Gross profit	<u>74,433,000</u>	<u>65,173,000</u>
Expenses		
Store operating expenses	53,624,000	46,076,000
General and administrative expenses	<u>9,517,000</u>	<u>9,913,000</u>
Total expenses	<u>63,141,000</u>	<u>55,989,000</u>
Operating income	11,292,000	9,184,000
Other income :		
Interest income	309,000	192,000
Other income, net	<u>20,000</u>	<u>14,000</u>
Income before income taxes	11,621,000	9,390,000
Income tax provision	<u>4,532,000</u>	<u>3,594,000</u>
Net income	<u>\$ 7,089,000</u>	<u>\$ 5,796,000</u>
Basic earnings per share	<u>\$0.46</u>	<u>\$0.41</u>
Diluted earnings per share	<u>\$0.44</u>	<u>\$0.40</u>
Basic weighted average shares outstanding	<u>15,569,000</u>	<u>14,022,000</u>
Diluted weighted average shares outstanding	<u>15,967,000</u>	<u>14,449,000</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CACHE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THIRTEEN WEEKS ENDED  
(Unaudited)

	<u>September 25, 2004</u>	<u>September 27, 2003</u>
Net sales	\$ 49,430,000	\$ 47,343,000
Cost of sales, including occupancy and buying costs	<u>29,834,000</u>	<u>27,120,000</u>
Gross profit	<u>19,596,000</u>	<u>20,223,000</u>
Expenses		
Store operating expenses	18,287,000	15,576,000
General and administrative expenses	<u>2,270,000</u>	<u>3,711,000</u>
Total expenses	<u>20,557,000</u>	<u>19,287,000</u>
Operating income (loss)	(961,000)	936,000
Other income:		
Interest income	<u>107,000</u>	<u>62,000</u>
Income (loss) before income taxes	(854,000)	998,000
Income tax provision (benefit)	<u>(333,000)</u>	<u>384,000</u>
Net income (loss)	<u>\$ (521,000)</u>	<u>\$ 614,000</u>
Basic earnings (loss) per share	<u>\$(0.03)</u>	<u>\$0.04</u>
Diluted earnings (loss) per share	<u>\$(0.03)</u>	<u>\$0.04</u>
Basic weighted average shares outstanding	<u>15,634,000</u>	<u>14,691,000</u>
Diluted weighted average shares outstanding	<u>15,634,000</u>	<u>15,120,000</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CACHE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THIRTY-NINE WEEKS ENDED  
(Unaudited)

	September 25, 2004	September 27, 2003
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Net income	\$ 7,089,000	\$ 5,796,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,838,000	4,046,000
Tax benefit from stock options exercised	1,345,000	2,713,000
Decrease (increase) in deferred income tax assets	1,208,000	(77,000)
Accrual (reversal) of future rent escalations	86,000	(22,000)
<b><u>Change in assets and liabilities:</u></b>		
Increase in receivables	(694,000)	(1,039,000)
Decrease in notes receivable from related parties	---	321,000
Increase in inventories	(4,343,000)	(5,185,000)
Increase in prepaid expenses	(715,000)	(2,354,000)
Increase in accounts payable	2,971,000	4,246,000
Decrease in accrued liabilities and accrued compensation	<u>(4,850,000)</u>	<u>(2,348,000)</u>
Net cash provided by operating activities	<u>6,935,000</u>	<u>6,097,000</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
(Purchase) maturities of marketable securities, net	(4,348,000)	8,999,000
Additions to equipment and leasehold improvements	<u>(11,344,000)</u>	<u>(8,459,000)</u>
Net cash provided by (used in) investing activities	<u>(15,692,000)</u>	<u>540,000</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Proceeds from the issuance of common stock	4,657,000	5,868,000
Other, net	<u>43,000</u>	<u>(55,000)</u>
Net cash provided by financing activities	<u>4,700,000</u>	<u>5,813,000</u>
Net increase (decrease) in cash and cash equivalents	(4,057,000)	12,450,000
Cash and equivalents, at beginning of period	<u>16,887,000</u>	<u>10,287,000</u>
Cash and equivalents, at end of period	<u>\$ 12,830,000</u>	<u>\$ 22,737,000</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**CACHE, INC.**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. BASIS OF PRESENTATION

In the opinion of the Company, the accompanying consolidated financial statements include all adjustments necessary, which are considered normal and recurring, to present fairly the financial position of the Company at September 25, 2004 (fiscal 2004), September 27, 2003 (fiscal 2003), and December 27, 2003 (fiscal 2003), and the results of operations for the thirty-nine and thirteen week periods ended September 25, 2004 and September 27, 2003 and consolidated cash flows for the thirty-nine weeks then ended.

Certain financial information, which is normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but which is not required for interim reporting purposes, has been condensed or omitted. The accompanying consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest annual report on Form 10-K for the fiscal year ended December 27, 2003.

Net income includes all sources of comprehensive income. There were no adjustments for foreign currency translation, unrealized gains (losses) on investments or deferred compensation expense incurred in fiscal 2003 or fiscal 2004 results.

Certain items previously reported in specific captions in the accompanying financial statements and notes have been reclassified to conform with the current year's classification.

2. BASIC AND DILUTED EARNINGS

Basic earnings per share (EPS) is computed as net earnings divided by the weighted average number of shares of common stock outstanding for the thirty-nine and thirteen week periods ended September 25, 2004 and September 27, 2003. Diluted EPS reflects the potential dilution that could occur from common shares issued through the exercise of outstanding dilutive stock options.

On June 18, 2004, the Company completed a three-for-two stock split for holders of record on May 21, 2004. All share amounts have been restated to reflect the stock split.

The approximate number of shares used in the computations of diluted earnings per share were 15,967,000 and 14,449,000, respectively, for the 39 week comparable period and 15,634,000 and 15,120,000 respectively, for the 13 week comparable period ended September 25, 2004 and September 27, 2003.

The approximate number of shares used in the computations of basic earnings per share were 15,569,000 and 14,022,000, respectively, for the 39 week comparable period, and 15,634,000 and 14,691,000, respectively, for the 13 week comparable period ended September 25, 2004 and September 27, 2003.

The Company accounts for options granted under the 1994, 2000 and 2003 Stock Option Plans in accordance with the intrinsic value method allowed under SFAS No. 123, "Accounting for Stock-Based Compensation", under which no compensation cost has been recognized for stock option awards granted at fair market value. Had compensation expense for the Plans been determined based on the fair value at the grant dates for awards under the Plans, the Company's net earnings, basic EPS and diluted EPS would have been reduced to the pro forma amounts listed below:

	<u>39 Weeks Ended</u>		<u>13 Weeks Ended</u>	
	September 25, <u>2004</u>	September 27, <u>2003</u>	September 25, <u>2004</u>	September 27, <u>2003</u>
Net Income (Loss) - as reported	\$7,089,000	\$5,796,000	(\$521,000)	\$614,000
- pro - forma	\$6,759,000	\$5,497,000	(\$631,000)	\$514,000
Basic EPS - as reported	\$0.46	\$0.41	(\$0.03)	\$0.04
- pro - forma	\$0.43	\$0.39	(\$0.04)	\$0.03
Diluted EPS - as reported	\$0.44	\$0.40	(\$0.03)	\$0.04
- pro - forma	\$0.42	\$0.38	(\$0.04)	\$0.03

### 3. RECENTLY ISSUED EXPOSURE DRAFT

On March 31, 2004, the Financial Accounting Standards Board (FASB) issued a proposed Statement, "Share-Based Payment." This proposed Statement addresses the accounting for share-based awards to employees, including employee-stock purchase-plans (ESPPs). The FASB formally proposed to require companies to recognize the fair value of stock options and other stock-based compensation to employees. The proposed Statement would eliminate the ability to account for share based compensation transactions using the inherent method and generally would require instead, that such transactions, be accounted for using a fair-value-based method. The proposed requirements in the exposure draft would be effective for public companies as of the beginning of the first fiscal year beginning after December 15, 2004. The Company is currently assessing the impact on the Company's financial statements of the adoption of this proposed Statement, if issued in final form by the FASB.

### 4. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	September 25, <u>2004</u>	December 27, <u>2003</u>	September 27, <u>2003</u>
Lease improvements	\$28,965,000	\$24,020,000	\$25,210,000
Furniture, fixtures and equipment	<u>43,520,000</u>	<u>36,644,000</u>	<u>34,365,000</u>
	72,485,000	60,664,000	59,575,000
Less: accumulated depreciation and amortization	<u>40,019,000</u>	<u>35,654,000</u>	<u>36,476,000</u>
	<u>\$32,466,000</u>	<u>\$25,010,000</u>	<u>\$23,099,000</u>

### 5. ACCRUED LIABILITIES

	September 25, <u>2004</u>	December 27, <u>2003</u>	September 27, <u>2003</u>
Operating expenses	\$2,747,000	\$2,631,000	\$2,273,000
Taxes, other than income taxes	1,436,000	2,426,000	1,566,000
Group insurance	477,000	696,000	646,000
Sales return reserve	642,000	812,000	542,000
Leasehold additions	1,329,000	379,000	432,000
Other customer deposits	<u>2,971,000</u>	<u>3,131,000</u>	<u>2,449,000</u>
	<u>\$9,602,000</u>	<u>\$10,075,000</u>	<u>\$7,908,000</u>

## 6. BANK DEBT

During May 2004, the Company reached an agreement with its bank to increase the amount available under the Amended Revolving Credit Facility to \$17,500,000. Pursuant to the newly Amended Revolving Credit Facility, \$17,500,000 is available until expiration at November 30, 2005. The amounts outstanding thereunder bear interest at a maximum per annum rate equal to the bank's prime rate. The agreement contains selected financial and other covenants. Effective upon the occurrence of an Event of Default under the Revolving Credit Facility, the Company grants to the bank a security interest in the Company's inventory and certain receivables. The Company has, at all times, been in compliance with all loan covenants.

There have been no borrowings against the line of credit during fiscal 2004 and fiscal 2003. There were outstanding letters of credit of \$2,160,000, \$2,116,000 and \$1,984,000, pursuant to the Revolving Credit Facility, at September 25, 2004, December 27, 2003 and September 27, 2003, respectively.

## 7. INCOME TAXES

The estimated annual effective tax rate for fiscal 2004 and fiscal 2003 were 39.0% and 38.2%, respectively, including state and local income taxes.

## 8. CONTINGENCIES

The Company is exposed to a number of asserted and unasserted potential claims. Management does not believe it is reasonably possible that resolution of these matters will result in a material loss.

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

Except for the historical information and current statements contained in this Form 10-Q, certain matters discussed herein, including, without limitation, "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward looking statements that involve risks and uncertainties, including, without limitation, the effect of economic and market conditions and competition, the ability to open new stores and expand into new markets, and risks relating to foreign importing operations, which would cause actual results to differ materially.

### **RESULTS OF OPERATIONS**

The following table sets forth our results of operations for the 13 and 39 week periods ended September 25, 2004 and September 27, 2003, expressed as a percentage of net sales.

	<u>39 Weeks Ended</u>		<u>13 Weeks Ended</u>	
	<u>September 25,</u> <u>2004</u>	<u>September 27,</u> <u>2003</u>	<u>September 25,</u> <u>2004</u>	<u>September 27,</u> <u>2003</u>
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	55.9%	57.0%	60.4%	57.3%
Gross profit	44.1%	43.0%	39.6%	42.7%
Store operating expenses	31.8%	30.4%	37.0%	32.9%
General and administrative expenses	5.6%	6.5%	4.6%	7.8%
Operating income	6.7%	6.1%	(1.9)%	2.0%
Other income (loss)	0.2%	0.1%	0.2%	0.1%
Income (loss) before taxes	6.9%	6.2%	(1.7)%	2.1%
Income tax provision (benefits)	2.7%	2.4%	(0.7)%	0.8%
Net income (loss)	4.2%	3.8%	(1.1)%	1.3%

#### Net sales

Net sales increased to \$168.7 million from \$151.6 million, an increase of \$17.1 million, or 11.3%, over the same 39 week period last year. This reflects \$6.4 million of additional net sales as a result of a 4% increase in comparable store sales. Net sales increased \$10.7 million as a result of additional net sales from non-comparable stores.

Net sales increased to \$49.4 million from \$47.3 million, an increase of \$2.1 million, or 4.4%, over the same 13 week period last year. Net sales decreased \$1.0 million as a result of a 2% decrease in comparable store sales. Net sales increased \$3.1 million as a result of additional net sales from non-comparable stores.

#### Gross profit

Gross profit increased to \$74.4 million from \$65.2 million, an increase of \$9.2 million or 14.2%, over the same 39 week period last year. This increase was the combined result of higher net sales and increased gross profit margins. As a percentage of net sales, gross profit increased to 44.1% from 43.0%. This increase in percentage of net sales was primarily due to higher initial markups on inventory purchases and was partially offset by higher occupancy expenses and markdowns, as a percent of sales. We expect the improvement created by higher initial markups to continue to benefit results in the remainder of fiscal 2004.

Gross profit decreased to \$19.6 million from \$20.2 million, a decrease of \$627,000, or 3.1%, below the same 13 week period last year. This decrease was primarily due to higher markdowns and occupancy costs, as well as a comparable store sales decrease of 2%. As a percentage of net sales, gross profit decreased to 39.6% from 42.7%.

#### Store operating expenses

Store operating expenses increased to \$53.6 million from \$46.1 million, an increase of \$7.5 million or 16.4%, over the same 39 week period last year. This increase was primarily attributable to the increase in the number of stores opened during the past 12 months. As a percentage of net sales, store operating expenses increased to 31.8% from 30.4%, primarily due to a higher percentage of payroll expense and depreciation incurred by the new stores opened in the last year. In addition, advertising expense for the 39 week period was \$903,000 higher than last year, due to increased marketing efforts.

Store operating expenses increased to \$18.3 million from \$15.6 million, an increase of \$2.7 million, or 17.4%, over the same period last year. This increase was primarily attributable to the increase in the number of stores opened during the past 12 months. As a percentage of net sales, store operating expenses increased from 32.9% to 37.0%, primarily due to a higher percentage of payroll expense and depreciation incurred by the new stores opened in the last year. Advertising expense for the 13 week period was \$532,000 higher than last year, due to increased marketing efforts.

#### General and administrative expenses

General and administrative expenses decreased to \$9.5 million from \$9.9 million, a decrease of \$396,000 or 4.0%, below the same 39 week period last year. As a percentage of net sales, general and administrative expenses decreased to 5.6% from 6.5%, primarily due to reduced bonus accruals of \$1.1 million, which were partially offset by higher payroll, rent and depreciation expenses.

General and administrative expenses decreased to \$2.3 million from \$3.7 million, a decrease of \$1.4 million or 38.8%, below the same 13 week period last year. As a percentage of net sales, general and administrative expenses decreased to 4.6% from 7.8%, for the 13 week period. The reduction in general and administrative expenses was primarily due to a reduction of \$1.7 million for bonus accruals, which included a reversal of \$780,000 during the quarter partially offset by higher payroll, rent and depreciation expenses.

#### Interest income

Interest income increased to \$309,000 from \$192,000 in the same 39 week period last year, primarily attributable to higher average cash balances and higher interest rates in 2004.

Interest income increased to \$107,000 from \$62,000 in the same 13 week period last year.

#### Income taxes

Income taxes increased to \$4.5 million from \$3.6 million, an increase of \$938,000 over the same 39 week period last year. The increase was primarily attributable to higher taxable income in fiscal 2004. Our effective tax rates for fiscal 2004 and 2003 were 39.0% and 38.3% respectively, including state and local income taxes.

An income tax benefit of \$333,000 was recorded for the 13 week period, as compared to an income tax provision of \$384,000 recorded in fiscal 2003.

#### Net income

As a result of the factors discussed above, net income increased to \$7.1 million from \$5.8 million, an increase of \$1.3 million over the same 39 week period last year. A net loss of \$521,000 was reported for the 13 week period, as compared to net income of \$614,000 in fiscal 2003.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our cash requirements are primarily for the construction of new stores and inventory for these stores, as well as the remodeling of existing stores. We have historically satisfied our cash requirements principally through cash flow from operations. As of September 25, 2004, we had working capital of \$47.6 million, which included cash and marketable securities totaling \$36.9 million.

During the thirty-nine weeks ended September 25, 2004, net cash provided by operations was \$6.9 million, generated by net income, depreciation of \$4.8 million, an income tax benefit from stock option exercises of \$1.3 million and an increase in accounts payable of \$3.0 million, offset in part by an increase in inventories of \$4.3 million and a decrease in accrued expenses of \$4.9 million.

Cash used in investing activities was \$15.7 million for the 39 week period ended September 25, 2004. Purchases of investments totaled \$4.4 million. Funds used for equipment and leasehold improvements in new and remodeled stores totaled \$11.3 million. Our capital requirements depend primarily on the number of new stores we open, the number of stores we remodel and the timing of these expenditures. Projected capital expenditures for fiscal 2004 to fund new store openings and remodeling are approximately \$15 to 16 million.

We plan to open approximately 40 new stores during fiscal 2004. We opened 4 new stores in the first quarter, we opened 13 new stores in the second quarter, as well as opening 7 new stores in the third quarter. We anticipate opening the remaining new stores before Thanksgiving. After deducting construction allowances paid to the Company by its landlords, we spent \$11.3 million through September 25, 2004 and expect to spend an additional \$4 to \$5 million dollars in 2004, for both new store and existing store construction and remodeling.

We believe that cash flows from operations, our current available cash and funds available under our \$17.5 million revolving credit facility, will be sufficient to meet our working capital needs and contemplated new store expansion for at least the next 12 months.

The Company does not have any off-balance sheet arrangements or transactions with unconsolidated, limited purpose entities. In the normal course of its business, the Company enters into operating leases for its store locations and utilizes letters of credit principally for the importation of merchandise. The Company does not have any undisclosed material transactions or commitments involving related persons or entities.

### **Seasonality**

The Company experiences seasonal and quarterly fluctuations in net sales and operating income. 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. The Company's business is subject to seasonal influences, characterized by highest sales during the fourth quarter (October, November and December) and lowest sales during the third quarter (July, August and September).

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to the following types of market risk-fluctuations in the purchase price of merchandise, as well as other goods and services: the value of foreign currencies in relation to the U.S. dollar, and changes in interest rates. Due to the Company's inventory turn rate and its historical ability to pass through the impact of any generalized changes in its cost of goods sold to its customers through pricing adjustments, commodity and other product risks are not expected to be material. The Company purchases substantially all its merchandise in U.S. dollars.

The Company's exposure to market risk for changes in interest rates relates to its cash, cash equivalents and marketable securities. As of September 25, 2004, the Company's cash, cash equivalents and marketable securities consisted primarily of funds invested in money market accounts, which bear interest at a variable rate, U.S. treasury instruments and tax exempt municipal bonds rated AA or better, which bear interest at a fixed rate. Due to the average maturity and the conservative nature of the Company's investment portfolio, we believe a sudden change in interest rates would not have a material effect on the value of our investment portfolio. As the interest

rates on a material portion of our cash, cash equivalents and marketable securities are variable, a change in interest rates earned on our investment portfolio would impact interest income along with cash flows, but would not materially impact the fair market value of the related underlying instruments.

#### **ITEM 4. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in its Exchange Act reports is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Acting Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure. As of the end of the period covered by this Form 10-Q, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Acting Chief Financial Officer, of the effectiveness of the design and operation of these disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Acting Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. There have been no changes in the internal controls over financial reporting during the period ended September 25, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **PART II – OTHER INFORMATION**

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

NONE

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

(a) Exhibits.

- 11.1 Calculation of Basic and Diluted Earnings per Common Share.
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

1. Form 8-K, filed September 14, 2004 - reporting pursuant to Item 5 of such Form, departures and appointments to the Board of Directors.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

CACHE, INC.  
(Registrant)

November 8, 2004

BY: /s/ Brian Woolf  
Brian Woolf  
Chairman and Chief  
Executive Officer  
(Principal Executive  
Officer)

November 8, 2004

BY: /s/ Thomas E. Reinckens  
Thomas E. Reinckens  
President and Chief  
Operating Officer  
(Principal Financial  
and Accounting  
Officer)

EXHIBIT 11.1  
CALCULATION OF BASIC AND DILUTED EARNINGS PER COMMON SHARE

	<u>39 WEEKS ENDED</u>		<u>13 WEEKS ENDED</u>	
	September 25, 2004	September 27, 2003	September 25, 2004	September 27, 2003
<u>EARNINGS (LOSS) PER SHARE</u>				
Net Income (Loss) Applicable to Common Stockholders	<u>\$ 7,089,000</u>	<u>\$ 5,796,000</u>	<u>\$ (521,000)</u>	<u>\$ 614,000</u>
 <u>BASIC EARNINGS (LOSS) PER SHARE</u>				
Weighted Average Number of Common Shares Outstanding	<u>15,569,000</u>	<u>14,022,000</u>	<u>15,634,000</u>	<u>14,691,000</u>
Basic Earnings (loss) Per Share	<u>\$0.46</u>	<u>\$0.41</u>	<u>\$(0.03)</u>	<u>\$0.04</u>
 <u>DILUTED EARNINGS (LOSS) PER SHARE</u>				
Weighted Average Number of Common Shares Outstanding	15,569,000	14,022,000	15,634,000	14,691,000
Assuming Conversion of Outstanding Stock Options	1,765,000	885,000	---	885,000
Less Assumed Repurchase of Common Stock Pursuant to the Treasury Stock Method	<u>(1,367,000)</u>	<u>(458,000)</u>	<u>---</u>	<u>(456,000)</u>
Weighted Average Number of Common Shares Outstanding As Adjusted	<u>15,967,000</u>	<u>14,449,000</u>	<u>15,634,000</u>	<u>15,120,000</u>
Diluted Earnings (Loss) Per Share	<u>\$0.44</u>	<u>\$0.40</u>	<u>\$(0.03)</u>	<u>\$0.04</u>



EXHIBIT 31.2  
CERTIFICATION

I, Thomas E. Reinckens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cache, Inc. (Cache);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Cache as of, and for, the periods presented in this quarterly report;
4. Cache's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Cache, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of Cache's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - c) disclosed in this report any changes in Cache's internal control over financial reporting that occurred during Cache's third quarter that has materially affected, or is reasonably likely to materially affect, Cache's internal control over financial reporting;
5. Cache's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Cache's auditors and the audit committee of Cache's Board of Directors:
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect Cache's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in Cache's internal control over financial reporting.

November 8, 2004

BY: /s/ Thomas E. Reinckens  
Thomas E. Reinckens  
President and Chief  
Operating Officer  
(Principal Financial and  
Accounting Officer)

