

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

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

59-1588181

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification No.)

1440 BROADWAY, NEW YORK, NEW YORK 10018  
-----

(Address of principal executive offices) (zip code)

212-575-3200

-----  
(Registrant's telephone number, including area code)

-----  
(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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "Accelerated Filer" and "Large Accelerated Filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 31 2006, 15,811,003 common shares were outstanding.

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## CACHE, INC. AND SUBSIDIARIES

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ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CACHE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

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ASSETS	September 30,	December 31,
October 1,	2006	2005
	----	----
Current assets:		
Cash and cash equivalents	\$ 33,214,000	\$
16,753,000 \$ 22,263,000		
Marketable securities	20,315,000	36,520,000
25,023,000		
Receivables, net	4,399,000	5,734,000
5,039,000		
Inventories	37,074,000	32,785,000
35,604,000		
Deferred income taxes, net	718,000	691,000
541,000		

Prepaid expenses and other current assets		4,854,000	
4,777,000	1,668,000		
-----			
	Total current assets	100,574,000	97,260,000
90,138,000			
Equipment and leasehold improvements, net		50,788,000	
52,760,000	51,139,000		
Other assets		440,000	864,000
863,000			
-----			
	Total assets	\$ 151,802,000	\$ 150,884,000
142,140,000			
=====			
=====			

#### LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$	15,648,000	\$ 18,404,000
\$ 21,176,000			
Accrued compensation		2,522,000	2,624,000
2,533,000			
Accrued liabilities		12,132,000	12,446,000
10,219,000			
-----			
	Total current liabilities	30,302,000	33,474,000
33,928,000			
Other liabilities		15,161,000	16,309,000
15,415,000			
Deferred income taxes, net		2,197,000	2,105,000
1,455,000			

Commitments and contingencies

#### STOCKHOLDERS' EQUITY

Common stock, par value \$.01; authorized, 20,000,000 shares; 15,791,003, 15,770,553 and 15,726,553 shares issued and outstanding			
		158,000	158,000
157,000			

Additional paid-in capital	36,525,000	35,455,000
35,343,000		
Retained earnings	67,459,000	63,383,000
55,842,000		
-----		
Total stockholders' equity	104,142,000	98,996,000
91,342,000		
-----		
Total liabilities and stockholders' equity	\$ 151,802,000	\$ 150,884,000
142,140,000		
=====		
=====		

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

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CACHE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THIRTY-NINE WEEKS ENDED  
(UNAUDITED)

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	September 30, 2006	October 1, 2005
	-----	-----
Net sales	\$ 195,438,000	\$ 187,025,000
Cost of sales, including occupancy and buying costs		102,693,000
103,413,000		

	-----	-----
Gross profit	92,745,000	83,612,000
	-----	-----
Expenses		
Store operating expenses	67,055,000	62,379,000
General and administrative expenses	15,340,000	
12,224,000		
Lillie Rubin exit costs	5,518,000	---
	-----	-----
Total expenses	87,913,000	74,603,000
	-----	-----
Operating income	4,832,000	9,009,000
Interest income	1,850,000	677,000
Other income	---	2,000
	-----	-----
Income before income taxes	6,682,000	9,688,000
Income taxes	2,606,000	3,824,000
	-----	-----
Net income	\$ 4,076,000	\$ 5,864,000
	=====	=====
=====		
Basic earnings per share	\$0.26	\$0.37
	=====	
=====		
Diluted earnings per share	\$0.25	\$0.37
	=====	
=====		
Basic weighted average shares outstanding		15,784,000
15,714,000		
	=====	
=====		

Diluted weighted average shares outstanding	16,160,000
16,017,000	

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

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CACHE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THIRTEEN WEEKS ENDED  
(UNAUDITED)

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	<C>	<C>
	September 30, 2006	October 1, 2005
	-----	-----
Net sales	\$ 59,935,000	\$ 57,262,000
Cost of sales, including occupancy and buying costs		31,669,000
31,149,000	-----	-----
Gross profit	28,266,000	26,113,000
	-----	-----
Expenses		
Store operating expenses	22,330,000	20,508,000
General and administrative expenses	5,606,000	
4,064,000		
Lillie Rubin exit costs	(144,000)	---
	-----	-----
Total expenses	27,792,000	24,572,000
	-----	-----

Operating income	474,000	1,541,000
Interest income	657,000	277,000
Other income	---	2,000
	-----	-----
Income before income taxes	1,131,000	1,820,000
Income taxes	441,000	713,000
	-----	-----
Net income	\$ 690,000	\$ 1,107,000
	=====	=====
=====		
Basic earnings per share	\$0.04	\$0.07
	=====	
=====		
Diluted earnings per share	\$0.04	\$0.07
	=====	
=====		
Basic weighted average shares outstanding	15,791,000	
15,743,000		
	=====	
=====		
Diluted weighted average shares outstanding	16,165,000	
16,085,000		
	=====	
=====		

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

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CACHE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH

FLOWS

FOR THE THIRTY-NINE WEEKS ENDED  
(UNAUDITED)

<S>	<C>	<C>
	September 30, 2006	October 1, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,076,000	\$ 5,864,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,914,000	7,136,000
Increase (decrease) in deferred income taxes	65,000	
(1,457,000)		
Amortization of deferred rent	(1,002,000)	(892,000)
Gift card breakage	(2,425,000)	---
Other, net	(30,000)	(31,000)
Stock-based compensation	849,000	---
Lillie Rubin exit costs	3,827,000	---
Change in assets and liabilities:		
Decrease in receivables	1,335,000	1,506,000
Increase in inventories	(4,564,000)	(3,308,000)
Decrease (increase) in prepaid expenses and other current assets		(77,000)
280,000		
Increase (decrease) in accounts payable	(2,756,000)	
4,121,000		
Excess tax benefits from stock options	(29,000)	---
Increase in accrued liabilities and accrued compensation	1,883,000	1,959,000
Net cash provided by operating activities	9,066,000	
15,178,000		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of marketable securities	60,736,000	
24,582,000		

Purchases of marketable securities (23,731,000)	(44,531,000)	
Payments for equipment and leasehold improvements (11,167,000)	(9,060,000)	
	-----	-----
Net cash provided by (used in) investing activities (10,316,000)	7,145,000	
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the exercise of stock options 553,000	221,000	
EXCESS TAX BENEFITS FROM STOCK OPTIONS		29,000
---	-----	-----
Net cash provided by financing activities 553,000	250,000	
	-----	-----
Net increase in cash and equivalents 5,415,000	16,461,000	
Cash and equivalents, at beginning of period 16,848,000	16,753,000	
	-----	-----
Cash and equivalents, at end of period 22,263,000	\$ 33,214,000	\$

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Supplemental disclosure of cash flow information:

Income taxes paid	\$	5,175,000	\$	4,643,000
Accrued equipment and leasehold improvements 918,000		\$	2,416,000	\$

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

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CACHE, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

References to the "Company," "we," "us," or "our" means Cache, Inc., together with its wholly-owned subsidiaries, except as expressly indicated or unless the context otherwise requires. We currently operate three chains of women's apparel specialty stores of which 273 stores are operated under the trade name "Cache", 16 stores are operated under the trade name "Luxe" and 5 stores are operated under the trade name "Lillie Rubin", as of September 30, 2006.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all of the information and footnotes required by accounting principles generally accepted in the United States. However, in the opinion of our management, all known adjustments necessary for a fair presentation of the results of the interim periods have been made. These adjustments consist primarily of normal recurring accruals and estimates that impact the carrying value of assets and liabilities. Actual results may materially differ from these estimates.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2005, which are included in the Company's Annual Report on Form 10-K with respect to such period filed with the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated. The December 31, 2005 condensed consolidated balance sheet amounts are derived from the Company's audited consolidated financial statements.

The Company's Fiscal Year ("Fiscal Year" or "Fiscal") refers to the 52 or 53 weeks, as applicable, ending the Saturday nearest to December 31. The years ended December 30, 2006 ("Fiscal 2006") and December 31, 2005 ("Fiscal 2005") are each 52-week years as compared to the year ended January 1, 2005 ("Fiscal 2004"), that was a 53-week year.

Gift Cards, Gift Certificates and Merchandise Credits. The Company sells gift cards and gift certificates and issues credits to its customers when merchandise is returned (collectively, "Gift Cards"). The Company recognizes sales from Gift Cards when they are redeemed by the customer.

During the third quarter of 2006, the Company formed a new subsidiary to handle all Gift Card sales and maintain the liability related to Gift Cards. As a result of transferring all existing obligations to the newly formed subsidiary, the Company recognized \$2.4 million of breakage income, within net sales, in the third quarter related to Gift Cards sold/issued since the inception of the Gift Card program. There was no breakage income recognized for the same period in the prior year.

As of the third quarter, the Company will recognize income when the likelihood of the Gift Card being redeemed by the customer is remote (Gift Card breakage) and the Company determines that it does not have a legal obligation to remit the value of unredeemed Gift Cards to the relevant jurisdiction as abandoned property.

The Company determines Gift Card breakage income based upon historical redemption patterns. Breakage income represents the balance of Gift Cards for which the Company believes the likelihood of redemption by the customer is remote. At that time, the Company will recognize breakage income over the performance period for those Gift Cards.

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## 2. STOCK BASED COMPENSATION

Effective January 1, 2006, the Company began recording compensation expense associated with stock options in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R, Share-Based Payment, as interpreted by SEC Staff Accounting Bulletin No. 107. Prior to January 1, 2006, we had accounted for stock options according to the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, and therefore no related compensation expense was recorded for awards granted with no intrinsic value. We adopted the modified prospective transition method provided for under SFAS No. 123R, and, consequently, have not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock options recognized in Fiscal 2006 includes: 1) quarterly amortization related to the remaining unvested portion of all stock option awards granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and 2) quarterly amortization related to all stock option awards granted subsequent to January 1, 2006, when granted, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R.

The Company's 2000 Stock Option Plan provides for the granting of either

incentive stock options ("ISO's") or non-qualified options to purchase up to 825,000 shares of common stock. As of September 30, 2006, there were 67,032 shares under the 2000 plan available for future grant. The Company's 2003 Stock Option Plan provides for the granting of either ISO's or non-qualified options to purchase up to 1,350,000 shares of common stock. As of September 30, 2006, there were 152,500 shares under the 2003 plan available for future grant. All of the Company's prior stock option plans have expired as to the ability to grant new options.

Stock awards outstanding under the Company's current plans have generally been granted at prices which are equal to the market value of our stock on the date of grant, generally vest over four years and expire no later than ten years after the grant date. Effective January 1, 2006, we recognize compensation expense ratably over the vesting period, net of estimated forfeitures. As of September 30, 2006, there was \$1.2 million of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a remaining weighted-average vesting period of 1.37 years. The total intrinsic value of options exercised during the 39 and 13-week periods ended September 30, 2006 was approximately \$146,000 and \$0.

A summary of the changes in stock options outstanding during the 39-week period ended September 30, 2006 is presented below:

	TOTAL OUTSTANDING				CURRENTLY EXERCIS- ABLE			
	NUMBER	AVERAGE PRICE(1)	AVERAGE LIFE(2)	AGGREGATE INTRINSIC VALUE (3)	NUMBER	AVERAGE PRICE(1)	AVERAGE LIFE(2)	AG- GREGATE INTRINSIC VALUE (3)
December 31, 2005	1,481,500	\$10.85	7.45	\$9,579,495	742,250	\$8.80	6.92	\$6,324,778
Granted	--	--	--	--	--	--	--	--
Vested				239,375				
Canceled/forfeited	(9,000)	12.65			--	--		
Exercised	(20,450)	10.72		(20,450)	10.72			

September 30, 2006	1,452,050	\$10.84	6.70	\$10,230,182	961,175	\$9.76
6.36	\$7,818,015					
	=====	=====	=====	=====	=====	=====
=====	=====					

(1) - Weighted-average exercise price.  
(2) - Weighted-average contractual life remaining in years.  
(3) - The aggregate intrinsic values in the table above are based on the Company's closing stock price as of the last business day of the periods ended December 31, 2005 and September 30, 2006, which was \$17.32 and \$17.89, respectively.

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A summary of the activity for the non-vested share awards during the 39-week period ended September 30, 2006 is presented below:

	COMMON STOCK OPTIONS	FAIR VALUE AT GRANT DATE
	-----	-----
Non-vested--December 31, 2005	739,250	\$12.92
Granted	---	---
Vested	(239,375)	\$12.65
Cancelled/forfeited	(9,000)	\$12.65
	-----	-----
Non-vested--September 30, 2006	490,875	\$12.98
	=====	=====

Prior to the adoption of SFAS No. 123R, we presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Condensed Consolidated Statement of Cash Flows. SFAS No. 123R requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised ("excess tax benefits") be classified as financing cash flows. For the 39 and 13-week periods ended September 30, 2006, there was \$29,000 of excess tax benefits realized from the exercise of stock options.

During the 39 and 13-week periods ended September 30, 2006, the Company recognized approximately \$849,000 (\$681,000 after tax or \$0.04 per diluted share) and \$247,000 (\$131,000 after tax or \$0.01 per diluted share) in share-based compensation expense. The grant date fair value is calculated using the Black Scholes option valuation model. No compensation cost was recognized prior to January 1, 2006. Had compensation cost for our share-based compensation plans been determined consistent with SFAS No. 123, the Company's net income and earnings per share would have been reduced to the following pro forma amounts (in thousands, except per share data):

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	<C> 39 Weeks Ended October 1, 2005 ----	<C> 13 Weeks Ended October 1, 2005 ----
Net earnings as reported:	\$5,864,000	\$1,107,000
Add share-based employee compensation expense included in reported		---
---		
net income, net of taxes		
Deduct employee compensation expense determined under a fair value		(531,000)
(177,000)		
based method, net of related tax effects		
Pro forma net earnings	\$5,333,000	\$930,000
Basic earnings per share:		
As reported	\$0.37	\$0.07
Pro forma	\$0.34	\$0.06
Diluted earnings per share:		
As reported	\$0.37	\$0.07
Pro forma	\$0.33	\$0.06

There were no options granted during the 39 and 13-week periods ended September 30, 2006. There were 140,000 and 35,000 options granted during the 39 and 13-week periods ended October 1, 2005, respectively.

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### 3. BASIC AND DILUTED EARNINGS

In accordance with SFAS No. 128, "Earnings Per Share", basic earnings per share has been computed based upon the weighted average of common shares outstanding. Diluted earnings per share gives effect to outstanding stock options.

Earnings per common share has been computed as follows:

	13-Weeks Ended		39-Weeks Ended	
	September 30,	October 1,	September 30,	
	2006	2005	2006	2005
Net income	\$690,000	\$1,107,000	\$4,076,000	
\$5,864,000				
Basic weighted number of average shares outstanding	15,791,000	15,743,000	15,784,000	
15,714,000				
Incremental shares from assumed issuances of stock options	374,000	342,000	376,000	
303,000				
Diluted weighted average number of shares outstanding	16,165,000	16,085,000	16,160,000	
16,017,000				
Net income per share - Basic		\$0.04	\$0.07	\$0.26
\$0.37				
- Diluted	\$0.04	\$0.07	\$0.25	
\$0.37				

Options to purchase 10,000 common shares with an exercise price of \$18.30 per share were excluded from the computation of diluted earnings per share, for the 13 and 39-week periods in fiscal 2005 and 2006, because the exercise price was greater than the market price.

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#### 4. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and SFAS No. 3". This statement changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition through a cumulative adjustment within net income in the period of the change. This statement requires retrospective application to prior periods' financial statements unless it is impracticable to determine the period-specific effects or the cumulative effect of the change and is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect that the adoption of SFAS No. 154 will have a material impact on our consolidated financial statements.

On October 6, 2005, the FASB issued FASB Staff Position ("FSP") No. FAS 13-1 "Accounting for Rental Costs Incurred during a Construction Period." The FASB has concluded that rental costs incurred during and after a construction period are for the right to control the use of a leased asset and must be recognized as rental expense. Such costs were previously capitalized as construction costs, if the company had a policy to do so. The FSP is effective for reporting periods beginning after December 15, 2005. The Company expects that the implementation of FSP No. FAS 13-1 will decrease net income by approximately \$175,000 for the fiscal year ending December 30, 2006. During the 39-week and 13-week periods ended September 30, 2006, the Company incurred \$85,000 and (\$36,000) of such costs. The reversal in the current 13-week period is primarily due to the over-accrual of construction rents, related to the April Cornell leases acquired in the second quarter.

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On November 3, 2005, FASB issued FSP Nos. FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the timing and measurement of an impairment loss. The FSP is required to be applied to reporting periods beginning after December 15, 2005 and was adopted by the Company in the first quarter of fiscal 2006. The impact of the adoption of this FSP did not have a material impact on its consolidated financial statements.

On July 13, 2006, FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB No.

109, ACCOUNTING FOR INCOME TAXES. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of this standard on our consolidated financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, CONSIDERING THE EFFECTS OF PRIOR YEAR

MISSTATEMENTS WHEN QUANTIFYING MISSTATEMENTS IN CURRENT YEAR FINANCIAL

STATEMENTS, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 is effective for fiscal years ending after November 15, 2006. Early application is encouraged, but not required. We are required to adopt SAB No. 108 for our fiscal year ending December 30, 2006. We are currently assessing the impact, if any, the adoption of SAB No. 108 will have on our operating income or net earnings. The cumulative effect, if any, of applying the provisions of SAB No. 108 will be reported as an adjustment to beginning-of-year retained earnings.

## 5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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	<C>	<C>	<C>
	September 30,	December 31,	Octo-
ber 1,	2006	2005	2005
	-----	-----	-----
Leasehold improvements	\$ 50,558,000	\$ 51,827,000	
\$ 50,689,000			
Furniture, fixtures and equipment	54,302,000	51,715,000	
50,175,000			
	-----	-----	-----
	104,860,000	103,542,000	
100,864,000			
Less: accumulated depreciation			
and amortization	(54,072,000)	(50,782,000)	
(49,725,000)			
	-----	-----	-----

	\$ 50,788,000	\$ 52,760,000	\$
51,139,000			

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## 6. ACCRUED LIABILITIES

September 30, October 1,	September 30, 2006	December 31, 2005	October 1, 2005
	-----	-----	-----
Operating expenses	\$ 4,379,000	\$ 2,894,000	\$
2,839,000			
Other taxes	2,125,000	2,540,000	
1,483,000			
Group insurance	711,000	598,000	
693,000			
Sales return reserve	657,000	803,000	
675,000			
Leasehold additions	2,416,000	859,000	
918,000			
Other customer deposits and credits		1,844,000	4,752,000
3,611,000			
	-----	-----	-----
	\$ 12,132,000	\$ 12,446,000	\$
10,219,000			
	=====	=====	
	=====	=====	

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## 7. BANK DEBT

During November 2005, the Company reached an agreement with its bank to extend the maturity of the Amended Revolving Credit Facility until November 30, 2008. Pursuant to the newly Amended Revolving Credit Facility, \$17,500,000 is available until expiration at November 30, 2008. The amounts outstanding under the credit facility bear interest at a maximum per annum rate equal to the bank's prime rate, currently 8.25% at September 30, 2006, less 0.25%. The agreement contains selected financial and other covenants. Effective upon the occurrence of an Event of Default under the Amended Revolving Credit Facility, the Company grants to the bank a security interest in the Company's inventory



Impairment of long lived assets and supplies	---	5,089,000
Reversal of deferred rent liability	---	(1,261,000)

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## 9. 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. We have not provided any third party financial guarantees as of and for the 39 and 13-week periods ended September 30, 2006.

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## 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 could cause actual results to differ materially.

### RECENT DEVELOPMENTS

In May 2006, we announced plans to introduce a new concept, Cache Luxe, and exit our Lillie Rubin business. During the third fiscal quarter of 2006, we converted 16 Lillie Rubin locations to Cache Luxe stores. In addition, we expanded three Cache stores by combining them into three adjacent Lillie Rubin stores and added Cache Luxe merchandise to Cache stores. Our five remaining Lillie Rubin store locations are expected to be closed by the end of the first fiscal quarter of 2007.

The Cache Luxe concept primarily focuses on our daytime and evening merchandise. This concept is expected to broaden our customer base, enable us to offer a larger selection of evening apparel and accessories at higher price points and allow us to leverage our marketing under a single Cache brand. In addition, Cache stores located in malls containing a Cache Luxe store have increased capacity to offer an expanded casual assortment. Almost all of our current Cache Luxe stores are in malls that also contain a Cache store.

## RESULTS OF OPERATIONS

The following tables set forth our results of operations for the 13 and 39-week periods ended September 30, 2006 and October 1, 2005, expressed as a percentage of net sales. Amounts in both tables include the combined results of our Cache, Cache Luxe and Lillie Rubin stores.

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	13-Weeks Ended		39-Weeks Ended	
	September 30,	October 1,	September 30,	
October 1,	2006	2005	2006	2005
Sales	100.0%	100.0%	100.0%	
100.0%				
Cost of sales	52.8	54.4	52.5	55.3
Gross profit	47.2	45.6	47.5	44.7
Store operating expenses	37.3	35.8	34.3	
33.4				
General and administrative expenses		9.4	7.1	7.8
6.5				
Lillie Rubin exit costs	(0.2)	0.0	2.8	0.0
Operating income	0.8	2.7	2.5	4.8
Interest income	1.1	0.5	0.9	0.4
Income before income taxes	1.9	3.2	3.4	
5.2				
Income taxes	0.7	1.2	1.3	2.0
Net income	1.2	1.9	2.1	3.1

We use a number of key indicators of financial condition and operating performance to evaluate the performance of our business, some of which are set forth in the following table:

October 1,	13-Weeks Ended		39-Weeks Ended	
	September 30,	October 1,	September 30,	
	2006	2005	2006	2005
Total store count at end of period	294	301	294	
301				
Net sales growth	4.7%	16.0%	4.5%	
10.8%				
Comparable store sales growth	1.0%	8.0%	3.0%	
5.0%				
Average sales per transaction growth	4.0%	8.0%	4.0%	
6.0%				
Average number of transactions growth	(3.0%)	--	(1.0%)	
(1.0%)				
Net sales per average square foot	\$99	\$96	\$319	
\$318				
Total square footage (in thousands)	589	609	589	
609				

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## NET SALES

Net sales increased to \$195.4 million from \$187.0 million, an increase of \$8.4 million or 4.5%, over the prior year 39-week period. The increase included breakage income of \$2.4 million, as a result of the formation of a new subsidiary to handle all Gift Card sales and maintain the liability related to Gift Cards. Comparable store sales at Cache stores (sales for stores open at least one year or more) increased \$7.0 million or 4%, during the 39-week period. Comparable store sales at Lillie Rubin stores decreased \$2.4 million or 18%, during the 39-week period. Net sales from non-comparable stores increased \$1.5 million, which reflects the net impact of store openings and closings during the current 39-week period. The increase in net sales in Fiscal 2006 at Cache stores reflected a 4% increase in average dollars per transaction, as well as a 1% decrease in sales transactions. Higher levels of dress sales also helped to increase sales above Fiscal 2005 levels.

Net sales increased to \$59.9 million from \$57.3 million, an increase of \$2.6 million, or 4.7%, over the same 13-week period last year. The increase included

breakage income of \$2.4 million, as a result of the formation of a new subsidiary to handle all Gift Card sales and maintain the liability related to Gift Cards. This reflects \$496,000 of additional net sales as a result of 1% increase in comparable store sales at Cache stores. Net sales at Lillie Rubin stores decreased \$208,000 or 9.1%, during the 13-week period. Net sales decreased \$39,000, as a result of sales at non-comparable stores, during the current 13-week period. The increase in net sales in Fiscal 2006 at Cache stores reflected a 4% increase in average dollars per transaction, as well as a 3% decrease in sales transactions.

## GROSS PROFIT

Gross profit increased to \$92.7 million from \$83.6 million, an increase of \$9.1 million or 10.9%, over the prior year 39-week period. This increase was primarily due to higher net sales and recognition of breakage income, as mentioned above. As a percentage of net sales, gross profit increased to 47.5% from 44.7%. The increase in gross profit as a percentage of net sales was primarily due to the recognition of breakage income and lower promotional activity, as well as higher initial markup, offset by higher markdowns due to the exit of our Lillie Rubin business. The Company expects gross margins to improve during the remainder of Fiscal 2006 and in Fiscal 2007, primarily due to the establishment of an internal production and sourcing department.

Gross profit increased to \$28.3 million from \$26.1 million, an increase of \$2.2 million, or 8.4%, over the same 13-week period last year. This increase was primarily due to higher net sales and recognition of breakage income, as mentioned above. As a percentage of net sales, gross profit increased to 47.2% from 45.6%. The increase in gross profit, as a percentage of net sales, was primarily due to the same factors as for the 39-week period. The Company incurred higher markdowns during the quarter, as we liquidated the Lillie Rubin inventories related to our decision to exit the Lillie Rubin business.

## STORE OPERATING EXPENSES

Store operating expenses increased to \$67.1 million from \$62.4 million, an increase of \$4.7 million or 7.5%, over the prior year 39-week period. As a percentage of net sales, store operating expenses increased to 34.3% from 33.4% for the 39-week period. This increase reflects the impact of newer stores, which have not achieved a mature sales volume level as compared to the existing store base. The increase in store operating expenses was principally due to higher payroll expense (\$1.2 million), higher depreciation expense (\$758,000), higher property taxes (\$379,000) and advertising expenses (\$1.0 million) in Fiscal 2006 as compared to Fiscal 2005, primarily due to the increase in stores open for most of the period.

Store operating expenses increased to \$22.3 million from \$20.5 million, an increase of \$1.8 million or 8.8% over the same 13-week period last year. As a percentage of sales, store operating expenses increased to 37.3% from 35.8%. The increase in store operating expenses was principally due to higher payroll expense (\$543,000), which includes training time for employees for the upgraded POS system; as well as higher group insurance expense (\$294,000) and advertising expenses (\$735,000) in the third quarter as compared to Fiscal 2005.

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#### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased to \$15.3 million from \$12.2 million, an increase of \$3.1 million or 25.4%, over the same 39-week period last year. As a percentage of net sales, general and administrative expenses increased to 7.8% from 6.5%, primarily due to higher travel (\$362,000), telephone expense (\$194,000) and professional fees (\$860,000), as compared to last year, as well as due to higher payroll expense (\$1.5 million), which included compensation from stock options (\$849,000) related to the adoption of FAS No. 123R.

General and administrative expenses increased to \$5.6 million from \$4.1 million, an increase of \$1.5 million or 36.6%, above the same 13-week period last year. As a percentage of net sales, general and administrative expenses increased to 9.4% from 7.1% for the 13-week period, primarily due to higher travel (\$125,000), telephone expense (\$165,000) and professional fees (\$739,000), as compared to last year, as well as due to higher payroll expense of (\$331,000), which included compensation from stock options (\$247,000). The Company spent an additional \$200,000 in administrative support for the POS upgrade during the current period.

#### LILLIE RUBIN EXIT COSTS

During the 39-week period ended, the Company recorded a pre-tax charge of \$5.5 million for the exit of the Lillie Rubin business. The charge is comprised of leasehold improvement, furniture and fixtures write-down (\$4.4 million), write-down of intangibles (\$455,000), write-down of supplies (\$275,000), severance charges (\$253,000), as well as an accrual (\$1.4 million) for contractual termination costs negotiated prior to July 1, 2006. These costs were partially offset by the reversal (\$1.3 million) of deferred rent accruals.

#### INTEREST INCOME

Interest income increased to \$1.9 million from \$677,000, an increase of \$1.2

million over the prior year period, primarily due to higher average cash balances, as well as higher interest rates.

Interest income increased to \$657,000 from \$277,000 in the same 13-week period last year.

## INCOME TAXES

Income taxes decreased to \$2.6 million from \$3.8 million, as compared to the 39-week period last year. The decrease was primarily attributable to lower taxable income in fiscal 2006. The estimated effective tax rate for the 39-week periods in fiscal 2006 and fiscal 2005 was 39.0% and 39.5%, respectively.

Income taxes decreased to \$441,000 from \$713,000, as compared to the same 13-week period last year. The estimated effective tax rate for the 13-week periods in fiscal 2006 and fiscal 2005 was 39.0% and 39.5%, respectively.

## NET INCOME

As a result of the factors discussed above, net income decreased to \$4.1 million from \$5.9 million for the prior year 39-week period.

Net income decreased to \$690,000 from \$1.1 million for the same 13-week period last year.

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## LIQUIDITY AND CAPITAL RESOURCES

Our cash requirements are primarily for working capital, the construction of new stores, the remodeling of existing stores, and to improve and enhance our information technology systems. During the 39-week period ended September 30, 2006, we generated \$9.1 million of cash flow from operations as compared to \$15.2 million generated in the same period in Fiscal 2005. We expect to continue to meet our operating cash requirements primarily through cash flows from operating activities, existing cash and cash equivalents, and short-term investments. In addition, we have available a \$17.5 million revolving credit facility (the "credit facility") with Bank of America Retail Finance, under which we have not had outstanding borrowings for several years. At September 30, 2006, we had working capital of \$70.3 million, cash and marketable securities of \$53.5 million and no third party debt outstanding.

The following table sets forth our cash flows for the period indicated:

<TABLE>  
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	<C>	<C>
	----- 39-Weeks ended -----	
	September 30, 2006	October 1, 2005
	-----	-----
Net cash from operating activities.....		\$9,066,000
15,178,000		
Net cash from investing activities.....		7,145,000
(10,316,000)		
Net cash from financing activities.....		250,000
553,000		
	-----	-----
Net increase in cash and cash equivalents.....		\$16,461,000
\$5,415,000		
	=====	

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 </TABLE>

During the 39-week period ended September 30, 2006, we increased our cash and cash equivalents by \$16.5 million, primarily due to net matured investments (\$16.2 million), net income (\$4.1 million), which includes depreciation expense (\$7.9 million), a reduction in receivables (\$1.3 million) and an increase in accrued liabilities (\$1.9 million), which was partially offset by an increase in inventories (\$4.6 million), a reduction in accounts payable (\$2.8 million) and expenditures for our new store expansion and remodeling program totaling \$9.1 million. The Company recorded a charge of \$5.5 million for the exit of the Lillie Rubin business, which is comprised of \$3.8 million of non-cash charges and \$1.7 million of cash charges. Cash charges totaling \$1.4 million were paid out in the third quarter. The exit of Lillie Rubin should be finalized by the end of the first fiscal quarter of 2007.

We plan to open approximately 20 new stores during Fiscal 2006. The Company opened one new Cache store in the third quarter, 10 new stores in the second quarter and one new store in the first quarter of Fiscal 2006. We anticipate opening an additional 7 new stores during the fourth quarter. We renovated 12 existing stores in Fiscal 2006. We spent \$9.1 million through September 30, 2006 and expect to spend an additional \$4-5 million in the fourth quarter, for both new store and existing store construction and remodeling, as well as for an upgrade of the existing POS computer system.

There have been no borrowings against the line of credit during fiscal 2006 and fiscal 2005. There were outstanding letters of credit of \$2.7 million, \$1.0 million and \$3.0 million, pursuant to the credit facility, at September 30, 2006, December 31, 2005 and October 1, 2005, respectively.

## INFLATION

We do not believe that our sales revenue or operating results have been materially impacted by inflation during the past three fiscal years. There can be no assurance, however, that our sales revenue or operating results will not be impacted by inflation in the future.

## OFF-BALANCE SHEET ARRANGEMENTS

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

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## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies are more fully described in Note 1 of Notes to Consolidated Financial Statements in our Fiscal 2005 10-K. As disclosed in Note 1 of Notes to Consolidated Financial Statements, the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, actual results will differ from those estimates. We evaluate our estimates and judgments on an ongoing basis and predicate those estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results will differ from these under different assumptions or conditions.

Our management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in preparation of the Consolidated Financial Statements.

**INVENTORIES.** Our inventories are valued at lower of cost or market using the

retail inventory method. Under the retail inventory method ("RIM"), the valuation of inventories at cost and the resulting gross margins are calculated by applying a calculated cost to retail ratio to the retail value of inventories. RIM is an averaging method that has been widely used in the retail industry due to its practicality. Additionally, it is recognized that the use of RIM will result in valuing inventories at the lower of cost or market if markdowns are currently taken as a reduction of the retail value of inventories. Inherent in the RIM calculation are certain significant management judgments including, among others, merchandise mark-on, mark-ups, and markdowns, which significantly impact the ending inventory valuation at cost as well as the resulting gross margins. We take markdowns due to changes in fashion and style, based on the following factors: (i) supply on hand, and (ii) our expectations as to future sales. We do not anticipate any significant change in our markdown strategy that would cause a change in our earnings. We believe that our RIM provides an inventory valuation, which results in a carrying value at the lower of cost or market.

**FINITE-LONG LIVED ASSETS.** The Company's judgment regarding the existence of impairment indicators is based on market and operational performance. We assess the impairment of long-lived assets, primarily fixed assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- o significant changes in the manner of our use of assets or the strategy for our overall business;
- o significant negative industry or economic trends;
- o store closings;
- o underperforming stores; or
- o underperforming business trends.

In the evaluation of the fair value and future benefits of finite long-lived assets, we perform an analysis by store of the anticipated undiscounted future net cash flows of the related finite long-lived assets. If the carrying value of the related asset exceeds the undiscounted cash flows, the carrying value is reduced to its fair value. Various factors including future sales growth and profit margins are included in this analysis. To the extent these future projections or strategies change, the conclusion regarding impairment may differ from the current estimates. During the 39-week period ended September 30, 2006, the Company recorded a charge of \$5.5 million related to the exit of the Lillie Rubin store chain. \$3.8 million of this charge relates to the impairment of fixed assets. No impairment charges were incurred in Fiscal

2003, 2004 and 2005, respectively.

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**SELF INSURANCE.** We are self-insured for losses and liabilities related primarily to employee health and welfare claims. Losses are accrued based upon our estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company experience. Adjustments to earnings resulting from changes in historical loss trends have been insignificant for fiscal 2003, 2004 and 2005. Further, we do not anticipate any significant change in loss trends, settlements or other costs that would cause a significant change in our earnings.

**GIFT CARDS, GIFT CERTIFICATES AND CREDITS.** The Company sells gift cards and gift certificates and issues credits to its customers when merchandise is returned. The Company recognizes sales from Gift Cards when they are redeemed by the customer and income when the likelihood of the Gift Card being redeemed by the customer is remote (Gift Card breakage) and the Company determines that it does not have a legal obligation to remit the value of unredeemed Gift Cards to the relevant jurisdiction as abandoned property. The Company determines Gift Card breakage income based upon historical redemption patterns. Breakage income represents the balance of Gift Cards, for which the Company believes the likelihood of redemption by the customer is remote. At that time, the Company will recognize breakage income for those Gift Cards.

During the third quarter of fiscal 2006, the Company formed a new subsidiary to handle all sales and maintain the liability related to Gift Cards. As a result of transferring all existing obligations to the newly formed subsidiary, the Company recognized \$2.4 million of breakage income, within net sales, in the second quarter related to Gift Cards sold/issued since the inception of the Gift Card program. There was no breakage income recognized for the same period in the prior year.

**REVENUE RECOGNITION.** Sales are recognized at the "point of sale," which occurs when merchandise is sold in an "over-the-counter" transaction or upon receipt by a customer. Sales of merchandise via our website are recognized at the expected time of delivery to the customer. Our customers have the right to return merchandise. Sales are reported net of actual and estimated returns. We maintain a reserve for potential product returns and record, as a reduction to sales, a provision for estimated product returns, which is determined based on historical experience. Charges or credits to earnings resulting from revisions to estimates on our sales return provision were approximately \$66,000, \$20,000 and \$(29,000) for Fiscal 2003, 2004 and 2005, respectively. Amounts billed to customers for shipping and handling fees are included in net sales at the time of shipment. Costs incurred for shipping and handling are included in cost of sales.

INCOME TAXES. The Company accounts for income taxes in accordance with SFAS No.

109, "Accounting for Income Taxes." This statement requires the Company to recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities, using applicable tax rates for the years in which the differences are expected to reverse. The Company reserves for tax contingencies when it is probable that a liability has been incurred and the contingent amount is reasonably estimable. These reserves are based upon the Company's best estimation of the potential exposures associated with the timing and amount of deductions as well as various tax filing positions. Due to the complexity of these examination issues, \$301,000 has been accrued to date.

SEASONALITY. We experience 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. Our 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).

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

We are 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 our 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. We purchase substantially all merchandise in U.S. dollars.

Our exposure to market risk for changes in interest rates relates to cash, cash equivalents and marketable securities. As of September 30, 2006, our cash, cash equivalents and marketable securities consisted primarily of funds invested in money market accounts, which bear interest at a variable rate and U.S. treasury instruments, which bear interest at a fixed rate. Due to the average maturity and the conservative nature of our 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 that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As of September 30, 2006, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to the Securities and Exchange Act Rule 13(a)-15(b). Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2006 due to the material weakness in our internal control over financial reporting, as a result of the lack of resources identified during the Company's assessment of internal control over financial reporting as of January 1, 2006 and reported in our Fiscal 2005 Annual Report on Form 10-K. We continue our efforts to remediate this material weakness through ongoing process improvements and the implementation of enhanced policies and hiring additional personnel, engaging third-party tax, financial and financial systems consultants, improving quality control standards, and providing additional training and education to our financial reporting and accounting personnel. Accordingly, this material weakness is not yet fully remediated. No material weaknesses will be considered remediated until the remedial procedures have operated for an appropriate period, have been tested, and management has concluded that they are operating effectively.

To compensate for this material weaknesses, the Company performed additional analysis and other procedures in order to prepare the unaudited quarterly consolidated financial statements in accordance with generally accepted accounting principles in the United States of America. Accordingly, management believes that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

There were no changes during the quarter that have materially affected, or are

reasonably likely to materially affect, our internal control over financial reporting.

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## PART II - OTHER INFORMATION

### ITEM 1A. RISK FACTORS

#### RISKS RELATED TO OUR BUSINESS

##### OUR EXPANSION INTO NEW MARKETS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Some of our new stores will be opened in areas of the United States in which we currently have few or no stores. The expansion into new markets may present competitive, merchandising and administrative challenges that are different from those currently encountered in our existing markets. Any of these challenges could adversely affect our business, financial condition and results of operations. To the extent our new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets.

##### OUR NEW CACHE LUXE CONCEPT MAY NOT BE SUCCESSFUL, WHICH COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND DIVERT MANAGEMENT'S TIME AND ATTENTION FROM OUR CORE CACHE STORE BUSINESS.

In the third fiscal quarter of 2006, we opened 16 Cache Luxe stores. Almost all of our Cache Luxe stores are located in malls that also contain a Cache store. As a new concept, Cache Luxe may not be successful. It may detract from our existing Cache brand and/or result in reduced sales at Cache stores that are located in the same mall as a Cache Luxe store. The continued implementation and expansion of the Cache Luxe concept could divert our management's time and resources from our core Cache store business. If the results of operations of our Cache Luxe stores are not significantly better than the Lillie Rubin stores they replaced, there could be a material adverse effect on our business, financial condition and results of operations.

##### OUR MANUFACTURERS MAY BE UNABLE TO MANUFACTURE AND DELIVER PRODUCTS IN A TIMELY MANNER OR MEET OUR QUALITY STANDARDS, WHICH COULD RESULT IN LOST SALES,

## CANCELLATION CHARGES OR EXCESSIVE MARKDOWNS.

We purchase apparel and accessories from importers and directly from third-party manufacturers. Similar to most other specialty retailers, we have short selling seasons for much of our inventory. Factors outside of our control, such as manufacturing or shipping delays or quality problems, could disrupt merchandise deliveries and result in lost sales, cancellation charges or excessive markdowns, all of which could have a material adverse effect on our financial condition and results of operations.

## SUBSTANTIALLY ALL OF OUR MERCHANDISE IS PRODUCED IN FOREIGN FACILITIES. THIS SUBJECTS US TO THE RISKS OF INTERNATIONAL TRADE AND OTHER RISKS GENERALLY ASSOCIATED WITH DOING BUSINESS IN FOREIGN MARKETS.

Substantially all of our vendors utilize overseas production facilities. The failure of foreign manufacturers to ship products to us in a timely manner could result in our stores lacking needed inventory. Any event causing a disruption of imports, including financial or political instability, currency fluctuations, terrorism or heightened security, trade restrictions in the form of tariffs or quotas or both, political or military conflict involving the United States, or the migration of manufacturers, could negatively affect our business, financial condition or results of operations. These adverse impacts may include an increased cost to us, reductions in the supply of merchandise or delays in our manufacturing lead time.

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## WE RELY ON OUR MANUFACTURERS TO USE ACCEPTABLE ETHICAL BUSINESS PRACTICES, AND IF THEY FAIL TO DO SO, THE CACHE BRAND NAME COULD SUFFER REPUTATIONAL HARM AND OUR SALES COULD DECLINE OR OUR INVENTORY SUPPLY COULD BE INTERRUPTED.

We do not control our manufacturers or their labor and other business practices. If one of our manufacturers violates labor or other laws or implements labor or other business practices that are generally regarded as unethical in the United States, the shipment of finished products to us could be interrupted, orders could be canceled, relationships could be terminated and our reputation could be damaged. Any of these events could have a material adverse effect on our revenues and, consequently, our results of operations.

OUR PLANS TO INCREASE OUR DIRECT-SOURCING OF PRODUCTS SOLD IN OUR STORES FROM INTERNATIONAL VENDORS MAY NOT BE SUCCESSFUL, WHICH COULD RESULT IN ADDITIONAL COSTS AND MANUFACTURING DELAYS. TO THE EXTENT THAT WE INCREASE DIRECT-SOURCING, INTERRUPTIONS IN OUR DIRECT-SOURCING OPERATIONS COULD RESULT IN LOST SALES AND INCREASED COSTS.

We have limited experience with direct-sourcing from international vendors that can supply us merchandise at lower costs. In fiscal 2005, we directly-sourced approximately 8% of our merchandise. By the second half of fiscal 2007, we expect to increase direct-sourcing to approximately 20 to 25% of our merchandise, and we believe that we can increase the percentage of our merchandise that is directly-sourced to approximately 40 to 50% in the long-term. We cannot assure you that direct-sourcing will result in the cost saving we anticipate. Furthermore, we may not be able to effectively cultivate and manage these direct relationships with manufacturers, which could result in additional costs and manufacturing delays.

To the extent that we are successful in significantly increasing direct-sourcing, we will be further subject to risks associated with doing business in foreign markets. Interruptions in our direct-sourcing operations could disrupt manufacturing, shipment or receipt of our merchandise, which could result in lost sales and increase our costs. Increasing our direct-sourcing could adversely affect our relationship with our domestic vendors.

THE RAW MATERIALS USED TO MANUFACTURE OUR PRODUCTS AND OUR DISTRIBUTION AND LABOR COSTS ARE SUBJECT TO AVAILABILITY CONSTRAINTS AND PRICE VOLATILITY, WHICH COULD RESULT IN INCREASED COSTS.

The raw materials used to manufacture our products are subject to availability constraints and price volatility caused by high demand for petroleum-based synthetic fabrics, weather, supply conditions, regulations, economic climate and other unpredictable factors. In addition, our transportation and labor costs are subject to price volatility caused by the price of oil, supply of labor, regulations, economic climate and other unpredictable factors. Increases in demand for, or the price of, raw materials, distribution services and labor could have a material adverse effect on our business, financial condition and results of operations.

BECAUSE OUR CACHE BRAND IS ASSOCIATED WITH ALL OF OUR MERCHANDISE, OUR SUCCESS

DEPENDS HEAVILY ON THE VALUE ASSOCIATED WITH OUR BRAND. IF THE VALUE ASSOCIATED WITH OUR BRAND WERE TO DIMINISH, OUR SALES COULD DECREASE, CAUSING LOSSES OR LOWER PROFITS.

Our success depends on our Cache brand and its value. The Cache name is integral to our business, as well as to the implementation of our new Cache Luxe concept. The Cache brand could be adversely affected if our public image or reputation were to be tarnished, which could result in a material adverse effect on our business.

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ANY MATERIAL DISRUPTION OF OUR INFORMATION SYSTEMS COULD DISRUPT OUR BUSINESS AND REDUCE OUR SALES.

Our information systems integrate all major aspects of our business, including sales, finance, distribution, purchasing, inventory control and merchandise planning. We have substantially completed the rollout of a new point-of-sale, POS, system to all of our stores and installation of a wide area network that allows us to add functionality to our POS system, including the ability to process debit card transactions at lower rates, centralize credit authorizations, enhance labor scheduling, centralize our customer database, introduce our customer loyalty program, speed up customer transaction time and analyze real-time sales data. We are increasingly dependent on these information systems for the efficient operation of our business, including our web site, and to facilitate the enhancement of our marketing efforts.

We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems, including a disruption or slowdown caused by any failure on our part to successfully maintain or perform additional upgrades to our systems, could cause information to be lost or delay our ability to process and make use of that information in our business, which may lead to declines in sales. In addition, if future changes in technology cause our information systems to become obsolete, or if our current information systems prove to be inadequate to support our growth, we could lose customers.

OUR MARKETING EFFORTS RELY UPON THE EFFECTIVE USE OF CUSTOMER INFORMATION.

RESTRICTIONS ON THE AVAILABILITY OR USE OF CUSTOMER INFORMATION COULD ADVERSELY

AFFECT OUR MARKETING PROGRAM, WHICH COULD RESULT IN LOST SALES AND A DECREASE IN PROFITS.

We use our customer database to market to our customers. We intend to expand use of our customer database when we implement our customer loyalty program, which is expected to occur in the first half of fiscal 2007. Any limitations imposed on the use of such consumer data, whether imposed by federal or state governments or business partners, could have an adverse effect on our future marketing activity. In addition, to the extent our security procedures and protection of customer information prove to be insufficient or inadequate, we may become subject to litigation, which could expose us to liability and cause damage to our reputation or brand.

WE ARE SUBJECT TO NUMEROUS REGULATIONS THAT COULD AFFECT OUR OPERATIONS. CHANGES IN SUCH REGULATIONS COULD IMPACT THE OPERATION OF OUR BUSINESS THROUGH DELAYED SHIPMENTS OF OUR GOODS, FINES OR PENALTIES THAT COULD AFFECT OUR PROFITABILITY.

We are subject to customs, truth-in-advertising, truth-in-lending and other laws, including consumer protection regulations and zoning and occupancy ordinances, that regulate retailers generally and/or govern the importation, promotion and sale of merchandise, the use of proprietary credit cards and the operation of retail stores and warehouse facilities. Although we undertake to monitor changes in these laws, if these laws change without our knowledge, or are violated by our employees, importers, buying agents, manufacturers or distributors, we could experience delays in shipments and receipt of goods or be subject to fines or other penalties under the controlling regulations, any of which could have a material adverse effect on our business, financial condition and results of operations.

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WE REPORTED A MATERIAL WEAKNESS IN OUR INTERNAL CONTROL OVER FINANCIAL REPORTING AND, IF WE ARE UNABLE TO IMPROVE OUR INTERNAL CONTROLS, OUR FINANCIAL RESULTS MAY NOT BE ACCURATELY REPORTED.

In connection with the preparation of our Annual Report on Form 10-K for fiscal 2005, management identified a material weakness, due to an insufficient

number of resources in the accounting and finance department, resulting in an ineffective review, monitoring and analysis of schedules, reconciliations and financial statement disclosures and several audit adjustments to the financial statements for the quarter and year ended December 31, 2005. As a result of this material weakness, we concluded that our disclosure controls and procedures were not effective as of December 31, 2005. Due to the pervasive effect of the lack of resources and the potential impact on the financial statements and disclosures and the importance of the annual and interim financial closing and reporting process, in the aggregate there is more than a remote likelihood that a material misstatement of the annual financial statements would not have been prevented or detected.

We continue our efforts to remediate this material weakness through ongoing process improvements and the implementation of enhanced policies and hiring of additional personnel, engaging third-party tax, financial and financial system consultants, improving quality control standards and providing additional training and education to our financial reporting and accounting personnel. Accordingly, this material weakness is not yet fully remediated. No material weaknesses will be considered remediated until the remediated procedures have operated for an appropriate period, have been tested, and management has concluded that they are operating effectively. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial reporting processes and that we will remediate the material weakness. Any failure to implement required new or improved controls or to remediate the material weakness, or difficulties encountered in their implementation, could prevent us from accurately reporting our financial results, result in material misstatements in our financial statements or cause us to fail to meet our reporting obligations. In addition, we cannot assure you that we will not in the future identify further material weaknesses in our internal control over financial reporting that we have not discovered to date, which may impact the reliability of our financial reporting and financial statements. Insufficient internal controls could also cause investors to lose confidence in our reported financial information.

## RISKS RELATED TO OUR INDUSTRY

IF NEW LEGISLATION RESTRICTING THE IMPORTATION OR INCREASING THE COST OF TEXTILES AND APPAREL PRODUCED ABROAD IS ENACTED, OUR BUSINESS COULD BE ADVERSELY AFFECTED.

Legislation that would restrict the importation or increase the cost of textiles and apparel produced abroad has been periodically introduced in Congress. The enactment of new legislation or international trade regulation, or executive action affecting international textile or trade agreements, could

adversely affect our business. International trade agreements that can provide for tariffs and/or quotas can increase the cost and limit the amount of product that can be imported.

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The quota system established by the World Trade Organization was eliminated on December 31, 2004. We cannot be certain of the full impact that this elimination will have on international trade in general and the apparel industry in particular. We also cannot be certain of the impact of quota elimination on our business, including increased competition that could result from the importation of an increasing amount of lower priced apparel into the United States. Notwithstanding quota elimination, China's accession agreement for membership in the WTO provides that WTO member countries, including the United States, may re-impose safeguard quotas on specific products. In May 2005, the United States imposed unilateral quotas on several product categories, limiting growth in imports of these categories to 7.5% a year. The safeguard quotas in several categories have been extended by the United States government and will likely continue through 2008. These limitations apply to a limited number of products imported by us from China. We are unable to assess the potential for additional action by the United States government with respect to these or other product categories in the event that the quantity of imported apparel significantly disrupts the apparel market in the United States. Additional action by the United States in response to a disruption in its apparel markets could limit our ability to import apparel and increase our costs.

## RISKS RELATED TO OUR COMMON STOCK

OUR SHARE PRICE HAS FLUCTUATED SIGNIFICANTLY AND COULD CONTINUE TO FLUCTUATE SIGNIFICANTLY.

Between January 1, 2004 and November 7, 2006, the market price of our common stock has ranged from \$10.90 to \$23.63 per share. The stock market has, from time to time, experienced extreme price and volume fluctuations. The market price for our common stock may change significantly in response to various factors, including:

- o Periodic variations in the actual or anticipated financial results of our business or other companies in the retail industry;
- o A shortfall in net sales or net income from that expected in securities analysts' estimates or from that expected by investors;

- o The timing of new store openings and net sales contributed by new stores;
- o Material announcements by us or our competitors;
- o Public sales of a substantial number of common shares following this offering; and
- o Adverse changes in general market conditions or economic trends.

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In the past, companies that have experienced volatility in the market price of their shares have been the subject of securities class action litigation. If we become involved in a securities class action litigation in the future, it could result in substantial costs and diversion of our management's attention and resources, thus harming our business.

PROVISIONS OF OUR GOVERNING DOCUMENTS AND FLORIDA LAW COULD DISCOURAGE ACQUISITION PROPOSALS OR DELAY A CHANGE IN OUR CONTROL, AND THIS MAY ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK OR DENY OUR STOCKHOLDERS A CHANCE TO REALIZE A PREMIUM ON THEIR SHARES.

Our articles of incorporation and by-laws contain anti-takeover provisions, including those listed below, that could make it more difficult for a third party to acquire control of us, even if that change in control would be beneficial to our stockholders:

- o our board of directors has the authority to issue common stock and preferred stock and to determine the price, rights and preferences of any new series of preferred stock without further stockholder approval and
- o there are limitations on who can call special meetings of stockholders.

In addition, provisions of Florida law and our stock option plans may also discourage, delay or prevent a change in control of our company or unsolicited acquisition proposals.

ITEM 6. EXHIBITS

- 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.

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SIGNATURES

Pursuant to the requirement of Section 13 or 15 (d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 7, 2006

CACHE, INC.

BY: /s/ Brian Woolf

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Brian Woolf  
Chairman and Chief  
Executive Officer  
(Principal Executive Officer)

BY: /s/ Margaret Feeney

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Margaret Feeney  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

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EXHIBIT 31.1  
CERTIFICATION

I, Brian Woolf, 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)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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;

d) 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, the registrant's internal control over financial reporting; and

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 controls over financial reporting.

November 7, 2006

By: /s/ Brian Woolf

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Brian Woolf  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

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EXHIBIT 31.2  
CERTIFICATION

I, Margaret Feeney, 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)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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;
  - d) 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, the registrant's internal control over financial reporting; and
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 controls over financial reporting.

November 7, 2006                      By: /s/ Margaret Feeney

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Margaret Feeney  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

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EXHIBIT 32.1  
CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to, and solely for the purposes of, 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002), each of the undersigned hereby certifies in the capacity and on the date indicated below that:

1. The Quarterly Report of Cache, Inc. on Form 10-Q for the period ending September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Cache, Inc.

November 7, 2006                      BY: /s/ Brian Woolf

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Brian Woolf  
Chairman and Chief  
Executive Officer  
(Principal Executive Officer)

November 7, 2006

BY: /s/ Margaret Feeney

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Margaret Feeney  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

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-----END PRIVACY-ENHANCED MESSAGE-----