CHEROKEE INC
Form 10-Q
June 07, 2012
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended April 28, 2012.

o **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 0-18640

CHEROKEE INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4182437**
(State or other jurisdiction of Incorporation or organization)	(IRS employer identification number)
5990 Sepulveda Boulevard, Sherman Oaks, CA	**91411**
(Address of principal executive offices)	Zip Code

Registrant s telephone number, including area code **(818) 908-9868**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

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

Class	**Outstanding at June 4, 2012**
Common Stock, $.02 par value per share	8,387,167

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Part 1. Financial Information

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CHEROKEE INC.

CONSOLIDATED BALANCE SHEETS

Unaudited

	April 28, 2012	January 28, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 7,121,000	$ 7,421,000
Receivables	7,183,000	5,320,000
Income taxes receivable	1,758,000	672,000
Prepaid expenses and other current assets	237,000	152,000
Deferred tax asset	109,000	100,000
Total current assets	16,408,000	13,665,000
Deferred tax asset	1,350,000	1,230,000
Property and equipment, net	722,000	733,000
Trademarks, net	5,338,000	5,596,000
Total assets	$ 23,818,000	$ 21,224,000
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,084,000	$ 850,000
Deferred Revenue current	315,000	320,000
Accrued compensation payable	125,000	268,000
Income taxes payable	2,141,000	
Accrued dividends	1,677,000	1,677,000
Deferred tax liability current	32,000	38,000
Short term debt	500,000	500,000
Total current liabilities	5,874,000	3,653,000
Long term liabilities:		
Deferred tax liability non current	32,000	
Deferred Revenue non-current	223,000	382,000
Long term debt	6,314,000	6,438,000
Total liabilities	12,443,000	10,473,000
Commitments and Contingencies		
Stockholders Equity		
Preferred stock, $.02 par value, 1,000,000 shares authorized, none issued and outstanding		
Common stock, $.02 par value, 20,000,000 shares authorized, 8,387,167 issued and outstanding at April 28, 2012 and 8,387,167 issued and outstanding at January 28, 2012	167,000	167,000
Additional paid-in capital	19,502,000	19,271,000
Retained earnings (deficit)	(8,294,000)	(8,687,000)
Less: Treasury Stock, Common: 400,000 shares		
Total stockholders equity	11,375,000	10,751,000
Total liabilities and stockholders equity	$ 23,818,000	$ 21,224,000

See the accompanying notes which are an integral part of these consolidated financial statements.

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CHEROKEE INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three months ended	
	April 28, 2012	**April 30, 2011**
Royalty revenues	$ 7,514,000	$ 6,944,000
Selling, general and administrative expenses	4,153,000	3,303,000
Operating income	3,361,000	3,641,000
Other income:		
Interest expense	(51,000)	(66,000)
Investment and interest income	12,000	20,000
Total other income	(39,000)	(46,000)
Income before income taxes	3,322,000	3,595,000
Income tax provision	1,251,000	343,000
Net income	$ 2,071,000	$ 3,252,000
Basic earnings per share	$ 0. 25	$ 0. 38
Diluted earnings per share	$ 0. 25	$ 0. 38
Weighted average shares outstanding		
Basic	8,387,167	8,499,486
Diluted	8,389,434	8,521,362

See the accompanying notes which are an integral part of these consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Unaudited

	Common Stock		Additional Paid-in	Retained	
	Shares	Par Value	Capital	Earnings (Deficit)	Total
Balance at January 28, 2012	8,387,167	$ 167,000	$ 19,271,000	$ (8,687,000)	$ 10,751,000
Stock-based compensation			231,000		231,000
Stock options exercised					
Stock issuance					
Stock retirement					
Accrued and unpaid dividends				(1,678,000)	(1,678,000)
Net income				2,071,000	2,071,000
Balance at April 28, 2012	8,387,167	$ 167,000	$ 19,502,000	$ (8,294,000)	$ 11,375,000

See the accompanying notes which are an integral part of these consolidated financial statements.

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CHEROKEE INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	April 28, 2012	April 30, 2011
Operating activities		
Net income	$ 2,071,000	$ 3,252,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,000	17,000
Amortization of trademarks	336,000	335,000
Deferred income taxes	(103,000)	459,000
Net loss on retirement of assets	76,000	
Stock-based compensation	231,000	150,000
Changes in current assets and liabilities:		
(Increase) decrease in accounts receivable	(1,863,000)	77,000
(Increase) decrease in prepaid expenses and other assets	(85,000)	30,000
(Increase) decrease in income taxes receivable	(1,086,000)	1,105,000
Increase (decrease) in accounts payable	234,000	(504,000)
Decrease in deferred revenue	(164,000)	
Decrease in accrued compensation	(143,000)	(4,314,000)
Increase in income taxes payable and other accrued liabilities	2,141,000	837,000
Net cash provided by operating activities	1,684,000	1,444,000
Investing activities		
Purchase of property and equipment	(104,000)	(81,000)
Purchase of trademarks, registration and renewal costs	(78,000)	(108,000)
Net cash used in investing activities	(182,000)	(189,000)
Financing activities		
Proceeds from term loan		10,000,000
Payment of term loan	(124,000)	(704,000)
Proceeds from exercise of stock options		161,000
Repurchase & retirement of common stock		(7,260,000)
Dividends	(1,678,000)	(1,699,000)
Net cash provided by (used in) financing activities	(1,802,000)	498,000
Increase (decrease) in cash and cash equivalents	(300,000)	1,753,000
Cash and cash equivalents at beginning of period	7,421,000	9,587,000
Cash and cash equivalents at end of period	$ 7,121,000	$ 11,340,000
Cash paid during period for:		
Income taxes	$ 299,000	$ 94,000
Declaration of dividends	$ 1,678,000	$ 1,701,000

See the accompanying notes which are an integral part of these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of April 28, 2012 and for the three month periods ended April 28, 2012 and April 30, 2011 have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). These consolidated financial statements have not been audited by independent registered public accountants but include all adjustments, consisting of normal recurring accruals, which in the opinion of management of Cherokee Inc. (Cherokee or the Company) are necessary for a fair statement of the financial position and the results of operations for the periods presented. The accompanying consolidated balance sheet as of January 28, 2012 has been derived from audited consolidated financial statements, but does not include all disclosures required by GAAP. The results of operations for the three month period ended April 28, 2012 are not necessarily indicative of the results to be expected for the fiscal year ending February 2, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

As used herein, the term First Quarter refers to the three months ended April 28, 2012; the term Fiscal 2013 refers to our fiscal year ending February 2, 2013; the term Fiscal 2012 refers to our most recent past fiscal year ended January 28, 2012; and the term Fiscal 2011 refers to our fiscal year ended January 29, 2011.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, SPELL C. LLC, a Delaware limited liability corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors, such as: historical experience, age of accounts receivable balances, credit quality of our licensees, current economic conditions, bankruptcy, and other factors that may affect our licensees ability to pay.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased and money market funds purchased with an original maturity date of three months or less to be cash equivalents.

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Revenue Recognition

Revenues from royalty and brand representation agreements are recognized when earned by applying contractual royalty rates to quarterly point of sale data received from our licensees. Our royalty recognition policy provides for recognition of royalties in the quarter earned, although a large portion of such royalty payments are actually received during the month following the end of a quarter. Revenues are not recognized unless collectability is reasonably assured. Royalty agreements, specifically with Target and Tesco, account for the majority of our historical revenues and are structured to provide royalty rate reductions once certain cumulative levels of sales are achieved by each respective licensee. In these certain cases, revenue is recognized by applying the reduced contractual royalty rates prospectively to point of sale data as required sales thresholds are exceeded. The royalty rate reductions do not apply retroactively to sales since the beginning of the fiscal year. As a result, for such license agreements, our royalty revenues as a percentage of our licensees retail sales are highest at the beginning of each fiscal year and decrease during the fiscal year as licensees exceed sales thresholds as outlined in their respective license agreements. The amount of royalty revenue earned by us in any quarter is dependent not only on retail sales in each quarter, but also on the royalty rate then in effect after considering the cumulative level of retail sales for the fiscal year. Historically, with Target and Tesco, this has caused our first quarter to be our highest revenue and profitability quarter; our second quarter to be our next highest quarter; and our third and fourth quarters to be our lowest quarters. However, such historical patterns may vary in the future, depending upon the product mix and retail sales volumes achieved in each quarter with our licensees and also on the revenues we receive from other licensees that do not pay us reduced royalty rates based upon cumulative sales. The amount of the royalty rate reductions and the level of retail sales at which they are achieved vary in each applicable licensing agreement, and our agreements with many of our other licensees do not contemplate such royalty rate reductions.

Deferred Revenue

Deferred revenues represent minimum licensee revenue royalties paid in advance, the majority of which are non-refundable to the licensee. Historically, deferred revenue was combined with accounts payable; however, deferred revenue is currently presented separately as current and non-current items on our balance sheet. The values and timing of recognition of deferred revenues are outlined in our license agreements.

Earnings Per Share Computation

The following table provides a reconciliation of the numerator and denominator of the basic and diluted per-share computations for the three month periods ended April 28, 2012 and April 30, 2011:

	Three Months Ended	
	April 28, 2012	**April 30, 2011**
Numerator:		
Net income-numerator for net income per common share and net income per common share assuming dilution	$ 2,071,000	$ 3,252,000
Denominator:		
Denominator for net income per common share weighted average		
Shares	8,387,167	8,499,486
Effect of dilutive securities:		
Stock options	2,267	21,876

Denominator for net income per common share, assuming dilution:		
Adjusted weighted average shares and assumed exercises	8,389,434	8,521,362

The computation for diluted number of shares excludes unexercised stock options which are anti-dilutive. There were 906,333 and 650,333 anti-dilutive shares for the three months ended April 28, 2012 and April 30, 2011, respectively.

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Significant Contracts

In 1997, we entered into an agreement with Target that grants Target the exclusive right in the United States to use the Cherokee trademarks in certain categories of merchandise. The current terms of our relationship with Target are set forth in a restated license agreement with Target, which was entered into effective as of February 1, 2008 and amended on December 1, 2011 (the Restated Target Agreement). The Restated Target Agreement grants Target the exclusive right in the United States to use the Cherokee trademarks in various specified categories of merchandise. In addition, pursuant to a Canada Affiliate Agreement between Cherokee and Target Canada Co., dated December 1, 2011 (the Target Canada Agreement), and subject to our agreement with Zellers, the terms of the Restated Target Agreement will apply to the territory of Canada effective as of February 1, 2013 and Target will have exclusive rights to the Cherokee brand within the territory of Canada effective as of January 31, 2014 (or earlier if our agreement with Zellers terminates before such date). The term of the Restated Target Agreement continues through January 31, 2013. However, the Restated Target Agreement provides that if Target remains current in its payments of the minimum guaranteed royalty of $9.0 million for Fiscal 2013, then the term of the Restated Target Agreement will continue to automatically renew for successive fiscal year terms provided that Target does not give notice of its intention to terminate the Restated Target Agreement during February of the calendar year prior to termination. In addition, effective as of February 1, 2013, the minimum guaranteed royalty for Target will increase to $10,500,000 and will apply to all sales made by Target in the United States or in Canada as contemplated by the Target Canada Agreement. Under the Restated Target Agreement, Target has agreed to pay royalties based on a percentage of Target s net sales of Cherokee branded merchandise during each fiscal year ended January 31st, which percentage varies according to the volume of sales of merchandise. Royalty revenues from Target totaled $13.8 million in Fiscal 2012, $13.0 million in Fiscal 2011 and $13.2 million in Fiscal 2010.

We also have other licensing agreements regarding our brands, including with Tesco for our Cherokee brand in the United Kingdom, Ireland, the Czech Republic, Slovakia, Poland, Hungary and Turkey. For a more complete description of certain of our license agreements and other commercial agreements, please see our Annual Report on Form 10-K for Fiscal 2012, which was filed with the Securities and Exchange Commission (the Commission) on April 12, 2012.

Stock-Based Compensation

We currently maintain two equity-based compensation plans: (i) the 2003 Incentive Award Plan as amended in 2006 with the adoption of the 2006 Incentive Award Plan (the 2003 Plan); and (ii) the 2006 Incentive Award Plan (the 2006 Plan). Each of these equity based compensation plans provide for the issuance of equity-based awards to officers and other employees and directors, and they have previously been approved by our stockholders. Stock options issued to employees are granted at the market price on the date of grant, generally vest over a three-year period, and generally expire seven to ten years from the date of grant. We issue new shares of common stock upon exercise of stock options.

2003 Plan The 2003 Plan was approved at the June 9, 2003 Annual Meeting of Stockholders, and amended at the June 13, 2006 with the adoption of the 2006 Plan by the Company s Stockholders at the June 2006 Annual Meeting of Stockholders. Under the 2003 Plan, the Company is authorized to grant up to 250,000 shares of common stock in the form of incentive and nonqualified options and restricted stock awards. The maximum number of shares which may be subject to grants under the 2003 Plan to any individual in any calendar year cannot exceed 100,000. The principal purposes of the 2003 Plan are to provide an additional incentive for our directors, employees and consultants to further our growth, development and financial success and to enable us to obtain and retain their services. The Compensation Committee of the Board of Directors or another committee thereof (the Committee) administers the 2003 Plan with respect to grants to our employees or consultants and the full Board of Directors (the Board) administers the 2003 Plan with respect to grants to independent directors. Awards under the 2003 Plan may be granted to individuals who are then officers or other employees of Cherokee or any of our present or future subsidiaries. Such awards also may be granted to our consultants selected by the Committee for participation in the 2003 Plan. The 2003 Plan provides that the Committee may grant or issue stock options and restricted stock awards, or any combination thereof. Two types of stock options may be granted under the plan: incentive and non-qualified stock options. In addition, restricted stock may be sold to participants at various prices (but not below par value) and made subject to such restrictions as may be determined by the Board or the Committee. The vesting period and term for options granted under the 2003 Plan shall be set by the Committee, with the term being no greater than 10 years, and the options generally will vest over a specific time period as designated by the Committee upon the awarding of such options. During the First Quarter, we granted to certain employees stock options with a seven-year term to purchase 70,000 shares of our common stock at an exercise price of $10.92 per share (the closing price on the date of grant) pursuant to the 2003 Plan. As of April 28, 2012, there were 5,315 shares available for issuance under the 2003 Plan. In the event that any outstanding option under the 2003 Plan expires, terminates or is forfeited, the shares of common stock allocable to the unexercised portion of the option shall then become available for grant in the future, until the 2003 Plan expires on April 28, 2016.

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2006 Plan The 2006 Plan was approved at the June 2006 Annual Meeting of Stockholders and amended at the June 2010 Annual Meeting of Stockholders, under which the Company is authorized to grant up to 750,000 shares of common stock in the form of incentive and nonqualified options and restricted stock awards. The maximum number of shares that may be subject to grant under the 2006 Plan to any individual in any calendar year cannot exceed 100,000. The principal purposes of the 2006 Plan is to provide an additional incentive for our directors, employees and consultants and its subsidiaries to further our growth development and financial success and to enable us to obtain and retain their services. The Committee administers the 2006 Plan with respect to grants to our employees or consultants and the full Board administers the 2006 Plan with respect to grants to independent directors. Under the 2006 Plan, restricted stock may be sold to participants at various prices (but not below par value) and made subject to such restrictions as may be determined by the Board or Committee. The vesting period and term for options granted under the 2006 Plan shall be set by the Committee, with the term being no greater than 10 years, and the options generally will vest over a specific time period as designated by the Committee upon the awarding of such options. During the First Quarter, we granted to certain employees stock options with a seven-year term to purchase 10,000 shares of our common stock at an exercise price of $10.92 per share (the closing price on the date of grant) pursuant to the 2006 Plan. As of April 28, 2012, there were 247,167 shares available for issuance under the 2006 Plan. In the event that any outstanding option granted under the 2006 Plan expires, terminates or is forfeited, the shares of common stock allocable to the unexercised portion of the option shall then become available for grant in the future, until the 2006 Plan expires on April 28, 2016.

Following the approval by Cherokee s stockholders, on June 4, 2010, we issued to Robert Margolis, our former Executive Chairman, a non-qualified stock option to purchase 100,000 shares of our Common Stock (the Margolis Option) at an exercise price of $18.49, which was the closing price of our Common Stock on June 4, 2010. The Margolis Option was not issued pursuant to any of Cherokee s existing equity incentive plans. Pursuant to its original terms, the Margolis Option was to vest contingent on Mr. Margolis continued service as a member of our Board of Directors in two equal installments of 50,000, on January 31, 2011 and January 31, 2012; however, pursuant to our separation with Mr. Margolis, the vesting applicable to the Margolis Option was accelerated in full. The Margolis Option is exercisable until June 4, 2015.

In addition, in connection with appointment of Mr. Stupp as our Chief Executive Officer, on August 26, 2010, we granted to Mr. Stupp an option to purchase shares (the *Stupp Option*) of Cherokee s common stock as an inducement grant outside of the 2006 Plan, subject to vesting requirements and other terms. The Stupp Option was originally exercisable for up to a total of 300,000 shares and the maximum number of shares for which the Stupp Option may exercise is 187,500 as of the date of this report (subject to applicable vesting conditions set forth in the Stupp Option). This grant of stock options was entered into as an inducement material for Mr. Stupp to enter into employment with Cherokee. While the grant of the Stupp Option was made outside of the 2006 Plan, the grant is consistent with applicable terms of the 2006 Plan. See the description of the Stupp Option in Note 4. Related Party Transactions.

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Stock-based compensation expense recognized for the First Quarter was $231,000, as compared to $150,000 for the comparable period in the prior year.

The estimated fair value of options granted during Fiscal 2012 and Fiscal 2011 as of each grant date was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Fiscal 2013	Fiscal 2012
Expected Dividend Yield	7.33%	4.65% to 6.67%
Expected Volatility	51.63	49.28 to 51.95
Avg. Risk-Free Rate	1.01%	0.74% to 1.1%
Expected Life (in years)	4.5	4.5 to 5.0
Estimated Forfeiture Rate	7%	30%

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar options, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on the historical volatility of our stock price. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant with an equivalent remaining term. Our dividend yield is based on the past dividends paid and the current dividend yield at the time of grant.

A summary of activity for the Company s stock options for the First Quarter is as follows:

	Shares	Weighted Average Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding, at January 28, 2012	973,833	$ 17.92		
Granted	80,000	$ 10.92		
Exercised				
Canceled/forfeited	(67,500)	$ 17.65		
Outstanding, at April 28, 2012	986,333	$ 17.37	4.64	$ 248,800
Vested and Exercisable at April 28, 2012	460,497	$ 18.68	2.75	$
Non-vested and not exercisable at April 28, 2012	525,836	$ 16.25	5.43	$ 235,600

As of April 28, 2012, total unrecognized stock-based compensation expense related to non-vested stock options was approximately $1,980,000, which is expected to be recognized over a weighted average period of approximately 2.94 years. The total fair value of all options which vested during the First Quarter was $577,000.

Trademarks

During the First Quarter the Company did not acquire any trademarks, nor were there any trademark acquisitions during the comparable period last year. Trademark registration and renewal fees which were capitalized during the First Quarter totaled $78,000. In comparison, for the three months ended April 30, 2011 the total trademark registration and renewal fees capitalized totaled $108,000.

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Income Taxes

Income tax expense of $1,251,000 was recognized for the First Quarter, resulting in an effective tax rate of 37.0% in the First Quarter, as compared to 9.5% in the first three months of last year and compared to 28.0% for the full year of Fiscal 2012. Our lower effective tax rate in Fiscal 2012 was primarily the result of settling income tax examinations with the California Franchise Tax Board related to our apportionment of net income.

The Company files U.S. federal and state income tax returns. For our federal income tax returns, the Company is generally no longer subject to tax examinations for fiscal years prior to Fiscal 2011. With limited exception, our significant state tax jurisdictions are no longer subject to examinations by the various tax authorities for fiscal years prior to 2008. Although the outcome of tax audits is always uncertain, we believe that adequate amounts of tax, interest and penalties, if any, have been provided for in our income tax reserve for any adjustments that may result from future tax audits. We recognize interest and penalties, if any, related to unrecognized tax benefits within the provision for income taxes in our consolidated statement of income. As of January 28, 2012 and April 28, 2012, respectively, accrued interest on a gross basis was $138,000 and $150,000.

As of January 28, 2012 and April 28, 2012, respectively, the total amount of gross unrecognized tax benefits was approximately $900,000 and $920,000, of which approximately $900,000 represents the amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate. It is reasonably expected that $700,000 of the $920,000 of unrecognized tax benefits will settle in the next twelve months. We do not expect this change to have a significant impact on the results of operations or the financial position of the Company.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued an update to ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. ASC 820 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. We adopted ASC 820 on the first day of Fiscal 2009, and this adoption did not have a material impact on our consolidated financial statements.

(3) Dividends

On January 28, 2012, our Board of Directors declared a dividend of $1.7 million, or $0.20 per share, which was paid on March 12, 2012. On April 28, 2012, our Board of Directors declared a dividend of $1.7 million, or $0.20 per share, which is to be paid on June 15, 2012 to stockholders of record as of June 1, 2012.

(4) Related Party Transactions

Employment Agreement with our Chief Executive Officer

On August 26, 2010, we entered into an Employment Agreement, with our Chief Executive Officer, Henry Stupp, which has been subsequently amended pursuant to amendment agreements on each of January 28, 2011, April 13, 2011 and July 27, 2011 (such employment agreement, as amended, the Employment Agreement). Pursuant to the Employment Agreement, (i) on August 26, 2010, Mr. Stupp purchased 81,967 shares of our common stock at a per share price of $18.30 (which was equal to the closing price of Cherokee s common stock on such date), for aggregate proceeds of $1,500,000 and (ii) on July 28, 2011, Mr. Stupp purchased 12,562 shares of Cherokee s common stock at a per share price of $15.92 (which was equal to the closing price of Cherokee s common stock on such date), for aggregate proceeds of approximately $200,000 (all such shares purchased by Mr. Stupp, collectively, the Shares). The sales of the Shares were made pursuant to an exemption from registration provided by Section 4(2) of the Act, including pursuant to Rule 506 thereunder (as Mr. Stupp is an accredited investor under Rule 506 and the sales were made without any form of general solicitation and with full access to any information requested by Mr. Stupp regarding Cherokee or its common stock). In addition, pursuant to the Employment Agreement, Mr. Stupp agreed to purchase an aggregate of $600,000 of our common stock in increments of $200,000 on or before October 31, 2011, January 31, 2012 and April 30, 2012 (such additional shares, the Subsequent Shares). Mr. Stupp elected not purchase the Subsequent Shares to be purchased on or before October 31, 2011, January, 31, 2012 and April 30, 2012, and, as a result, a total of 112,500 of the shares subject to the Option (as described below) have been forfeited, leaving a balance of 187,500 shares subject to the Option as of the date of this report.

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Pursuant to the terms of the Employment Agreement, Mr. Stupp is to receive a base salary equal to $375,000 per year. In addition, for Fiscal 2012, and for each subsequent fiscal year during the term of the Employment Agreement, Mr. Stupp is entitled to receive a performance bonus (the Performance Bonus) equal to five percent of Cherokee s pre-tax income during such fiscal year in excess of a threshold amount of $20,000,000, subject to a maximum of $650,000 per fiscal year. Mr. Stupp did not receive any portion of the Performance Bonus for Fiscal 2012. Mr. Stupp s services as our Chief Executive Officer are at will. The Employment Agreement expires as of January 31, 2014, unless earlier terminated by Cherokee or by Mr. Stupp or extended by mutual agreement.

Pursuant to the Employment Agreement, Cherokee has agreed to certain indemnification obligations to Mr. Stupp related to his service to Cherokee in his capacity as an officer or director of Cherokee.

Pursuant to the Employment Agreement, Cherokee filed with the SEC a registration statement to effect the registration for resale of the shares purchased by Mr. Stupp pursuant to the Employment Agreement and the shares of Common Stock that may be acquired upon exercise of the Option (as described below).

In connection with Mr. Stupp s appointment, on August 26, 2010, we granted Mr. Stupp an option to purchase up to 300,000 shares of our common stock (the Option) pursuant to a Stock Option Agreement (the Stock Option Agreement) as an inducement grant outside of the 2006 Plan. The maximum number of shares subject to the Option is currently 187,500 as a result of the forfeiture of a total of 112,500 shares as of April 30, 2012 described above. The Stock Option Agreement was entered into as an inducement material for Mr. Stupp to enter into employment with Cherokee. While the grant of the Option was made outside of the 2006 Plan, the grant is consistent with applicable terms of the 2006 Plan. The Option has an exercise price of $18.30 per share, which was the closing price of Cherokee s common stock on the Nasdaq Global Select Market on the date of grant. The Option vests in five equal annual installments beginning on January 31, 2012, and vesting in four additional increments on each yearly anniversary thereafter. In addition, in the event of a change in control of Cherokee, an additional twenty percent of the total shares subject to the Option shall vest. The Option has a term of six years and will be forfeited if not exercised before the expiration of the term. Except as noted above, the Option is not transferable and is not exercisable by anyone other than Mr. Stupp during his lifetime If Mr. Stupp s service to Cherokee is terminated for any reason, the Option shall cease vesting upon such termination.

(5) Debt

On February 16, 2011, Cherokee and U.S. Bank National Association (the Bank) entered into a Term Loan Agreement (the Original Loan Agreement). Pursuant to the Original Loan Agreement, Cherokee borrowed $10,000,000 in principal from the Bank (the Original Loan). Pursuant to the Original Loan Agreement, the Original Loan was to be repaid in equal monthly installments of $277,778 plus interest over three years, with the balance due at maturity, and with interest on the Original Loan calculated at a floating rate equal to either (i) the Bank s prime rate minus 0.25% or (ii) 2.75% plus the 1, 2 or 3 month LIBOR rate, as selected by Cherokee. The Original Loan Agreement contained various affirmative and negative covenants that are customary for loan agreements and transactions of this type, including limitations on our ability to incur debt or other liabilities and limitations on our ability to consummate acquisitions in any fiscal year in excess of $5,000,000 or in excess of $10,000,000 in the aggregate while the Original Loan was outstanding. Further, as collateral for the Original Loan, the Company granted a security interest in favor of the Bank in all of Cherokee s assets, and the Original Loan was guaranteed by Cherokee s wholly owned subsidiary, Spell C. LLC. Proceeds from the Original Loan were primarily used to satisfy the Company s promissory note payable to our former Chairman. On September 6, 2011, we entered into an amendment to the Original Loan Agreement (the Amendment) to (i) modify the covenants relating to, and related definitions of, the fixed charge coverage ratio and tangible net worth as such terms are defined in the Amendment, and (ii) modify the covenant relating to Cherokee s ability to make certain permitted acquisitions under the Original Loan Agreement, to permit Cherokee, subject to certain conditions, to consummate acquisitions in any fiscal year in amounts below $5,000,000 or in amounts below $10,000,000 in the aggregate while the Original Loan was outstanding.

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On December 7, 2011, Cherokee and the Bank entered into an amendment and restatement of the Original Loan Agreement (the Restated Loan Agreement). Pursuant to the Restated Loan Agreement, the Original Loan was refinanced to constitute two term loans, for an aggregate principal amount of $7,000,000 (the New Loan). The New Loan was prepaid in full on June 5, 2012. The New Loan consisted of (i) a term loan in the principal amount of $5,000,000, which loan was to be repaid in full on or before November 30, 2013 (the Two Year Facility) and (ii) a term loan in the principal amount of $2,000,000, which loan was to be repaid in full on or before November 30, 2015 (the Four Year Facility). The Two Year Facility did not require principal payments prior it its maturity and bore interest to be paid in monthly installments, with such interest calculated at a floating rate equal to either (i) the Bank s prime rate minus 0.25% or (ii) 2.00% plus the 1, 2 or 3 month LIBOR rate, as selected by Cherokee. The Four Year Facility required principal to be repaid in equal monthly installments of $41,666.67, plus interest, with such interest calculated at a floating rate equal to either (i) the Bank s prime rate minus 0.25% or (ii) 2.75% plus the 1, 2 or 3 month LIBOR rate, as selected by Cherokee. Further, pursuant to the Restated Loan Agreement, (i) we are obligated to maintain cash deposits of at least $5,000,000, (ii) the tangible net worth covenant contained in the Original Loan Agreement was eliminated and (iii) the components applicable to the fixed charge coverage ratio covenant in the Original Loan Agreement were modified and such ratio was (i) determined to be inapplicable to our third quarter for Fiscal 2012, (ii) fixed at 1.25x for our fourth quarter of Fiscal 2012 (calculated on a quarterly basis), (ii) fixed at 2.75x for the First Quarter (calculated on a quarterly basis) and (iii) fixed at 1.15x for all future quarters while any portion the New Loan is outstanding (calculated on a trailing twelve month basis). In addition, a new quarterly profitability covenant was added, which covenant (i) is inapplicable to our third quarter of Fiscal 2012, and (ii) requires Cherokee to achieve a minimum quarterly net profit (after tax) of $1,000,000 for our fourth quarter of Fiscal 2012 and each future fourth quarter of subsequent fiscal years, $1,700,000 for the First Quarter and each first quarter of subsequent fiscal years, $1,400,000 for each second quarter of subsequent fiscal years and $1,100,000 for each third quarter of subsequent fiscal years, in each case while any portion of the New Loan is outstanding. Also in connection with, and as a condition to, the Restated Loan Agreement, we repaid approximately $775,000 to the Bank to reduce the total amount outstanding under the Restated Loan Agreement to $7,000,000. On June 5, 2012, Cherokee prepaid all outstanding principal and interest on both the Four Year Facility and the Two Year Facility. See Note 6 below (Subsequent Events) for further information regarding such prepayment.

Except as described above, the terms of the Restated Loan Agreement are generally consistent with the terms of the Original Loan Agreement, and the Restated Loan Agreement contains various affirmative and negative covenants that are customary for loan agreements and transactions of this type, including limitations on our ability to incur debt or other liabilities and limitations on our ability to consummate acquisitions in any fiscal year in excess of $5,000,000 or in excess of $10,000,000 in the aggregate while the New Loan is outstanding. The New Loan was evidenced by two term notes in the principal amounts of $2,000,000 and $5,000,000, respectively (which amounts are no longer outstanding as of June 5, 2012), a restated security agreement, a restated continuing guaranty executed by Cherokee s wholly owned subsidiary, Spell C. LLC, and a California judicial reference agreement.

On June 5, 2012, Cherokee prepaid all outstanding principal and interest on both the Four Year Facility and the Two Year Facility. See Note 6 below (Subsequent Events) for further information regarding such prepayment.

(6) Subsequent Events

On June 5, 2012, Cherokee prepaid all outstanding principal and interest on both the Four Year Facility and the Two Year Facility. As a result, Cherokee currently has no outstanding borrowings under the Restated Loan Agreement, and Cherokee will obtain a release of the security interest granted to secure its obligations under the Restated Loan Agreement.

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

Cautionary note regarding forward looking statements

This quarterly report on Form 10-Q and other filings which we make with the Securities and Exchange Commission (the Commission), as well as press releases and other written or oral statements we may make may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used, the words anticipates , believes , estimates , objectives , goals , aims , hopes , may should and similar expressions are intended to identify such forward-looking statements. In particular, the forward-looking statements in this Form 10-Q include, among others, statements regarding our goals or expectations regarding our future revenues and earnings, the likelihood of increased retail sales by our current and future licensees, such as Target and Tesco, the likelihood that our licensees will achieve royalty rate reductions, our prospects for obtaining new licensees and our prospects for obtaining new brands to acquire or represent. Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results, performance, achievements or share price to be materially different from any future results, performance, achievements or share price expressed or implied by any forward-looking statements. Such risks and uncertainties include, but are not limited to, the financial condition of the apparel industry and the retail industry, the overall level of consumer spending and our exposure to general economic conditions, the effect of intense competition we face from other apparel lines both within and outside of Target, adverse changes in licensee or consumer acceptance of products bearing the Cherokee brand or our other brands as a result of fashion trends or otherwise, our ability to protect our intellectual property rights, the ability and/or commitment of our licensees to design, manufacture and market Cherokee or our other branded products, our dependence on Target for a substantial portion of our revenues, our dependence on our key management personnel, the success of our strategic and marketing initiatives, the possibility that we may engage in strategic transactions that could impact our liquidity, increase our expenses or present significant distractions to our management, any adverse determination of claims, liabilities or litigation, our ability to issue preferred stock with rights and privileges that are superior to those of our common stock, our payment or non-payment of dividends in future periods and the volatility in the trading price of our common stock. Several of these risks and uncertainties are discussed in more detail under Item 1A. Risk Factors of Part II of this Report on Form 10-Q or in the discussion and analysis below. You should, however, understand that it is not possible to predict or identify all risks and uncertainties and you should not consider the risks and uncertainties identified by us to be a complete set of all potential risks or uncertainties that could materially affect us. You should not place undue reliance on the forward-looking statements we make herein because some or all of them may turn out to be wrong. We undertake no obligation to update any of the forward-looking statements contained herein to reflect future events and developments.

Introduction

The following discussion should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Report on Form 10-Q. See Item 1. Consolidated Financial Statements and our Form 10-K for our fiscal year ended January 28, 2012 (Fiscal 2012).

Cherokee Inc. (which may be referred to as we, us, our or the Company) is a global marketer and manager of a portfolio of lifestyle brands it owns or represents, licensing the Cherokee, Sideout and Carole Little brands and related trademarks and other brands in multiple consumer product categories and sectors. We are one of the leading licensors of style-focused lifestyle brands for apparel, footwear, home and accessories in the world.

Cherokee was incorporated in Delaware in 1988. Our principal executive offices are located at 5990 Sepulveda Boulevard, Sherman Oaks, California 91411, telephone (818) 908-9868. We maintain a website with the address *www.thecherokeegroup.com.* We are not including the information contained on our website as part of, or incorporating it by reference into, this Quarterly Report on Form 10-Q.

We own several trademarks, including Cherokee®, Sideout®, Sideout Sport®, Carole Little®, Saint Tropez-West®, Chorus Line®, All That Jazz® and others. As of April 28, 2012, we had twenty-five continuing license agreements covering both domestic and international markets. As part of our business strategy, we frequently evaluate other brands and trademarks for acquisition into our portfolio.

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In addition to licensing our own brands, we also assist other brand-owners, companies, wholesalers and retailers in identifying opportunities as a licensee or licensor for their brands or stores.

We have a 52 or 53 week fiscal year ending on the Saturday nearest to January 31, which aligns us with our retailer licensees who generally also operate and plan using such a fiscal year. This results in a 53 week fiscal year approximately every four or five years. We do not believe that the extra week in the occasionally reported 53-week fiscal year results in any material impact on our financial results. In addition, certain of our international licensees report royalties to us for quarterly and annual periods which may differ from ours. We do not believe that the varying quarterly or annual period ending dates applicable to our international licensees have a material impact upon our reported financial results, as these international licensees maintain comparable annual periods in which they report retail sales and royalties to us on a year-to-year basis.

Critical Accounting Policies and Estimates

Management s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, management evaluates its estimates, including those related to revenue recognition, deferred taxes, impairment of long-lived assets, contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We consider accounting policies relating to the following areas to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment:

- Revenue recognition;
- Provision for income taxes and deferred taxes;
- Impairment of long-lived assets;
- Contingencies and litigation; and
- Accounting for stock-based compensation.

You should refer to our Annual Report on Form 10-K for Fiscal 2012, for a discussion of our policies on revenue recognition, deferred taxes, impairment of long-lived assets, contingencies and litigation and accounting for stock-based compensation.

Recent Accounting Pronouncements

We describe recent accounting pronouncements in Item 1 Consolidated Financial Statements Notes to Consolidated Financial Statements.

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Results of Operations

Retail Sales

During the quarterly period ended April 28, 2012 (the First Quarter), total U.S. dollar based retail sales of merchandise bearing the Cherokee brand were 10.9% above the total U.S. dollar based retail sales for the first quarter of last year, with U.S. dollar based retail sales totaling approximately $335.3 million in our First Quarter versus approximately $302.3 million in total U.S. dollar based retail sales for the first quarter of last year. Most of this increase is the result of an increase in sales of Cherokee branded products at Target by $72 million during the First Quarter, as compared to the first quarter of last year. The increase in sales at Target was partially offset by a decrease in sales for Cherokee branded products at Tesco by $51.8 million during the First Quarter as compared to the first quarter of last year.

Pursuant to our typical arrangements with our licensees, we receive quarterly royalty statements and periodic retail sales information for Cherokee branded products and other product brands that we own or represent. However, our licensees are generally not required to provide, and typically do not provide, information that would enable us to determine the specific reasons for period-to-period fluctuations in retail sales of our branded products by our licensees in the specific territories in which they operate. As a result, and except as noted elsewhere in Cherokee s comparisons of its financial results discussed herein, Cherokee does not have sufficient information required to determine the effects on our operations of changes in price, volume or product mix by our licensees. Fluctuations in retail sales of Cherokee branded products or other product brands that we own or represent may be the result of a variety of factors, including, without limitation: (i) changes in the number of product categories for which a licensee chooses to use our brands from period-to-period, which generally results in changes in the amount of inventory (utilizing our brands) available for sale from period-to-period; (ii) the number of geographical markets/territories or number of stores in which our licensees are currently selling Cherokee or our other branded products from period-to-period; or (iii) our licensees experiencing changes in retail sales levels as a result of a variety of factors, including fashion-related and general retail sales trends (See Item 1A of Part II Risk Factors).

During the First Quarter, retail sales of Cherokee branded products by Target Stores totaled approximately $261.6 million compared to approximately $189.6 million for the three months ended April 30, 2011, or an increase of 38%. As a result, our royalty revenues for the First Quarter from Target Stores significantly increased compared to the comparable period last year.

Tesco s U.S. dollar based retail sales of merchandise bearing the Cherokee brand, which for the First Quarter and last year s comparable period included the U.K., Ireland, Poland, the Czech Republic, Hungary and Slovakia, were $8.1 million in our First Quarter, compared to $59.9 million in the first quarter of last year, representing a total decline of 86%. This decline was due to a reduction of Cherokee branded product categories in the UK, Ireland and Central European countries, including Turkey, in conjunction with the challenging economic situation in Europe during the First Quarter as compared to the first quarter of the prior year. Retail sales in the United Kingdom, as measured in British Pounds Sterling, were down 86% in the First Quarter as compared to the comparable period in the prior year. Hence, retail sales in U.S. dollars for the United Kingdom totaled $6.5 million in the First Quarter, as compared to $47.4 million in the first quarter of last year. Retail sales in Ireland were down 44% in the First Quarter as compared to the comparable period in the prior year. Hence, retail sales in U.S. dollars for Ireland totaled $0.4 million in the First Quarter, as compared to $0.7 million in the first quarter of last year. The Tesco Central European countries of Czech Republic, Slovakia, Poland, Hungary and Turkey as measured in their respective local currencies, reflected decreases in retail sales ranging from 62% to 93%. As a consequence the collective U.S. dollar based retail sales from Tesco Central Europe for the First Quarter were $1.2 million, as compared to $11.8 million in the first quarter of last year.

Zeller s retail sales of merchandise bearing the Cherokee brand, in U.S. dollars, were approximately $26 million during the First Quarter compared to $21.8 million for the first quarter of last year, representing a 19% increase. This increase was due to expansion in product categories for the Cherokee brand, particularly Zellers introduction of Cherokee menswear.

On a U.S. dollar basis we experienced retail sales increases with several other of our smaller foreign licensees, including the countries of China, Japan, Mexico, South Africa, Peru and Colombia. We expect that several of our foreign territories, may continue to show growth throughout Fiscal 2013.

Royalty Revenues and Expenses

Total royalty revenues were $7.5 million during the First Quarter, which were $0.6 million more than the $6.9 million reported during the three month period ended April 30, 2011. Total revenues from the Cherokee brand were $7.1 million during the First Quarter compared to $6.1 million for the first quarter of last year. The increase was principally due to an increase in royalty revenues from Target, offsetting the royalty decline with Tesco as well as the decline in revenues from our brand representation business. During the First Quarter and the first quarter of last year, revenues of $5.2 million and $3.8 million were recognized from Target Stores, respectively, which accounted for 70% and 55% of our total revenues in each such period. Revenues from Cherokee branded products at Target increased during the First Quarter, as compared to the comparable period last year, due to an increase in sales of Cherokee branded products within particular categories as well as increased sales of Cherokee branded products during the March 2012 holiday season.

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Revenues from all of the Tesco countries were $0.2 million during the First Quarter compared to $0.9 million for the first quarter of last year. Royalty revenues from Tesco U.K. totaled $0.1 million as compared to $0.5 million in the first quarter of the prior year. The decline in royalties from Cherokee branded products in all other Tesco countries (Ireland, Central Europe and Turkey) during the First Quarter was approximately 66%, resulting in royalty revenues of $0.1 million for the First Quarter as compared to $0.4 million for the prior period last year. The decrease in royalties from the Central European Tesco territories is due primarily to the decrease in several Cherokee branded product categories for apparel in addition to the challenging European economic environment during the First Quarter as compared to the first quarter of last year.

Revenues from Zellers increased 21% during the First Quarter, resulting in royalties of $529,000 compared to $436,000 for the first quarter of last year due to menswear product introduction.

Revenues from our brand representation licensing arrangements totaled $0 in our First Quarter, as compared to $539,000 in the comparable period last year.

Most of our international licensees are required to pay the royalty revenues owed to us in U.S. dollars. As a consequence, any weakening of the U.S. dollar benefits us in that the total royalty revenues reported from our international licensees increases when the dollar weakens against such foreign currencies. Conversely, any strengthening of the U.S. dollar against such licensee s foreign currency results in lower royalty revenues from such licensee. We do not anticipate that the exchange rate fluctuation will have a material impact, positive or negative, on our business as a whole.

Our disclosure related to the sales of our international licensees throughout this Quarterly Report on Form 10-Q is denominated in U.S. dollars unless otherwise noted. In arriving at such denominations, Cherokee receives a schedule of retail sales on a monthly and/or quarterly basis from each of our licensees which are denominated in the applicable foreign currency. These amounts are then converted by us to U.S. dollars using an average monthly and/or quarterly exchange rate for the purpose of the disclosure of the retail sales denominated in U.S. dollars. In all periods presented in this report, Cherokee does not consider the period fluctuations in foreign currency exchange rates to have had a significant effect on accuracy of the U.S. dollar-denominated figures presented in this Form 10-Q.

Our license agreements with Target and with Tesco provide for reduced royalty rates based on volume thresholds once specified cumulative levels of retail sales are achieved during each fiscal year. The royalty rate reductions do not apply retroactively to the applicable licensee s retail sales since the beginning of the year. As a result, for such license agreements, our royalty revenues as a percentage of our licensees retail sales are highest at the beginning of each fiscal year and decrease during the fiscal year as licensees exceed sales thresholds as outlined in their respective license agreements. The amount of royalty revenue earned by us in any quarter is dependent not only on retail sales in each quarter, but also on the royalty rate then in effect after considering the cumulative level of retail sales for the fiscal year. Royalty revenues during the First Quarter benefitted from higher royalty rates applied under our contracts with Tesco and Target during the period because the cumulative retail sales during the First Quarter had not exceeded the applicable thresholds for reduced royalty rates during Fiscal 2013. In the event that cumulative retail sales in future quarters in Fiscal 2013 exceed the applicable thresholds for reduced royalty rates, we will then be entitled to a reduced royalty rate on incremental retail sales by Target and Tesco that are in excess of such thresholds. The amount of the royalty rate reductions and the level of retail sales at which they are achieved vary in each applicable licensing agreement, and our agreements with many of our other licensees do not contemplate such royalty rate reductions. Historically, with Target and Tesco, this has caused our first quarter to be our highest revenue and profitability quarter; our second quarter to be our next highest quarter; and our third and fourth quarters to be our lowest quarters. However, such historical patterns may vary in the future, depending upon the product mix and retail sales volumes achieved in each quarter with our licensees and also on the revenues we receive from other licensees that do not pay us reduced royalty rates based upon cumulative sales.

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We believe that our future revenues from Target for the remaining nine months of Fiscal 2013 will likely be higher when compared to our revenues from Target in Fiscal 2012 during such period, as we expect our presence in certain apparel categories and existing categories at Target may continue to grow. Based on Tesco s sales of Cherokee branded products in Fiscal 2012 and the First Quarter, it is likely that our revenues in Fiscal 2013 from Tesco will decline or remain flat from those of Fiscal 2012.

Our revenue recognition policy provides for recognition of royalties in the quarter royalties are earned, although a large portion of such royalty payments are actually received during the month following the end of a quarter. Our trade receivables balance of $7.2 million and $5.3 million as of the end of the First Quarter and th end of the first quarter of last year, respectively, included an accrual for royalty revenues earned and these receivables were subsequently received in the following quarter.

Selling, general and administrative expenses for the First Quarter were $4.2 million, or 55% of revenues, in comparison to selling, general and administrative expenses of $3.3 million, or 48% of revenues during the first quarter of last year. The changes in our selling, general and administrative expenses, including the increase of approximately $900,000 during the First Quarter as compared to the first quarter of last year, resulted from the following factors: (i) higher personnel expenses of $300,000 in the First Quarter as compared to the first quarter of last year due to costs associated with the departure of certain employees; (ii) higher corporate legal expenses of $200,000 in the First Quarter as compared to the first quarter of last year; and (iii) higher development, marketing and creative service related expenses of $300,000 in the First Quarter due to efforts to promote our strategic initiatives.

During the First Quarter, our investment and interest income was $12,000 compared to $20,000 for the first quarter of last year.

During the First Quarter, we recorded a tax provision of $1,251,000 which equates to an effective tax rate of 37%, compared to $343,000 and an effective tax rate of 9.5% recorded for the first quarter of last year. During the First Quarter, our net income was $2.1 million, or $0.25 per diluted share, compared to $3.3 million, or $0.38 per diluted share, for the first quarter of last year. The reduction is primarily due to the normalization of taxes this year regarding payment to us of a refund from the California Franchise Tax Board of $2.0 million plus interest in the comparable period last year; which last year effectively provided a tax benefit of $1.2 million in the first quarter of Fiscal 2012 that was not repeated in First Quarter of Fiscal 2013.

Liquidity and Capital Resources

Cash Flows. On April 28, 2012, we had cash and cash equivalents of $7.1 million. On January 28, 2012, we had cash and cash equivalents of $7.4 million, a $0.3 million decrease.

During the First Quarter, cash provided by our operations was $1.7 million, compared to cash provided by our operations of $1.4 million for the first quarter of last year. The cash provided by operations of $1.7 million during our First Quarter was primarily due to the changes in:
(i) accounts receivable, which increased by $1.9 million in the First Quarter, as compared to a decrease of $80,000 in the first quarter of last year, which was primarily due to the increased royalty revenues from Target in the First Quarter; (ii) an increase in deferred tax asset (current and non-current) of $0.1 million in the First Quarter, as compared to a decrease of $0.5 million in the first quarter of last year; and (iii) an increase in accounts payable of $200,000 in the First Quarter, as compared to a decrease of $500,000 in the first quarter of last year. In addition, our cash from operations includes non-cash stock-based compensation expense of $231,000 in our First Quarter as compared to $150,000 in the

first quarter of last year, and our Income Taxes Payable increased by $2.1 million in the First Quarter, as compared to an increase of $800,000 in the first quarter of last year.

Cash used by investing activities during the First Quarter was $182,000, which was comprised of $104,000 of capital expenditures of office equipment, and $78,000 in trademark registration and renewal fees for the Cherokee, Sideout and Carole Little brands. In comparison, during the first quarter of last year, cash used by investing activities was $189,000, which was comprised of $81,000 of capital expenditures of office equipment, and $108,000 in trademark registration and renewal fees for the Cherokee, Sideout and Carole Little brands.

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Cash used in financing activities was $1.8 million during the First Quarter, which consisted of payments of $0.1 million for the Term Loan and the payment of dividends of $1.7 million in March 2012. In comparison, during the first quarter of last year cash used in financing activities was $0.5 million, which consisted of proceeds of $10 million from the Term Loan, offset by payments of $0.7 million for the Term Loan, the payment of dividends of $1.7 million in March 2011 and our payment of approximately $7.3 million for the repurchase and retirement of our common stock in connection with the separation of our former executive chairman.

Uses of Liquidity. Our cash requirements through the end of Fiscal 2013 are primarily to fund operations, working capital, and at our discretion repurchase shares of our common stock or pay dividends as determined by our Board of Directors, and, to a lesser extent, for capital expenditures. Our Board may reduce or discontinue the payment of dividends at any time for any reason it deems relevant. The declaration and payment of any future dividends or repurchases of our common stock will be made at the discretion of our Board and will be dependent upon our financial condition, results of operation, cash flow, capital expenditures and other factors that may be deemed relevant by our Board.

We are frequently approached by parties seeking to sell their brands and related trademarks. Should an established and marketable brand or similar equity property become available on favorable terms, we would consider such an acquisition opportunity.

Sources of Liquidity. Our primary source of liquidity is expected to be cash flow generated from operations, and cash and cash equivalents currently on hand. We believe our cash flow from operations together with our cash and cash equivalents currently on hand will be sufficient to meet our working capital, capital expenditure and other commitments through the end of Fiscal 2013. We cannot predict our revenues and cash flow generated from operations. Some of the factors that could cause our revenues and cash flows to be materially lower are described under the caption titled Risk Factors in Item 1A of Part II of this Report on Form 10-Q.

As of April 28, 2012, we were not the guarantor of any other material third-party obligations. As of April 28, 2012, we did not have any irrevocable repurchase obligations.

If our revenues and cash flows during Fiscal 2013 are lower than Fiscal 2012 we would have less cash available to pay dividends, repurchase shares of our common stock or to explore or consummate the acquisition of other brands. In addition, if our revenues and cash flows during Fiscal 2013 are materially lower than Fiscal 2012, we may need to take steps to reduce expenditures by scaling back operations and reducing staff. We believe that we will have sufficient cash generated from our business activities to support our operations for the next twelve months.

Restated Loan Agreement with U.S. Bank; Recent Prepayment of New Loan

During the First Quarter, we were subject to an amended and restated loan agreement with U.S. Bank (the Bank), which was entered into as of December 7, 2011, and which we recently prepaid in full on June 5, 2012 (such agreement, the Restated Loan Agreement). Pursuant to the Restated Loan Agreement, we re-financed our previous loan agreement with the Bank, which we originally entered into as of February 16, 2011 (the Original Loan Agreement), to constitute two term loans, for an aggregate principal amount of $7,000,000 (the New Loan) consisting of (i) a term loan in the principal amount of $5,000,000, which loan was to be repaid in full on or before November 30, 2013 (the Two Year Facility) and (ii) a term loan in the principal amount of $2,000,000, which loan was to be repaid in full on or before November 30, 2015 (the Four Year Facility). On June 5, 2012, we prepaid all outstanding principal and interest on both the Four Year Facility and the Two Year Facility and, as a result of such prepayment, no portion of the New Loan is currently outstanding. The Two Year Facility did not require principal payments prior it its maturity and bore interest to be paid in monthly installments, with such interest calculated at a floating rate equal to either (i) the Bank s prime rate minus 0.25% or (ii) 2.00% plus the 1, 2 or 3 month LIBOR rate, as selected by Cherokee. The Four Year Facility required principal to be repaid in equal monthly installments of $41,666.67, plus interest, with such interest calculated at a floating rate equal to either (i) the Bank s prime rate minus 0.25% or (ii) 2.75% plus the 1, 2 or 3 month LIBOR rate, as selected by Cherokee. Further, pursuant to the Restated Loan Agreement, (i) we were obligated to maintain cash deposits of at least $5,000,000, (ii) the tangible net worth covenant contained in the Original Loan Agreement was eliminated and (iii) the components applicable to the fixed charge coverage ratio covenant in the Original Loan Agreement were modified and such ratio was (i) determined to be inapplicable to the our third quarter of Fiscal 2012, (ii) fixed at 1.25x for our fourth quarter of Fiscal 2012 (calculated on a quarterly basis), (ii) fixed at 2.75x for the First Quarter (calculated on a quarterly basis) and (iii) fixed at 1.15x for all future quarters while any portion the New Loan is outstanding (calculated on a trailing twelve month basis). In addition, a new quarterly profitability covenant was added, which covenant (i) was inapplicable to our third quarter for Fiscal 2012, and (ii) requires Cherokee to achieve a minimum quarterly net profit (after tax) of $1,000,000 for our fourth quarter of Fiscal 2012 and each future fourth quarter of subsequent fiscal years, $1,700,000 for the First Quarter and for each first quarter of subsequent fiscal years, $1,400,000 for the second quarter of Fiscal 2013 and each second quarter of subsequent fiscal years and $1,100,000 for the third quarter of Fiscal 2013 and each third quarter of subsequent fiscal years, in each case while any portion of the New Loan is outstanding. Also in connection with, and as a condition to, the Restated Loan Agreement, we repaid approximately $775,000 to the Bank to reduce the total amount outstanding under the Restated Loan Agreement to $7,000,000. In addition, and as described below, on June 5, 2012, we prepaid all outstanding principal and interest on both the Four Year Facility and the Two Year Facility. As a result of such prepayment, no portion of the New Loan is currently outstanding.

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The Restated Loan Agreement contains various affirmative and negative covenants that are customary for loan agreements and transactions of this type, including limitations on our ability to incur debt or other liabilities and limitations on our ability to consummate acquisitions in any fiscal year in excess of $5,000,000 or in excess of $10,000,000 in the aggregate while the New Loan is outstanding. Further, as collateral for the Original Loan, the Company granted a security interest in favor of the Bank in all of Cherokee s assets, and the Original Loan was guaranteed by Cherokee s wholly owned subsidiary, Spell C. LLC. The New Loan was evidenced by two term notes in the principal amounts of $2,000,000 and $5,000,000, respectively (which amounts are no longer outstanding as of June 5, 2012), a restated security agreement, a restated continuing guaranty executed by Cherokee s wholly owned subsidiary, Spell C. LLC, and a California judicial reference agreement.

On June 5, 2012, Cherokee prepaid all outstanding principal and interest on both the Four Year Facility and the Two Year Facility. As a result, Cherokee currently has no outstanding borrowings under the Restated Loan Agreement, and Cherokee will obtain a release of the security interest granted to secure its obligations under the Restated Loan Agreement.

Inflation and Changing Prices

The benign rate of inflation over the past several years has not had a material effect on our revenues and profits. Since most of our future revenues are based upon a percentage of sales of the licensed products by our licensees, we do not anticipate that short term future inflation will have a material impact, positive or negative, on future financial results.

Seasonality

Given our contractual royalty rate reductions with our licensees, as certain sales volume thresholds are achieved by our licensees in any given fiscal year, historically this has usually caused our first quarter to be our highest revenue and profitability quarter; our second quarter to be our next highest quarter, and our third and fourth quarters to be our lowest quarters. However, such historical patterns may vary in the future, depending upon the product mix and retail sales volumes achieved in each quarter with our licensees.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risk generally represents the risk that losses may occur in the values of financial instruments as a result of movements in interest rates, foreign currency exchange rates and commodity prices. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

Interest: From time to time we invest our excess cash in interest-bearing temporary investments of high-quality issuers. Due to the short time the investments are outstanding and their general liquidity, these instruments are classified as cash equivalents in our consolidated balance sheet and do not represent a material interest rate risk to us. As of April 28, 2012, we had $6.3 million in long term debt obligations under our Restated Loan Agreement.

Foreign Currency: We conduct business in various parts of the world. We are exposed to fluctuations in exchange rates to the extent that the foreign currency exchange rate fluctuates in countries where our licensees do business, and significant fluctuations in exchange rates could result in a material affect on our results of operations or cash flow. For Fiscal 2012, revenues from international licensing comprised 38% of our consolidated revenues. For the First Quarter, international licensing royalties comprised 27% of our total revenues. A hypothetical 10% strengthening of the U.S. dollar relative to the foreign currencies of countries where we operate would have negatively affected our First Quarter revenues by approximately $0.2 million, which represents 3% of the total revenues reported for the First Quarter.

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Most of our international licensees are required to pay the royalty revenues owed to us in U.S. dollars. As a consequence, the past weakening of the U.S. dollar has benefited us in that the total royalty revenues reported from our international licensees increases when the dollar weakens against such foreign currencies. Conversely, any strengthening of the U.S. dollar has not benefited us. In the future, should the dollar strengthen against such foreign currencies, the total royalty revenues reported by us from such licensees would reflect such changes in the currency exchange rates. Accordingly, a strengthening dollar, compared to current exchange rates, would likely result in lower reported royalty revenues than otherwise would be reported as a result of such unfavorable exchange rate movements.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures*. Cherokee maintains disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15 (e) that are designed to ensure that information required to be disclosed in Cherokee s Exchange Act reports 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 Cherokee s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We have carried out an evaluation under the supervision and with the participation of Cherokee s management, including Cherokee s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Cherokee s disclosure controls and procedures. Based upon their evaluation and subject to the foregoing, the Chief Executive Officer and Chief Financial Officer concluded that Cherokee s disclosure controls and procedures were effective as of April 28, 2012.

(b) *Changes in internal controls*. During our most recent fiscal quarter, there were no changes in our internal control over financial reporting identified in connection with the evaluation described above 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 1. LEGAL PROCEEDINGS

In the ordinary course of business, from time to time we become involved in legal claims and litigation. In the opinion of management, based on consultations with legal counsel, the disposition of litigation currently pending against us is unlikely to have, individually or in the aggregate, a materially adverse effect on our business, financial position or results of operations.

ITEM 1A. RISK FACTORS

In addition to the other information contained herein or incorporated herein by reference, the risks and uncertainties and other factors described below could have a material adverse effect on our business, financial condition, results of operations and share price and could also cause our future business, financial condition and results of operations to differ materially from the results contemplated by any forward-looking statement we may make herein, in any other document we file with the Securities and Exchange Commission, or in any press release or other written or oral statement we may make. Please also see Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Statements for additional risks and uncertainties applicable to us.

Our business is subject to intense competition.

Royalties paid to us under our licensing agreements are generally based on a percentage of our licensee s net sales of licensed products. Cherokee, Carole Little and Sideout brand footwear, apparel, and accessories, which are manufactured and sold by both domestic and international wholesalers and retail licensees, are subject to extensive competition by numerous domestic and foreign companies. Such competitors with respect to the Cherokee brand include Polo Ralph Lauren, Tommy Hilfiger, Liz Claiborne, and private label brands such as Faded Glory, Arizona, and Route 66, developed by retailers. Factors which shape the competitive environment include quality of garment construction and design, brand name, style and color selection, price and the manufacturer s ability to respond quickly to the retailer on a national basis. In recognition of the increasing trend towards consolidation of retailers and what appears to be a de-emphasis by retailers on the manufacture of private label merchandise, in the United States our business plan focuses on creating strategic alliances with major retailers for their sale of products bearing our brands through the licensing of our trademarks directly to retailers. Therefore, our degree of success is dependent on the strength of our brands, consumer acceptance of and desire for our brands, our licensees ability to design, manufacture and sell products bearing our brands and to respond to ever-changing consumer demands, and any significant failure by our licensees to do so could have a material adverse effect on our business prospects, financial condition, results of operations and liquidity. We cannot control the level of resources that our licensees commit to supporting our brands, and our licensees may choose to support other brands to the detriment of ours.

There are numerous risk factors that apply to the businesses of retailers that can affect their level of sales of products that carry our brands. Any decline in sales by our licensees can adversely affect our revenues. Factors that may adversely affect retailers include the following: weather; changes in the availability or cost of capital; shifts in the seasonality of shopping patterns; labor strikes or other work interruptions including work interruptions that impact supply chains and transport vendors; the impact of excess retail capacity; changes in the cost of accepting various payment methods and changes in the rate of utilization of these payment methods; material acquisitions or dispositions; investments in new business strategies; the success or failure of significant new business ventures or technologies; actions taken or omitted to be taken by legislative, regulatory, judicial and other governmental authorities and officials; and natural disasters, the outbreak of war, acts of terrorism or other significant national or international events.

In addition, other companies owning established trademarks could also enter into similar arrangements with retailers, including our existing retail partners, competing for limited floor pad and rack space.

Our business is largely dependent on royalties from one licensee, Target, which accounted for 54% and 70% of our consolidated licensing revenues for Fiscal 2012 *and the First Quarter, respectively.*

During Fiscal 2012, 54% of our licensing revenues were generated from Target. During the First Quarter, 70% of our licensing revenues were generated from Target. We could suffer substantially decreased royalty revenues and cash flow under the Restated Target Agreement if Target were to reduce its sales of Cherokee branded products while continuing to pay the minimum royalties of $9.0 million per fiscal year required under such agreement. Replacing the royalty payments received from Target would be a significant challenge and no assurances can be made that we would be successful in doing so. The termination of this license agreement would have a material adverse effect upon our revenues and cash flow.

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Our business may be negatively *impacted by general economic conditions.*

Our performance is subject to worldwide economic conditions and its corresponding impact on the levels of consumer spending which may affect our licensees sales. Consumer spending is showing signs of stabilization and in some cases improvement; however it is difficult to predict future levels of consumer spending and any such predictions are inherently uncertain. The worldwide apparel industry is heavily influenced by general economic cycles. Purchases of apparel and accessories tend to decline in periods of recession or uncertainty regarding future economic prospects, as disposable income typically declines. Many factors affect the level of consumer spending in the apparel industries, including, among others, prevailing economic conditions, levels of employment, salaries and wage rates, energy costs, interest rates, the availability of consumer credit, taxation and consumer confidence in future economic conditions. During periods of economic uncertainty, we may not be able to maintain, or increase our revenues. As a result, our operating results may be materially affected by trends in the United States or global economy.

The risks associated with our business are more acute during periods of economic slowdown or recession. In addition to other consequences, these periods may be accompanied by decreased consumer spending generally, as well as decreased demand for, or additional downward pricing pressure on, the products carrying our brands. Accordingly, any prolonged economic slowdown or a lengthy or severe recession with respect to either the U.S. or the global economy is likely to have a material adverse effect on our results of operations, financial condition and business prospects.

Our business and the success *of our products could be harmed if we are unable to maintain the strength of our brands.*

Our success to date has been due in large part to the strength of our brands. If we are unable to timely and appropriately respond to changing consumer demand, the strength of our brands may be impaired. Even if we react appropriately to changes in consumer preferences, consumers may consider one or more of our brands to be outdated or associate one or more of our brands with styles that are no longer popular. In the past, many apparel companies have experienced periods of rapid growth in sales and earnings followed by periods of declining sales and losses. Our business may be similarly affected in the future.

We are dependent on our intellectual *property, and we cannot assure you that we will be able to successfully protect our rights.*

We hold various trademarks including Cherokee, Sideout, Carole Little and others in connection with apparel, footwear, home and accessories. These trademarks are vital to the success and future growth of our business. These trademarks are registered with the United States Patent and Trademark Office and in numerous other countries. We also hold several trademark applications for Cherokee and Sideout in approximately 100 countries. There can be no assurance that the actions taken by us to establish and protect our trademarks and other proprietary rights will prevent imitation of our products or infringement of our intellectual property rights by others, or prevent the loss of licensing revenue or other damages caused thereby. In addition, the laws of several countries in which we have licensed our intellectual property may not protect our intellectual property rights to the same extent as the laws of the United States. Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy aspects of our intellectual property, which could have a material adverse effect on our business prospects, financial condition, results of operations and liquidity. In the future we may be required to assert infringement claims against third parties, and there can be no assurance that one or more parties will not assert infringement claims against us. Any resulting litigation could result in significant expense and divert the efforts of our management personnel whether or not such litigation is determined in our favor.

We must successfully maintain *and/or upgrade our information technology systems.*

We rely on various information technology systems, including our Enterprise Resource Planning (ERP) system, to manage our operations, which subjects us to inherent costs and risks associated with maintaining, upgrading, replacing and changing these systems, including impairment of our information technology, potential disruption of our internal control systems, substantial capital expenditures, demands on management time and other risks of delays or difficulties in upgrading, transitioning to new systems or of integrating new systems into our current systems.

We are dependent on our key management personnel.

Our success is highly dependent upon the continued services of our key executives, including, Henry Stupp, our Chief Executive Officer, Howard Siegel, our President and Chief Operating Officer, and Mark DiSiena, our Chief Financial Officer. We have a limited number of employees and Mr. Stupp s and our other executives leadership and experience in the apparel licensing industry is important to the successful implementation of our business and marketing strategy. We do not carry key person life insurance covering any of our executives. The loss of the services of Mr. Stupp or our other key executives could have a material adverse effect on our business prospects, financial condition, results of operations and liquidity.

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We may engage in strategic transactions that could impact our liquidity, increase our expenses and present significant distractions to our management.

From time to time we may consider engaging in strategic transactions, such as acquisitions of companies, asset purchases and out-licensing or in-licensing of brands, intellectual property rights or other assets. Any such transaction may require us to incur non-recurring or other charges, may increase our near and long-term expenditures and may pose significant integration challenges or disrupt our management or business, which could adversely affect our operations and financial results. For example, these transactions may entail numerous operational and financial risks, including, among others, exposure to unknown liabilities, disruption of our business and diversion of our management s time and attention in order to develop acquired brands, intellectual property rights or other assets, difficulty and cost in combining the operations and personnel of any acquired businesses with our operations and personnel, and inability to retain key employees of any acquired businesses. Accordingly, although we may not choose to undertake or may not be able to successfully complete any transactions of the nature described above, any transactions that we do complete could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our strategic and marketing initiatives may not be successful.

In recent periods, we have invested significant funds and management time in furtherance of our global strategic and marketing initiatives, which are designed to strengthen our brands, assist our licensees in generating increased sales of applicable Cherokee-branded products and build value for our stockholders over the long term. We expect to continue and, in some cases, expand such initiatives in future periods. While we are hopeful that our efforts in executing on such initiatives will expand our business and build stockholder value over the long term, there can be no assurances that we will be successful in doing so or that such initiatives will result in the benefits to us that they are intended to generate. Any failure by us to execute on our strategic initiatives, or the failure of such initiatives to cause our revenues to grow, could have a materially adverse impact on our operating results and financial performance.

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We may not pay dividends regularly or at all in the future.

Although we have paid dividends during each quarter since December 2003, and including during the first quarter of Fiscal 2013, our Board of Directors may reduce or discontinue dividends at any time for any reason it deems relevant and there can be no assurances that we will continue to generate sufficient cash to pay dividends, or that we will continue to pay dividends with the cash that we do generate as a result of a various factors, such as our existing debt and any business or strategic opportunities that may arise, as determined by our Board of Directors. Our ability to generate excess cash from our operations in the future is dependent upon a variety of factors, including Cherokee s financial condition, results of operations, cash flow, capital requirements and other factors. In Fiscal 2012, we paid a total of $6.7 million in dividends, which was less than our net income of $7.5 million for Fiscal 2012. Should our cash from operations be lower in future periods, we will reduce the excess cash on our balance sheet and our Board of Directors may elect to further reduce or eliminate future dividend payments. Furthermore, should the dividend tax laws change such that taxes on dividends become higher than they currently are, we may further reduce or eliminate the dividends we pay to our stockholders in favor of other ways to increase value for our stockholders.

The trading price of our stock may be volatile.

The trading price of our common stock is likely to be subject to fluctuations as a result of various factors impacting our business, including (i) our financial results, (ii) announcements by us, our retail partners or by our competitors, as applicable, regarding or affecting the retail environment either domestically or internationally, our existing license agreements, our existing brand representations, new license agreements, new brand representations or strategic alliances or other agreements, (iii) recruitment or departure of key personnel, (iv) changes in the estimates of our financial results or changes in the recommendations of any securities analysts that elect to follow our common stock, and (v) market conditions in the retail industry and the economy as a whole.

Our Certificate of Incorporation allows our Board of Directors to issue up to 1,000,000 shares of blank check preferred stock.

Our Certificate of Incorporation allows our Board of Directors to issue up to 1,000,000 shares of blank check preferred stock, without action by our stockholders. Such shares of preferred stock may be issued on terms determined by our Board of Directors, and may have rights, privileges and preferences superior to those of our common stock. Without limiting the foregoing, (i) such shares of preferred stock could have liquidation rights that are senior to the liquidation preference applicable to our common stock, (ii) such shares of preferred stock could have voting or conversion rights, which could adversely affect the voting power of the holders of our common stock and (iii) the ownership interest of holders of our common stock will be diluted following the issuance of any such shares of preferred stock.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description of Exhibit

31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended October 29, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at January 29, 2011 and October 29, 2011; (ii) Consolidated Statement of Operations for the three months and nine months ended October 30, 2010 and October 29, 2011; (iii) Condensed Consolidated Statement of Stockholders Equity for the nine months ended October 29, 2011; (iv) Consolidated Statements of Cash Flows for the nine months ended October 30, 2010 and October 29, 2011; and (v) Notes to Condensed Consolidated Financial Statements, tagged as block of text.

* Filed herewith.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

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

Dated: June 7, 2012

CHEROKEE INC.

By:	/s/ Henry Stupp Henry Stupp Chief Executive Officer (Principal Executive Officer)
By:	/s/ Mark DiSiena Mark DiSiena Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)