

CHARMING SHOPPES INC

Form 10-Q

June 06, 2008

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

FORM 10-Q

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

For the quarterly period ended May 3, 2008

Or

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

For the transition period from _____ to _____

Commission File No. 000-07258

CHARMING SHOPPES, INC.
(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of incorporation or
organization)

23-1721355
(I.R.S. Employer Identification No.)

450 WINKS LANE, BENSALEM, PA 19020
(Address of principal executive offices) (Zip
Code)

(215) 245-9100
(Registrant's telephone number,
including Area Code)

NOT APPLICABLE
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

Large Accelerated Filer ☒
Non-accelerated Filer ☐

Accelerated Filer ☐
Smaller Reporting Company ☐

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes ☐ No ☒

The number of shares outstanding of the issuer's Common Stock (par value \$.10 per share) as of June 4, 2008 was 113,445,915 shares.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	May 3, 2008 (Unaudited)	February 2, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 79,175	\$ 61,335
Available-for-sale securities	6,456	13,364
Accounts receivable, net of allowances of \$6,762 and \$6,262	8,190	33,535
Investment in asset-backed securities	116,119	115,912
Merchandise inventories	371,097	330,216
Deferred advertising	8,177	5,546
Deferred taxes	8,459	7,531
Prepayments and other	140,432	151,716
Current assets of discontinued operations	114,051	132,753
Total current assets	852,156	851,908
Property, equipment, and leasehold improvements – at cost	1,073,041	1,107,662
Less accumulated depreciation and amortization	633,128	658,410
Net property, equipment, and leasehold improvements	439,913	449,252
Trademarks and other intangible assets	188,762	188,942
Goodwill	66,666	66,666
Other assets	55,820	56,536
Total assets	\$ 1,603,317	\$ 1,613,304
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 158,541	\$ 122,629
Accrued expenses	163,879	167,002
Current liabilities of discontinued operations	45,697	48,504
Current portion – long-term debt	8,566	8,827
Total current liabilities	376,683	346,962
Deferred taxes	37,394	37,275
Other non-current liabilities	208,245	192,454
Long-term debt	306,039	306,169
Stockholders' equity		
Common Stock \$.10 par value:		
Authorized – 300,000,000 shares		
Issued – 151,882,380 shares and 151,569,850 shares	15,188	15,157
Additional paid-in capital	411,127	407,499

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Treasury stock at cost – 38,482,213 shares and 36,477,246 shares	(347,730)	(336,761)
Accumulated other comprehensive income/(loss)	(3)	22
Retained earnings	596,374	644,527
Total stockholders' equity	674,956	730,444
Total liabilities and stockholders' equity	\$ 1,603,317	\$ 1,613,304

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

See Notes to Condensed Consolidated Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(Unaudited)

(In thousands, except per share amounts)	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Net sales	\$ 641,346	\$ 696,614
Cost of goods sold, buying, catalog, and occupancy expenses	447,183	473,151
Selling, general, and administrative expenses	186,795	180,098
Restructuring charges	3,611	0
Total operating expenses	637,589	653,249
Income from operations	3,757	43,365
Other income	515	1,330
Interest expense	(2,369)	(3,263)
Income from continuing operations before income taxes	1,903	41,432
Income tax provision	1,246	14,966
Income from continuing operations	657	26,466
Loss from discontinued operations, net of income tax benefit of \$20,854 in 2008 and \$302 in 2007	(35,114)	(168)
Net income/(loss)	(34,457)	26,298
Other comprehensive loss, net of tax		
Unrealized losses on available-for-sale securities, net of income tax benefit of \$15 in 2008 and \$1 in 2007	(25)	(3)
Comprehensive income/(loss)	\$ (34,482)	\$ 26,295
Basic net income/(loss) per share:		
Income from continuing operations	\$.01	\$.22
Loss from discontinued operations, net of tax	(.31)	.00
Net income/(loss)(1)	\$ (.30)	\$.21
Diluted net income/(loss) per share:		
Income from continuing operations	\$.01	\$.20
Loss from discontinued operations, net of tax	(.30)	.00
Net income/(loss)(1)	\$ (.30)	\$.20

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

See Notes to Condensed Consolidated Financial Statements

(1) Results may not add due to rounding.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Operating activities		
Net income/(loss)	\$ (34,457)	\$ 26,298
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation and amortization	27,188	22,744
Estimated loss on disposition of discontinued operations	45,251	0
Deferred income taxes	(1,036)	(395)
Stock-based compensation	2,898	2,924
Excess tax benefits related to stock-based compensation	0	(636)
Write-down of deferred taxes related to stock-based compensation	(263)	0
Write-down of capital assets	1,919	0
Net loss from disposition of capital assets	558	460
Net gain from securitization activities	(367)	(328)
Changes in operating assets and liabilities		
Accounts receivable, net	25,345	26,535
Merchandise inventories	(39,060)	(40,075)
Accounts payable	30,864	18,496
Deferred advertising	(5,142)	1,006
Prepayments and other	(8,952)	4,349
Income taxes payable	0	1,869
Accrued expenses and other	1,414	(4,318)
Net cash provided by operating activities	46,160	58,929
Investing activities		
Investment in capital assets	(22,014)	(37,511)
Gross purchases of securities	(12,636)	(1,322)
Proceeds from sales of securities	19,404	2,563
Increase in other assets	(36)	(2,546)
Net cash used by investing activities	(15,282)	(38,816)
Financing activities		
Proceeds from issuance of senior convertible notes	0	250,000
Proceeds from long term borrowings	87	0
Repayments of long-term borrowings	(2,271)	(2,749)
Payments of deferred financing costs	(45)	(6,250)
Excess tax benefits related to stock-based compensation	0	636
Purchase of hedge on senior convertible notes	0	(82,250)

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Sale of common stock warrants	0	49,050
Purchases of treasury stock	(10,969)	(131,102)
Net proceeds/(payments) from shares issued under employee stock plans	69	(373)
Net cash provided/(used) by financing activities	(13,129)	76,962
Increase in cash and cash equivalents	17,749	97,075
Cash and cash equivalents, beginning of period	61,842	143,838
Cash and cash equivalents, end of period	\$ 79,591	\$ 240,913
Non-cash financing and investing activities		
Assets acquired through capital leases	\$ 1,793	\$ 0

See Notes to Condensed Consolidated Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Condensed Consolidated Financial Statements

The accompanying interim unaudited condensed consolidated balance sheet as of May 3, 2008, condensed consolidated statements of operations and comprehensive income for the thirteen weeks ended May 3, 2008 and May 5, 2007, and condensed consolidated statements of cash flows for the thirteen weeks ended May 3, 2008 and May 5, 2007 have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission. In our opinion, we have made all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position, results of operations and comprehensive income, and cash flows.

Certain prior-year amounts in the condensed consolidated statements of operations and comprehensive income have been reclassified to conform to the current-year presentation. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles. These financial statements and related notes should be read in conjunction with our financial statements and related notes included in our February 2, 2008 Annual Report on Form 10-K. The results of operations for the thirteen weeks ended May 3, 2008 and May 5, 2007 are not necessarily indicative of operating results for the full fiscal year.

As used in these notes, the term “Fiscal 2009” refers to our fiscal year ending January 31, 2009 and the term “Fiscal 2008” refers to our fiscal year ended February 2, 2008. The term “Fiscal 2010” refers to our fiscal year ending January 30, 2010. The term “Fiscal 2009 First Quarter” refers to our fiscal quarter ended May 3, 2008 and the term “Fiscal 2008 First Quarter” refers to our fiscal quarter ended May 5, 2007. The term “Fiscal 2009 Second Quarter” refers to our fiscal quarter ending August 2, 2008. The terms “the Company,” “we,” “us,” and “our” refer to Charming Shoppes, Inc. and, where applicable, our consolidated subsidiaries.

Discontinued Operations

On April 25, 2008 we announced that our Board of Directors began exploring a broad range of operating and strategic alternatives for our non-core misses apparel catalog titles in order to provide a greater focus on our core brands and to enhance shareholder value. The non-core misses apparel catalog titles met the requirements of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” to be accounted for as held for sale as of May 3, 2008. The operations and cash flows will be eliminated from our financial statements upon the sale and we will not have any significant involvement in the operations after the sale. Accordingly, the results of the non-core misses apparel catalog titles have been reported as discontinued operations in our consolidated statements of operations and balance sheets for all periods presented.

Results from discontinued operations for the 13 weeks ended May 3, 2008 and May 5, 2007, net of income tax benefit, were as follows:

(In thousands)	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Net sales	\$ 64,679	\$ 88,098
Loss from discontinued operations	\$ (55,968)(1)	\$ (470)

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Income tax benefit	20,854(1)	302
Loss from discontinued operations, net of income tax benefit	\$ (35,114)(1)	\$ (168)

(1)Includes estimated loss on disposition of (\$28,390), net of an income tax benefit of \$16,861 and loss from operations of (\$6,724), net of an income tax benefit of \$3,993.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 1. Condensed Consolidated Financial Statements (Continued)

The financial information included in these Notes to Condensed Consolidated Financial Statements reflects only the results of our continuing operations.

Segment Reporting

We operate and report in two segments: Retail Stores and Direct-to-Consumer. We determine our operating segments based on the way our chief operating decision-makers review our results of operations. We consider our retail stores and store-related E-commerce as operating segments that are similar in terms of economic characteristics, production processes, and operations. Accordingly, we have aggregated our retail stores and store-related E-commerce into a single reporting segment (the "Retail Stores" segment). Our catalog and catalog-related E-commerce operations are reported under the Direct-to-Consumer segment. The Retail Stores segment derives its revenues from sales through retail stores and store-related E-commerce sales under our LANE BRYANT® (including LANE BRYANT OUTLET®), FASHION BUG®, CATHERINES PLUS SIZES®, and PETITE SOPHISTICATE® (including PETITE SOPHISTICATE OUTLET®) brands. The Direct-to-Consumer segment, excluding discontinued operations, derives its revenues from catalog sales and catalog-related E-commerce sales under our LANE BRYANT WOMAN® and FIGI'S® titles. See "Discontinued Operations" above and "Note 10. Segment Reporting" below for further information regarding our discontinued operations and segment reporting.

Stock-based Compensation

We have various stock-based compensation plans under which we are currently granting awards, which are more fully described in "Item 8. Financial Statements and Supplementary Data; Note 11. Stock-Based Compensation Plans" in our February 2, 2008 Annual Report on Form 10-K.

Shares available for future grants under our stock-based compensation plans as of May 3, 2008:

2004 Stock Award and Incentive Plan	735,591
2003 Non-Employee Directors Compensation Plan	186,324
1994 Employee Stock Purchase Plan	967,767
1988 Key Employee Stock Option Plan	111,224

Stock option and stock appreciation right activity for the thirteen weeks ended May 3, 2008:

	Option Shares	Average Option Price		Option Prices Per Share	Aggregate Intrinsic Value(1) (000's)
Outstanding at February 2, 2008	1,894,874	\$ 5.95	\$ 1.00	– \$ 13.84	\$ 1,777
Granted – option price equal to market price	2,572,176	5.00	5.00	– 5.00	

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Canceled/forfeited	(42,037)	6.81	1.00	–	12.48	
Exercised	(80,863)	4.65	1.00	–	5.47	67(2)
Outstanding at May 3, 2008	4,344,150	\$ 5.40	\$ 1.00	–	\$ 13.84	\$ 0
Exercisable at May 3, 2008	1,722,564	\$ 6.13	\$ 1.00	–	\$ 13.84	\$ 0

(1) Aggregate market value less aggregate exercise price.

(2) As of date of exercise.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 1. Condensed Consolidated Financial Statements (Continued)

Stock-based compensation expense for the thirteen weeks ended May 3, 2008 and May 5, 2007 includes (i) compensation cost for all partially-vested stock-based awards granted prior to the beginning of Fiscal 2007, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), and (ii) compensation cost for all stock-based awards granted subsequent to the beginning of Fiscal 2007, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"), a revision of SFAS No. 123. Current grants of stock-based compensation consist primarily of restricted stock, restricted stock unit, and stock appreciation right awards.

(In thousands)	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Total stock-based compensation expense	\$ 2,898	\$ 2,924

We use the Black-Scholes valuation model to estimate the fair value of stock options and stock appreciation rights, and amortize stock-based compensation on a straight-line basis over the requisite service period of an award. Estimates or assumptions we used under the Black-Scholes model are more fully described in "Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies; Stock-based Compensation" in our February 2, 2008 Annual Report on Form 10-K.

Total stock-based compensation expense not yet recognized, related to the non-vested portion of stock options, stock appreciation rights, and awards outstanding, was \$22,229,000 as of May 3, 2008. The weighted-average period over which we expect to recognize this compensation expense is approximately 3 years.

Note 2. Accounts Receivable

Accounts receivable consist of trade receivables from sales through our FIGI'S catalog. Details of our accounts receivable are as follows:

(In thousands)	May 3, 2008	February 2, 2008
Due from customers	\$ 14,952	\$ 39,797
Allowance for doubtful accounts	(6,762)	(6,262)
Net accounts receivable	\$ 8,190	\$ 33,535

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 3. Trademarks and Other Intangible Assets

(In thousands)	May 3, 2008	February 2, 2008
Trademarks, tradenames, and internet domain names	\$ 187,988	\$ 187,988
Customer lists, customer relationships, and covenant not to compete	6,172	6,172
Total at cost	194,160	194,160
Less accumulated amortization of customer lists, customer relationships, and covenant not to compete	5,398	5,218
Net trademarks and other intangible assets	\$ 188,762	\$ 188,942

Note 4. Long-term Debt

(In thousands)	May 3, 2008	February 2, 2008
Long-term debt		
1.125% Senior Convertible Notes, due May 2014	\$ 275,000	\$ 275,000
Capital lease obligations	14,042	13,698
6.07% mortgage note, due October 2014	10,913	11,078
6.53% mortgage note, due November 2012	6,300	6,650
7.77% mortgage note, due December 2011	7,739	7,897
Other long-term debt	611	673
Total long-term debt	314,605	314,996
Less current portion	8,566	8,827
Long-term debt	\$ 306,039	\$ 306,169

On April 30, 2007 we issued \$250,000,000 in aggregate principal amount of 1.125% Senior Convertible Notes due May 1, 2014 (the "1.125% Notes") in a private offering for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. On May 11, 2007 the initial purchasers of the 1.125% Notes exercised their over-allotment option and purchased an additional \$25,000,000 in aggregate principal amount of the notes. The 1.125% Notes were issued at par plus accrued interest, if any, from April 30, 2007 and interest is payable semiannually in arrears on May 1 and November 1, beginning November 1, 2007. The 1.125% Notes will mature on May 1, 2014 unless earlier repurchased by us or converted.

We received combined proceeds of approximately \$268,125,000 from the issuance, net of underwriting fees of approximately \$6,875,000. The underwriting fees, as well as additional transaction costs of \$810,000 incurred in connection with the issuance of the 1.125% Notes, are included in "Other assets" on our condensed consolidated balance sheets and are being amortized to interest expense on an effective interest rate basis over the life of the notes (seven years). The issuance of the 1.125% Notes is more fully described in "Item 8. Financial Statements and Supplementary Data; Note 8. Long-term Debt" in our February 2, 2008 Annual Report on Form 10-K.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 4. Long-term Debt (Continued)

On April 30, 2007 we called for the June 4, 2007 redemption of our \$149,999,000 outstanding aggregate principal amount of 4.75% Senior Convertible Notes due June 2012 (the "4.75% Notes"). The holders of the 4.75% Notes had the option to convert their notes into shares of our common stock at a conversion price of \$9.88 per share until the close of business on June 1, 2007. As of June 4, 2007 the holders of \$149,956,000 principal amount of the 4.75% Notes had exercised their right to convert their notes into an aggregate of 15,145,556 shares of our common stock and the remaining notes were redeemed for \$43,000. In addition, we paid \$392,000 in lieu of fractional shares.

Note 5. Stockholders' Equity

	Thirteen Weeks Ended May 3, 2008
(Dollars in thousands)	
Total stockholders' equity, beginning of period	\$ 730,444
Cumulative effect of adoption of EITF Issue No. 06-4(1)	(13,696)
Net loss	(34,457)
Issuance of common stock (312,530 shares), net of shares withheld for payroll taxes	69
Purchase of treasury shares (2,004,967 shares)	(10,969)
Stock-based compensation expense	2,898
Tax benefit related to call options	955
Write-down of deferred taxes related to stock-based compensation	(263)
Unrealized losses on available-for-sale securities, net of income tax benefit	(25)
Total stockholders' equity, end of period	\$ 674,956

(1) See "Note 13. Impact of Recent Accounting Pronouncements" below.

Note 6. Customer Loyalty Card Programs

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers join some of these programs by paying an annual membership fee. For these programs, we recognize revenue as a component of net sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. We recognize costs in connection with administering these programs as cost of goods sold when incurred. During the thirteen weeks ended May 3, 2008 we recognized revenues of \$5,098,000 and during the thirteen weeks ended May 5, 2007 we recognized revenues of \$5,702,000 in connection with our loyalty card programs.

During Fiscal 2008 we began offering loyalty programs in connection with the issuance of our LANE BRYANT and PETITE SOPHISTICATE proprietary credit cards. Cardholders earn points for purchases using the credit card, which

may be redeemed for merchandise coupons upon the accumulation of a specified number of points. We do not charge membership fees in connection with these programs. Our FASHION BUG brand also offers a loyalty card program that does not charge membership fees.

We accrued \$1,589,000 as of May 3, 2008 and \$2,000,000 as of February 2, 2008 for the estimated costs of discounts earned and coupons issued and not redeemed under these programs.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 7. Net Income/(Loss) Per Share

(In thousands, except per share amounts)	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Basic weighted average common shares outstanding	114,588	123,003
Dilutive effect of assumed conversion of 4.75% Senior Convertible Notes(1)	0	15,182
Dilutive effect of stock options, stock appreciation rights, and awards	754	1,753
Diluted weighted average common shares and equivalents outstanding	115,342	139,938
Income from continuing operations	\$ 657	\$ 26,466
Decrease in interest expense from assumed conversion of 4.75% Senior Convertible Notes, net of income tax benefit(1)	0	1,128
Income from continuing operations used to determine diluted net income per share	657	27,594
Loss from discontinued operations, net of income tax benefit	(35,114)	(168)
Net income/(loss) used to determine diluted net income/(loss) per share	\$ (34,457)	\$ 27,426
Options with weighted average exercise price greater than market price, excluded from computation of net income/(loss) per share:		
Number of shares	1,414	1
Weighted average exercise price per share	\$ 6.66	\$ 13.84

(1) The 4.75% Senior Convertible Notes were converted or redeemed on June 4, 2007 (see “Note 4. Long-term Debt” above).

Our 1.125% Notes will not impact our diluted net income per share until the price of our common stock exceeds the conversion price of \$15.379 per share because we expect to settle the principal amount of the 1.125% Notes in cash upon conversion. Our call options are not considered for purposes of the diluted net income per share calculation as their effect would be anti-dilutive. Should the price of our common stock exceed \$21.607 per share, we would include the dilutive effect of the additional potential shares that may be issued related to our warrants, using the treasury stock method. See “Note 4. Long-term Debt” above and “Item 8. Financial Statements and Supplementary Data; Note 8. Long-term Debt” in our February 2, 2008 Annual Report on Form 10-K for further information regarding our 1.125% Notes, our call options and warrants, and the conversion of our 4.75% Notes.

Note 8. Income Taxes

Our provision for income taxes for the Fiscal 2009 First Quarter was \$1,246,000 on income from continuing operations before taxes of \$1,903,000 as compared to a provision for income taxes of \$14,966,000 on income from continuing operations before taxes of \$41,432,000 for the Fiscal 2008 First Quarter. The Fiscal 2009 First Quarter provision for income taxes was impacted by an increase in our liability for unrecognized tax benefits, interest, and penalties in accordance with FIN No. 48 as detailed below.

We adopted the provisions of FIN No. 48 effective as of February 4, 2007. See “Item 8. Financial Statements and Supplementary Data; Note 7. Income Taxes” in our February 2, 2008 Annual Report on Form 10-K for further information regarding our adoption of FIN No. 48.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 8. Income Taxes (Continued)

As of May 3, 2008 our gross unrecognized tax benefits were \$26,867,000. If recognized, the portion of the liabilities for gross unrecognized tax benefits that would decrease our provision for income taxes and increase our net income was \$18,761,000. The accrued interest and penalties as of May 3, 2008 were \$10,157,000. During the Fiscal 2009 First Quarter the gross unrecognized tax benefits increased by \$202,000 and the portion of the liabilities for gross unrecognized tax benefits that, if recognized, would decrease our provision for income taxes and increase our net income increased by \$173,000. Accrued interest and penalties increased during the Fiscal 2009 First Quarter by \$343,000.

As of May 3, 2008 it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next twelve months by as much as \$682,000 due to resolutions of audits or expirations of statutes of limitations related to U.S. Federal and state tax positions.

Our U.S. Federal income tax returns for Fiscal 2005 and beyond remain subject to examination by the U.S. Internal Revenue Service ("IRS"). The IRS is not currently examining any of our tax returns. We file returns in numerous state jurisdictions, with varying statutes of limitations. Our state tax returns for Fiscal 2004 and beyond, depending upon the jurisdiction, generally remain subject to examination. The statute of limitations on a limited number of returns for years prior to Fiscal 2004 has been extended by agreement between us and the particular state jurisdiction. The earliest year still subject to examination by state tax authorities is Fiscal 1999.

Note 9. Asset Securitization

Our FASHION BUG, LANE BRYANT, CATHERINES, PETITE SOPHISTICATE, and Crosstown Traders proprietary credit card receivables are originated by Spirit of America National Bank (the "Bank"), our wholly-owned credit card bank. The Bank transfers its interest in all the receivables, including LANE BRYANT CATALOG credit card receivables but excluding other Crosstown Traders receivables, to the Charming Shoppes Master Trust (the "Trust") through Charming Shoppes Receivables Corp. ("CSRC"), a separate and distinct special-purpose entity. The Trust is an unconsolidated qualified special-purpose entity ("QSPE").

Through Fiscal 2007 our Crosstown Traders apparel-related catalog proprietary credit card receivables, which we securitized subsequent to our acquisition of Crosstown Traders, were originated in a non-bank program by Crosstown Traders. Crosstown Traders transferred its interest in the receivables to Catalog Receivables LLC, a separate and distinct unconsolidated QSPE, through a separate and distinct special-purpose entity. On February 5, 2007 the Bank acquired the account relationships of the Crosstown Traders catalog proprietary credit cards and all subsequent new receivables are originations of the Bank. This acquisition did not cause a change in the securitization entities used by the Crosstown Traders proprietary credit card program.

The QSPEs can sell interests in these receivables on a revolving basis for a specified term. At the end of the revolving period an amortization period begins during which the QSPEs make principal payments to the parties that have entered into the securitization agreement with the QSPEs. All assets of the QSPEs (including the receivables) are isolated and support the securities issued by those entities. Our asset securitization program is more fully described in "Item 8. Financial Statements and Supplementary Data; Note 17. Asset Securitization" in our February 2, 2008 Annual

Report on Form 10-K.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 9. Asset Securitization (Continued)

We securitized \$227,595,000 of private label credit card receivables during the Fiscal 2009 First Quarter and had \$596,081,000 of securitized credit card receivables outstanding as of May 3, 2008. We held certificates and retained interests in our securitizations of \$116,119,000 as of May 3, 2008, which are generally subordinated in right of payment to certificates issued by the QSPEs to third-party investors. Our obligation to repurchase receivables sold to the QSPEs is limited to those receivables that, at the time of their transfer, fail to meet the QSPE's eligibility standards under normal representations and warranties. To date, our repurchases of receivables pursuant to this obligation have been insignificant.

CSRC, Charming Shoppes Seller, Inc., and Catalog Seller LLC, our consolidated wholly-owned indirect subsidiaries, are separate special-purpose entities ("SPEs") created for the securitization program. As of May 3, 2008 our investment in asset-backed securities included \$50,935,000 of QSPE certificates, an I/O strip of \$23,667,000, and other retained interests of \$41,517,000. These assets are first and foremost available to satisfy the claims of the respective creditors of these separate corporate entities, including certain claims of investors in the QSPEs.

Additionally, with respect to certain Trust Certificates, if either the Trust or Charming Shoppes, Inc. does not meet certain financial performance standards, the Trust is obligated to reallocate to third-party investors holding certain certificates issued by the Trust, collections in an amount up to \$9,450,000 that otherwise would be available to CSRC. The result of this reallocation is to increase CSRC's retained interest in the Trust by the same amount, with the third-party investor retaining an economic interest in the certificates. Subsequent to such a transfer occurring, and upon certain conditions being met, these same investors are required to repurchase these interests when the financial performance standards are again satisfied. Our net loss for the third quarter of Fiscal 2008 resulted in the requirement to reallocate collections as discussed above. Accordingly, \$9,450,000 of collections were fully transferred as of February 2, 2008. The requirement for the reallocation of these collections will cease and such investors would be required to repurchase such interests upon our announcement of a quarter with net income and the fulfillment of such conditions. With the exception of the requirement to reallocate collections of \$9,450,000 that were fully transferred as of February 2, 2008, the Trust was in compliance with its financial performance standards as of May 3, 2008.

In addition to the above, we could be affected by certain other events that would cause the QSPEs to hold proceeds of receivables, which would otherwise be available to be paid to us with respect to our subordinated interests, within the QSPEs as additional enhancement. For example, if we or the QSPEs do not meet certain financial performance standards, a credit enhancement condition would occur, and the QSPEs would be required to retain amounts otherwise payable to us. In addition, the failure to satisfy certain financial performance standards could further cause the QSPEs to stop using collections on QSPE assets to purchase new receivables, and would require such collections to be used to repay investors on a prescribed basis, as provided in the securitization agreements. As of May 3, 2008 we and the QSPEs were in compliance with the applicable financial performance standards referred to in this paragraph.

Amounts placed into enhancement accounts, if any, that are not required for payment to other certificate holders will be available to us at the termination of the securitization series. We have no obligation to directly fund the enhancement account of the QSPEs other than for breaches of customary representations, warranties, and covenants and for customary indemnities. These representations, warranties, covenants, and indemnities do not protect the QSPEs or investors in the QSPEs against credit-related losses on the receivables. The providers of the credit enhancements and QSPE investors have no other recourse to us.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 10. Segment Reporting

We operate and report in two segments: Retail Stores and Direct-to-Consumer. We determine our operating segments based on the way our chief operating decision-makers review our results of operations. We consider our retail stores and store-related E-commerce as operating segments that are similar in terms of economic characteristics, production processes, and operations. Accordingly, we have aggregated our retail stores and store-related E-commerce into a single reporting segment (the "Retail Stores" segment). Our catalog and catalog-related E-commerce operations, excluding discontinued operations, are separately reported under the Direct-to-Consumer segment.

The accounting policies of the segments are generally the same as those described in "Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies" in our February 2, 2008 Annual Report on Form 10-K. Our chief operating decision-makers evaluate the performance of our operating segments based on a measure of their contribution to operations, which consists of net sales less the cost of merchandise sold and certain directly identifiable and allocable operating costs. We do not allocate certain corporate costs, such as shared service costs, information systems support costs, and insurance costs to our Retail Stores or Direct-to-Consumer segments. Operating costs for our Retail Stores segment consist primarily of store selling, buying, occupancy, and warehousing costs. Operating costs for our Direct-to-Consumer segment consist primarily of catalog development, production, and circulation costs; E-commerce advertising costs; warehousing costs; and order processing costs.

Corporate and Other includes unallocated general and administrative costs; shared services costs; insurance costs; information systems support costs; corporate depreciation and amortization; corporate occupancy costs; the results of our proprietary credit card operations; and other non-routine charges. Operating contribution for the Retail Stores and Direct-to-Consumer segments less Corporate and Other net expenses equals income before interest and taxes.

Operating segment assets are those directly used in, or allocable to, that segment's operations. Operating assets for the Retail Stores segment consist primarily of inventories; the net book value of store facilities; goodwill; and intangible assets. Operating assets for the Direct-to-Consumer segment consist primarily of trade receivables; inventories; deferred advertising costs; the net book value of catalog operating facilities; and intangible assets. Corporate and Other assets include corporate cash and cash equivalents; the net book value of corporate facilities; deferred income taxes; and other corporate long-lived assets.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 10. Segment Reporting (Continued)

Selected financial information for our operations by reportable segment (excluding discontinued operations) and a reconciliation of the information by segment to our consolidated totals is as follows:

(In thousands)	Retail Stores	Direct-to- Consumer(1)	Corporate and Other	Consolidated
Thirteen weeks ended May 3, 2008				
Net sales	\$ 613,391	\$ 26,946	\$ 1,009	\$ 641,346
Depreciation and amortization	11,927	38	15,121	27,086(3)
Income before interest and taxes	43,028	(4,199)	(34,557)(2)	4,272
Interest expense			(2,369)	(2,369)
Income tax provision			(1,246)	(1,246)
Income from continuing operations	43,028	(4,199)	(38,172)	657
Capital expenditures	18,721	0	2,972	21,693(3)
Thirteen weeks ended May 5, 2007				
Net sales	\$ 685,781	\$ 10,274	\$ 559	\$ 696,614
Depreciation and amortization	12,361	22	10,327	22,710(3)
Income before interest and taxes	75,285	(776)	(29,814)	44,695
Interest expense			(3,263)	(3,263)
Income tax provision			(14,966)	(14,966)
Income from continuing operations	75,285	(776)	(48,043)	26,466
Capital expenditures	29,834	8	7,550	37,392(3)

(1) Fiscal 2009 First Quarter includes LANE BRYANT WOMAN catalog.

(2) Includes \$3,611 of restructuring charges related to the Retail Stores segment (see "NOTE 11. RESTRUCTURING CHARGES" below).

(3) Fiscal 2009 First Quarter excludes \$102 of depreciation and amortization and \$321 of capital expenditures, and Fiscal 2008 First Quarter excludes \$34 of depreciation and amortization and \$119 of capital expenditures, related to our discontinued operations.

Note 11. Restructuring Charges

In November 2007 we announced our plan to relocate our CATHERINES operations located in Memphis, Tennessee to our corporate headquarters in Bensalem, Pennsylvania in conjunction with the consolidation of a number of our operating functions. The costs of this plan included accelerated depreciation, severance and retention, and relocation costs.

The accelerated depreciation represents the change in the estimated useful life of the Memphis facility and was recognized over the period from the inception of the plan to the closing date of the facility, which was the end of the Fiscal 2009 First Quarter. Severance and retention costs represent involuntary termination benefits for approximately

80 employees who did not relocate from the Memphis facility to our Bensalem headquarters. Relocation costs represent estimated costs to relocate approximately 30 employees from Memphis to Bensalem. The involuntary terminations and relocations were completed during the Fiscal 2009 First Quarter.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 11. Restructuring Charges (Continued)

In February 2008 we announced additional initiatives and actions to: streamline our business operations and further sharpen our focus on our core businesses; reduce selling, general, and administrative expenses and capital expenditures; improve cash flow; and enhance shareholder value. The initiatives and actions include: the elimination of approximately 150 corporate and field management positions; a decrease in the capital budget for Fiscal 2009, primarily through a significant reduction in the number of planned store openings for Fiscal 2009; the closing of approximately 150 under-performing stores; and the closing of our full-line PETITE SOPHISTICATE stores. To date, we have completed the elimination of corporate and field positions, closed 23 of the identified under-performing stores, and expect to complete the remainder of these initiatives by the end of Fiscal 2009.

We accounted for the above plans in accordance with the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" and SFAS No. 112, "Employers' Accounting for Postemployment Benefits."

The following table summarizes the costs incurred to date and the total estimated costs to be recognized under the plans:

	Costs Incurred as of February 2, 2008	Costs Incurred for Quarter Ended May 3, 2008	Estimated Remaining Costs to be Incurred	Total Estimated Costs as of May 3, 2008
(In thousands)				
Severance, retention, and related costs	\$ 2,792	\$ 389	\$ 2	\$ 3,183
Store lease termination costs	0	572	9,089	9,661
Asset writedowns and accelerated depreciation	11,325	1,919	101	13,345
Relocation and other closing costs	241	731	528	1,500
Total	\$ 14,358	\$ 3,611	\$ 9,720	\$ 27,689

The following table summarizes the severance, retention, and related costs accrued in accordance with SFAS No. 146 and SFAS No. 112 and the payments/settlements for the above plans as of May 3, 2008:

	Balance at February 2, 2008	Costs Accrued for Quarter Ended May 3, 2008	Payments/ Settlements	Accrued as of May 3, 2008
(In thousands)				
Severance, retention, and related costs	\$2,688	\$ 389	\$(2,343)	\$ 734

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 12. Fair Value Measurements

In September 2006 the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 provides a single definition of fair value along with a framework for measuring it, and requires additional disclosure about using fair value to measure assets and liabilities. SFAS No. 157 emphasizes that fair value measurement is market-based, not entity-specific, and establishes a fair value hierarchy which places the highest priority on the use of quoted prices in active markets to determine fair value. It also requires, among other things, that entities are to include their own credit standing when measuring their liabilities at fair value.

In February 2008 the FASB issued FSP FAS No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13." The FSP amends SFAS No. 157 to exclude SFAS No. 13, "Accounting for Leases," and certain related accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13. The scope exception of FSP FAS No. 157-1 does not apply to assets acquired or liabilities assumed in a business combination that are required to be measured at fair value under SFAS No. 141, "Business Combinations," or SFAS No. 141(R) (see "Note 13. Impact of Recent Accounting Pronouncements" below), regardless of whether those assets and liabilities are related to leases. The scope exception also does not apply to fair value measurements required by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," or FASB Interpretation No. 21, "Accounting for Leases in a Business Combination." FSP FAS No. 157-1 is effective on the initial adoption of SFAS No. 157. In February 2008 the FASB also issued FSP FAS No. 157-2, "Effective Date of FASB Statement No. 157," which delays the effective date of SFAS 157 for non-financial assets and non-financial liabilities that are not currently recognized or disclosed at fair value on a recurring basis until fiscal years beginning after November 15, 2008.

Under SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, we use various methods, including discounted cash flow projections based on available market interest rates and management estimates of future cash payments. Financial assets and liabilities that are measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 – Unobservable inputs that are not corroborated by market data.

With the exception of assets and liabilities included within the scope of FSP FAS No. 157-2, we adopted the provisions of SFAS No. 157 prospectively effective as of the beginning of Fiscal 2009. For financial assets and liabilities included within the scope of FSP FAS No. 157-2, we will be required to adopt the provisions of SFAS No. 157 prospectively as of the beginning of Fiscal 2010. The adoption of SFAS No. 157 did not have a material impact on our financial position or results of operations, and we do not believe that the adoption of FSP FAS No. 157-2 will have a material impact on our financial position or results of operations.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 12. Fair Value Measurements (Continued)

Our financial assets and liabilities subject to SFAS No. 157 as of May 3, 2008 were as follows:

(In thousands)	Balance May 3, 2008	Fair Value Method Used Level 2 Level 3(1)
Assets		
Available-for-sale securities(2)	\$ 6,456	\$ 6,456
Certificates and retained interests in securitized receivables	116,119	\$ 116,119
Liabilities		
Servicing liability	3,079	3,079

(1) Fair value is estimated based on internally-developed models or methodologies utilizing significant inputs that are unobservable from objective sources.

(2) Unrealized gains and losses on our available-for-sale securities are included in stockholders' equity until realized and realized gains and losses are recognized in income when the securities are sold.

We estimate the fair value of our certificates and retained interests in our securitized receivables based on the present value of future expected cash flows using assumptions for the average life of the receivables sold, anticipated credit losses, and the appropriate market discount rate commensurate with the risks involved. This cash flow includes an "interest-only" ("I/O") strip, consisting of the present value of the finance charges and late fees in excess of the amounts paid to certificate holders, credit losses, and servicing fees.

The fair value of our servicing liabilities represents the present value of the excess of our cost of servicing over the servicing fees received. We determine the fair value by calculating all costs associated with billing, collecting, maintaining, and providing customer service during the expected life of the securitized credit card receivable balances. We discount the amount of these costs in excess of the servicing fees over the estimated life of the receivables sold. The discount rate and estimated life assumptions used for the present value calculation of the servicing liability are consistent with those used to value the certificates and retained interests.

The table below presents a reconciliation of the beginning and ending balances of our certificates and retained interests and our servicing liability during the three months ended May 3, 2008:

(In thousands)	Retained Interests	Servicing Liability
Balance, February 2, 2008	\$ 115,912	\$ 3,038
Additions to I/O strip and servicing liability	10,046	1,298

N e t a d d i t i o n s t o o t h e r r e t a i n e d interests	549	
R e d u c t i o n s a n d m a t u r i t i e s o f Q S P E certificates	(750)	
Amortization and valuation adjustments to I/O strip and servicing liability	(9,638)	(1,257)
Balance, May 3, 2008	\$ 116,119	\$ 3,079

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 13. Impact of Recent Accounting Pronouncements

In September 2006, the FASB ratified the consensus of EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Agreements." EITF Issue No. 06-4 addresses accounting for separate agreements that split life insurance policy benefits between an employer and an employee. EITF Issue No. 06-4 requires employers to recognize a liability for future benefits payable to the employee under such agreements. The effect of applying the provisions of Issue No. 06-4 should be recognized either through a change in accounting principle by a cumulative-effect adjustment to equity or through the retrospective application to all prior periods. We adopted the provisions of EITF Issue No. 06-4 effective as of the beginning of Fiscal 2009 and recognized a cumulative-effect adjustment of \$13,696,000, increasing our liabilities related to our split-dollar life insurance agreements with former executive employees and reducing the February 3, 2008 balance of retained earnings.

In February 2007 the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115," which permits an entity to measure certain financial assets and financial liabilities at fair value. The intent of SFAS No. 159 is to reduce volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes without the need for applying hedge accounting. Entities that elect the fair value option will report unrealized gains and losses in earnings as of each subsequent reporting date. Generally, the fair value option may be elected on an instrument-by-instrument basis as long as it is applied to the instrument in its entirety. Election of the fair value option is irrevocable unless a new election date occurs.

The provisions of SFAS No. 159 were effective as of the beginning of Fiscal 2009. We did not elect the fair value option for any existing or new financial assets or liabilities that were not previously accounted for at fair value; therefore, SFAS No. 159 had no impact on our financial position or results of operations.

In December 2007 the FASB issued SFAS No. 141I, "Business Combinations," and SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." As compared to SFAS No. 141 and ARB No. 51, these statements change the accounting for business combinations and non-controlling interests in subsidiaries by requiring:

- The measurement of additional assets acquired and liabilities assumed at fair value as of the acquisition date;
- Re-measurement of liabilities related to contingent consideration at fair value in periods subsequent to acquisition;
 - The expensing in pre-acquisition periods of acquisition-related costs incurred by the acquirer; and
- The initial measurement of non-controlling interests in subsidiaries at fair value and classification of the interest as a separate component of equity.

We will be required to adopt the provisions of SFAS No. 141I and SFAS No. 160 prospectively effective as of the beginning of Fiscal 2010.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 13. Impact of Recent Accounting Pronouncements (Continued)

In February 2008 the FASB issued FSP FAS No. 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions." FSP FAS No. 140-3 addresses whether there are circumstances that would permit a transferor and a transferee to evaluate the accounting for the transfer of a financial asset separately from a repurchase financing when the counterparties to the two transactions are the same. The FSP presumes that the initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (a linked transaction) under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." However, if certain criteria specified in FSP FAS No. 140-3 are met, the initial transfer and repurchase financing may be evaluated separately under SFAS No. 140.

The provisions of FSP FAS No. 140-3 will be effective prospectively as of the beginning of Fiscal 2010. We do not expect that the adoption of FSP FAS No. 140-3 will have a material effect on our financial position or results of operations.

In March 2008 the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." Under SFAS No. 161 entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows.

We will be required to adopt the provisions of SFAS No. 161 as of the beginning of Fiscal 2010.

In May 2008 the FASB issued FASB Staff Position ("FSP") APB 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlements)" (previously FSP APB 14-a), which will change the accounting treatment for convertible securities that the issuer may settle fully or partially in cash. Under the final FSP, cash-settled convertible securities will be separated into their debt and equity components. The value assigned to the debt component will be the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature. As a result, the debt will be recorded at a discount to adjust its below-market coupon interest rate to the market coupon interest rate for the similar debt instrument without the conversion feature. The difference between the proceeds for the convertible debt and the amount reflected as the debt component represents the value of the conversion feature and will be recorded as additional paid-in capital. The debt will subsequently be accreted to its par value over its expected life, with an offsetting increase in interest expense on the income statement to reflect the market rate for the debt component at the date of issuance.

FSP APB 14-1 is to be applied retrospectively to all past periods presented, and will apply to our 1.125% Senior Convertible Notes due May 2014. As compared to our current accounting for the 1.125% Notes, adoption of the proposal will reduce long-term debt, increase stockholders' equity, and reduce net income and earnings per share. Adoption of the proposal would not affect our cash flows. We will be required to adopt the provisions of FSP APB 14-1 as of the beginning of Fiscal 2010. We are currently evaluating the impact of the adoption of FSP APB 14-1 on our financial statements.

Note 14. Subsequent Event

On May 23, 2008 we completed the sale of our Memphis, Tennessee distribution center. We received \$4,813,000 of cash in connection with the sale of the facility and we will recognize a pre-tax gain on the sale of approximately \$1,835,000 in our Fiscal 2009 Second Quarter.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes included in Item 1 of this report. It should also be read in conjunction with the management's discussion and analysis of financial condition and results of operations, financial statements, and accompanying notes appearing in our Annual Report on Form 10-K for the fiscal year ended February 2, 2008. As used in this management's discussion and analysis, "Fiscal 2009" refers to our fiscal year ending January 31, 2009 and "Fiscal 2008" refers to our fiscal year ended February 2, 2008. "Fiscal 2009 First Quarter" refers to the thirteen weeks ended May 3, 2008 and "Fiscal 2008 First Quarter" refers to the thirteen weeks ended May 5, 2007. "Fiscal 2009 Second Quarter" refers to the thirteen weeks ending August 2, 2008. "Fiscal 2008 Fourth Quarter" refers to the thirteen weeks ended February 2, 2008. The terms "Charming Shoppes, Inc.," "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and its consolidated subsidiaries except where the context otherwise requires or as otherwise indicated.

FORWARD-LOOKING STATEMENTS

With the exception of historical information, the matters contained in the following analysis and elsewhere in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

Such statements may include, but are not limited to, projections of revenues, income or loss, cost reductions, capital expenditures, liquidity, financing needs or plans, and plans for future operations, as well as assumptions relating to the foregoing. The words "expect," "could," "should," "project," "estimate," "predict," "anticipate," "plan," "intend," "believes" expressions are also intended to identify forward-looking statements.

We operate in a rapidly changing and competitive environment. New risk factors emerge from time to time and it is not possible for us to predict all risk factors that may affect us. Forward-looking statements are inherently subject to risks and uncertainties, some of which we cannot predict or quantify. Future events and actual results, performance, and achievements could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements, which speak only as of the date on which they were made. We assume no obligation to update or revise any forward-looking statement to reflect actual results or changes in, or additions to, the factors affecting such forward-looking statements. Given those risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Factors that could cause our actual results of operations or financial condition to differ from those described in this report include, but are not necessarily limited to, the following, which are discussed in more detail in "PART I; Item 1A. Risk Factors" of our annual report on Form 10-K for the fiscal year ended February 2, 2008 and in "PART II. OTHER INFORMATION; Item 1A. Risk Factors" below:

- Our business is dependent upon our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors, which we may not be able to successfully accomplish in the future.
- A continuing slowdown in the United States economy, an uncertain economic outlook, and escalating energy costs could lead to reduced consumer demand for our products in the future.
- The women's specialty retail apparel and direct-to-consumer markets are highly competitive and we may be unable to compete successfully against existing or future competitors.
- We cannot assure the successful consummation of our expected sale of our non-core misses apparel catalog titles.

- We cannot assure the successful implementation of our business plan for our LANE BRYANT WOMAN catalog or the realization of our anticipated benefits from our re-launch of the LANE BRYANT credit card program.

- We cannot assure the successful implementation of our business plans for our outlet store distribution channel and expansion of our CACIQUE® product line through new store formats.
- We cannot assure the successful implementation of our business plan for increased profitability and growth in our Retail Stores or Direct-to-Consumer segments. Recent changes in management may fail to achieve improvement in our operating results.
- We cannot assure the successful implementation of our planned cost reduction and capital budget reduction plans; the effective implementation of our plans for consolidation of our CATHERINES brand, a new organizational structure; and enhancements in our merchandise and marketing; and we cannot assure the realization of our anticipated annualized expense savings from our restructuring announced in February 2008.
- Our business plan is largely dependent upon continued growth in the plus-size women's apparel market, which may not occur.
- We depend on key personnel, particularly our Chief Executive Officer, Dorrit J. Bern, and we may not be able to retain or replace these employees or recruit additional qualified personnel.
- We depend on our distribution and fulfillment centers and third-party freight consolidators and service providers, and could incur significantly higher costs and longer lead times associated with distributing our products to our stores and shipping our products to our E-commerce and catalog customers if operations at any of these locations were to be disrupted for any reason.
- We depend on the availability of credit for our working capital needs, including credit we receive from our suppliers and their agents, and on our credit card securitization facilities. If we were unable to obtain sufficient financing at an affordable cost, our ability to merchandise our stores, E-commerce, or catalog businesses would be adversely affected.
- Natural disasters, as well as war, acts of terrorism, or other armed conflict, or the threat of any such event may negatively impact availability of merchandise and customer traffic to our stores, or otherwise adversely affect our business.
- We rely significantly on foreign sources of production and face a variety of risks generally associated with doing business in foreign markets and importing merchandise from abroad. Such risks include (but are not necessarily limited to) political instability; imposition of, or changes in, duties or quotas; trade restrictions; increased security requirements applicable to imports; delays in shipping; increased costs of transportation; and issues relating to compliance with domestic or international labor standards.
- Our Retail Stores and Direct-to-Consumer segments experience seasonal fluctuations in net sales and operating income. Any decrease in sales or margins during our peak sales periods, or in the availability of working capital during the months preceding such periods, could have a material adverse effect on our business. In addition, extreme or unseasonable weather conditions may have a negative impact on our sales.
 - We may be unable to obtain adequate insurance for our operations at a reasonable cost.
- We may be unable to protect our trademarks and other intellectual property rights, which are important to our success and our competitive position.
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We may be unable to hire and retain a sufficient number of suitable sales associates at our stores. In addition, we are subject to the Fair Labor Standards Act and various state and Federal laws and regulations governing such matters as minimum wages, exempt status classification, overtime, and employee benefits. Changes in Federal or state laws or regulations regarding minimum wages or other employee benefits could cause us to incur additional wage and benefit costs, which could adversely affect our results of operations.

- Our manufacturers may be unable to manufacture and deliver merchandise to us in a timely manner or to meet our quality standards.
- Our Retail Stores segment sales are dependent upon a high volume of traffic in the strip centers and malls in which our stores are located, and our future retail store growth is dependent upon the availability of suitable locations for new stores.

- Inadequate systems capacity, a disruption or slowdown in telecommunications services, changes in technology, changes in government regulations, systems issues, security breaches, a failure to integrate order management systems, or customer privacy issues could result in reduced sales or increases in operating expenses as a result of our efforts or our inability to remedy such issues.
- Successful operation of our E-commerce websites and our catalog business is dependent on our ability to maintain efficient and uninterrupted customer service and fulfillment operations.
- We may be unable to manage significant increases in certain costs vital to catalog operations, including postage, paper, and acquisition of prospects, which could adversely affect our results of operations.
- Response rates to our catalogs and access to new customers could decline, which would adversely affect our net sales and results of operations.
- We may be unable to successfully implement our plan to improve merchandise assortments in our Retail Stores or Direct-to-Consumer segments.
- We make certain significant assumptions, estimates, and projections related to the useful lives of our property, plant, and equipment and the valuation of goodwill and other intangible assets related to acquisitions. The carrying amount and/or useful life of these assets are subject to periodic and/or annual valuation tests for impairment. Impairment results when the carrying value of an asset exceeds the undiscounted (or for goodwill and indefinite-lived intangible assets the discounted) future cash flows associated with the asset. If actual experience were to differ materially from the assumptions, estimates, and projections used to determine useful lives or the valuation of property, plant, equipment, or intangible assets, a write-down for impairment of the carrying value of the assets, or acceleration of depreciation or amortization of the assets, could result. Such a write-down or acceleration of depreciation or amortization could have an adverse impact on our reported results of operations.
- Changes to existing accounting rules or the adoption of new rules could have an adverse impact on our reported results of operations.
- Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports. Our independent registered public accounting firm is also required to report on whether or not they believe that we maintained, in all material respects, effective internal control over financial reporting. If we are unable to maintain effective internal control over financial reporting we could be subject to regulatory sanctions and a possible loss of public confidence in the reliability of our financial reporting. Such a failure could result in our inability to provide timely and/or reliable financial information and could adversely affect our business.
- The holders of our 1.125% Senior Convertible Notes due May 1, 2014 (the “1.125% Notes”) could require us to repurchase the principal amount of the notes for cash before maturity of the notes under certain circumstances. Such a repurchase would require significant amounts of cash and could adversely affect our financial condition.

CRITICAL ACCOUNTING POLICIES

We have prepared the financial statements and accompanying notes included in Item 1 of this report in conformity with United States generally accepted accounting principles. This requires us to make estimates and assumptions that

affect the amounts reported in our financial statements and accompanying notes. These estimates and assumptions are based on historical experience, analysis of current trends, and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions.

We periodically reevaluate our accounting policies, assumptions, and estimates and make adjustments when facts and circumstances warrant. Historically, actual results have not differed materially from those determined using required estimates. Our critical accounting policies are discussed in the management's discussion and analysis of financial condition and results of operations and notes accompanying the consolidated financial statements that appear in our Annual Report on Form 10-K for the fiscal year ended February 2, 2008.

Except as disclosed in the financial statements and accompanying notes included in Item 1 of this report, there were no material changes in, or additions to, our critical accounting policies or in the assumptions or estimates we used to prepare the financial information appearing in this report.

RECENT DEVELOPMENTS

On April 25, 2008 we announced that our Board of Directors began exploring a broad range of operating and strategic alternatives for our non-core misses apparel catalog titles in order to provide a greater focus on our core brands and to enhance shareholder value. The non-core misses apparel catalog titles met the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to be accounted for as held for sale as of May 3, 2008. The operations and cash flows will be eliminated from our financial statements upon the sale and we will not have any significant involvement in the operations after the sale. Accordingly, the results of the non-core misses apparel catalog titles have been presented as discontinued operations in our consolidated statements of operations and balance sheets for all periods presented. The financial information included in this Management's Discussion and Analysis of Financial Condition and Results of Operations reflects only the results of our continuing operations (see "Notes to Condensed Consolidated Financial Statements; Note 1. Condensed Consolidated Financial Statements; Discontinued Operations" above).

On May 23, 2008 we completed the sale of our Memphis, Tennessee distribution center. We received \$4.8 million of cash in connection with the sale of the facility and we will recognize a pre-tax gain on the sale of approximately \$1.8 million in our Fiscal 2009 Second Quarter.

OVERVIEW

This overview of our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") presents a high-level summary of more detailed information contained elsewhere in this Report on Form 10-Q. The intent of this overview is to put this detailed information into perspective and to introduce the discussion and analysis contained in this MD&A. Accordingly, this overview should be read in conjunction with the remainder of this MD&A and with the financial statements and other detailed information included in this Report on Form 10-Q and should not be separately relied upon.

During the Fiscal 2009 First Quarter we continued to experience downward traffic trends in our stores. We believe these negative trends are influenced by a challenging retail and economic environment, resulting in a reduced demand for core seasonal and casual merchandise offerings as consumers have become more selective with their purchases. The reduced demand in our core seasonal and casual merchandise offerings more than offset favorable responses to our other merchandise offerings, such as intimate apparel and our Right Fit pant programs. Although our comparable store sales are 13% lower for the quarter, our strategy to operate with much leaner inventories, which were down 13% on a comparable basis to the prior year, allowed us to be less aggressive in our promotional strategy. As a result, our merchandise margins improved as compared to the Fiscal 2008 First Quarter.

Given the continuing uncertain economic climate, we anticipate continued weak traffic trends for the Fiscal 2009 Second Quarter. We will continue to work diligently to mitigate our same store sales decreases and continue to address our merchandise offerings in order to meet our customers' needs.

During the Fiscal 2009 First Quarter we continued to reduce our expenses. Although our expenses increased as a percentage of sales as a result of negative leverage from the decrease in comparable store sales, we were able to hold expense dollars flat as compared to the Fiscal 2008 First Quarter. We expect to continue to benefit from our expense control initiatives during the remainder of the year. One of these initiatives is the relocation of our CATHERINES operations from Memphis, Tennessee to our corporate headquarters in Bensalem, Pennsylvania that we announced in November 2007 and completed during March 2008. We anticipate the consolidation will result in additional pre-tax expense savings, primarily in payroll and occupancy costs, during the remainder of the year.

We also began to implement our initiative announced in February 2008 to close approximately 150 under-performing stores, which will result in the elimination of losses from the under-performing stores upon closing. During the Fiscal 2009 First Quarter we closed 23 under-performing stores and expect to complete the remaining store closures during the remainder of Fiscal 2009.

During the Fiscal 2009 First Quarter we announced that we were exploring a broad range of operating and strategic alternatives that are expected to result in the sale of our non-core misses apparel catalog titles. Accordingly, the results of the non-core misses apparel catalog titles within our Direct-to-Consumer segment have been classified as a discontinued operation. Our Direct-to-Consumer segment results, excluding these discontinued operations, include primarily our LANE BRYANT WOMAN and FIGI'S catalogs and related websites.

While we are committed to executing our long-term growth strategy as a multi-brand, multi-channel retailer, we are taking a conservative operating approach given the continuing uncertain economic climate and our expectations for continuing weak traffic trends. We expect the difficult retail apparel environment to continue and, in response, we will maintain lean inventories and carefully control operating expenses in an effort to continue to generate positive free cash flow.

Our balance sheet remains strong, with ample liquidity through our \$85.6 million of cash and available-for-sale securities (an increase of \$10.9 million from the end of Fiscal 2008) and our committed \$375.0 million revolving credit facility that had no outstanding borrowings at the end of the Fiscal 2009 First Quarter.

The following discussion of our results of operations and liquidity and capital resources is based on our continuing operations, and excludes the impact of our discontinued operations (see "Note 1. Condensed Consolidated Financial Statements; Discontinued Operations" and "RECENT DEVELOPMENTS" above).

RESULTS OF OPERATIONS

The following table shows our results of operations expressed as a percentage of net sales and on a comparative basis: