

Edgar Filing: CHARMING SHOPPES INC - Form 10-K

CHARMING SHOPPES INC  
Form 10-K  
April 14, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
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FORM 10-K

(Mark One)

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

For the fiscal year ended January 29, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number: 000-07258

CHARMING SHOPPES, INC.
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(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania
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23-1721355
-----

(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

450 Winks Lane, Bensalem, Pennsylvania
-----

19020
-----

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code (215) 245-9100
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Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock (par value \$.10 per share)
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(Title of Class)

Stock Purchase Rights
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(Title of Class)

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. [X] YES [ ] NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item

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405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

=====  
Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). [X] YES [ ] NO

The aggregate market value of the outstanding common stock of the registrant held by non-affiliates as of July 31, 2004 (the last day of the registrant's most recently completed second fiscal quarter), based on the closing price on July 30, 2004, was approximately \$857,971,000.

As of March 24, 2005, 119,815,703 shares of the registrant's common stock were outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of Form 10-K is incorporated by reference herein from the registrant's definitive proxy statement for its 2005 annual shareholders meeting, which is expected to be filed within 120 days after the end of the fiscal year covered by this Annual Report.

### CHARMING SHOPPES, INC. 2005 FORM 10-K ANNUAL REPORT

#### TABLE OF CONTENTS

	Page
PART I	
Item 1 Business	
General.....	1
Stores.....	1
Merchandising and Buying.....	3
Marketing and Promotions.....	4
Proprietary Credit Card Program.....	5
Sourcing.....	5
Distribution and Logistics.....	6
Competition.....	6
Employees.....	6
Trademarks and Servicemarks.....	7
Executive Offices.....	7
Available Information.....	7
Item 2 Properties.....	7
Item 3 Legal Proceedings.....	8
Item 4 Submission of Matters to a Vote of Security Holders.....	9
Additional Part I Information - Our Executive Officers.....	9
PART II	
Item 5 Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.....	10
Item 6 Selected Financial Data.....	12
Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.....	14
Forward-Looking Statements.....	14
Restatement of Financial Statements.....	16
Overview.....	17

## Edgar Filing: CHARMING SHOPPES INC - Form 10-K

	Critical Accounting Policies.....	18
	Results of Operations.....	25
	Financial Condition.....	33
	Market Risk.....	40
	Impact of Recent Accounting Pronouncements.....	41
Item 7A	Quantitative and Qualitative Disclosures About Market Risk.....	41
Item 8	Financial Statements and Supplementary Data.....	42
Item 9	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.....	89
Item 9A	Controls and Procedures.....	89
Item 9B	Other Information.....	89
PART III		
Item 10	Directors and Executive Officers of the Registrant.....	90
Item 11	Executive Compensation.....	90
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	90
Item 13	Certain Relationships and Related Transactions.....	91
Item 14	Principal Accountant Fees and Services.....	91
PART IV		
Item 15	Exhibits and Financial Statement Schedules.....	92
SIGNATURES.....		102
EXHIBIT INDEX.....		103

### PART I

#### Item 1. Business

##### General

We are a leading specialty apparel retailer primarily focused on plus-size women's apparel through our three distinct brands: LANE BRYANT(R), FASHION BUG(R), and CATHERINES PLUS SIZES(R). During the year ended January 29, 2005 ("Fiscal 2005"), the sale of plus-size apparel represented approximately 77% of our total net sales. Through our fashion content, store layouts, and broad merchandise assortments, we seek to appeal to customers from a broad range of socioeconomic, demographic, and cultural groups. As of January 29, 2005, we operated 2,221 stores in 48 states. Each of our brands is designed to attract a distinct customer.

LANE BRYANT is a widely recognized name in plus-size fashion. Through private labels, such as VENEZIA(R), CACIQUE(R), and LANE BRYANT(R), we offer fashionable and sophisticated apparel in plus-sizes 14 - 28, including intimate apparel, wear-to-work, and casual sportswear, as well as accessories. LANE BRYANT has a loyal customer base, generally ranging in age from 25 to 45 years old, that shops for fashionable merchandise in the moderate price range. Primarily a mall-based destination store for the plus-size woman, LANE BRYANT operates 722 stores in 46 states that average approximately 5,900 square feet. In March 2003, we began E-commerce operations on our lanebryant.com website.

FASHION BUG stores specialize in selling a wide variety of plus-size, misses and junior apparel, accessories, intimate apparel, and footwear. FASHION BUG customers generally range in age from 20 to 49 years old and shop in the

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low-to-moderate price range. Our 1,028 FASHION BUG stores are located in 45 states, primarily in strip shopping centers, and average approximately 8,900 square feet. In July 2004, we began E-commerce operations on our fashionbug.com website.

CATHERINES PLUS SIZES is particularly known for extended sizes (over size 28) and petite plus-sizes. CATHERINES offers classic apparel and accessories for wear-to-work and casual lifestyles. CATHERINES customers generally range in age from 40 to 65 years old, shop in the moderate price range, and are concerned with fit and value when purchasing clothes. Our 471 CATHERINES stores are located in 44 states, primarily in strip shopping centers in the Southeast, Mid-Atlantic, and Eastern Central regions of the United States, and average approximately 4,100 square feet. In March 2002, we began E-commerce operations on our catherines.com website.

### Stores

Our 2,221 stores (as of January 29, 2005) are primarily located in suburban areas and small towns. Approximately 70% of these stores are located in strip shopping centers, with the remainder located in community and regional malls. The majority of our FASHION BUG and CATHERINES stores are strip-center based. Most of our LANE BRYANT stores are in malls. Over the past few years, LANE BRYANT has expanded into strip and lifestyle centers, and has demonstrated success in such locations. Approximately 25% of our LANE BRYANT stores are currently located in strip and lifestyle shopping centers.

1

We believe that our customers visit strip shopping centers frequently as a result of the tenant mix and convenience of strip shopping centers. Our long-term store growth plans are to expand both LANE BRYANT and CATHERINES into additional strip and lifestyle center locations. Availability of strip and lifestyle center retail space continues to significantly outpace mall expansion. In addition, we benefit in strip and lifestyle centers from substantially lower occupancy costs as compared to occupancy costs in malls.

Our merchandise displays enable our customers to assemble coordinated and complete outfits that satisfy many of their lifestyle needs. We relocate or remodel our stores as appropriate to convey a fresh and contemporary shopping environment. We frequently test and implement new store designs and fixture packages that are aimed at providing an effective merchandise presentation. We emphasize customer service, including the presence of helpful salespeople in the stores, layaway plans, and acceptance of merchandise returns for cash or credit within a reasonable time period. Typically, our stores are open seven days per week, eleven hours per day Monday through Saturday, and seven hours on Sunday.

We continue to seek additional locations that meet our financial and operational objectives. We plan to open approximately 70-80 stores and close approximately 50 stores during Fiscal 2006. Planned store openings by brand are approximately 50-60 LANE BRYANT stores, 5 CATHERINES stores, and 15 FASHION BUG stores. Planned store closings by brand are approximately 15 LANE BRYANT stores, 15 CATHERINES stores, and 20 FASHION BUG stores. Additionally, we currently plan to relocate approximately 40 LANE BRYANT stores, 15 CATHERINES stores, and 25 FASHION BUG stores during Fiscal 2006.

Our store openings, closings, and number of locations over the past five fiscal years are as follows:

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	Year Ended				
	Jan. 29, 2005 ----	Jan. 31, 2004 ----	Feb. 1, 2003 ----	Feb. 2, 2002 ----	Feb. 3, 2001 ----
<b>Store Activity:</b>					
Number of stores open at beginning of period	2,227	2,248	2,446	1,755	1,740
Opened during period .....	51	50	57	125	106
Acquired during period .....	0	0	0	651	0
Closed during period .....	(57)	(71)	(255) (1)	(85)	(91) (
	-----	-----	-----	-----	-----
Number of stores open at end of period .....	2,221	2,227	2,248	2,446	1,755
	=====	=====	=====	=====	=====
<b>Number of Stores by Brand:</b>					
FASHION BUG .....	1,028	1,051	1,083	1,252	1,230
LANE BRYANT .....	722	710	689	647	0
CATHERINES .....	471	466	467	461	414
Discontinued brands(3) .....	0	0	9	86	111
	-----	-----	-----	-----	-----
Number of stores open at end of period .....	2,221	2,227	2,248	2,446	1,755
	=====	=====	=====	=====	=====

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All stores are operated under our direct management. Each store has a manager and an assistant manager or supervisor who is in daily operational control of the location. We also employ district managers, who travel to all stores in their district on a frequent basis, to supervise store operations. Each district manager has responsibility for

2

an average of 12 stores. Regional managers, who report to a Director of Stores, supervise the district managers. Generally, we appoint store managers from the group of assistant managers and district managers from the group of store managers. We seek to motivate our store personnel through internal advancement and promotion, competitive wages, and various incentive, medical, and retirement plans. We centrally develop store operations, merchandising, and buying policies, and assign to individual store management the principal duties of display, selling, and reporting through point-of-sale terminals.

Merchandising and Buying

We employ a merchandising and buying strategy that is focused on providing an attractive selection of apparel and accessories that reflect the fashion preferences of the target customer for each of our brands. Separate merchandise groups for each of our brands conduct merchandise purchasing, using buyers supervised by one or more merchandise managers. We believe that specialization of buyers within our brands enhances the distinctiveness of the brands and their offerings. In addition, we use domestic and international fashion market guidance, fashion advisory services, proprietary design, and in-store testing to determine the optimal product assortments for each of our brands. We believe

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that this approach results in greater success in predicting customer preferences while reducing our inventory investment and risk. We also seek to maintain high quality standards with respect to merchandise fabrication, construction, and fit.

We continually refine our merchandise assortments to reflect the needs and demands of our diverse customer groups and the demographics of each store location. At LANE BRYANT, we offer a combination of fashion basics, seasonal fashions, and high fashion in casual and wear-to-work merchandise, intimate apparel, and accessories. We strive to translate current trends into plus-sizes and to be first to market with our styles. At FASHION BUG, we offer a broad assortment of both casual and wear-to-work apparel, in plus, misses, and junior sizes as well as girls and maternity, at low-to-moderate prices. FASHION BUG's plus- and misses-size merchandise typically reflects established fashion trends and includes a broad offering of ready-to-wear apparel as well as footwear, accessories, intimate apparel, and seasonal items, such as outerwear. FASHION BUG's junior merchandise reflects the latest fashion trends and includes a significant amount of well-recognized third-party national brands. At CATHERINES, we offer a broad assortment of plus-size merchandise in classic styles designed to provide "head-to-toe" dressing for our customers. CATHERINES features casual and career sportswear, dresses, intimate apparel, suits, and accessories in a variety of plus-sizes, including petites and extended sizes. CATHERINES has developed a unique expertise in the fit, design, and manufacturing of extended sizes, making it one of the few retailers to emphasize these sizes.

For stores that are identified as having certain attributes, we use our distribution capabilities to stock the stores with products specifically targeted to such attributes. Our merchandising staffs obtain store and brand-wide inventory information generated by merchandise information systems that use point-of-sale terminals. Through these terminals, merchandise can be followed from the placement of our initial order for the merchandise to the actual sale to our customer. Based upon this data, our merchandise managers compare budgeted-to-actual sales and make merchandising decisions as needed, including re-order, markdowns, and changes in the buying plans for upcoming seasons. In addition, we continue to work to improve inventory turnover by better managing the flow of seasonal merchandise to our stores across all geographic regions.

Our merchandising and buying philosophy, coupled with enhancements in inventory management, helps facilitate the timely and orderly purchase and flow of merchandise. This enables our stores to offer fresh product assortments on a regular basis.

3

We employ a realistic pricing strategy that is aimed at setting the initial price markup of fashion merchandise in order to increase the percentage of sales at the original ticketed price. We believe this strategy has resulted in a greater degree of credibility with the customer, reducing the need for aggressive price promotions. However, our pricing strategy typically does allow sufficient margin to permit merchandise discounts in order to stimulate customer purchases when necessary.

Our stores experience a normal seasonal sales pattern for the retail apparel industry, with peak sales occurring during the spring and Christmas seasons. We generally build inventory levels before these peak sales periods. To maintain current and fashionable inventory, we reduce the price of slow-moving

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merchandise throughout the year. Much of our merchandise is developed for one or more of our six seasons: spring, summer, summer-fall transitional, fall, holiday, and holiday-spring transitional. End-of-season sales are conducted with the objective of carrying a minimal amount of seasonal merchandise over from one season to another. Sales for the four quarters of Fiscal 2005, as a percent of total sales, were 25.4%, 26.2%, 23.2%, and 25.2%, respectively.

### Marketing and Promotions

We use several types of advertising to stimulate customer traffic. We use targeted direct-mail advertising to preferred customers selected from a database of approximately 27.5 million proprietary credit card, third-party credit card, and cash customers. We may also use radio, television, and newspaper advertising and fashion shows to stimulate traffic at certain strategic times of the year. We also use pricing policies, displays, store promotions, and convenient store hours to attract customers. We believe that, with the planning and guidance of our specialized home-office personnel, each brand provides such displays and advertising as may be necessary to feature certain merchandise or certain promotional selling prices from time to time.

We maintain websites for our LANE BRYANT, FASHION BUG, and CATHERINES brands that provide information regarding current fashions and promotions. We began E-commerce operations on our CATHERINES website in March 2002, on our LANE BRYANT website in March 2003, and on our FASHION BUG website in July 2004. Our CATHERINES website averaged more than 300,000 unique visitors per month during Fiscal 2005, our LANE BRYANT website enjoys more than 1.2 million unique visitors per month and an established on-line community, and our FASHION BUG website has averaged more than 500,000 unique visitors per month since we commenced E-commerce operations.

In August 2003, we launched FIGURE(R) magazine, a periodic fashion and lifestyle magazine for women. The magazine features clothing and fashions from our LANE BRYANT, FASHION BUG, and CATHERINES brands, and also covers topics such as: beauty; health and fitness; home, food and entertaining; relationships; and social and community issues. FIGURE magazine is available by subscription, and is also sold in all of our stores and at selected newsstands and supermarkets, including certain national booksellers. Since its inception in August 2003, the magazine has grown to a per-issue circulation of more than 400,000 copies.

We offer our customers various loyalty card programs. Customers who join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers generally join these programs by paying an annual membership fee. Additional information on our loyalty card programs is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; CRITICAL ACCOUNTING POLICIES; Revenue Recognition" below.

### Proprietary Credit Card Program

We seek to encourage sales through the promotion of our proprietary credit cards. We believe that our credit cards act as promotional vehicles by engendering customer loyalty, creating a substantial base for targeted direct-mail promotion, and encouraging incremental sales.

Our FASHION BUG credit card program accounted for approximately 28% of

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FASHION BUG retail sales in Fiscal 2005, and has approximately 1.9 million active accounts. We control credit policies and service the FASHION BUG proprietary credit card file, and, through various agreements, we securitize and sell the credit card receivables generated by this facility.

Our LANE BRYANT and CATHERINES brands also offer customers the convenience of proprietary credit card programs. The LANE BRYANT credit card program accounted for approximately 29% of LANE BRYANT retail sales during Fiscal 2005, and has approximately 1.6 million active accounts. The CATHERINES credit card program accounted for approximately 29% of CATHERINES retail sales during Fiscal 2005, and has approximately 537,000 active accounts. During Fiscal 2005, we used third-party banks to finance and service the LANE BRYANT and CATHERINES credit card programs. These third-party banks provide new account approval, credit authorization, billing, and account collection services. Under non-recourse agreements with the third-party banks, we are reimbursed with respect to sales generated by the credit cards. In January 2004, in accordance with the terms of the Merchant Services Agreement pursuant to which the CATHERINES proprietary credit cards were issued, we provided one year's notice to the third party bank in order to exercise our option to terminate the agreement and to purchase the portfolio. Spirit of America National Bank (our wholly-owned credit card bank) purchased the CATHERINES credit card portfolio in March 2005 for approximately \$56.6 million (subject to adjustment). The purchase was funded through our securitization facilities, including a portion of the proceeds from the sale of Series 2004-1 certificates under that securitization facility.

A more comprehensive description of our asset securitization process and our commitments under the third-party bank agreements is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; FINANCIAL CONDITION; Off-Balance-Sheet Arrangements" and "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements; NOTE 16. ASSET SECURITIZATION" below.

### Sourcing

To meet the demands of our customers, we access both the domestic wholesale and overseas apparel markets for our merchandise purchases. This allows us to maintain flexible lead times, respond quickly to current fashion trends, and quickly replenish merchandise inventory as necessary. During Fiscal 2005, we purchased merchandise from approximately 1,000 suppliers and factories located throughout the world. We use our overseas sourcing operations, which generally require longer lead times, primarily to purchase fashion-basic merchandise. In Fiscal 2005, overseas sourcing accounted for approximately 21% of consolidated merchandise purchases. Overseas sourcing as a percent of merchandise purchases by brand, was approximately 26% for FASHION BUG, 19% for LANE BRYANT, and 11% for CATHERINES. During Fiscal 2005, we purchased a portion of LANE BRYANT merchandise from Mast Industries, Inc. ("Mast"). Mast, a contract manufacturer and apparel importer, is a wholly-owned subsidiary of Limited Brands, Inc. ("Limited Brands"). These purchases from Mast accounted for approximately 15% of our total consolidated merchandise purchases and approximately 42% of merchandise purchases for LANE BRYANT during Fiscal 2005. No other vendor accounted for more than 3% of total consolidated merchandise purchases during Fiscal 2005.

We pay for merchandise purchases outside the United States using letters of credit with third-party vendors where we are the importer of record. To date, we



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have not experienced difficulties in purchasing merchandise overseas or importing such merchandise into the United States. Should events such as political instability or a natural disaster result in a disruption of normal activities in any single country with which we do business, we believe that we would have adequate alternative sources of supply.

### Distribution and Logistics

We currently operate two distribution centers. For our FASHION BUG stores, we operate a distribution center in Greencastle, Indiana. Located on a 150-acre tract of land, this facility contains a building of approximately 1,000,000 square feet. We estimate that this facility has the capacity to service up to approximately 1,800 stores. For our LANE BRYANT stores and CATHERINES stores, we operate a distribution center in White Marsh, Maryland. Located on 29 acres of land, the White Marsh facility contains a building of approximately 393,000 square feet, which is currently designed to service up to approximately 1,400 stores.

We acquired the White Marsh distribution center during Fiscal 2003 to replace a leased distribution center in Reynoldsburg, Ohio that serviced our LANE BRYANT stores. We completed the relocation of the Reynoldsburg distribution center to our White Marsh distribution center in February 2004 and terminated the lease for the Reynoldsburg distribution center and a related logistics and transportation services agreement in accordance with early cancellation provisions of the lease and agreement. We also consolidated a 213,000 square foot Memphis, Tennessee distribution center that serviced our CATHERINES stores into the White Marsh facility during Fiscal 2004.

Substantially all of our merchandise purchases are received at our distribution facilities, where they are prepared for distribution to our stores. Automated sorting systems in the distribution centers enhance the flow of merchandise from receipt to quality control inspection, receiving, ticketing, packing, and final shipment. Merchandise is shipped to each store principally by common carriers. We use computerized automated distribution attributes to combine shipments when possible and improve the efficiency of the distribution operations.

### Competition

The retail sale of women's apparel is a highly competitive business with numerous competitors, including department stores, specialty apparel stores, discount stores, and mail-order and E-commerce companies. We cannot reasonably estimate the number of our competitors due to the large number of companies selling women's apparel. The primary elements of competition are merchandise style, size, selection, fit, quality, display, and price, as well as store location, design, advertising, and promotion and personalized service to the customers.

### Employees

As of the end of Fiscal 2005, we employed approximately 27,000 associates, which included approximately 17,800 part-time employees. In addition, we hire a number of temporary employees during the Christmas season. Approximately 106 of our employees are represented by unions. We believe that overall our relationship with these unions, and our employees in general, is satisfactory.

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### Trademarks and Servicemarks

We own, or are in the process of obtaining, all rights to the trademarks and trade names we believe are necessary to conduct our business as presently operated. "FASHION BUG(R)", "FASHION BUG PLUS(R)", "BUNDLE OF JOY(TM)", "FIGURE(R)", "L.A. BLUES(R)", "CATHERINES(R)", "CATHERINES PLUS SIZES(R)", "C.S.T. STUDIO(R)", "C.S.T. SPORT(R)", "MAGGIE BARNES(R)", "ANNA MAXWELL(R)", "LIZ & ME(R)", "SERENADA(R)", "CAPISTRANO(R)", "LANE BRYANT(R)", "VENEZIA(R)", "CACIQUE(R)", "ELEMENTAL STRETCH(R)", "MODERN WOMAN(TM)", and several other trademarks and servicemarks of lesser importance to us have been registered or are in the process of being registered with the United States Patent and Trademark Office and in other countries.

We also own the following internet domain name registrations: catherines.com, charming.com, charmingshoppes.com, fashionbug.com, fashionbugcard.com, fashionbugplus.com, figuremagazine.com, lanebryant.com, modernwoman.com, and others of lesser importance.

### Executive Offices

Charming Shoppes, Inc., was incorporated in Pennsylvania in 1969. Our principal offices are located at 450 Winks Lane, Bensalem, Pennsylvania 19020. Our telephone number is (215) 245-9100.

### Available Information

We maintain an Internet website at charmingshoppes.com. As of March 25, 2003, copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on or through this website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Our historical filings can also be accessed directly from the SEC's website at sec.gov. See "PART III; Item 10. Directors and Executive Officers of the Registrant" below for additional information that is available on our Internet website.

### Item 2. Properties

We lease all our stores, with the exception of four stores that we own. Typically, store leases have initial terms of 5 to 20 years and generally contain provisions for co-tenancies, renewal options, additional rents based on a percentage of sales, and payment of real estate taxes and common area charges.

7

With respect to leased stores open as of January 29, 2005, the following table shows the number of store leases expiring during the calendar periods indicated, assuming the exercise of our renewal options:

Period	Number of Leases Expiring
-----	-----
2005	117(1)
2006 - 2010	726
2011 - 2015	401

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2016 - 2020	369
2021 - 2025	486
2026 - 2030	93
Thereafter	29

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(1) Includes 46 stores on month-to-month leases

We own a 1,000,000 square foot distribution center in Greencastle, Indiana that services our FASHION BUG stores and a 393,000 square foot distribution center in White Marsh, Maryland that services our LANE BRYANT and CATHERINES stores. We acquired the White Marsh distribution center during Fiscal 2003 to replace a leased distribution center in Reynoldsburg, Ohio that serviced our LANE BRYANT stores. We relocated the Reynoldsburg distribution center in February 2004 and terminated the lease for the Reynoldsburg distribution center and a related logistics and transportation services agreement in accordance with early cancellation provisions of the lease and agreement. We also consolidated a 213,000 square foot Memphis, Tennessee distribution center that serviced our CATHERINES stores into the White Marsh facility in June 2003. During the fourth quarter of Fiscal 2005, we entered into an agreement to lease the Memphis, Tennessee distribution center to a third party for a three-year period.

We lease 105,000 square feet of office space in Bensalem, Pennsylvania that houses our corporate headquarters and certain FASHION BUG operations. We also own approximately 22 acres in Bensalem with a 145,000 square foot office building that houses our primary data processing facility and additional administrative offices. We own a 63,000 square foot facility in Memphis, Tennessee that houses our CATHERINES home office. We also lease 130,000 square feet of office space near Reynoldsburg, Ohio that houses our LANE BRYANT home office. In January 2005, we entered into an amendment to the lease on the Reynoldsburg facility to extend the term of the lease from December 2005 to February 2006. We also entered into an agreement with a separate third party that provides for the leasing of a 135,000 square foot facility in Columbus, Ohio, which will serve as a new LANE BRYANT home office. We expect to occupy the Columbus facility by the first quarter of Fiscal 2007. Our credit operations, including Spirit of America National Bank, our wholly-owned credit card bank subsidiary, occupy 30,000 square feet of leased office space in Miami Township, Ohio. We also maintain offices in New York City that occupy 13,000 square feet of leased space, and we own or lease a total of 40,000 square feet of office and warehouse space in Asia.

### Item 3. Legal Proceedings

Other than ordinary routine litigation incidental to our business, there are no other pending material legal proceedings that we or any of our subsidiaries are a party to, or of which any of their property is the subject. There are no proceedings that are expected to have a material adverse effect on our financial condition or results of operations.

8

### Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

### Additional Part I Information - Our Executive Officers

The following list contains certain information relative to our executive

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officers. There are no family relationships among any of our executive officers.

Dorrit J. Bern, 54, has served as Chairman of the Board of Directors since January 1997. She has also served as President and Chief Executive Officer since September 1995. Ms. Bern's term as a Director expires in 2005.

Joseph M. Baron, 57, has served as Executive Vice President and Chief Operating Officer since March 2002. Before that, he served as President and Chief Executive Officer of Homelife Corporation from February 1999 to October 2001. Homelife Corporation filed a bankruptcy petition under Chapter 11 of the U. S. Bankruptcy Code during July 2001.

Michel Bourlon, 45, has served as Executive Vice President - Sourcing since March 2004. Before that, he served as Managing Director of Eddie Bauer International (Hong Kong) Ltd., from September 1997 to February 2004.

Anthony A. DeSabato, 56, has served as Executive Vice President - Corporate and Labor Relations, Business Ethics, and Loss Prevention since July 2003. Before that, he served as Executive Vice President and Corporate Director of Human Resources since 1990, and he has been employed by us since 1987.

Eric M. Specter, 47, has served as Executive Vice President - Chief Financial Officer since January 1997, and he has been employed by us since 1983. He also served as Treasurer from February 1998 to March 2000.

Colin D. Stern, 56, has served as Executive Vice President and General Counsel since 1990, and he has been employed by us since 1989. He has also served as Secretary since February 1998.

Gale H. Varma, 54, has served as Executive Vice President - Human Resources since July 2003. Before that, she served as Division Vice President - Human Resources and Ethics Officer for the Prudential Institutional Employee Benefits division of Prudential Financial Services, a division of Prudential Insurance Company of America, from September 1997 to April 2003.

Erna Zint, 61, served as Executive Vice President - Sourcing from January 1996 to March 2004.

Jonathon Graub, 46, has served as Senior Vice President - Real Estate, since December 1999, and he has been employed by us since 1981.

John J. Sullivan, 58, has served as Vice President - Corporate Controller since October 1998.

## PART II

### Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our common stock is traded on the over-the-counter market and quoted on the NASDAQ National Market ("NASDAQ") under the symbol "CHRS," and is listed and traded on the Chicago Board Options Exchange ("CBOE") and Pacific Stock Exchange ("PCX") under the symbol "QSR." The following table sets forth the high and low sale prices for our common stock during the indicated periods, as reported by NASDAQ.

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	Fiscal 2005		Fiscal 2004	
	High	Low	High	Low
1st Quarter .....	\$8.22	\$5.70	\$4.75	\$2.70
2nd Quarter .....	9.19	6.48	5.72	3.94
3rd Quarter .....	7.73	6.23	6.80	4.89
4th Quarter .....	9.64	7.55	6.85	5.09

The approximate number of holders of record of our common stock as of March 24, 2005 was 2,059. This number excludes individual stockholders holding stock under nominee security position listings.

We have not paid any dividends since 1995, and we do not expect to declare or pay any dividends on our common stock in the near future. In addition, our existing credit facility prohibits the payment of dividends on our common stock. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; FINANCIAL CONDITION; Financing; Long-term Debt and Equity Financing" and "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 7. DEBT" below).

10

Purchases of Equity Securities by the Issuer and Affiliated Purchasers:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (2)
October 31, 2004 through November 27, 2004.....	-	-	-	
November 28, 2004 through January 1, 2005.....	-	-	-	
January 2, 2005 through January 29, 2005.....	635 (1)	\$8.01 (1)	-	

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Total.....	635	\$8.01	-
	===	=====	

11

Item 6. Selected Financial Data

The following table presents selected financial data for each of our five fiscal years ended as of February 3, 2001 through January 29, 2005. Certain amounts for fiscal years 2001 through 2004 have been restated (see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; RESTATEMENT OF FINANCIAL STATEMENTS" and "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 2. RESTATEMENT OF FINANCIAL STATEMENTS" below). The selected financial data is taken from our audited financial statements and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and accompanying notes included under "Item 8. Financial Statements and Supplementary Data."

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
FIVE-YEAR COMPARATIVE SUMMARY

(Dollars in thousands, except per share amounts)	Year Ended			
	Jan. 29, 2005	Jan. 31, 2004	Feb. 1, 2003	Feb. 2, 2002 (1)
Operating Statement Data:				
Net sales.....	\$2,332,334	\$2,285,680	\$2,412,409	\$1,993,843
Cost of goods sold, buying, and occupancy expenses.....	1,640,248	1,642,816 (3)	1,726,306	1,460,256
Selling, general, and administrative expenses.....	577,301	558,248 (3)	603,502	486,204
Amortization of goodwill.....	0	0	0	4,885
Expenses related to cost reduction plan.....	605 (4)	11,534 (4)	0	0
Restructuring charge (credit).....	0	0	(4,813) (5)	37,708 (5)
Total operating expenses.....	2,218,154	2,212,598	2,324,995	1,989,053
Income from operations.....	114,180	73,082	87,414	4,790

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Other income, principally interest.....	3,098	2,050	2,328	4,730
Interest expense.....	(15,610)	(15,609)	(20,292)	(18,701)
<hr/>				
Income (loss) before income taxes, minority interest, and cumulative effect of accounting changes.....	101,668	59,523	69,450	(9,181)
Income tax provision (benefit).....	37,142	21,623	27,117	(1,838)
<hr/>				
Income (loss) before minority interest and cumulative effect of accounting changes.....	64,526	37,900	42,333	(7,343)
Minority interest in net loss of consolidated subsidiary.....	0	142	679	0
Cumulative effect of accounting changes, net of tax.....	0	0	(49,098) (6)	0
<hr/>				
Net income (loss).....	\$ 64,526	\$ 38,042	\$ (6,086)	\$ (7,343)
<hr/>				
Basic net income (loss) per share:				
Before cumulative effect of accounting changes.....	\$ .56	\$ .34	\$ .38	\$ (.07)
Net income (loss).....	.56	.34	(.05)	(.07)
Basic weighted average common shares outstanding...	116,196	112,491	113,810	105,842
Net income (loss) per share, assuming dilution:				
Before cumulative effect of accounting changes.....	\$ .52	\$ .33	\$ .36	\$ (.07)
Net income (loss).....	.52	.33	(.01)	(.07)
Diluted weighted average common shares and equivalents outstanding.....	133,174	128,558	130,937	105,842

(Table continued on next page)

12

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
FIVE-YEAR COMPARATIVE SUMMARY  
(Continued)

(Dollars in thousands)	Year Ended			
	Jan. 29, 2005	Jan. 31, 2004	Feb. 1, 2003	Feb. 2, 2002 (1)
	----	----	----	-----
Balance Sheet Data:				
Total assets.....	\$1,303,771	\$1,173,070	\$1,139,564	\$1,147,911
Current portion - long-term debt.....	16,419	17,278	12,595	9,379
Long-term debt.....	208,645	202,819	203,045	208,491

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Working capital.....	413,989	266,178	190,797	119,873
Stockholders' equity.....	694,464	587,409	546,555	538,039
Performance Data:				
Including cumulative effect of accounting changes:				
Net return on average stockholders' equity.....	10.1%	6.7%	(1.1)%	(1.4)%
Net return on average total assets.....	5.2	3.3	(0.5)	(0.7)
Before cumulative effect of accounting changes:				
Net return on average stockholders' equity.....	10.1%	6.7%	7.6%	(1.4)%
Net return on average total assets.....	5.2	3.3	3.7	(0.7)

Item 7. 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 ("MD&A") should be read in conjunction with the financial statements and accompanying notes appearing elsewhere in this report. As used in this report, the terms "Fiscal 2005," "Fiscal 2004," and "Fiscal 2003" refer to our fiscal years ended January 29, 2005, January 31, 2004, and February 1, 2003, respectively. The term "Fiscal 2006" refers to our fiscal year which will end on January 28, 2006. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, its consolidated subsidiaries.

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," "should," "project," "estimate," "predict," "anticipate," "plan," "believes," and similar expressions are also intended to identify forward-looking statements. 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. We assume no obligation to update any forward-looking statement to reflect actual results or changes in, or additions to, the factors affecting such forward-looking statements.

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:

- o Our business is dependent upon our being able to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related



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factors, which we may not be able to successfully accomplish in the future.

- o A slowdown in the United States economy, an uncertain economic outlook, and escalating energy costs could lead to reduced consumer demand for our apparel and accessories in the future.
- o Our business could be negatively affected by a deflationary pricing environment in the apparel industry.
- o The women's specialty retail apparel industry is highly competitive and we may be unable to compete successfully against existing or future competitors.
- o We cannot assure the successful implementation of our business plan for increased profitability and growth in our plus-size women's apparel business.
- o Our business plan is largely dependent upon continued growth in the plus-size women's apparel market, which may not occur.
- o 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.
- o We depend on our distribution centers and could incur significantly higher costs and longer lead times associated with distributing our products to our stores if operations at any of these distribution centers were to be disrupted for any reason.

14

- o 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 facility. If we were unable to obtain sufficient financing at an affordable cost, our ability to merchandise our stores would be adversely affected.
- o 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.
- o Our stores 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.
- o Natural disasters, as well as war, acts of terrorism, or the threat of either may negatively impact availability of merchandise and customer traffic to our stores, or otherwise adversely affect our business.

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- o We may be unable to obtain adequate insurance for our operations at a reasonable cost.
- o We may be unable to protect our trademarks and other intellectual property rights, which are important to our success and our competitive position.
- o We may be unable to hire and retain a sufficient number of suitable sales associates at our stores.
- o Our manufacturers may be unable to manufacture and deliver merchandise to us in a timely manner or to meet our quality standards.
- o Our sales are dependent upon a high volume of traffic in the strip centers and malls in which our stores are located, and our future growth is dependent upon the availability of suitable locations for new stores.
- o We may be unable to successfully implement our plan to improve merchandise assortments in our brands.
- o The carrying amount and/or useful life of intangible assets related to acquisitions are subject to periodic valuation tests. An adverse change in interest rates or other factors could have a significant impact on the results of the valuation tests, resulting in a write-down of the carrying value or acceleration of amortization of acquired intangible assets.
- o 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 attest to whether or not our assessment is fairly stated in all material respects and to separately 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, or if our independent registered public accounting firm is unable to timely attest to our assessment, 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.

### RESTATEMENT OF FINANCIAL STATEMENTS

Our system of internal controls over financial reporting includes the monitoring of emerging accounting issues and the reviewing of industry and peer group filings and news releases. As a result of the publicity on the restaurant industry financial statement restatements related to leases, we commenced a review of certain of our accounting policies related to leases during January 2005. Subsequently, on February 7, 2005, the Office of the Chief Accountant of the Securities and Exchange Commission ("SEC") issued a letter to the American Institute of Certified Public Accountants expressing its views regarding certain operating-lease-related accounting issues and their application under generally accepted accounting principles in the United States of America ("GAAP"). Based on our internal review, and after consultation with the Audit Committee of our Board of Directors and our independent registered public accounting firm, we

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restated our financial statements for years prior to Fiscal 2005 to correct our accounting for landlord allowances, calculation of straight-line rent expense, recognition of rent holiday periods, and depreciation of leasehold improvements for our retail stores.

We lease substantially all of our stores under non-cancelable operating lease agreements. These lease agreements generally include standard language on landlord allowances for costs relating to the design, construction, fixturing, and opening of stores. Construction allowances vary by store, and represent a reimbursement from the landlord for a portion of the leasehold improvement costs we incur. Historically, we classified construction allowances as a reduction of property, equipment, and leasehold improvements on our consolidated balance sheets and as a reduction of capital expenditures on our consolidated statements of cash flows. In addition, when accounting for leases with renewal options, we historically recorded rent expense on a straight-line basis over the initial non-cancelable lease term, beginning with the lease commencement date. However, we depreciated leasehold improvements over their estimated useful life of ten years, which, in many cases, may have included both the initial non-cancelable lease term and option renewal periods provided for in the lease. Also, we historically recognized rent holiday periods on a straight-line basis over the lease term commencing with the initial occupancy date, or the opening date of the stores. Management re-evaluated FASB Technical Bulletin No. 85-3, "Accounting for Operating leases with Scheduled Rent Increases," and determined that the lease term should commence on the date we take possession of the leased space for construction purposes, which is generally two months prior to a store opening date.

As a result of the restatement, construction allowances have been recorded as a deferred rent liability on our consolidated balance sheets instead of being recorded as a reduction of the cost of leasehold improvements. In our consolidated statements of cash flows, we have recognized construction allowances as an operating activity instead of recognizing them as a reduction of our investment in capital assets. In addition, the construction allowances will be amortized over the related lease term as a reduction of rent expense rather than as a reduction of depreciation expense commencing on the date we take possession of the leased space for construction purposes.

We also corrected the lease term used to determine straight-line rent expense and depreciation of leasehold improvements to include lease option renewal periods only in instances in which the exercise of the option period is reasonably assured and the failure to exercise such an option would result in an economic penalty. Depreciation of leasehold improvements has been recognized over the shorter of the corrected lease term or the assets' estimated useful lives. Lease terms used to determine straight-line rent expense include pre-opening store build-out periods (commonly referred to as "rent holidays"), where applicable. These corrections resulted in the accelerated recognition of certain annual rent expense and depreciation expense on leasehold improvements.

As a result of the above corrections, we recorded additional deferred rent in "accrued expenses" and "deferred taxes and other non-current liabilities" and we adjusted "retained earnings" on the consolidated balance sheet. We also corrected amortization in "cost of goods sold, buying, and occupancy expenses" on the consolidated statements of operations and comprehensive income (loss) for each of our three fiscal years in the period ended

January 29, 2005. These accounting changes resulted in a decrease in retained earnings of \$11.8 million for the cumulative effect as of the beginning of Fiscal 2003, and decreases in retained earnings of \$3.3 million and \$2.6 million

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for Fiscal 2003 and Fiscal 2004, respectively. These corrections did not have any impact on our previously reported comparable store sales, net sales, cash flow, and actual lease payments, or on the economic value of our leasehold improvements.

See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 2. RESTATEMENT OF FINANCIAL STATEMENTS" below for further details of the restatement.

### OVERVIEW

We are a specialty apparel retailer primarily focused on serving the plus-size woman through three distinct brands: LANE BRYANT, FASHION BUG, and CATHERINES PLUS SIZES. We currently represent approximately 40% of the women's plus-size specialty retail apparel market, and we are the third largest specialty apparel retailer in the United States. Through our varied plus-size fashion concepts, we cater to customers from a broad range of socioeconomic, demographic, and cultural groups. As of January 29, 2005, we operated 2,221 stores in 48 states.

The apparel industry is highly competitive and is continuously faced with new and existing competitors seeking areas of growth to expand their businesses. Our strategy focuses on increasing our market share in the growing plus-size women's apparel market through our three brands. Americans continue to gain weight in all age groups, with an estimated 65% of American adults being overweight and half of American women wearing size 14 or larger. Through our three brands, we offer plus-size women's apparel to a broad range of age groups, with varied fashion tastes and income levels, in multiple shopping venues. By focusing on the plus-size market, we believe that we are well-positioned to meet the demands of this growing demographic.

Our long-term plans are to continue to expand our market position in the women's plus-size specialty apparel market. These plans include the addition of new stores (primarily at our LANE BRYANT brand), continued growth in E-commerce, entry into the catalog business, international expansion, and increasing our relevance to our customer. In Fiscal 2005, we more than doubled our sales volume in our E-commerce channel and expanded E-commerce into Canada. We view the direct-to-consumer channels, including catalogs, to be disproportionately important to the plus-size customer and a significant growth opportunity. In October 2007, the Lane Bryant catalog trademark, which is currently licensed by a third party, will revert back to Lane Bryant. We are currently building our direct-to-consumer business organization for entry into catalog sales. We view the growth in our store base and the extension into other direct-to-consumer channels as an opportunity for us to maintain and increase our market share. We continue to pursue ways to increase our relevance to our customer, and believe that through factors such as our expertise in plus-size fit and our FIGURE magazine (America's leading plus-size fashion and lifestyle magazine) we are differentiating ourselves from our competitors.

With the addition of E-commerce at our FASHION BUG website in Fiscal 2005, we now offer E-commerce at each of our three brands. Our Fiscal 2006 plan is to increase our E-commerce sales volume more than 50% by continuing to broaden category offerings at our websites. Our E-commerce sales in Fiscal 2004 and Fiscal 2005 were less than one percent and two percent, respectively, of our consolidated net sales, and we expect our E-commerce sales in Fiscal 2006 to increase to more than two percent of consolidated net sales. Although our websites primarily offer basic merchandise assortments, we see opportunities to expand our product offerings into additional categories, such as hard-to-find sizes. This will allow us to offer a greater variety of merchandise categories than those currently offered in our stores.

Over the last three years, the retail apparel industry has been negatively affected by the general slowdown in the U.S. economy, reduced levels of consumer confidence, and the unstable geopolitical climate. We expect the deflationary pricing environment to continue to impact the apparel industry. In addition, the elimination of quota on imports in 2005 may create further downward pressure on retail prices.

In Fiscal 2004 we initiated a cost reduction plan that decreased expenses by a total of approximately \$45 million on an annualized basis. In Fiscal 2005, we completed the cost reduction initiative with the consolidation of our CATHERINES and LANE BRYANT distribution centers into our new White Marsh distribution center. In addition to our continuing focus on maintaining control over expenses and inventories, another area of focus in Fiscal 2006 is the continued improvement of gross margins at our three brands through improved product mix and reduced markdowns.

We made significant progress in Fiscal 2005, particularly at our LANE BRYANT brand. An improvement of 160 basis points in our consolidated gross margin in Fiscal 2005 contributed to a 70% increase in our net income over the prior year. The positive results achieved in Fiscal 2005 are primarily attributable to plans implemented in Fiscal 2004 to improve merchandise assortments at our LANE BRYANT brand. In Fiscal 2005, LANE BRYANT experienced a 3% increase in comparable store sales. However, our FASHION BUG brand experienced only a modest 1% increase in comparable store sales, while our CATHERINES brand experienced a 6% decrease in comparable store sales. Our Fiscal 2005 results were negatively impacted by disappointing sales performances at each of our brands during the fourth quarter, mainly as a result of our lack of a timely response to the competitive promotional environment that developed during the 2004 Christmas holiday season. Our challenge in Fiscal 2006 will be to improve the performance of our FASHION BUG and CATHERINES brands while continuing to enhance our LANE BRYANT brand's performance.

Another area we focused on in Fiscal 2005 was inventory management. Improved management of inventory during Fiscal 2005 resulted in a decrease in inventory of \$25 million, which allowed us to utilize our working capital more effectively, while concurrently increasing comparable store sales. As a result, we strengthened our balance sheet and increased our cash flows.

#### CRITICAL ACCOUNTING POLICIES

We have prepared the financial statements and accompanying notes included elsewhere in this report in conformity with accounting principles generally accepted in the United States. 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 significant accounting policies are described in the notes accompanying the financial statements included elsewhere in this report. However, we consider the following accounting policies and related

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assumptions to be more critical to, and involve the most significant management judgments and estimates in, the preparation of our financial statements and accompanying notes.

18

### Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in the Financial Statements" (as amended by SAB 104). Our revenues from merchandise sales are net of returns and allowances and exclude sales tax. We record a reserve for estimated future sales returns based on an analysis of actual returns and we defer recognition of layaway sales to the date of delivery. A change in our actual rates of sales returns and layaway sales experience would affect the level of revenue recognized.

Revenues from our E-commerce business include shipping and handling fees billed to customers. E-commerce revenues are recognized after the following have occurred: execution of the customer's order, authorization of the customer's credit card has been received, and the product has been shipped and received by the customer. We record a reserve for estimated future E-commerce sales returns based on an analysis of actual returns.

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 generally join these programs by paying an annual membership fee. We recognize revenue from these loyalty programs as sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. Costs we incur in connection with administering these programs are recognized in cost of goods sold as incurred.

During Fiscal 2004, we introduced a FASHION BUG customer loyalty card program that we operate under our FASHION BUG proprietary credit card program. This program provides customers with the option to cancel their membership within 90 days, entitling them to a full refund of their annual fee. Additionally, after 90 days, customers that cancel their membership are entitled to a pro rata fee refund based on the number of months remaining on the annual membership. Accordingly, we recognize 25% of the annual membership fee as revenue after 90 days, with the remaining fee recognized on a pro rata basis over nine months.

Under a previous FASHION BUG customer loyalty card program, we recognized revenues from annual membership fees as sales over the life of the membership based on discounts earned by the customer. For customers who did not earn discounts during the membership period that exceeded the card fee, the difference between the membership fee and discounts earned was recognized as revenue upon the expiration of the annual membership period. Upon early cancellation of the loyalty card, refunds of membership fees were reduced by the amount of any discounts granted to the member under the program. We discontinued the issuance of new cards under this program in December 2002, and we terminated the program during the second quarter of Fiscal 2004.

### Inventories

We value our merchandise inventories at the lower of cost or market under the retail inventory method (average cost basis), which is an averaging method

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that is widely used in the retail industry. Under the retail inventory method ("RIM"), the valuation of inventories at cost, and the resulting gross margins, are adjusted in proportion to markdowns and shrinkage on our retail inventories. The use of the RIM will result in valuing inventories at the lower of cost or market if markdowns are currently taken as a reduction of the retail value of inventories. The RIM calculation involves certain significant management judgments and estimates including, among others, merchandise markon, markups, markdowns, and shrinkage, which significantly affect the ending inventory valuation at cost, as well as the resulting gross margins. Events such as store closings, liquidations, and a weak general economic environment for retail apparel sales could result in an increase in the level of markdowns. Such an increase in the level of markdowns could result in lower inventory values and increases to cost of goods sold as a percentage of net sales in future periods under the RIM. Also, failure to properly estimate markdowns currently can result in an overstatement or understatement of inventory cost under the lower of cost or market

19

principle. At the end of Fiscal 2005 and Fiscal 2004, in addition to markdowns that had been recorded in inventory, an additional \$9.5 million and \$10.1 million, respectively, of markdowns, representing markdowns not yet taken on aged inventory, was recorded in order to properly reflect inventory at the lower of cost or market.

We elected to adopt the provisions of Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") Issue No. 02-16 (see "Accounting for Cash Consideration Received From a Vendor" below) as of the beginning of Fiscal 2003. As of January 29, 2005 and January 31, 2004, \$6.5 million and \$9.5 million, respectively, of cash received from vendors was deferred into inventory to be recognized as inventory is sold.

### Impairment of Long-Lived Assets

We evaluate the recoverability of our long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under SFAS No. 144, we are required to assess our long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amounts of long-lived assets may not be recoverable. We consider historical performance and estimated future results in our evaluation of potential impairment, and compare the carrying amount of the asset to the estimated future undiscounted cash flows expected to result from the use of the asset. If the estimated future undiscounted cash flows are less than the carrying amount of the asset, we write down the asset to its estimated fair value and recognize an impairment loss. Our estimate of fair value is generally based on either appraised value or the present value of future cash flows, based on a number of assumptions and estimates.

In accordance with the provisions of SFAS No. 144, we recorded a \$2.7 million write-down of under-performing assets related to our consolidated MONSOON joint venture during Fiscal 2003. The write-down is included in occupancy expenses in our consolidated statement of operations.

We adopted SFAS No. 142, "Goodwill and Other Intangible Assets" as of the beginning of Fiscal 2003. In accordance with the transition provisions of SFAS No. 142, we performed a review of our goodwill and other intangible assets for possible impairment. As a result, we determined that the carrying value of goodwill related to our CATHERINES acquisition (which included the value of intangible assets we did not separately account for at the date of the CATHERINES acquisition) exceeded the estimated fair value of the goodwill under

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SFAS No. 142. We determined the estimated fair value of the CATHERINES goodwill using the present value of expected future cash flows associated with the CATHERINES assets. We recorded a write-down, which was not deductible for income tax purposes, of \$44.0 million to reduce the carrying value of the goodwill to its estimated fair value. The majority of the write-down was attributable to the value of unrecorded trademarks. We also evaluated our goodwill, trademarks, tradenames, and internet domain names related to our LANE BRYANT acquisition as of February 3, 2002 in accordance with the provisions of SFAS No. 142, and determined that there was no impairment of those assets. We have included the write-down of the CATHERINES goodwill as the cumulative effect of an accounting change as of February 3, 2002 in our Consolidated Statement of Operations and Comprehensive Income (Loss) for Fiscal 2003. Our calculation of the estimated fair value of the goodwill and other intangible assets required estimates, assumptions, and judgments, and results might have been materially different if other estimates, assumptions, and judgments had been used. We believe that the estimates and assumptions we used were reasonable and appropriate.

In accordance with the provisions of SFAS No. 142, we re-evaluate goodwill and other intangible assets for impairment at least annually or more frequently if there is an indication of possible impairment. We performed this annual review during the fourth quarters of Fiscal 2005, Fiscal 2004, and Fiscal 2003 and determined that there has been no additional impairment of these assets.

20

### Acquisitions - Purchase Price Allocation

We account for acquisitions in accordance with the provisions of SFAS No. 141, "Business Combinations." We assign to all identifiable assets acquired (including intangible assets), and to all identifiable liabilities assumed, a portion of the cost of the acquired company equal to the estimated fair value of such assets and liabilities at the date of acquisition. We record the excess of the cost of the acquired company over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed, if any, as goodwill. We make the initial purchase price allocation based on the evaluation of information and estimates available at the date of the financial statements. As final information regarding the fair value of assets acquired and liabilities assumed is evaluated and estimates are refined, we make appropriate adjustments to the amounts allocated to those assets and liabilities and make corresponding changes to the amount allocated to goodwill. We use all available information to make these fair value determinations and, for major business acquisitions, typically engage an outside appraisal firm to assist in the fair value determination of the acquired long-lived assets. We have, if necessary, up to one year after the closing date of an acquisition to finish these fair value determinations and finalize the purchase price allocation.

### Asset Securitization

Asset securitization is a practice commonly used in the retail industry that allows companies with proprietary credit card programs to finance credit card receivables at attractive rates. Asset securitization primarily involves the sale of proprietary credit card receivables to a special purpose entity, which in turn transfers the receivables to a trust (the "Trust") that is a qualified special purpose entity ("QSPE") and is administered by an independent trustee. We use asset securitization to fund the credit card receivables generated by our FASHION BUG credit card program. The FASHION BUG credit cards are issued by Spirit of America National Bank, one of our subsidiaries. Subsequent to the end of Fiscal 2005, Spirit of America National Bank acquired



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the CATHERINES proprietary credit card portfolio and the right to operate the program, and added the CATHERINES credit card receivables to the Trust. Because the Trust qualifies as a QSPE, its assets and liabilities are not consolidated in our balance sheet.

Investors purchase various forms of certificates or credit card receivable interests (the "Certificates") issued by the Trust that represent undivided interests in the Trust's underlying assets. The Trust pays to the Certificate holders a portion of future scheduled cash flows from the credit card receivables under preset terms and conditions. Payments to Certificate holders are dependent upon actual cash flows generated by the underlying Trust assets.

We retain subordinated interests in certain securitization transactions that effectively serve as a form of credit enhancement to the Certificates sold to outside investors. To the extent that cash flows to the Trust from the credit card receivables remain available after repayment of the outside investors' interests, such amounts are paid to us. Neither the investors nor the Trust have recourse against us beyond the combination of Trust assets and our subordinated interests, other than for breaches of certain customary representations, warranties, and covenants. These representations, warranties, covenants, and related indemnities do not protect the Trust or the outside investors against credit-related losses on the receivables.

In accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," we record an interest in the estimated present value of cash flows we expect to receive over the period the receivables are outstanding. These cash flows essentially represent finance charges and late fees in excess of amounts paid to Certificate holders, credit losses, and service fees, and are referred to as the interest-only strip ("I/O strip"). In addition to the I/O strip, we recognize a servicing liability, since the servicing fees we expect to receive from the securitizations do not provide adequate compensation for servicing the receivables. The servicing liability represents the present value of the excess of the costs of servicing over the servicing fees we expect to receive, and is recorded at estimated fair value. Since quoted market prices are generally not available, we

21

determine the fair value of the costs of servicing 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 costs in excess of the servicing fees we expect to collect over the estimated life of the receivables sold. The discount rate and estimated life assumptions used in valuing the servicing liability are equivalent to those used in valuing the I/O strip. We amortize the I/O strip and the servicing liability on a straight-line basis over the expected life of the credit card receivables.

We use certain key valuation assumptions related to the average life of the receivables sold and anticipated credit losses, as well as the appropriate market discount rate in determining the estimated value of the I/O strip and the servicing liability. We estimate the values for these assumptions using historical data, the impact of the current economic environment on the performance of the receivables sold, and the impact of the potential volatility of the current market for similar instruments in assessing the fair value of the retained interests. Changes in the average life of the receivables sold, discount rate, and credit-loss percentage could cause actual results to differ materially from the estimates, and changes in circumstances could result in significant future changes to the assumptions currently being used.

The following table presents the decrease in our I/O strip receivable that

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would result from hypothetical adverse changes of 10% and 20% in the assumptions used to determine the fair value of the I/O strip:

(In millions)	10% Change -----	20% Change -----
Assumption:		
Payment rate.....	\$0.9	\$1.7
Residual cash flows discount rate.....	0.0	0.1
Credit loss percentage.....	0.9	1.7

### Costs Associated With Exit or Disposal Activities

We have traditionally recognized certain costs associated with restructuring plans as of the date of commitment to the plan, in accordance with EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which nullified EITF Issue No. 94-3. Under SFAS No. 146, we are required to recognize liabilities for costs associated with an exit or disposal activity initiated after December 31, 2002 when the liabilities are incurred. Commitment to a plan, by itself, does not create an obligation that meets the definition of a liability. Under SFAS No. 146, we are required to recognize severance pay over time rather than "up front" if the benefit arrangement requires employees to render future service beyond a "minimum retention period." The liability for severance pay is recognized as employees render service over the future service period, even if the benefit formula used to calculate an employee's termination benefit is based on length of service. Fair value should be used for initial measurement of liabilities under SFAS No. 146. Adoption of SFAS No. 146 results in the deferral of recognition of certain costs for restructuring plans initiated subsequent to December 31, 2002, from the date of commitment to such a plan to the date that costs are incurred under the plan.

On March 18, 2003, we announced the implementation of a cost reduction plan (see "RESULTS OF OPERATIONS; Comparison of Fiscal 2004 to Fiscal 2003; Expenses Related to Cost Reduction Plan" below). Costs incurred in connection with the implementation of this plan have been accounted for in accordance with the provisions of SFAS No. 146.

### Accounting for Cash Consideration Received From a Vendor

EITF Issue 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor," addresses the accounting for cash consideration received from a vendor, including both a reseller of the vendor's products and an entity that purchases the vendor's products from a reseller. We adopted the provisions of EITF Issue No. 02-16 as of the beginning of Fiscal 2003. We recognized a charge of \$5.1 million, net of income taxes of \$2.8 million, for the cumulative effect of the deferral of cash received from vendors as of the beginning of Fiscal 2003. As of January 29, 2005 and January 31, 2004, \$6.5 million and \$9.5 million, respectively, of cash received from vendors has been deferred into inventory and will be recognized as a reduction of cost of

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goods sold as inventory is sold.

### Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," allows two alternatives for accounting for stock-based compensation: the "intrinsic value method" in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," or the "fair value" method in accordance with SFAS No. 123. Companies electing to adopt the intrinsic value method are required to provide pro forma disclosures of the effect of adopting the fair value method.

We currently account for stock-based compensation using the intrinsic value method. We recognize compensation expense for stock options and stock awards that have an exercise price less than the market price of our common stock at the date of grant of the option or award. We measure compensation expense based on the difference between the market price and the exercise price of an option or award at the date of grant. This compensation expense is recognized on a straight-line basis over the vesting period of each option or award. We do not recognize compensation expense for options having an exercise price equal to the market price on the date of grant or for shares purchased under our Employee Stock Purchase Plan.

Under the fair value method, we would be required to recognize compensation expense for all stock options and stock awards. Compensation would be measured based on an estimated fair value of the option or award, using an option pricing model, such as the Black-Scholes or binomial pricing model. These models require estimates or assumptions as to the dividend yield and price volatility of the underlying stock, the expected life of the option or award, and a relevant risk-free interest rate. For purposes of determining our pro forma disclosures of the effect of adopting the fair value method, we use the Black-Scholes option-pricing model and various assumptions that are detailed in "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES; Common Stock Plans" below. The use of different option-pricing models and different estimates or assumptions could result in materially different estimates of compensation expense under the fair value method.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), a revision of SFAS No. 123. SFAS No. 123R supersedes APB Opinion No. 25, and amends SFAS No. 95, "Statement of Cash Flows." We will be required to adopt the provisions of SFAS No. 123R as of the beginning of the third quarter of Fiscal 2006. See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES; Impact of Recent Accounting Pronouncements" for a further discussion of SFAS No. 123R.

23

### Insurance Liabilities

We use a combination of third-party insurance and/or self-insurance for certain risks, including workers' compensation, medical, dental, automobile, and general liability claims. Our insurance liabilities are a component of "Accrued expenses" on our consolidated balance sheet, and represent our estimate of the ultimate cost of uninsured claims incurred as of the balance sheet date. In

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estimating our self-insurance liabilities, we use independent actuarial estimates of expected losses, which are based on statistical analyses of historical data. Loss estimates are adjusted based upon actual claim settlements and reported claims. Although we do not expect the amounts ultimately paid to differ significantly from our estimates, self-insurance liabilities could be affected if future claim experience differs significantly from the historical trends and the actuarial assumptions. We evaluate the adequacy of these liabilities on a regular basis, modifying our assumptions as necessary, updating our records of historical experience, and adjusting our liabilities as appropriate.

### Operating Leases

We lease substantially all of our store properties and account for our store leases in accordance with SFAS No. 13, "Accounting for Leases." A majority of our store leases contain lease options that we can unilaterally exercise. The lease term we use for such operating leases includes lease option renewal periods only in instances in which the failure to exercise such options would result in an economic penalty for us and exercise of the renewal option is therefore reasonably assured at the lease inception date.

Store leasehold improvement assets are depreciated over the shorter of their useful life or the lease term, as determined above.

For leases that contain rent escalations, the lease term for recognition of straight-line rent expense commences on the date we take possession of the leased property for construction purposes, which is generally two months prior to a store opening date. Similarly, landlord incentives or allowances under operating leases (tenant improvement allowances) are recorded as a deferred rent liability and recognized as a reduction of rent expense on a straight-line basis over the lease term commencing on the date we take possession of the leased property for construction purposes.

## RESULTS OF OPERATIONS

### Financial Summary

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

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	Percentage of Net Sales			Percentage Increase (Decrease) From Prior Year
	Fiscal	Fiscal	Fiscal	Fiscal
	2005	2004	2003	2005-2004
Net sales.....	100.0%	100.0%	100.0%	2.0%
Cost of goods sold, buying, and occupancy....	70.3	71.9	71.6	(0.2)
Selling, general, and administrative.....	24.8	24.4	25.0	3.4
Expenses related to cost reduction plan.....	0.0	0.5	--	(94.8)
Restructuring charge (credit).....	--	--	(0.2)	--
Income from operations.....	4.9	3.2	3.6	56.2
Other income, principally interest.....	0.1	0.1	0.1	51.1
Interest expense.....	0.7	0.7	0.8	0.0
Income tax provision (benefit).....	1.6	0.9	1.1	71.8
Minority interest in net loss of subsidiary..	--	0.0	0.0	(100.0)
Cumulative effect of accounting changes.....	--	--	(2.0)	--
Net income (loss).....	2.8	1.7	(0.3)	69.6

The following table shows our net sales by store brand:

(In millions)	Year Ended January 29, 2005		Year Ended January 31, 2004		Year Ended February 1, 2003	
	Fiscal	Fourth	Fiscal	Fourth	Fiscal	Fourth
	Year	Quarter	Year	Quarter	Year	Quarter
FASHION BUG ...	\$1,045.4	\$255.5	\$1,057.1	\$259.2	\$1,156.0	\$288.9
LANE BRYANT ...	974.2	259.4	903.6	251.0	906.9	236.1
CATHERINES ....	312.7	71.2	323.3	75.4	345.2	74.6
Other(1) .....	0.0	0.0	1.7	0.0	4.3	1.5
Total net sales	\$2,332.3	\$586.1	\$2,285.7	\$585.6	\$2,412.4	\$601.1

The following table shows additional information related to changes in our net sales:

Year Ended January 29, 2005		Year Ended January 31, 2004	
Fiscal	Fourth	Fiscal	Fourth

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	Year ----	Quarter -----	Year ----	Quarter -----
Increase (decrease) in comparable store sales(1):				
Consolidated Company .....	1%	(2)%	(2)%	(1)%
FASHION BUG .....	1	(1)	0	(4)
LANE BRYANT .....	3	(1)	(6)	1
CATHERINES .....	(6)	(9)	(1)	0
Sales from new stores as a percentage of total consolidated prior-period sales:				
FASHION BUG .....	1	1	1	1
LANE BRYANT .....	3	3	3	2
CATHERINES .....	1	1	1	1
Prior-period sales from closed stores as a percentage of total consolidated prior-period sales:				
FASHION BUG .....	(2)	(2)	(4)	(3)
LANE BRYANT .....	(1)	(1)	(1)	(1)
CATHERINES .....	(1)	0	(2)	0
Increase (decrease) in total sales .....	2%	0%	(5)%	(3)%
-----				

The following table sets forth information with respect to store activity for Fiscal 2005 and planned store activity for Fiscal 2006:

	FASHION BUG ---	LANE BRYANT -----	CATHERINES -----	Total -----
Fiscal 2005:				
Stores at January 31, 2004 ...	1,051	710	466	2,227
	-----	---	---	-----
Stores opened .....	5	31	15	51
Stores closed .....	(28)	(19)	(10)	(57)
	-----	---	---	-----
Net changes in stores .....	(23)	12	5	(6)
	-----	---	---	-----
Stores at January 29, 2005 ...	1,028	722	471	2,221
	=====	===	===	=====
Stores relocated during period	23	15	9	47
Stores remodeled during period	4	9	0	13
Fiscal 2006:				
Planned store openings .....	15	50-60	5	70-80
Planned store relocations ...	25	40	15	80
Planned store closings .....	20	15	15	50

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Comparison of Fiscal 2005 to Fiscal 2004

### Net Sales

Net sales increased from Fiscal 2004 to Fiscal 2005 primarily as a result of sales from new stores, positive comparable store sales at our LANE BRYANT and FASHION BUG brands, and increased E-commerce sales. These increases were partially offset by negative comparable store sales results at our CATHERINES brand.

LANE BRYANT stores experienced an increase in the average dollar sale per transaction, which was partially offset by a decrease in the average number of transactions per store. The average dollar sale per transaction benefited from increases in both the average retail value per unit sold, reflecting reduced levels of promotional pricing for the brand as compared to the prior-year period, and the average number of units sold per customer ("UPC"). Except for casual wear, LANE BRYANT experienced comparable store sales increases in all major merchandise categories, especially wear-to-work and intimate apparel. During Fiscal 2004, LANE BRYANT experienced poor customer acceptance of, and fit and quality issues with, its product offering and had to maintain higher levels of promotional pricing. Improvements in the merchandise assortments offered at LANE BRYANT during Fiscal 2005 resulted in the brand's improved sales performance during Fiscal 2005.

For FASHION BUG stores, an increase in the average number of transactions per store during Fiscal 2005 was partially offset by a slightly lower average dollar sale per transaction. For Fiscal 2005, an increase in the average UPC was offset by a decrease in the average retail value per unit sold. FASHION BUG stores experienced comparable store sales increases in plus-size sportswear and accessories, which were offset by sales decreases in other categories. FASHION BUG store sales for Fiscal 2005 also benefited from sales of maternity and girls, two new categories added to the brand at the end of Fiscal 2004.

CATHERINES stores experienced a decrease in the average number of transactions per store and a lower average dollar sale per transaction during Fiscal 2005. An increase in the average UPC was more than offset by a decrease in the average retail value per unit sold, reflecting higher levels of promotional pricing during Fiscal 2005. The decrease in sales at CATHERINES was primarily a result of disappointing performance in the dress and wear-to-work categories.

During Fiscal 2005, we recognized revenues of \$7.6 million in connection with our FASHION BUG customer loyalty card program that we introduced during Fiscal 2004, as compared to revenues of \$7.8 million for Fiscal 2004. During Fiscal 2005 and Fiscal 2004, we also recognized revenues of \$7.5 million and \$7.5 million, respectively, in connection with our CATHERINES loyalty card program. In addition, during Fiscal 2004, we recognized revenues of \$6.4 million in connection with a previous FASHION BUG loyalty card program that we terminated during Fiscal 2004.

### Cost of Goods Sold, Buying, and Occupancy

Cost of goods sold, buying, and occupancy expenses for Fiscal 2005 were approximately equal to Fiscal 2004, and were 1.6% lower as a percentage of sales in the current year as compared to the prior year. Cost of goods sold as a percentage of net sales was 1.0% lower in Fiscal 2005 as compared to Fiscal 2004. Improved merchandise margins, primarily at our LANE BRYANT brand and, to a lesser extent, at our FASHION BUG brand, were partially offset by a decrease in merchandise margins at our CATHERINES brand. Margins at the CATHERINES brand for Fiscal 2005 were negatively affected by increased promotional activity that resulted from reduced traffic levels and poor customer acceptance of CATHERINES

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product offerings during the current year. As discussed above, Fiscal 2004 margins at our LANE BRYANT brand were negatively affected by higher levels of promotional activity. Cost of goods sold includes merchandise costs net of discounts and allowances, freight, inventory

27

shrinkage, and shipping and handling costs associated with our E-commerce business. Net merchandise costs and freight are capitalized as inventory costs.

Buying and occupancy expenses as a percentage of net sales were 0.6% lower in Fiscal 2005 as compared to Fiscal 2004, primarily a result of leverage on increased sales at LANE BRYANT and cost savings from the consolidation of our LANE BRYANT and CATHERINES distribution operations into our White Marsh, Maryland facility. Buying expenses include payroll, payroll-related costs, and operating expenses for our buying departments and warehouses. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities, maintenance, and depreciation for our stores and warehouse facilities and equipment. Buying and occupancy costs are treated as period costs and are not capitalized as part of inventory.

### Selling, General, and Administrative

Selling, general, and administrative expenses increased in Fiscal 2005 as compared to Fiscal 2004, and were 0.3% higher as a percentage of net sales. Selling expenses for Fiscal 2005 were 0.3 % lower as a percentage of net sales, while general and administrative expenses were 0.6% higher as a percentage of net sales. The increase in selling, general, and administrative expenses was primarily a result of higher expenses related to incentive-based employee compensation programs and the purchase during the Fiscal 2005 Third Quarter of life insurance policies for certain executives to replace split-dollar life insurance policies that were terminated as a result of the Sarbanes-Oxley Act of 2002, which prohibits loans to executive officers. As a result of terminating the split-dollar program, the Company will receive the cash surrender value of the policies. In return, we agreed to provide each of the affected executives with an unconditional bonus to enable them to purchase a replacement life insurance policy. This bonus will be payable in five equal annual installments in an amount equal to the annual insurance premiums paid by the executive for the new policy, plus a tax gross-up amount. These increases in selling, general, and administrative expenses were partially offset by improved performance of our FASHION BUG credit card operations, including favorable trends in delinquencies during the current-year period. General and administrative expenses for Fiscal 2004 benefited from reduced medical benefits costs as a result of reduced medical claims by employees covered by our self-insured employee benefit program.

### Expenses Related to Cost Reduction Plan

In March 2003, we announced a cost reduction plan designed to take advantage of the centralization of all corporate administrative services throughout the Company and to realize certain efficiencies, in order to improve profitability (see "Comparison of Fiscal 2004 to Fiscal 2003" below). The cost reduction plan was substantially completed during Fiscal 2004. We did not experience a material after-tax cash impact from execution of this plan. At the time we announced the plan, we expected this cost reduction plan to improve our annualized pre-tax earnings by a total of approximately \$45 million. During Fiscal 2004, we realized cost reductions of more than \$30 million as a result of this plan. During Fiscal 2005, we realized the remaining benefits of the plan.



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As of January 31, 2004, there was \$2.6 million of accrued lease termination costs related to the closing of our Hollywood, Florida credit facility. In October 2004, in accordance with SFAS No. 146, we revised our estimated sublease income on the remaining lease obligation for the Hollywood facility and recognized an additional expense of \$0.6 million. During the fourth quarter of Fiscal 2005, we settled our remaining lease obligation for the Hollywood facility for approximately \$3.2 million. Also, during the fourth quarter of Fiscal 2005, we entered into an agreement to lease the Memphis, Tennessee distribution center to a third party for a three-year period.

28

### Income Tax Provision

The effective income tax rate was 36.5% in Fiscal 2005, as compared to 36.3% in Fiscal 2004. On October 22, 2004, the President of the United States of America signed into law H.R. 4250, "The American Jobs Creation Act of 2004" (the "Act"), which includes among its provisions certain tax benefits related to the repatriation to the United States of profits from a company's international operations. The Act provides for the repatriation of profits from international operations at a tax rate not to exceed 5.25% for approximately a one-year period. These tax benefits are subject to various limitations, and, as of January 29, 2005, the U.S. Treasury Department has not issued final guidelines for applying the repatriation provisions of the Act. We are currently evaluating the effects of the Act, and have not determined the effect, if any, that it will have on our financial condition and results of operations. As of January 29, 2005, our consolidated cash balance of \$273.0 million included approximately \$39.5 million of cash held by our international operations. We will finalize our analysis before the end of Fiscal 2006.

### Comparison of Fiscal 2004 to Fiscal 2003

#### Net Sales

The decrease in net sales from Fiscal 2003 to Fiscal 2004 resulted primarily from a decrease in the number of operating stores at our FASHION BUG brand and the closing of our THE ANSWER/ADDED DIMENSIONS stores following our Fiscal 2003 store restructuring initiative, and negative comparable store sales results at our LANE BRYANT brand. We operated 2,227 retail stores at the end of Fiscal 2004, as compared to 2,248 stores at the end of Fiscal 2003.

FASHION BUG stores experienced mixed results in comparable store sales during Fiscal 2004, with flat comparable store sales for the year. The average number of transactions and average number of units sold per customer ("UPC") increased 1% and 3%, respectively, in our FASHION BUG stores, while the average dollar sale and average retail value per unit sold decreased 1% and 3%, respectively. FASHION BUG stores experienced comparable store sales increases in plus sportswear, accessories, intimate apparel, and footwear, which were partially offset by decreases in sales of junior sportswear and dresses.

CATHERINES stores also experienced mixed results in comparable store sales during Fiscal 2004, with a 1% decrease in comparable store sales for the year. The average dollar sale and average UPC each increased 3% in our CATHERINES stores, while the average number of transactions and average retail value per unit sold decreased 2% and 1%, respectively. Comparable store sales increases in

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denim, which performed strongly as a result of the brand's fit initiative, and intimate apparel were offset by decreases in sales of dresses, career sportswear, suits, sweaters, and hosiery.

Although LANE BRYANT stores experienced quarter-over-quarter improvements in comparable store sales results during Fiscal 2004, they experienced an overall decrease of 6% in comparable store sales for the year. The average UPC increased 11% for LANE BRYANT stores, while the average dollar sale and average retail value per unit sold decreased 4% and 14% respectively, reflecting the brand's higher level of promotional pricing. The average number of transactions at LANE BRYANT stores decreased 3%. LANE BRYANT experienced comparable store sales decreases primarily in sweaters, casual woven tops, and denim separates, which were partially offset by comparable store sales increases in other merchandise categories. During the second half of Fiscal 2003 and the first half of Fiscal 2004, LANE BRYANT experienced poor customer acceptance of, and fit and quality issues with, its product offering, resulting in higher levels of promotional pricing. In addition, certain basic products were under-stocked during the second half of Fiscal 2003, resulting in missed sales opportunities. Improved merchandise

29

assortments resulted in increased unit sales and improved sales performance for the LANE BRYANT brand during the second half of Fiscal 2004.

During Fiscal 2004, we recognized revenues of \$7.8 million in connection with the FASHION BUG customer loyalty card program that we introduced in Fiscal 2004. During Fiscal 2004 and Fiscal 2003, we also recognized revenues of \$6.4 million and \$21.8 million, respectively, in connection with a previous Fashion Bug loyalty card program that we terminated during Fiscal 2004. In addition, during Fiscal 2004 and Fiscal 2003, we recognized revenues of \$7.5 million and \$7.3 million, respectively, in connection with our CATHERINES loyalty card program.

### Cost of Goods Sold, Buying, and Occupancy

The decrease in cost of goods sold, buying, and occupancy expenses from Fiscal 2003 to Fiscal 2004 principally reflects the decrease in net sales. Cost of goods sold as a percentage of net sales was unchanged from Fiscal 2003 to Fiscal 2004. Improvements in merchandise margins in our FASHION BUG brand were offset by lower merchandise margins in our LANE BRYANT and CATHERINES brands. Higher levels of promotional activity and poor customer acceptance of certain LANE BRYANT products, as discussed above, also negatively affected merchandise margins in both years. Cost of goods sold for Fiscal 2003 included \$5.1 million of costs related to the valuation of LANE BRYANT inventories. The \$5.1 million related to markdowns for inventory on hand as a result of the poor customer acceptance of, and fit and quality issues with, certain of LANE BRYANT's products, which resulted in higher levels of promotional pricing to liquidate the product. Cost of goods sold includes merchandise costs net of discounts and allowances, freight, inventory shrinkage, and shipping and handling costs associated with our E-commerce business. Net merchandise costs and freight are capitalized as inventory costs.

Buying and occupancy expenses as a percentage of net sales increased 0.3% in Fiscal 2004 as compared to Fiscal 2003. The increase in buying and occupancy expenses as a percentage of net sales was primarily attributable to the lack of leverage on relatively fixed occupancy costs as a result of negative comparable store sales, particularly in our LANE BRYANT brand. Occupancy expenses for Fiscal 2003 included a \$2.7 million write-down of under-performing assets

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related to our MONSOON/ACCESSORIZE stores. Buying expenses include payroll, payroll-related costs, and operating expenses for our buying departments and warehouses. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities, maintenance, and depreciation for our stores and warehouse facilities and equipment. Buying and occupancy costs are treated as period costs and are not capitalized as part of inventory.

### Selling, General, and Administrative

The decrease in selling, general, and administrative expenses from Fiscal 2003 to Fiscal 2004 was primarily a result of reductions in store payroll and the realization of cost reduction initiatives, including improved management of controllable expenses (see "Expenses Related to Cost Reduction Plan" below). Selling expenses were unchanged as a percentage of net sales, while general and administrative expenses decreased 0.6% as a percentage of net sales. General and administrative expenses for Fiscal 2004 benefited from reduced medical benefits costs as a result of reduced medical claims by employees covered by our self-insured employee benefit program. General and administrative expenses for Fiscal 2003 were negatively affected by costs associated with transitional service agreements related to the LANE BRYANT acquisition. We completed the integration of LANE BRYANT's information systems during Fiscal 2003.

30

### Expenses Related to Cost Reduction Plan

On March 18, 2003, we announced a cost reduction plan designed to take advantage of the centralization of all corporate administrative services throughout the Company and to realize certain efficiencies, in order to improve profitability. Costs incurred in connection with this plan during Fiscal 2004 included \$3.0 million of workforce reduction costs, \$3.7 million of lease termination and related costs, \$4.2 million of accelerated depreciation (a non-cash charge), and \$0.6 million of other facility closure costs. During Fiscal 2004, we paid or settled \$8.9 million of these costs and had \$2.6 million of accrued costs at January 31, 2004.

Workforce reduction costs represent involuntary termination benefits and retention bonuses. Employees affected by the plan were notified during the first quarter of Fiscal 2004. During Fiscal 2004, we terminated 349 employees in connection with workforce reductions at our corporate and brand home offices and the closing of our Memphis, Tennessee distribution center, our Hollywood, Florida credit operations, and our remaining MONSOON stores. We accrued the severance benefit in accordance with SFAS No. 146 and recognized retention bonuses ratably over the employees' remaining service period. Lease termination and related costs mainly represent the estimated fair value of the remaining lease obligations at the Hollywood, Florida facility, reduced by estimated sublease income. In accordance with SFAS No. 146, we recognized the present value of the remaining lease obligation less estimated sublease income related to the Hollywood, Florida facility in June 2003 when we closed the facility.

Accelerated depreciation costs represent the acceleration of depreciation of the net book value of the assets at our Memphis distribution center and our Hollywood credit operations, which were closed in June 2003, to their estimated net realizable values. During the first quarter of Fiscal 2004, we made the decision to sell the Memphis, Tennessee distribution center, and began accelerating the depreciation of the asset to its estimated net realizable value as of its then-expected cease-use date of June 2003. During the third quarter of

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Fiscal 2004, we began to evaluate alternative uses for the facility, and began to depreciate the then-current carrying amount of the asset over its estimated useful life.

### Other Income/Interest Expense

The decrease in other income from Fiscal 2003 to Fiscal 2004 resulted from a \$0.8 million decrease in interest income. Interest income decreased as a result of a decrease in the average yield on investments during Fiscal 2004 as compared to Fiscal 2003. The decrease in interest expense from Fiscal 2003 to Fiscal 2004 resulted primarily from lower interest rates on borrowings during Fiscal 2004 as compared to Fiscal 2003. Interest expense for Fiscal 2003 also included a write-off of \$1.0 million of unamortized deferred financing costs related to a \$67.5 million term loan that was repaid during Fiscal 2003. During Fiscal 2003, we replaced a \$67.5 million 11.5% term loan and \$96.0 million of 7.5% Convertible Subordinated Notes with \$150.0 million of 4.75% Senior Convertible Notes.

### Income Tax Provision

The effective income tax rate was 36.3% in Fiscal 2004 as compared to 39.0% in Fiscal 2003. The lower effective tax rate in Fiscal 2004 was due primarily to changes in previously estimated full-year amounts, including our tax liability related to insurance programs.

31

## Comparison of Fourth Quarter 2005 to Fourth Quarter 2004

### Net Sales

Net sales in the Fiscal 2005 fourth quarter were \$586.1 million, an increase of 0.1% from net sales of \$585.6 million in the Fiscal 2004 fourth quarter. Overall, comparable store sales decreased 2% in the Fiscal 2005 fourth quarter. The decrease in comparable store sales was primarily attributable to our lack of a timely response to the competitive promotional environment that developed during the 2004 Christmas holiday season.

For our FASHION BUG stores, an increase in the average number of transactions per store during the Fiscal 2005 fourth quarter was offset by a slightly lower average dollar sale per transaction. The average dollar sale per transaction reflected a flat average UPC and a slight decrease in the average retail value per unit sold. FASHION BUG stores experienced comparable store sales increases in plus-size apparel and coats, which were offset by sales decreases in other merchandise categories. FASHION BUG sales for Fiscal 2005 also benefited from sales of maternity and girls, two new categories added to the brand at the end of Fiscal 2004.

LANE BRYANT stores experienced an increase in the average dollar sale per transaction, which was offset by a decrease in the average number of transactions per store during the quarter. The average dollar sale per transaction benefited from increases in both the average retail value per unit sold, reflecting reduced levels of promotional pricing for the brand as compared to the prior-year period, and the average UPC. LANE BRYANT experienced comparable store sales decreases in casual sportswear and sleepwear, which were partially offset by increases in wear-to-work and denim.

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CATHERINES stores experienced decreases in the average number of transactions per store and the average dollar sale per transaction during the Fiscal 2005 fourth quarter. An increase in the average UPC was more than offset by a decrease in the average retail value per unit sold. Poor customer acceptance of CATHERINES product offerings resulted in higher levels of promotional pricing during the Fiscal 2005 fourth quarter. CATHERINES experienced disappointing performance in casual sportswear, dresses, and wear-to-work.

### Cost of Goods Sold, Buying, and Occupancy

Cost of goods sold, buying, and occupancy expenses were \$428.4 million in the Fiscal 2005 fourth quarter, a decrease of 2.0% from \$437.4 million in the Fiscal 2004 fourth quarter. As a percentage of net sales, these costs decreased by 1.6% in the Fiscal 2005 fourth quarter as compared to the Fiscal 2004 fourth quarter. Cost of goods sold, as a percentage of net sales, decreased 1.3% in the Fiscal 2005 fourth quarter as compared to the Fiscal 2004 fourth quarter. Improved margins at our LANE BRYANT and FASHION BUG brands were partially offset by reduced margins at our CATHERINES brand. Margins at the CATHERINES brand for the Fiscal 2005 fourth quarter were negatively affected by the increase in promotional activity as a result of the brand's disappointing sales performance. Buying and occupancy expenses, expressed as a percentage of net sales, decreased 0.3% in the Fiscal 2005 fourth quarter as compared to the Fiscal 2004 fourth quarter. The decrease in buying and occupancy expenses as a percent of sales was primarily attributable to cost savings from the consolidation of our LANE BRYANT and CATHERINES distribution centers into our White Marsh, Maryland facility.

32

### Selling, General, and Administrative

Selling, general, and administrative expenses were \$146.0 million in the Fiscal 2005 fourth quarter, an increase of 10.9% from \$131.6 million in the Fiscal 2004 fourth quarter. As a percentage of net sales, these costs increased by 2.4% in the Fiscal 2005 fourth quarter as compared to the Fiscal 2004 fourth quarter. The increase is primarily a result of higher expenses related to incentive-based employee compensation programs and negative leverage on a comparable store sales decrease, which were partially offset by continued favorable trends in delinquencies at our FASHION BUG credit card operations during the Fiscal 2005 fourth quarter. General and administrative expenses for the fourth quarter of Fiscal 2004 also benefited from reduced medical benefits costs as a result of reduced medical claims by employees covered by our self-insured employee benefit program.

### Income Tax Provision

The effective income tax rate was 46.9% in the Fiscal 2005 fourth quarter as compared to 26.7% in the Fiscal 2004 fourth quarter. The effective tax rate in the Fiscal 2005 fourth quarter was negatively affected by the reconciliation of our state tax provision to our filed state tax returns. The lower effective tax rate in Fiscal 2004 was due primarily to changes in previously estimated full-year amounts, including our tax liability related to insurance programs.

## FINANCIAL CONDITION

### Liquidity and Capital Resources

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Our primary sources of working capital are cash flow from operations, our proprietary credit card receivables securitization agreements, our investment portfolio, and our credit facility described below. The following table highlights certain information related to our liquidity and capital resources:

(Dollars in thousands)	Fiscal 2005 ----	Fiscal 2004 ----	Fiscal 2003 ----
Cash and cash equivalents .....	\$273,049	\$123,781	\$102,026
Long-term available-for-sale securities	240	14,521	16,202
Cash provided by operating activities .	167,122	99,300	212,963
Working capital .....	413,989	266,178	190,797
Current ratio .....	2.4	1.9	1.6
Long-term debt to equity ratio .....	30.0%	34.5%	37.1%

### Cash Provided by Operating Activities

Our net cash provided by operating activities in Fiscal 2005 was \$167.1 million, an increase of \$67.8 million from \$99.3 million in Fiscal 2004. The increase was a result of a \$26.5 million increase in net income before non-cash charges, a \$6.5 million tax benefit related to our stock plans, a \$52.6 million decrease in our investment in inventories, net of accounts payable, and a \$27.9 million increase in accrued expenses, income taxes, and other liabilities. These increases were partially offset by a \$45.7 million increase in prepaid expenses.

The decrease in the net investment in inventories was primarily a result of tighter control over inventory levels during Fiscal 2005. Inventories decreased 8% from the end of Fiscal 2004 to the end of Fiscal 2005. Prepaid expenses increased \$28.9 million during Fiscal 2005, as compared to a decrease of \$16.8 million during Fiscal 2004. The current year increase in prepaid expenses was primarily a result of \$11.5 million of prepaid income taxes at the

33

end of Fiscal 2005, the timing of payments for rent, and increases in other current assets. The decrease in prepaid expenses in Fiscal 2004 was primarily a result of our surrender of existing life insurance policies and receipt of the related cash surrender value in connection with our settlement of an Internal Revenue Service audit of our corporate-owned life insurance program. Accrued expenses and other liabilities increased \$17.2 million during Fiscal 2005, as compared to a decrease of \$5.8 million during Fiscal 2004, primarily as a result of the timing of certain payments. Income taxes payable decreased \$1.1 million during Fiscal 2005, as compared to a decrease of \$6.0 million during Fiscal 2004. The changes in prepaid income taxes and income taxes payable were primarily the result of tax benefits associated with employee stock option exercises and an Internal Revenue Service approved change in inventory accounting for tax purposes.

Our net cash provided by operating activities in Fiscal 2004 was \$99.3 million, a decrease of \$113.7 million from \$213.0 million in Fiscal 2003. The decrease was primarily a result of an \$81.8 million increase in our investment in inventories, net of accounts payable. Net cash provided by operating activities also decreased as a result of a \$34.1 million decrease in net income before non-cash charges, a \$4.4 million net change in prepaid and accrued

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expenses and other liabilities, and a \$13.2 million change in income taxes payable. These decreases were partially offset by a \$19.8 million decrease in accrued restructuring costs during Fiscal 2003.

The increase in the net investment in inventories in Fiscal 2004 was primarily a result of a combination of slightly higher levels of store inventories at the end of Fiscal 2004 due to lower-than-planned sales in the Fiscal 2004 fourth quarter and a one-time benefit from improved vendor terms received during Fiscal 2003 from conforming LANE BRYANT's vendor terms to our corporate terms. During Fiscal 2004, we reached a settlement with the Internal Revenue Service regarding its audit of our corporate-owned life insurance ("COLI") program, which resulted in a decrease in income taxes payable during Fiscal 2004 that more than offset accrued taxes payable for the period. The change in prepaid and accrued expenses and other liabilities was primarily a result of the timing of certain payments.

### Capital Expenditures

Our gross capital expenditures, excluding construction allowances received from landlords, were \$60.6 million, \$54.0 million, and \$81.3 million in Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively. Construction allowances received from landlords were \$9.3 million, \$9.0 million, and \$7.0 million in Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively. In Fiscal 2005, our capital expenditures were primarily for the construction, remodeling, and fixturing of new and existing retail stores, corporate systems technology, and improvements to our corporate and brand home offices and distribution centers. In addition, pursuant to a program to replace point-of-sale ("POS") equipment in our stores, we acquired \$3.9 million, \$8.5 million, and \$3.5 million of POS equipment under capital leases in Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively. These leases generally have an initial lease term of 60 months and contain a bargain purchase option. We also acquired \$1.5 million, \$9.0 million and \$3.5 million of material handling systems and related equipment and software for our White Marsh, Maryland distribution center under capital leases in Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively. These capital leases generally have an initial lease term of 60 months and contain a bargain purchase option. Total gross investments in property, equipment, and leasehold improvements, including cash expenditures and capital lease financing and excluding construction allowances, were \$66.0 million, \$71.5 million, and \$88.3 million in Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively.

During Fiscal 2003, we acquired the 393,000 square foot White Marsh distribution center at a cost of \$17.3 million to replace our leased distribution center in Reynoldsburg, Ohio. We relocated the Reynoldsburg distribution center in February 2004. The lease for the Reynoldsburg distribution center and a related logistics and transportation services agreement were terminated in February 2004 in accordance with early cancellation provisions of the lease and agreement. As a result of the use of automated sorting systems and improved facility

design in the White Marsh facility, we were also able to consolidate our 213,000 square foot Memphis, Tennessee distribution center into the White Marsh facility in June 2003. During the fourth quarter of Fiscal 2005, we entered into an agreement to lease the Memphis, Tennessee distribution center to a third party for a three-year period. The consolidation of the Memphis distribution center into the White Marsh facility was part of a cost reduction plan announced in March 2003. See "RESULTS OF OPERATIONS; Comparison of Fiscal 2004 to Fiscal 2003; Expenses Related to Cost Reduction Plan" above and "Item 8. Financial

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Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 14. EXPENSES RELATED TO COST REDUCTION PLAN" below for details of the cost reduction plan.

We anticipate gross capital expenditures of approximately \$95 - \$100 million and construction allowances received from landlords of approximately \$10 million during Fiscal 2006. These capital expenditures will primarily be for construction and fixturing of new stores, remodeling and fixturing of existing stores, and improvements in information technology. We expect to finance these capital expenditures principally through internally-generated funds.

### Long-term Debt, Lease, Dividend, and Purchase Commitments

At January 29, 2005, our commitments for future payments under our long-term debt obligations, minimum lease payments under our capital leases and operating leases, and payments due under our revolving credit facility, letters of credit, long-term deferred compensation plans, and purchase obligations were as follows:

(In millions)	Payments Due by Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Long-term debt, including current portion(1) .....	\$ 203.1	\$ 5.6	\$ 14.8	\$ 9.1	\$173.6
Capital leases .....	38.5	15.3	19.1	4.1	0.0
Operating leases(2) .....	748.8	194.2	272.0	162.2	120.4
Revolving credit facility(3) .....	0.0	0.0	0.0	0.0	0.0
Letters of credit(3) .....	76.3	76.3	0.0	0.0	0.0
Stand-by letters of credit(3) .....	6.6	6.6	0.0	0.0	0.0
Long-term deferred compensation(4) .....	2.4	1.3	0.8	0.2	0.1
Purchase commitments(5) .....	476.8	476.8	0.0	0.0	0.0
Total .....	\$1,552.5	\$776.1	\$306.7	\$175.6	\$294.1

We have not paid any dividends since 1995, and we do not expect to declare or pay any dividends on our common stock in the foreseeable future. The payment of future dividends is within the discretion of our Board of Directors and will depend upon our future earnings, if any, our capital requirements, financial condition and other relevant factors. Additionally, our existing credit facility prohibits the payment of dividends on our common stock.

### Off-Balance-Sheet Arrangements

Spirit of America National Bank (our wholly-owned credit card bank) transfers its interest in credit card receivables created under our FASHION BUG proprietary credit card program and, subsequent to the end of Fiscal 2005, receivables purchased and created under our CATHERINES proprietary credit card program to the Charming Shoppes Master Trust (the "Trust") through a special-purpose entity. The Trust is an unconsolidated qualified special purpose



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entity. The Trust 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 Trust makes principal payments to the parties that have entered into the securitization agreement with the Trust.

As of January 29, 2005, the Trust had the following securitization facilities outstanding:

(Dollars in millions)	Series 1999-1 -----	Series 1999-2 -----	Series 2002-1 -----	Series -----
Date of facility.....	July 1999	May 1999	November 2002	Janua
Type of facility.....	Term	Conduit	Term	Con
Maximum funding.....	\$150.0	\$50.0	\$100.0	\$1
Funding as of January 29, 2005.....	\$15.8	\$0.0	\$100.0	
First scheduled principal payment..	March 2004	Not applicable	August 2007	Not ap
Expected final principal payment...	February 2005	Not applicable(1)	May 2008	Not app
Renewal.....	Not applicable	Annual	Not applicable	An
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The Series 1999-1 securitization began its scheduled amortization period in March 2004, and \$134.2 million of principal was amortized in Fiscal 2005. The remaining \$15.8 million of principal was amortized in the Fiscal 2006 First Quarter and was funded with the proceeds available from Series 2004-1, which was issued on August 5, 2004 (see below).

On August 5, 2004 the Trust issued \$180.0 million of new five-year asset-backed certificates ("Series 2004-1") in a private placement under Rule 144A. Of the \$180.0 million of certificates issued, \$161.1 million were sold to investors, and we held \$18.9 million as a retained interest. The certificates pay interest to investors on a floating-rate basis tied to one-month LIBOR. Concurrently, the Trust entered into a series of fixed-rate interest rate hedge agreements with respect to the \$161.1 million of certificates sold to investors. The blended weighted-average interest rate on the hedged certificates is 4.90%. The Trust used \$61.5 million of the proceeds to pay down other securitization series and placed the remaining proceeds of \$118.5 million into a pre-funding cash account. We are using the proceeds from this pre-funding cash account to pay down Series 1999-1 (which is currently in its amortization period) as well as provide financing for additional receivables, including the acquisition of the CATHERINES proprietary credit card portfolio in March 2005 (see below). During the Fiscal 2005 Third and Fourth Quarters, the Trust used \$72.8 million of cash from the pre-funding cash account to fund the Series 1999-1 amortization.

During Fiscal 2005, we sold to investors \$20.0 million of 2002-1 Series certificates that we were previously holding as a retained interest. These certificates were included in the \$55.7 million of short-term available-for-sale securities we held at January 31, 2004. On August 24, 2004, we sold to investors \$9.5 million of the \$18.9 million of Series 2004-1 certificates we held as a retained interest.

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As these credit card receivables securitizations reach maturity, we plan to obtain funding for the FASHION BUG and CATHERINES proprietary credit card programs through additional securitizations. However, we can give no assurance that we will be successful in securing financing through either replacement securitizations or other sources of replacement financing.

We securitized \$335.9 million and \$331.7 million of credit card receivables in Fiscal 2005 and Fiscal 2004, respectively, and had \$249.2 million of securitized credit card receivables outstanding as of January 29, 2005. We held certificates and retained interests in our securitizations of \$52.5 million as of the end of Fiscal 2005, which were generally subordinated in right of payment to certificates issued by the Trust to third-party investors. Our obligation to repurchase receivables sold to the Trust is limited to those receivables that, at the time of their transfer, fail to meet the Trust's eligibility standards under normal representations and warranties. To date, our repurchases of receivables pursuant to this obligation have been insignificant.

Charming Shoppes Receivables Corp. ("CSRC") and Charming Shoppes Seller, Inc., our consolidated wholly owned indirect subsidiaries, are separate special purpose entities created for the securitization facilities. As of January 29, 2005, CSRC held \$17.3 million of Charming Shoppes Master Trust certificates and retained interests and Charming Shoppes Seller, Inc. held retained interests of \$10.4 million (which are included in the \$52.9 million of short-term available-for-sale securities we held at January 29, 2005). 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 Charming Shoppes Master Trust. Additionally, if either the Trust or Charming Shoppes, Inc. fails to meet certain financial performance standards, the Trust would be obligated to reallocate to third-party investors holding certain certificates issued by the Trust, collections in an amount up to \$17.3 million that otherwise would be available to CSRC. The result of this reallocation would be to increase CSRC's retained interest in the Trust by the same amount. Subsequent to such a transfer occurring, and upon certain conditions being met, these same investors would be required to repurchase these interests. As of January 29, 2005, there were no reallocated collections as the result of a failure to meet these financial performance standards.

In addition to the above, we could be affected by certain other events that would cause the Trust to hold proceeds of receivables, which would otherwise be available to be paid to us with respect to our subordinated interests, within the Trust as additional enhancement. For example, if we fail or the Trust fails to meet certain financial performance standards, a credit enhancement condition would occur and the Trust would be required to retain amounts otherwise payable to us. In addition, the failure to satisfy certain financial performance standards could further cause the Trust to stop using collections on Trust assets to purchase new receivables, and would require such collections to be used to repay investors on a prescribed basis, as provided in the Trust agreements. If this were to occur, it could result in our having insufficient liquidity; however, we believe we would have sufficient notice to seek alternative forms of financing through other third-party providers. As of January 29, 2005, the Trust was in compliance with all applicable financial performance standards. 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 Trust, other than for breaches of customary representations, warranties, and covenants and for customary indemnities. These representations, warranties, covenants, and indemnities do not protect the Trust or investors in the Trust against credit-related losses on the receivables. The providers of the credit enhancements and Trust investors have no other recourse to us.

These securitization agreements are intended to improve our overall liquidity by providing short-term sources of funding. The agreements provide that we will continue to service the credit card receivables and control credit policies. This control allows us, absent certain adverse events, to fund continued credit card receivable growth and to provide the appropriate customer service and collection activities. Accordingly, our relationship with our credit card customers is not affected by these agreements. See "CRITICAL ACCOUNTING POLICIES; Asset Securitizations" above, "MARKET RISK" below, and "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 16. ASSET SECURITIZATION" below for additional discussion of our asset securitization facility.

We have a non-recourse agreement under which a third party provides a proprietary credit card sales accounts receivable funding facility that was scheduled to expire in January 2006 for our LANE BRYANT brand. In January 2005, we entered into an amendment to the agreement which, among other things, extends the term of the agreement to October 2007. Under this agreement, the third party reimburses us daily for sales generated by LANE BRYANT's proprietary credit card accounts. Upon termination of this agreement, we have the right to repurchase the receivables portfolio from the third party and operate the facility. The net balances of LANE BRYANT accounts receivable held by the third party at January 29, 2005 and January 31, 2004 were approximately \$199.1 million and \$198.3 million, respectively.

We also had a similar non-recourse funding facility agreement for our CATHERINES brand with a third party which was scheduled to expire in January 2005. In January 2004, in accordance with the terms of the Merchant Services Agreement pursuant to which the CATHERINES proprietary credit cards were issued, we provided one year's notice to the third party bank in order to exercise our option to terminate the agreement and to purchase the portfolio. In July 2004, we entered into an amendment to the agreement which, among other things, extended the term of the agreement to March 2005. Spirit of America National Bank (our wholly-owned credit card bank) purchased the CATHERINES credit card portfolio in March 2005 for approximately \$56.6 million (subject to adjustment). The purchase was funded through our securitization facilities, including a portion of the proceeds from the sale of Series 2004-1 certificates under that securitization facility. The net balances of CATHERINES accounts receivable held by the third party at January 29, 2005 and January 31, 2004 were approximately \$58.2 million and \$70.4 million, respectively.

We lease substantially all of our operating stores and certain administrative facilities under non-cancelable operating lease agreements. In January 2005, we entered into an amendment to our lease agreement with Limited Brands for our LANE BRYANT home office in Reynoldsburg, Ohio to extend the term of the lease from December 2005 to February 2006. We also entered into an agreement with a separate third party that provides for the leasing of a 135,000 square foot facility in Columbus, Ohio, which will serve as a new home office for LANE BRYANT. Minimum annual rent under the lease for the Columbus facility will be \$1.7 million per annum in year one through year five and \$1.76 million per annum in year six through year ten. The lease will commence on the later of January 20, 2006 or upon substantial completion of shell work and tenant improvements. The Columbus lease provides for two five-year renewal periods and an option to purchase, and contains customary termination rights. Additional details on these leases, including minimum lease commitments, are included in "Liquidity and Capital Resources" above, and in "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 17. LEASES" below.

## Financing

## Revolving Credit Facility

We have a \$300.0 million revolving credit facility (the "Facility") that provides for cash borrowings and enables us to issue up to \$150.0 million of letters of credit for purchases of merchandise and for standby letters of credit. As of January 29, 2005, there were no borrowings outstanding under the Facility. The availability of borrowings under the Facility is subject to limitations based on eligible inventory and, under certain circumstances, credit card receivables and in-transit cash. The Facility is secured by our general assets, except for (i) all assets related to our credit card securitization facility, (ii) all real property, (iii) certain equipment subject to other mortgages or capital leases, (iv) the assets of our non-U.S. subsidiaries, and (v) certain other assets. The Facility expires on August 15, 2008. As of January 29, 2005, we had \$3.3 million of unamortized deferred debt acquisition costs related to the Facility, which we are amortizing on a straight-line basis over the life of the Facility as interest expense.

The interest rate on borrowings under the Facility ranges from Prime to Prime plus .50% per annum for Prime Rate Loans, and LIBOR plus 1.50% to LIBOR plus 2.00% per annum for Eurodollar Rate Loans. The applicable rate is determined quarterly, based on our average excess and suppressed availability, as defined in the Facility. As of January 29, 2005, the interest rate on borrowings under the Facility was 5.25% for Prime Rate Loans and 4.06% for Eurodollar Rate Loans.

The Facility includes limitations on sales and leasebacks, the incurrence of additional liens and debt, capital lease financing, and other limitations. The Facility also requires, among other things, that we not pay dividends on our common stock and, if our excess and suppressed availability (as defined in the Facility) is less than \$50.0 million at any time within a fiscal quarter, that we maintain a minimum level of consolidated 12-month earnings before interest, taxes, depreciation, and amortization ("EBITDA") (excluding non-recurring, non-cash charges as defined in the Facility). During Fiscal 2005, our excess and suppressed availability was above \$50.0 million at all times. We had outstanding letters of credit totaling \$83.0 million as of January 29, 2005. As of the end of Fiscal 2005, we were not in violation of any of the covenants included in the Facility.

## Long-term Debt and Equity Financing

Our \$150.0 million 4.75% Senior Convertible Notes (the "Senior Notes") mature on June 1, 2012 and are convertible at any time prior to maturity into shares of our common stock at a conversion price of \$9.88 per share, subject to adjustment upon certain events. The Senior Notes are redeemable at our option, in whole or in part, at any time on or after June 4, 2007, at declining redemption prices, starting at 102.38% of principal and decreasing to 100.48% of principal on or after June 1, 2011. Under certain circumstances involving a change in control of the Company, holders of the Senior Notes may require us to repurchase all or a portion of the Senior Notes at 100% of the principal amount plus any accrued and unpaid interest. Also, under such circumstances we have the option of paying the repurchase price in shares of our common stock, valued at 95% of the average of the closing prices of the common stock for a five-day trading period immediately before and including the third trading day preceding

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the repurchase date. There is no sinking fund for the Senior Notes.

In October 2004, we borrowed \$13.0 million under a 6.07% mortgage note (the "Note"). Repayment of the Note is based on a 15-year amortization schedule, with 119 monthly installments of principal and interest of \$110 thousand and a balloon payment of \$5.8 million at the end of 10 years. The Note may be prepaid after 2-1/2 years upon the payment of a premium, or, upon certain other events, without the payment of a premium. The Note is secured by a mortgage on real property at our distribution center in Greencastle, Indiana and an Assignment of

39

Lease and Rents and Security Agreement related to the Greencastle facility. The proceeds from this borrowing will be used to repay the scheduled maturities of other debt and for other general corporate purposes.

In December 2004, we refinanced certain material handling equipment at our Greencastle distribution center. The lease obligation of \$5.0 million is payable over a term of 48 months at an interest rate of 6.86% and contains a bargain purchase option.

As part of our acquisition of CATHERINES, we assumed a 7.5% mortgage note of \$6.9 million, of which \$5.6 million of principal was outstanding as of January 29, 2005. The note is secured by a mortgage on the land and buildings at our CATHERINES office and distribution center in Memphis, Tennessee. The remaining principal of \$5.6 million and any unpaid interest on the note was due in a single payment on March 1, 2005. The terms included a pre-payment penalty of 1% of the outstanding principal. On January 27, 2005, we entered into an amended and restated promissory note with the lender to extend the final due date of the note, with monthly payments of principal and interest of \$56 thousand commencing on February 1, 2005 and a final payment of unpaid principal and interest on March 1, 2006. The interest rate on the amended and restated promissory note is 7.5% through February 28, 2005 and thereafter is reset on March 1, June 1, September 1, and December 1, based on 90-day LIBOR plus 2.25%. There is no prepayment penalty on the amended and restated promissory note.

During Fiscal 2005, we received \$33.2 million of cash in connection with the issuance of approximately 6.5 million shares of our common stock as a result of exercises of employee stock options and purchases of shares under our employee stock purchase plan.

As of January 29, 2005, under authority granted by our Board of Directors during prior fiscal years, we are authorized to repurchase approximately 5 million shares of our common stock. Our ability to exercise this authority is currently subject to certain restrictions under the terms of our revolving credit facility. As conditions may allow, and if any required consent is granted, we may from time to time acquire shares of our common stock. Such shares, if purchased, would be held as treasury shares. The repurchase program has no expiration date.

### MARKET RISK

We manage our FASHION BUG proprietary credit card program and, beginning in March 2005, our CATHERINES proprietary credit card program through various operating entities that we own. The primary activity of these entities is to service the balances of our proprietary credit card receivables portfolio that we sell under credit card securitization facilities. Under the securitization

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facilities, we can be exposed to fluctuations in interest rates to the extent that the interest rates charged to our customers vary from the rates paid on certificates issued by the Trust. The finance charges on most of our proprietary credit card accounts are billed using a floating rate index (the Prime Rate), subject to a floor and limited by legal maximums. The certificates issued under the securitization include both floating- and fixed-interest-rate certificates. The floating-rate certificates are based on an index of either one-month LIBOR or the commercial paper rate, depending on the issuance. Consequently, we have basis risk exposure to the extent that the movement of the floating rate index on the certificates varies from the movement of the Prime Rate. Additionally, as of January 29, 2005, the floating finance charge rate on the credit cards was below the contractual floor rate, thus exposing us to interest-rate risk on the portion of certificates that are funded at floating rates. In addition, as a result of the Trust entering into a series of fixed-rate interest rate hedge agreements with respect to the \$161.1 million of Series 2004-1 certificates (see "Off-Balance-Sheet Financing" above), we have significantly reduced the exposure of floating-rate certificates outstanding to interest-rate risk. To the extent that short-term interest rates were to increase by one percentage point by the end of Fiscal 2006, an increase of approximately \$151 thousand in selling, general, and administrative expenses would result.

40

As of January 29, 2005, there were no borrowings outstanding under our revolving credit facility. To the extent that there are borrowings outstanding under our revolving credit facility, such borrowings would be exposed to variable interest rates. An increase in market interest rates would increase our interest expense and decrease our cash flows. Conversely, a decrease in market interest rates would decrease our interest expense and increase our cash flows.

We are not subject to material foreign exchange risk, as our foreign transactions are primarily U.S. Dollar-denominated and our foreign operations do not constitute a material part of our business.

### IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES; Impact of Recent Accounting Pronouncements."

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - MARKET RISK" above.

Item 8. Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our Board of Directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of January 29, 2005. In making this assessment, our management used the criteria set forth in "Internal Control - Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). Based on this assessment, management concluded that our internal control over financial reporting was effective as of January 29, 2005.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on management's assessment of our internal control over financial reporting, which appears on page 43 - 44.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING

Stockholders and Board of Directors  
Charming Shoppes, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Charming Shoppes, Inc. and subsidiaries maintained effective internal control over financial reporting as of January 29, 2005, based on criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). Charming Shoppes, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Charming Shoppes, Inc. and subsidiaries maintained effective internal control over financial reporting as of January 29, 2005 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Charming Shoppes, Inc. and subsidiaries



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maintained, in all material respects, effective internal control over financial reporting as of January 29, 2005, based on the COSO criteria.

43

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Charming Shoppes, Inc. and subsidiaries as of January 29, 2005 and January 31, 2004, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three fiscal years in the period ended January 29, 2005, and our report dated April 11, 2005 expressed an unqualified opinion thereon.

/S/ ERNST & YOUNG LLP

Philadelphia, Pennsylvania  
April 11, 2005

44

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors  
Charming Shoppes, Inc.

We have audited the accompanying consolidated balance sheets of Charming

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Shoppes, Inc. and subsidiaries as of January 29, 2005 and January 31, 2004, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three fiscal years in the period ended January 29, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Charming Shoppes, Inc. and subsidiaries at January 29, 2005 and January 31, 2004, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 29, 2005, in conformity with United States generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its financial statements for the fiscal years ended January 31, 2004 and February 1, 2003.

As discussed in Note 1 to the consolidated financial statements, in the fiscal year ended February 1, 2003, the Company changed its method of accounting for goodwill and indefinite-lived intangible assets, in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," and changed its method of accounting for cash consideration received from vendors in accordance with EITF Issue 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Charming Shoppes, Inc. and subsidiaries' internal control over financial reporting as of January 29, 2005, based on criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 11, 2005 expressed an unqualified opinion thereon.

/S/ ERNST & YOUNG LLP

Philadelphia, Pennsylvania  
April 11, 2005

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(Dollars in thousands, except share amounts)	January 29, 2005 ----	January 31, 2004 ---- (Restated)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents.....	\$ 273,049	\$ 123,781
Available-for-sale securities .....	52,857	55,688
Merchandise inventories .....	285,120	309,995
Deferred taxes .....	15,500	18,708
Prepayments and other .....	86,382	57,494
	-----	-----
Total current assets .....	712,908	565,666
	-----	-----
Property, equipment, and leasehold improvements - at cost .....	786,028	775,500
Less accumulated depreciation and amortization .....	465,365	447,491
	-----	-----
Net property, equipment, and leasehold improvements .....	320,663	328,009
	-----	-----
Trademarks and other intangible assets .....	169,818	170,478
Goodwill .....	66,666	66,956
Available-for-sale securities, including fair value adjustments of \$(390) as of January 31, 2004 .....	240	14,521
Other assets .....	33,476	27,440
	-----	-----
Total assets .....	\$ 1,303,771	\$ 1,173,070
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable .....	\$ 127,819	\$ 135,777
Accrued expenses .....	154,681	142,709
Income taxes payable .....	0	1,128
Current portion - long-term debt .....	16,419	17,278
Accrued expenses related to cost reduction plan .....	0	2,596
	-----	-----
Total current liabilities .....	298,919	299,488
	-----	-----
Deferred taxes and other non-current liabilities .....	101,743	83,354
Long-term debt .....	208,645	202,819
	-----	-----
Stockholders' equity		
Common stock \$.10 par value		
Authorized - 300,000,000 shares		
Issued - 132,063,290 shares and 125,526,573 shares .....	13,206	12,553
Additional paid-in capital .....	249,485	201,798
Treasury stock at cost - 12,265,993 shares .....	(84,136)	(84,136)
Deferred employee compensation .....	(8,715)	(2,539)
Accumulated other comprehensive loss .....	0	(365)
Retained earnings .....	524,624	460,098
	-----	-----
Total stockholders' equity .....	694,464	587,409
	-----	-----
Total liabilities and stockholders' equity .....	\$ 1,303,771	\$ 1,173,070
	=====	=====

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

(In thousands, except per share amounts)	Year Ended		
	January 29, 2005 ----	January 31, 2004 ---- (Restated)	February 2003 ---- (Restat
Net sales .....	\$ 2,332,334	\$ 2,285,680	\$ 2,412,
Cost of goods sold, buying, and occupancy expenses .....	1,640,248	1,642,816	1,726,
Selling, general, and administrative expenses .....	577,301	558,248	603,
Expenses related to cost reduction plan .....	605	11,534	
Restructuring credit .....	0	0	(4,
Total operating expenses .....	2,218,154	2,212,598	2,324,
Income from operations .....	114,180	73,082	87,
Other income, principally interest .....	3,098	2,050	2,
Interest expense .....	(15,610)	(15,609)	(20,
Income before income taxes, minority interest, and cumulative effect of accounting changes .....	101,668	59,523	69,
Income tax provision .....	37,142	21,623	27,
Income before minority interest and cumulative effect of accounting changes .....	64,526	37,900	42,
Minority interest in net loss of consolidated subsidiary .....	0	142	
Income before cumulative effect of accounting changes ..	64,526	38,042	43,
Cumulative effect of accounting changes, net of income tax benefit of \$2,758 .....	0	0	(49,
Net income (loss) .....	64,526	38,042	(6,
Other comprehensive income, net of tax:			
Unrealized gains (losses) on available-for-sale securities, net of income tax (provision) benefit of \$(92) in 2005, \$100 in 2004, and \$46 in 2003 ...	113	(156)	
Reclassification of realized losses on available-for- sale securities included in net income, net of income tax benefit of \$61 in 2005 .....	124	0	
Reclassification of amortization of deferred loss on termination of derivative, net of income tax benefit of \$68 in 2005 and \$184 in 2004 and 2003 ..	128	341	

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Total other comprehensive income .....	365	185	
	-----	-----	-----
Comprehensive income (loss) .....	\$ 64,891	\$ 38,227	\$ (5,000)
	=====	=====	=====
Basic net income (loss) per share:			
Before cumulative effect of accounting changes.....	\$ .56	\$ .34	\$ (0.12)
Cumulative effect of accounting changes.....	.00	.00	(0.00)
	-----	-----	-----
Net income (loss).....	\$ .56	\$ .34	\$ (0.12)
	=====	=====	=====
Diluted net income per share:			
Before cumulative effect of accounting changes.....	\$ .52	\$ .33	\$ (0.19)
Cumulative effect of accounting changes.....	.00	.00	(0.00)
	-----	-----	-----
Net income.....	\$ .52	\$ .33	\$ (0.19)
	=====	=====	=====

47

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)	Common Stock		Additional Paid-in Capital	Treasury Shares
	Shares	Amount		
	-----	-----	-----	-----
Balance, February 2, 2002.....	111,891,156	\$11,189	\$103,267	
Issued to employees.....	189,266	19	1,329	
Exercise of stock options.....	1,326,561	133	5,695	
Shares withheld for payment of employee payroll taxes due on shares issued under employee stock plans.....	(25,801)	(2)	(148)	
Shares received in payment of stock option exercises.....	(176,278)	(18)	(1,485)	
Shares issued on conversion of convertible debt.....	11,944,338	1,194	89,877	
Purchases of treasury stock.....				(12,265)
Tax benefit - employee stock programs.....			1,505	
	-----	-----	-----	-----
Balance, February 1, 2003.....	125,149,242	12,515	200,040	(12,265)
Issued to employees.....	179,506	18	991	
Exercise of stock options.....	220,459	22	834	
Shares withheld for payment of employee payroll taxes due on shares issued under employee stock plans.....	(22,634)	(2)	(90)	
Tax benefit - employee stock programs.....			23	
	-----	-----	-----	-----
Balance, January 31, 2004.....	125,526,573	12,553	201,798	(12,265)
Issued to employees.....	411,411	41	9,095	
Exercise of stock options.....	6,249,634	625	33,062	

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Shares withheld for payment of employee payroll taxes due on shares issued under employee stock plans.....	(15,082)	(2)	(92)	
Shares received in payment of stock option exercises.....	(109,246)	(11)	(847)	
Tax benefit - employee stock programs.....			6,469	
Balance, January 29, 2005.....	132,063,290	\$13,206	\$249,485	(12,265,.....)
	=====	=====	=====	=====

	Deferred Employee Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
	-----	-----	-----
Balance, February 2, 2002.....	\$ (3,741)	\$ (818)	\$428,142
Issued to employees.....	(844)		
Amortization.....	1,215		
Unrealized gains, net of income taxes of \$139.....		268	
Net loss.....			(6,086)
Balance, February 1, 2003.....	(3,370)	(550)	422,056
Issued to employees.....	(600)		
Amortization.....	1,431		
Unrealized gains, net of income taxes of \$84.....		185	
Net income.....			38,042
Balance, January 31, 2004.....	(2,539)	(365)	460,098
Issued to employees.....	(8,713)		
Amortization.....	2,537		
Unrealized gains, net of income taxes of \$221.....		365	
Net income.....			64,526
Balance, January 29, 2005.....	\$ (8,715)	\$ 0	\$524,624
	=====	=====	=====

48

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended		
	January 29, 2005	January 31, 2004	February 2003
	----	----	----

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		(Restated)	(Restate
Operating activities			
Net income (loss) .....	\$ 64,526	\$ 38,042	\$ (6,08
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization .....	79,606	84,534	88,49
Deferred income taxes .....	11,521	6,067	22,60
Write-down of Catherines goodwill .....	0	0	43,97
Cumulative effect of capitalization of cash received from vendors .....	0	0	7,88
Net loss from disposition of capital assets .....	736	1,537	3,43
Capitalized interest on conversion of convertible notes	0	0	3,02
Tax benefit related to stock plans .....	6,469	23	1,50
Other, net .....	185	(142)	(67
Changes in operating assets and liabilities:			
Merchandise inventories .....	24,875	(23,523)	6,05
Accounts payable .....	(7,958)	(12,175)	40,06
Prepayments and other .....	(28,888)	16,802	16,58
Income taxes payable .....	(1,128)	(6,016)	7,14
Accrued expenses and other .....	19,774	(8,445)	(1,27
Accrued expenses related to cost reduction plan ...	(2,596)	2,596	
Accrued restructuring costs .....	0	0	(19,75
Net cash provided by operating activities .....	----- 167,122	----- 99,300	----- 212,96
Investing activities			
Gross purchases of available-for-sale securities .....	(30,887)	(35,440)	(58,30
Proceeds from sales of available-for-sale securities .....	48,206	31,463	54,79
Investment in capital assets .....	(60,565)	(54,028)	(81,27
Proceeds from sales of capital assets .....	0	500	80
Increase in other assets .....	(6,984)	(6,704)	(4,15
Net cash used by investing activities .....	----- (50,230)	----- (64,209)	----- (88,13
Financing activities			
Proceeds from short-term borrowings .....	186,173	221,423	534,49
Repayments of short-term borrowings .....	(186,173)	(221,423)	(588,79
Proceeds from long-term borrowings .....	18,098	1,557	164,00
Repayments of long-term borrowings .....	(18,530)	(14,566)	(84,12
Payments of deferred financing costs .....	(350)	(1,500)	(5,56
Purchases of treasury stock .....	0	0	(84,13
Proceeds from issuance of common stock .....	33,158	1,173	4,67
Net cash provided/(used) by financing activities .....	----- 32,376	----- (13,336)	----- (59,44
Increase in cash and cash equivalents .....	149,268	21,755	65,38
Cash and cash equivalents, beginning of year .....	123,781	102,026	36,64
Cash and cash equivalents, end of year .....	----- \$ 273,049	----- \$ 123,781	----- \$ 102,02
Non-cash financing and investing activities			
Common stock issued on conversion of convertible notes.....	\$ 0	\$ 0	\$ 89,10
Equipment acquired through capital leases .....	----- \$ 5,399	----- \$ 17,466	----- \$ 6,99

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

We operate retail specialty stores located throughout the continental United States that merchandise plus-size, misses, and junior sportswear, dresses, coats, and intimate apparel, as well as accessories and casual footwear, at a wide range of prices.

Principles of Consolidation

The consolidated financial statements include the accounts of Charming Shoppes, Inc. and our wholly-owned and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. We have a 52 - 53 week fiscal year ending on the Saturday nearest to January 31. As used herein, the terms "Fiscal 2005," "Fiscal 2004," and "Fiscal 2003" refer to our fiscal years ended January 29, 2005, January 31, 2004, and February 1, 2003, respectively. The term "Fiscal 2006" refers to our fiscal year which will end on January 28, 2006. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc., and, where applicable, our consolidated subsidiaries.

During Fiscal 2001, we entered into a joint venture agreement with MONSOON plc. to open and operate MONSOON/ACCESSORIZE stores in the United States. We invested \$4,000,000 for an 80% controlling interest in the joint venture, operated the joint venture as a consolidated operating unit, and accounted for MONSOON plc.'s investment as a minority interest. In March 2003, we announced that we would discontinue operation of the 9 MONSOON/ACCESSORIZE stores operated under the joint venture, and we closed the stores during Fiscal 2004 (see "Property and Depreciation" below).

Foreign Operations

We use a December 31 fiscal year for our foreign subsidiaries in order to expedite our year-end closing. There were no intervening events or transactions with respect to our foreign subsidiaries during the period from January 1, 2005 to January 29, 2005 that would have a material effect on our financial position or results of operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that our management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain prior-year amounts in the consolidated balance sheet, statements of



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operations and comprehensive income, and statements of cash flows for prior years have been reclassified to conform to the current-year presentation.

### Cash Equivalents

We consider all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. These amounts are stated at cost, which approximates market value.

50

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

### Available-for-Sale Securities

Our investments are classified as available for sale. Securities traded on an established market are carried at fair value, and unrealized gains and losses are reported in a separate component of stockholders' equity. We adjust the cost of these investments for amortization of premiums and the accretion of discounts to maturity where applicable. Such adjustments are included in interest income. We include interest income and realized gains and losses from investments in other income. The cost of securities sold is based on the specific identification method.

Short-term available-for-sale securities include investments with an original maturity of greater than three months and a remaining maturity of less than one year, and consist primarily of retained interests in our asset securitization facilities (see "NOTE 16. ASSET SECURITIZATION" below). Long-term available-for-sale securities include investments that have an original maturity of greater than one year, but are available on an as-needed basis to support our working capital needs.

### Inventories

We value our merchandise inventories at the lower of cost or market, using the retail inventory method (average cost basis). Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are adjusted in proportion to markdowns currently taken and shrinkage on the retail value of inventories. In addition to markdowns that have been taken (i.e., selling price permanently reduced on the selling floor), we accrue an estimate for markdowns not yet recorded that we believe will be necessary to sell end-of-season inventory on hand at the end of the period. We purchase inventory by season and distinguish aged inventory by tracking inventory quantities on hand by season. We liquidate aged seasonal inventory through markdowns or sale to liquidators. We base our inventory shrinkage on periodic physical inventories on a store-by-store basis, with supplemental observations in locations exhibiting high shrinkage rates. We determine interim shrinkage estimates on a store-by-store basis, based on our most recent physical inventory results.

### Property and Depreciation

For financial reporting purposes, we compute depreciation and amortization primarily using the straight-line method over the estimated useful lives of the

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assets or, in the case of leasehold improvements, over the lease term as determined under our operating lease accounting policy (see "Operating Leases" below), if shorter. We use accelerated depreciation methods for income tax reporting purposes. Depreciation and amortization of property, equipment (including equipment acquired under capital leases), and leasehold improvements was \$72,437,000, \$76,541,000, and \$79,428,000 in Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively (Fiscal 2004 and Fiscal 2003 amounts have been restated - see "NOTE 2. RESTATEMENT OF FINANCIAL STATEMENTS" below).

We evaluate the recoverability of our long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We assess our long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amounts of long-lived assets may not be recoverable. We consider historical performance and future estimated results when evaluating an asset for potential impairment, then compare the carrying amount of the asset to the estimated future undiscounted cash flows expected to result from the use of the asset. If the estimated future undiscounted cash flows are less than the carrying amount of the asset, we write down the asset to its estimated fair

51

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

value and recognize an impairment loss. Our estimate of fair value is generally based on either appraised value or the present value of future cash flows. Pursuant to SFAS No. 144, we recorded a \$2,700,000 write-down of under-performing assets related to our consolidated MONSOON joint venture during Fiscal 2003. The amount of the write-down is included in occupancy expenses.

### Lease Accounting

We lease substantially all of our store properties and account for our store leases in accordance with SFAS No. 13, "Accounting for Leases." A majority of our store leases contain lease options that we can unilaterally exercise. The lease term we use for such operating leases includes lease option renewal periods only in instances in which the failure to exercise such options would result in an economic penalty for us and exercise of the renewal option is therefore reasonably assured at the lease inception date.

For leases that contain rent escalations, the lease term for recognition of straight-line rent expense commences on the date we take possession of the leased property for construction purposes, which is generally two months prior to a store opening date. Similarly, landlord incentives or allowances under operating leases (tenant improvement allowances) are recorded as a deferred rent liability and recognized as a reduction of rent expense on a straight-line basis over the lease term commencing on the date we take possession of the leased property for construction purposes.

### Goodwill and Other Intangible Assets

As of the beginning of Fiscal 2003, we account for goodwill and other intangible assets in accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." We own trademarks, tradenames, internet domain

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names, customer lists, and a covenant not to compete that we obtained in connection with our acquisition of LANE BRYANT. The values of these intangible assets were determined by an independent appraisal, using an after-tax discounted cash flow method, based on the estimated future benefits to be received from the assets. We allocated the excess of the cost of the LANE BRYANT acquisition over the estimated fair value of the identifiable tangible and intangible net assets acquired to goodwill. In accordance with the provisions of SFAS No. 142, we are not amortizing the goodwill.

The LANE BRYANT trademarks, tradenames, and internet domain names are well-recognized in the plus-size apparel market. We expect to renew and protect these trademarks, tradenames, and internet domain names indefinitely, and expect that they will generate positive cash flows for the Company for the foreseeable future. Therefore, we are not amortizing the appraised value of the trademarks, tradenames, and internet domain names. We periodically review the trademarks, tradenames, and internet domain names for indicators of a limited useful life. We are amortizing the customer lists and covenant not to compete over their estimated useful life of five years.

52

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

In accordance with the provisions of SFAS No. 142, we are required to re-evaluate goodwill and other indefinite-lived intangible assets annually, or more frequently if there is an indication of possible impairment. During Fiscal 2003, we determined that the carrying value of goodwill related to our CATHERINES acquisition (including the value of intangible assets we did not separately account for at the date of the CATHERINES acquisition) exceeded the estimated fair value of the CATHERINES goodwill under SFAS No. 142. We determined the estimated fair value of the CATHERINES goodwill using the present value of expected future cash flows associated with the CATHERINES assets. We recorded a write-down (which was not deductible for income tax purposes) of \$43,975,000 to reduce the carrying value of the goodwill to its estimated fair value. The majority of the write-down is attributable to the value of unrecorded trademarks. The write-down of the CATHERINES goodwill is presented as the cumulative effect of an accounting change, as of February 3, 2002, in our Consolidated Statement of Operations and Comprehensive Income (Loss) for Fiscal 2003. We also evaluated the goodwill, trademarks, tradenames, and internet domain names related to our LANE BRYANT acquisition as of February 3, 2002 in accordance with the provisions of SFAS No. 142, and determined that there had been no impairment of these assets. During the fourth quarters of Fiscal 2003, Fiscal 2004, and Fiscal 2005, we conducted the annual re-evaluation of our goodwill and other indefinite-lived intangible assets and determined that there was no impairment of these assets. The calculation of the estimated fair value of the goodwill and other intangible assets required estimates, assumptions, and judgments, and results might have been materially different if different estimates, assumptions, and judgments had been used.

Asset Securitization

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We account for our asset securitization facilities in accordance with the requirements of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Asset securitization involves the sale of proprietary credit card receivables by our credit card bank to a special purpose entity, which in turn transfers the receivables to a qualified special purpose entity (the "Trust") created for the securitization. The Trust issues asset-backed certificates that represent undivided interests in those credit card receivables transferred into the Trust. These certificates are sold to investors, and we retain any undivided interests that remain unsold. We include these remaining undivided interests, and any other retained interests, in short-term available-for-sale securities in our accompanying consolidated balance sheet. The carrying value of these retained interests approximates their fair value. The assets and liabilities of the Trust are not included in our consolidated balance sheet.

Transaction expenses related to securitizations are deferred and amortized over the reinvestment period of the transaction. Net securitization income is included as a reduction of selling, general, and administrative expenses in our accompanying consolidated statements of operations and comprehensive income (loss).

### Deferred Debt Acquisition Costs

Debt acquisition costs are deferred and amortized to interest expense on a straight-line basis over the life of the related debt agreement.

53

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

### Insurance Liabilities

We use a combination of third-party insurance and/or self-insurance for certain risks, including workers' compensation, medical, dental, automobile, and general liability claims. Our insurance liabilities are a component of "Accrued expenses" on our consolidated balance sheet, and represent an estimate of the ultimate cost of uninsured claims incurred as of the balance sheet date. In estimating our self insurance liabilities, we use independent actuarial estimates of expected losses, which are based on statistical analyses of historical data. Loss estimates are adjusted based upon actual claim settlements and reported claims. Although we do not expect the amounts ultimately paid to differ significantly from our estimates, self-insurance liabilities could be affected if future claim experience differs significantly from the historical trends and the actuarial assumptions. We evaluate the adequacy of these liabilities on a regular basis, modifying our assumptions as necessary, updating our records of historical experience, and adjusting our liabilities as appropriate.

### Common Stock Plans

We account for stock-based compensation using the intrinsic value method, in accordance with Accounting Principles Board ("APB") Opinion No. 25,

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"Accounting for Stock Issued to Employees," and its related interpretations. We amortize deferred compensation expense attributable to stock awards and stock options having an exercise price less than the market price on the date of grant on a straight-line basis over the vesting period of the award or option. We do not recognize compensation expense for options having an exercise price equal to the market price on the date of grant or for shares purchased under our Employee Stock Purchase Plan. We have elected to follow the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation." We adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," as of the beginning of Fiscal 2004.

54

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

The following table reconciles net income (loss) and net income (loss) per share as reported, using the intrinsic value method under APB No. 25, to pro forma net income (loss) and pro forma net income (loss) per share using the fair value method under SFAS No. 123:

(In thousands, except per share amounts)	2005 ----	2004 ---- (Restated)	2003 ---- (Restated)
Net income (loss) as reported .....	\$ 64,526	\$ 38,042	\$ (6,086)
Add stock-based employee compensation as reported, using intrinsic value method, net of income taxes .....	1,649	930	790
Less stock-based employee compensation, using fair-value method, net of income taxes .....	(3,862)	(3,298)	(5,864)
Pro forma net income (loss) .....	\$ 62,313 =====	\$ 35,674 =====	\$(11,160) =====
Basic net income (loss) per share:			
As reported.....	\$.56	\$.34	\$ (.05)
Pro forma.....	.54	.32	(.10)

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Diluted net income (loss) per share:

As reported.....	.52	.33	(.01)
Pro forma.....	.50	.31	(.05)

For purposes of determining the pro forma disclosures, we estimate the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. In applying the Black-Scholes model, we used a range of estimated stock price volatilities of 37.6 to 50.8, a dividend yield of 0.0%, expected lives of 3 months for the Employee Stock Purchase Plan, 3 to 5 years for stock award plans, and 3 to 7 years for stock option and stock incentive plans, and the following risk-free interest rates:

(In percents)	2005 ----	2004 ----	2003 ----
Risk-free interest rate:			
Employee stock purchase plan.....	0.9 - 2.4	0.9	1.1
Stock award plans.....	1.9 - 3.9	2.8	3.1
Stock option and incentive plans..	2.8 - 4.4	2.8	3.1

55

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), a revision of SFAS No. 123. SFAS No. 123R supersedes APB Opinion No. 25, and amends SFAS No. 95, "Statement of Cash Flows." We will be required to adopt the provisions of SFAS No. 123R as of the beginning of the third quarter of Fiscal 2006. See "Impact of Recent Accounting Pronouncements" below for a further discussion of SFAS No. 123R.

### Revenue Recognition

Revenues from merchandise sales are net of discounts, returns and allowances, and coupons, and exclude sales tax. We record a reserve for estimated future sales returns based on an analysis of actual returns received, and we defer recognition of layaway sales to the date of delivery. Revenues from sales of gift cards are recorded as deferred revenue and recognized upon the redemption of the gift cards.

Revenues from our E-commerce business include shipping and handling fees billed to customers. E-commerce revenues are recognized after the following have occurred: execution of the customer's order, authorization of the customer's

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credit card has been received, and the product has been shipped and received by the customer. We record a reserve for estimated future E-commerce sales returns based on an analysis of actual returns.

We offer our customers various loyalty card programs (see "NOTE 12. CUSTOMER LOYALTY CARD PROGRAMS" below). Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers generally join these programs by paying an annual membership fee. We recognize revenue from these loyalty programs as sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. Costs we incur in connection with administering these programs are recognized in cost of goods sold as incurred.

### Cost of Goods Sold, Buying, and Occupancy Expenses

Cost of goods sold includes merchandise costs net of discounts and allowances, freight, inventory shrinkage, and shipping and handling costs associated with our E-commerce business. We capitalize net merchandise costs and freight as inventory costs. Cost of goods sold also includes costs incurred in connection with our customer loyalty card programs (see "Revenue Recognition" above). Buying expenses include payroll, payroll-related costs, and operating expenses for our buying departments and warehouses. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities, maintenance, and depreciation for our stores and warehouse facilities and equipment. Buying and occupancy costs are treated as period costs and are not capitalized as part of inventory.

### Advertising Costs

We expense advertising costs as incurred. Advertising costs charged to expense were \$66,666,000, \$60,494,000, and \$63,943,000 in Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively.

### Costs Associated With Exit or Disposal Activities

We recognize liabilities for costs associated with exit or disposal activities when the liabilities are incurred, and value the liabilities at fair value, in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Severance pay is recognized as employees render service over future periods if the severance arrangement requires employees to render future service beyond a minimum retention period.

### Income Taxes

We use the liability method of accounting for income taxes as prescribed by SFAS No. 109, "Accounting for Income Taxes." Under the liability method, we adjust deferred tax assets and liabilities to reflect the effect of changes in

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enacted tax rates on expected reversals of financial statement and income tax basis differences.

We have not provided U.S. income taxes on undistributed earnings of foreign subsidiaries accumulated through January 31, 2004 because we intend to reinvest such undistributed earnings in foreign operations.

On October 22, 2004, the President of the United States of America signed into law H.R. 4250, "The American Jobs Creation Act of 2004" (the "Act"), which includes among its provisions certain tax benefits related to the repatriation to the United States of profits from a company's international operations. The Act provides for the repatriation of profits from international operations at a tax rate not to exceed 5.25% for approximately a one-year period. These tax benefits are subject to various limitations, and, as of January 29, 2005, the U.S. Treasury Department has not issued final guidelines for applying the repatriation provisions of the Act. We are currently evaluating the effects of the Act, and have not determined the effect, if any, that it will have on our financial condition and results of operations. As of January 29, 2005, our consolidated cash balance included approximately \$39,500,000 of cash held by our international operations. We will finalize our analysis before the end of Fiscal 2006.

### Net Income (Loss) Per Share

Net income (loss) per share is based on the weighted-average number of common shares outstanding during each fiscal year. Net income per share assuming dilution is based on the weighted-average number of common shares and share equivalents outstanding. Common share equivalents include the effect of dilutive stock options and stock awards, using the treasury stock method. Common share equivalents also include the effect of assumed conversions of our convertible debt, using the "if-converted" method, when the effect of such assumed conversions is dilutive. Share equivalents are not included in the weighted-average shares outstanding for determining net loss per share, as the result would be anti-dilutive.

### Comprehensive Income (Loss)

The consolidated statements of operations and comprehensive income (loss) include transactions from non-owner sources that affect stockholders' equity. Unrealized gains and losses recognized in comprehensive income are reclassified to net income upon their realization.

57

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

### Business Segments and Related Disclosures

Our LANE BRYANT, FASHION BUG, and CATHERINES stores are aggregated within a single segment - retail sales of women's apparel, and within a single geographic area - the continental United States. Our foreign sourcing operations do not constitute a material geographic segment.



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### Costs of Computer Software Developed or Obtained for Internal Use

Costs related to the development of internal-use software, other than those incurred during the application development stage, are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software.

### Cash Consideration Received from Vendors

As of the beginning of Fiscal 2003, we record cash consideration received from vendors as a reduction of inventory, and it is recognized in cost of goods sold as inventory is sold, in accordance with EITF Issue 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor." In Fiscal 2003, we recognized a charge of \$5,123,000, net of income taxes of \$2,758,000, for the cumulative effect of the deferral of cash received from vendors as of the beginning of Fiscal 2003. The impact of the adoption of EITF 02-16 on the year ended February 1, 2003 was an increase in cost of goods sold of \$216,000. As of January 29, 2005 and January 31, 2004, \$6,465,000 and \$9,456,000, respectively, of cash received from vendors has been deferred into inventory and will be recognized as inventory is sold. We defer the recognition of markdown allowances during interim periods in order to better match the recognition of markdown allowances to the period the related markdown expenses are recorded.

### Impact of Recent Accounting Pronouncements

We adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," as of the beginning of Fiscal 2004. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Adoption of SFAS No. 143 did not have a material impact on our financial position or results of operations.

In January 2003, the FASB issued Financial Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements." A variable interest entity ("VIE") is a legal entity used for business purposes that either does not have equity investors with substantive voting rights or has equity investors that do not provide sufficient financial resources for the entity to finance its activities without additional subordinated financial support from other parties. Consolidation of a VIE by a variable interest holder is required if the variable interest holder is subject to a majority of the VIE's residual returns, risk of loss, or both. Qualifying special purpose entities ("QSPEs") subject to the requirements of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" are excluded from the scope of FIN No. 46. Adoption of FIN No. 46 had no impact on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R" or the "Statement"), a revision of SFAS No. 123. SFAS

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No. 123R supersedes APB Opinion No. 25, and amends SFAS No. 95, "Statement of Cash Flows." The accounting for share-based payments under SFAS No. 123R is similar to the fair value method in SFAS No. 123, except that we will be required to recognize the fair value of share-based payments as compensation expense in our financial statements (pro forma disclosure will no longer be allowed).

Generally, under SFAS No. 123R, we will be required to determine the fair value of employee stock options using an option pricing model, and the value of non-vested stock awards will be based on the fair market value of our stock on the date we grant the award, without regard to service or performance conditions (as defined in the Statement). We will not be required to recognize compensation cost for options or awards that do not vest as a result of a failure to satisfy service or performance conditions. Instead, we will be required to estimate forfeitures of options or awards due to the failure to satisfy service or performance conditions in determining total compensation for the option or award and to adjust such estimates to the extent that they differ from actual forfeitures. The determination of the fair value of options or awards under SFAS No. 123R may also be affected by "market conditions" or "other conditions" (as defined in the Statement); however, recognition of compensation expense will not be affected by the failure to satisfy a market or other condition. In addition to recognizing compensation cost for our stock options and awards, we will be required to recognize compensation cost related to our employee stock purchase plan.

The period over which we will be required to recognize compensation expense related to an option or award will be determined based on all the terms of the option or award. For options or awards with graded vesting based on a service condition (portions of the option or award vest ratably over the service period), we will be required to elect either a straight-line recognition method or the accelerated method specified in FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans."

Under SFAS No. 123R, we will be required to present cash flows for excess tax benefits related to share-based payments as financing cash flows in our consolidated statements of cash flows, instead of as operating cash flows, as currently permitted under EITF Issue No. 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option."

We will be required to adopt the provisions of SFAS No. 123R as of the beginning of the third quarter of Fiscal 2006 for options and awards granted after the date of adoption. Under the modified-prospective-transition method, for unvested options and awards granted prior to the date of adoption of SFAS No. 123R, we will be required to recognize compensation expense in our financial statements as of the date of adoption in accordance with the provisions of SFAS No. 123, adjusted to reflect estimated forfeitures in accordance with the provisions of SFAS No. 123R. We will also recognize a cumulative effect of a change in accounting principles as of the date of adoption to reflect the reversal of any compensation expense for periods prior to the date of adoption for such estimated forfeitures, if material. Under the modified-retrospective-transition method, we will also have the option to restate our financial statements, either for the first two quarters of Fiscal 2006 or for all periods prior to adoption presented for comparative purposes, to recognize compensation cost previously reported in our pro forma footnote

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CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

disclosures in accordance with SFAS No. 123. We will be required to apply the provisions of SFAS No. 123R related to cash flow reporting prospectively from the date of adoption under the modified-prospective-transition method, and retrospectively for the same periods for which the modified-retrospective-transition method is applied.

Our adoption of SFAS No. 123R will result in the recognition of additional compensation expense for stock-based compensation in interim and annual periods subsequent to July 1, 2005. Because we are not able to reliably estimate the nature and amounts of stock-based awards to be issued in future periods, the future impact of adoption cannot be quantified. See "Common Stock Plans" above for pro forma disclosure of stock-based compensation expense determined in accordance with the provisions of SFAS No. 123 for Fiscal 2005, Fiscal 2004, and Fiscal 2003. We have not yet determined whether we will adopt the modified-prospective-transition method or one of the options under the modified-retrospective-transition method.

### NOTE 2. RESTATEMENT OF FINANCIAL STATEMENTS

Our system of internal controls over financial reporting includes the monitoring of emerging accounting issues and the reviewing of industry and peer group filings and news releases. As a result of the publicity on the restaurant industry financial statement restatements related to leases, we commenced a review of certain of our accounting policies related to leases during January 2005. Subsequently, on February 7, 2005, the Office of the Chief Accountant of the Securities and Exchange Commission ("SEC") issued a letter to the American Institute of Certified Public Accountants expressing its views regarding certain operating-lease-related accounting issues and their application under generally accepted accounting principles in the United States of America ("GAAP"). Based on our internal review, and after consultation with the Audit Committee of our Board of Directors and our independent registered public accounting firm, we restated our financial statements for years prior to Fiscal 2005 to correct our accounting for landlord allowances, calculation of straight-line rent expense, recognition of rent holiday periods, and depreciation of leasehold improvements for our retail stores.

We lease substantially all of our stores under non-cancelable operating lease agreements. These lease agreements generally include standard language on landlord allowances for costs relating to the design, construction, fixturing, and opening of stores. Construction allowances vary by store, and represent a reimbursement from the landlord for a portion of the leasehold improvement costs we incur. Historically, we classified construction allowances as a reduction of property, equipment, and leasehold improvements on our consolidated balance sheets and as a reduction of capital expenditures on our consolidated statements of cash flows. In addition, when accounting for leases with renewal options, we historically recorded rent expense on a straight-line basis over the initial non-cancelable lease term, beginning with the lease commencement date. However, we depreciated leasehold improvements over their estimated useful life of ten years, which, in many cases, may have included both the initial non-cancelable lease term and option renewal periods provided for in the lease. Also, we historically recognized rent holiday periods on a straight-line basis over the lease term commencing with the initial occupancy date, or the opening date of the stores. The store opening date coincided with the commencement of business operations, which corresponds with the intended use of the property. Management re-evaluated FASB Technical Bulletin No. 85-3, "Accounting for Operating leases

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with Scheduled Rent Increases," and determined that the lease term should commence on the date we take possession of the leased space for construction purposes, which is generally two months prior to a store opening date.

60

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

As a result of the restatement, construction allowances have been recorded as a deferred rent liability on our consolidated balance sheets instead of being recorded as a reduction of the cost of leasehold improvements. In our consolidated statements of cash flows, we have recognized construction allowances as an operating activity instead of recognizing them as a reduction of our investment in capital assets. In addition, the construction allowances will be amortized over the related lease term as a reduction of rent expense rather than as a reduction of depreciation expense commencing on the date we take possession of the leased space for construction purposes.

We also corrected the lease term used to determine straight-line rent expense and depreciation of leasehold improvements to include lease option renewal periods only in instances in which the exercise of the option period is reasonably assured and the failure to exercise such an option would result in an economic penalty. Depreciation of leasehold improvements has been recognized over the shorter of the corrected lease term or the assets' estimated useful lives. Lease terms used to determine straight-line rent expense include pre-opening store build-out periods (commonly referred to as "rent holidays"), where applicable. These corrections resulted in the accelerated recognition of certain annual rent expense and depreciation expense on leasehold improvements.

As a result of the above corrections, we recorded additional deferred rent in "accrued expenses" and "deferred taxes and other non-current liabilities" and we adjusted "retained earnings" on the consolidated balance sheet. We also corrected amortization in "cost of goods sold, buying, and occupancy expenses" on the consolidated statements of operations and comprehensive income (loss) for each of our three fiscal years in the period ended January 29, 2005. These corrections did not have any impact on our previously reported comparable store sales, net sales, total cash flows, and actual lease payments, or on the economic value of our leasehold improvements.

61

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

The effects of the restatement on our consolidated financial statements are

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summarized as follows:

(In thousands, except per share amounts)	As Previously Reported(1)	Adjustments	As Restat
	-----	-----	-----
Consolidated Balance Sheet as of January 31, 2004:			
Property, equipment, and leasehold improvements:			
Cost .....	\$ 705,257	\$ 70,243	\$ 775,
Accumulated depreciation and amortization .....	386,633	60,858	447,
	-----	-----	-----
Net property, equipment, and leasehold improvements	318,624	9,385	328,
	-----	-----	-----
Total assets .....	\$ 1,163,685	\$ 9,385	\$ 1,173,
	=====	=====	=====
Deferred taxes and other non-current liabilities .....	\$ 56,293	\$ 27,061	\$ 83,
Stockholders' equity:			
Retained earnings .....	477,774	(17,676)	460,
	-----	-----	-----
Total stockholders' equity .....	605,085	(17,676)	587,
	-----	-----	-----
Total liabilities and stockholders' equity .....	\$ 1,163,685	\$ 9,385	\$ 1,173,
	=====	=====	=====
Consolidated Statement of Operations for Year Ended			
January 31, 2004:			
Cost of goods sold, buying, and occupancy expenses .....	\$ 1,638,701	\$ 4,115	\$ 1,642,
Income tax provision .....	23,141	(1,518)	21,
Net income .....	40,639	(2,597)	38,
Basic net income per share .....	\$ .36	\$ (.02)	\$
Diluted net income per share .....	\$ .35	\$ (.02)	\$
Consolidated Statement of Operations for Year Ended			
February 1, 2003:			
Cost of goods sold, buying, and occupancy expenses .....	\$ 1,721,052	\$ 5,254	\$ 1,726,
Income tax provision .....	29,055	(1,938)	27,
Income before cumulative effect of accounting changes ..	46,328	(3,316)	43,
Net income (loss) .....	(2,770)	(3,316)	(6,
Basic net income (loss) per share:			
Before cumulative effect of accounting changes ....	\$ .41	\$ (.03)	\$
Net income (loss) .....	\$ (.02)	\$ (.03)	\$
Diluted net income per share:			
Before cumulative effect of accounting changes ....	\$ .39	\$ (.03)	\$
Net income (loss) .....	\$ .01	\$ (.03)	\$

(Table continued on next page)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

(Table continued from previous page):

(In thousands)	As Previously Reported(1) -----	Adjustments -----	As Restated -----
Consolidated Statement of Cash flows for year ended			
January 31, 2004:			
Operating activities:			
Net income .....	\$ 40,639	\$ (2,597)	\$ 38,042
Additions to reconcile net income to net cash provided by operations:			
Depreciation and amortization .....	76,347	8,187	84,534
Deferred income taxes .....	7,585	(1,518)	6,067
Changes in operating assets and liabilities:			
Accrued expenses and other .....	(13,387)	4,942	(8,445)
	-----	-----	-----
Net cash provided by operating activities .....	\$ 90,286	\$ 9,014	\$ 99,300
	-----	-----	-----
Investing activities:			
Investment in capital assets .....	\$ (45,014)	\$ (9,014)	\$ (54,028)
Consolidated Statement of Cash flows for year ended			
February 1, 2003:			
Operating activities:			
Net income (loss) .....	\$ (2,770)	\$ (3,316)	\$ (6,086)
Additions to reconcile net income to net cash provided by operations:			
Depreciation and amortization .....	79,421	9,071	88,492
Deferred income taxes .....	24,538	(1,938)	22,600
Changes in operating assets and liabilities:			
Accrued expenses and other .....	(4,425)	3,154	(1,271)
	-----	-----	-----
Net cash provided by operating activities .....	\$ 205,992	\$ 6,971	\$ 212,963
	-----	-----	-----
Investing activities:			
Investment in capital assets .....	\$ (74,303)	\$ (6,971)	\$ (81,274)
-----			

Prior-year financial information and quarterly information for Fiscal 2004 and the first three quarters of Fiscal 2005 included in these Consolidated Financial Statements and Notes has been restated as applicable and has been indicated as such.

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CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

NOTE 3. PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

(Dollars in thousands)	Lives (Years) -----	2005 ----	2004 ---- (Restated)
Land .....		\$ 5,983	\$ 5,983
Buildings and improvements .....	10 to 40	70,549	70,538
Store fixtures .....	5 to 10	128,958	124,018
Equipment .....	3 to 10	179,358	195,195
Equipment acquired under capital leases	7	68,119	65,851
Leasehold improvements .....	10	333,061	313,915
		-----	-----
Total at cost .....		786,028	775,500
		-----	-----
Less: Accumulated depreciation and amortization .....		440,551	425,001
Accumulated amortization of capital lease assets .....		24,814	22,490
		-----	-----
Total accumulated depreciation and amortization .....		465,365	447,491
		-----	-----
Net property, equipment, and leasehold improvements .....		\$320,663	\$328,009
		=====	=====

NOTE 4. TRADEMARKS AND OTHER INTANGIBLE ASSETS

(Dollars in thousands)	Lives (Years) -----	2005 ----	2004 ----
Trademarks, tradenames, and internet domain names ...		\$168,800	\$168,800
Customer lists and covenant not to compete .....	5	3,300	3,300
		-----	-----
Total at cost .....		172,100	172,100
Less: accumulated amortization of customer lists and covenant not to compete .....		2,282	1,622
		-----	-----
Net trademarks and other intangible assets .....		\$169,818	\$170,478
		=====	=====

Total amortization of other intangible assets was \$660,000 in Fiscal 2005 and Fiscal 2004, and \$656,000 in Fiscal 2003. Estimated amortization of intangible assets for the next five fiscal years is: 2006 - \$660,000; 2007 - \$358,000; thereafter - \$0.

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

NOTE 5. AVAILABLE-FOR-SALE SECURITIES

(In thousands)	Cost	Unrealized		Estimated Fair Value
		Gains	Losses	
	----	-----	-----	-----
January 29, 2005				
Charming Shoppes Master Trust certificates and retained interests(1) .....	\$ 52,485	\$ 0	\$ 0	\$ 52,485
Other .....	612	0	0	612
	-----	-----	-----	-----
	\$ 53,097	\$ 0	\$ 0	\$ 53,097
	=====	=====	=====	=====
January 31, 2004				
Government agency bonds .....	\$ 14,671	\$ 0	\$ (390)	\$ 14,281
Charming Shoppes Master Trust certificates and retained interests(1) .....	55,363	0	0	55,363
Other .....	565	0	0	565
	-----	-----	-----	-----
	\$ 70,599	\$ 0	\$ (390)	\$ 70,209
	=====	=====	=====	=====

During Fiscal 2005, there were \$185,000 of realized losses on sales of available-for-sale securities. There were no realized gains or (losses) on available-for-sale securities during Fiscal 2004 or Fiscal 2003.

Contractual maturities of available-for-sale securities at January 29, 2005 were:

(In thousands)	Cost	Estimated Fair Value
	----	-----
Due in one year or less(1).....	\$52,857	\$52,857
Due after ten years.....	240	240
	-----	-----
	\$53,097	\$53,097
	=====	=====



CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

NOTE 6. INCOME TAXES

Income (loss) before income taxes, minority interest, and cumulative effect of accounting changes:

(In thousands)	2005 ----	2004 ---- (Restated)	2003 ---- (Restated)
Domestic.....	\$ 98,144	\$56,181	\$66,225
Foreign.....	3,524	3,342	3,225
	-----	-----	-----
	\$101,668	\$59,523	\$69,450
	=====	=====	=====

Income tax provision (benefit):

(In thousands)	2005 ----	2004 ---- (Restated)	2003 ---- (Restated)
Current:			
Federal.....	\$20,857	\$14,973	\$ 4,946
State.....	6,275	1,913	2,779
Foreign.....	668	529	418
	-----	-----	-----
Deferred(1).....	27,800	17,415	8,143
	9,342	4,208	18,974
	-----	-----	-----
	\$37,142	\$21,623	\$27,117
	=====	=====	=====

We made income tax payments of \$30,829,000, \$10,147,000 and \$5,624,000 during Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively.

Reconciliation of the effective tax rate with the statutory Federal income tax rate:

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	2005 ----	2004 ---- (Restated)	2003 ---- (Restated)
Statutory Federal income tax rate .....	35.0%	35.0%	35.0%
State income tax, net of Federal income tax	2.2	1.9	2.5
Foreign income .....	(0.6)	(1.1)	(1.0)
Employee benefits .....	(1.0)	(0.5)	2.0
Other, net .....	0.9	1.0	0.5
	----	----	----
	36.5%	36.3%	39.0%
	=====	=====	=====

66

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

Components of deferred tax assets and liabilities:

(In thousands)	Net Current Assets (Liabilities) -----	Net Long-Term Assets (Liabilities) -----
January 29, 2005		
Property, equipment, and leasehold improvements...		\$(19,374)
Tax net operating loss and credit carryforwards...		564
Prepaid and accrued expenses.....	\$13,084	
Inventory.....	(1,902)	
Deferred compensation.....		8,662
Intangible assets.....		(26,524)
Investments.....		(4,846)
Deferred rent.....		6,867
Other.....	4,318	3,006
	-----	-----
	\$15,500	\$(31,645)
	=====	=====
January 31, 2004 (Restated)		
Property, equipment, and leasehold improvements...		\$(13,223)
Tax net operating loss and credit carryforwards...		3,256
Prepaid and accrued expenses.....	\$13,126	
Inventory.....	5,320	
Deferred compensation.....		7,109
Intangible assets.....		(22,914)
Investments.....		(3,612)
Deferred rent.....		6,226
Other.....	262	49
	-----	-----

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\$18,708                      \$(23,109)  
 =====                      =====

During Fiscal 2004, we reached a settlement with the Internal Revenue Service regarding its audit of our corporate-owned life insurance ("COLI") program. The settlement included \$18,477,000 of income taxes and \$4,038,000 of interest, net of a tax benefit of \$2,175,000. Of the \$18,477,000 of income taxes, \$16,125,000 was satisfied through the use of existing operating losses and tax credits. As part of the settlement, we surrendered our existing life insurance policies and received their cash surrender value of \$16,332,000. The settlement had no impact on our current results of operations, as we had previously provided for taxes to cover the settlement. The settlement had a net positive impact of \$7,767,000 on our Fiscal 2004 cash flows. The utilization of the operating losses and tax credits to satisfy income taxes related to the COLI settlement resulted in a decrease in net deferred tax assets.

67

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

NOTE 7. DEBT

Long-term debt at year end:

(In thousands)	2005	2004
	----	----
4.75% Senior Convertible Notes due June 2012	\$150,000	\$150,000
Capital lease obligations .....	34,825	37,934
6.07% mortgage note, due October 2014 .....	12,821	0
6.53% mortgage note, due November 2012 .....	10,850	12,250
7.77% mortgage note due December 2011 .....	9,564	10,039
7.5% mortgage note due March 2006 .....	5,605	5,840
8.15% note due December 2004 .....	0	2,494
Other long-term debt .....	1,399	1,540
	-----	-----
Total long-term debt .....	225,064	220,097
Less current portion .....	16,419	17,278
	-----	-----
	\$208,645	\$202,819
	=====	=====

We have a \$300,000,000 revolving credit facility (the "Facility") that provides for cash borrowings and enables us to issue up to \$150,000,000 of letters of credit for purchases of merchandise and for standby letters of credit. As of January 29, 2005, there were no borrowings outstanding under the Facility. The availability of borrowings under the Facility is subject to limitations based on eligible inventory and, under certain circumstances, credit card receivables and in-transit cash. The Facility is secured by our general assets, except for (i) all assets related to our credit card securitization

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facilities, (ii) all real property, (iii) certain equipment subject to other mortgages or capital leases, (iv) the assets of our non-U.S. subsidiaries, and (v) certain other assets. The Facility expires on August 15, 2008. As of January 29, 2005, we had \$3,267,000 of unamortized deferred debt acquisition costs related to the Facility, which we are amortizing on a straight-line basis over the life of the Facility as interest expense.

The interest rate on borrowings under the Facility ranges from Prime to Prime plus .50% per annum for Prime Rate Loans, and LIBOR plus 1.5% to LIBOR plus 2.00% per annum for Eurodollar Rate Loans. The applicable rate is determined quarterly, based on our average excess and suppressed availability, as defined in the Facility. As of January 29, 2005, the interest rate on borrowings under the Facility was 5.25% for Prime Rate Loans and 4.06% for Eurodollar Rate Loans. There is a fee of 1.0% to 1.25% per annum on outstanding letters of credit and a fee of .375% per annum on the unused portion of the Facility.

The Facility includes limitations on sales and leasebacks, the incurrence of additional liens and debt, capital lease financing, and other limitations. The Facility also requires, among other things, that we not pay dividends on our common stock and, if our excess and suppressed availability (as defined in the Facility) is less than \$50,000,000 at any time within a fiscal quarter, that we maintain a minimum level of consolidated 12-month earnings before interest, taxes, depreciation, and amortization ("EBITDA") (excluding non-recurring, non-cash charges as defined in the Facility). During Fiscal 2005, our excess and suppressed availability was above \$50,000,000 at all times. We had outstanding letters of credit totaling \$82,996,000 as of January 29, 2005. As of January 29, 2005, we were not in default with respect to any of the Facility's covenants.

68

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

The 4.75% Senior Convertible Notes will mature on June 1, 2012 and are convertible at any time prior to maturity into shares of our common stock at a conversion price of \$9.88 per share, subject to adjustment upon certain events. The Senior Notes are redeemable at our option, in whole or in part, at any time on or after June 4, 2007, at declining redemption prices, starting at 102.38% of principal and decreasing to 100.48% of principal on or after June 1, 2011. Under certain circumstances involving a change in control of the Company, holders of the Senior Notes may require us to repurchase all or a portion of the Senior Notes at 100% of the principal amount plus accrued and unpaid interest, if any. Also, under such circumstances, we have the option of paying the repurchase price in shares of our common stock, valued at 95% of the average of the closing prices of the common stock for the five-day trading period immediately before and including the third trading day preceding the repurchase date. There is no sinking fund for the Senior Notes.

Pursuant to a program to replace point-of-sale ("POS") equipment in our stores, we acquired \$3,899,000, \$8,468,000, and \$3,495,000 of POS equipment under capital leases in Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively. These leases generally have an initial lease term of 60 months and contain a bargain purchase option. As of January 29, 2005, the imputed interest rates on the capital leases ranged from 4.48% to 10.87%.

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In December 2002, we entered into two financing leases for the purchase of material handling systems and related equipment and software for the White Marsh distribution center. The lease terms provide for the availability of funds as the equipment and software is delivered and accepted. The first capital lease obligation of \$2,500,000 is payable over a term of 60 months at an interest rate of 6.77%, and contains a bargain purchase option. We received all of the equipment under this lease as of February 1, 2003. The second capital lease obligation of \$11,500,000 is payable over a term of 60 months at an interest rate of 7.35% and contains a bargain purchase option. As of January 31, 2004, we had acquired \$10,000,000 of equipment under this lease. We received the remaining \$1,500,000 of equipment and related software under this lease during Fiscal 2005.

In December 2004, we refinanced certain material handling equipment at our Greencastle distribution center. The lease obligation of \$5,000,000 is payable over a term of 48 months at an interest rate of 6.86% and contains a bargain purchase option.

In October 2004, we borrowed \$13,000,000 under a 6.07% mortgage note (the "Note"). Repayment of the Note is based on a 15-year amortization schedule, with 119 monthly installments of principal and interest of \$110,000 and a balloon payment of \$5,800,000 at the end of 10 years. The Note may be prepaid after 2-1/2 years upon the payment of a premium, or, upon certain other events, without the payment of a premium. The Note is secured by a mortgage on real property at our distribution center in Greencastle, Indiana and an Assignment of Lease and Rents and Security Agreement related to the Greencastle facility. The proceeds from this borrowing will be used to repay the scheduled maturities of other debt and for other general corporate purposes.

In October 2002, we borrowed \$14,000,000 under a 6.53% mortgage note. The note has a ten-year term with 120 monthly installments of principal of \$117,000 plus interest. The mortgage note is secured by land, a building, and certain fixtures we own at our distribution center in White Marsh, Maryland. The net proceeds were used to finance a substantial portion of the acquisition of the White Marsh facility.

69

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

The 7.77% mortgage note has a ten-year term with 119 monthly installments of principal and interest of \$103,000 commencing in January 2002 and a final payment of any remaining unpaid principal and interest in December 2011. The mortgage note is secured by land, buildings, and fixtures we own at our offices in Bensalem, Pennsylvania and by leases and rents we own or receive from tenants of the Bensalem facility. The net proceeds of \$10,851,000 from the mortgage note were used to repay a portion of borrowings that were outstanding under our \$300,000,000 revolving credit facility.

We assumed a 7.5% Mortgage Note in connection with our CATHERINES acquisition. The mortgage financing agreement provided for a \$6,919,000 mortgage facility with a seven-year term and monthly payments based on a 20-year amortization period. The mortgage included a final principal payment of

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\$5,585,000 on March 1, 2005. The note is secured by a mortgage on the land and buildings at our CATHERINES office and distribution center in Memphis, Tennessee. The terms included a pre-payment penalty of 1% of the outstanding principal. On January 27, 2005, we entered into an amended and restated promissory note with the lender to extend the final due date of the note, with monthly payments of principal and interest of \$56,000 commencing on February 1, 2005 and a final payment of unpaid principal and interest on March 1, 2006. The interest rate on the amended and restated promissory note is 7.5% through February 28, 2005 and thereafter is reset on March 1, June 1, September 1, and December 1, based on 90-day LIBOR plus 2.25%. There is no prepayment penalty on the amended and restated promissory note.

In December 2001, the Company borrowed \$5.0 million under an 8.15% note. The note had a three-year term with 35 monthly installments of principal and interest of \$126 thousand commencing in January 2002, and a final payment of any remaining unpaid principal and interest in December 2004. The note was secured by equipment and fixtures owned by the Company at its distribution center in Greencastle, Indiana. The net proceeds from the note were used to repay a portion of borrowings that were outstanding under our revolving credit facility.

During Fiscal 2005, Fiscal 2004, and Fiscal 2003, we made interest payments of \$13,609,000, \$13,572,000, and \$12,859,000, respectively. No interest expense was capitalized during Fiscal 2005, \$725,000 of interest expense was capitalized during Fiscal 2004, and interest expense capitalized in Fiscal 2003 was immaterial.

Aggregate maturities of long-term debt during the next five fiscal years are as follows:

(In thousands)	2006	2007	2008	2009	2010
	----	----	----	----	----
Capital lease obligations	\$13,397	\$10,762	\$ 6,755	\$ 3,590	\$ 321
Mortgage notes .....	2,780	7,847	2,631	2,718	2,812
Other long-term debt ....	242	245	247	250	252
	-----	-----	-----	-----	-----
	\$16,419	\$18,854	\$ 9,633	\$ 6,558	\$ 3,385
	=====	=====	=====	=====	=====

Minimum lease payments under capital leases for the next five fiscal years are: 2006 - \$15,317,000; 2007 - \$11,870,000; 2008 - \$7,258,000; 2009 - \$3,734,000; 2010 - \$323,000. Included in these minimum lease payments is aggregate imputed interest of \$3,677,000.

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Our authorized shares consist of 1,000,000 shares of Series Participating Preferred Stock, \$1.00 par value, of which 500,000 shares of Participating Series A Junior Preferred Stock, \$1.00 par value, have been authorized; and 300,000,000 shares of common stock, \$.10 par value.

During Fiscal 1998 and Fiscal 2000, our Board of Directors authorized the repurchase of an aggregate of up to 20,000,000 shares of our common stock. Prior to Fiscal 2002, we repurchased an aggregate total of 9,105,000 shares of our common stock at a cost of \$41,537,000, which we held as treasury stock. In Fiscal 2002, we re-issued these treasury shares to Limited Brands in connection with our acquisition of LANE BRYANT. In Fiscal 2003, our Board of Directors authorized the repurchase of an additional 6,350,662 shares in connection with our acquisition of LANE BRYANT from Limited Brands. During Fiscal 2003, we repurchased an aggregate total of 9,525,993 shares of common stock issued in connection with our acquisition of LANE BRYANT from Limited Brands for \$65,428,000, and repurchased an aggregate total of 2,740,000 shares of our common stock on the open market for \$18,708,000. The transactions were financed through the use of existing cash and proceeds from the issuance of our 4.75% Senior Convertible Notes. The repurchased shares are being held as treasury shares.

### NOTE 9. STOCK OPTION AND STOCK INCENTIVE PLANS

Our Amended and Restated Non-Employee Directors Program was adopted by the Board of Directors on July 1, 1999, and provided for the grant of options or awards of up to an aggregate total of 700,000 shares of common stock. This program includes an automatic annual grant of options to purchase 20,000 shares of common stock to each non-employee director. The options vest in equal installments over five years. The exercise price of such options may not be less than the fair market value of the stock on the date of grant. The program also provided for a one-time grant of 10,000 shares of restricted common stock to each newly elected non-employee director. The grants vest in equal amounts over three years. In June 2002, this plan was amended to provide for annual grants of 3,000 restricted stock units ("RSUs") to each non-employee director. The RSUs generally vest in full one year after grant. During Fiscal 2004, the RSUs for 24,000 shares that were granted during Fiscal 2003 were settled in cash or deferred payment for \$113,000, based on a market value of \$4.72 per share on the date of vesting.

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Our 2003 Non-Employee Directors Compensation Plan was approved by shareholders on June 26, 2003. This plan is an additional amendment and restatement of the Amended and Restated Non-Employee Directors Program adopted on July 1, 1999. Directors who are not employed by the Company are eligible for participation in the plan. The Board of Directors administers the plan and approves the form and amount of awards under the plan. This plan provides for the grant of stock options, stock appreciation rights ("SARs"), restricted stock awards, RSUs, or deferred shares of up to an aggregate total of 600,000 shares of our common stock. No more than 50% of the shares reserved for issuance under the plan may be issued as restricted stock awards or RSUs. The exercise price of options or SARs granted under the plan may not be less than the fair market value of our common stock on the date of grant. The maximum term of options and SARs issued under the plan is ten years. Non-employee directors may also elect to receive deferred shares of common stock of an equivalent market value instead of cash director's fees. The plan includes a provision that options previously granted under the plan will not be amended or replaced in a transaction that constitutes a "re-pricing" (as defined in the plan) without shareholder approval. The plan provides for a one-time restricted stock award of 10,000 shares of common stock that vest in equal amounts over three years to a newly elected or appointed non-employee director. The plan also provides for annual grants of options for 6,500 shares of common stock that vest in one year and annual grants of 3,000 RSUs that vest in one year to each non-employee director serving at the date of our Annual Meeting of Shareholders. Each RSU represents a right to receive one share of common stock, or cash of equal value at the Company's option, at the date of vesting, or, if deferred by the director, at a later date after termination of service.

Additional information related to our Non-Employee Directors Compensation Plan is as follows:

	2005 ----	2004 ----	2003 ----
One-time restricted stock awards granted .....	10,000	10,000	0
Weighted average market price at date of grant	\$7.65	\$4.57	0
Shares issued under stock awards .....	13,333	3,334	10,001
Restricted awards outstanding at year-end ....	6,667	10,000	3,334
RSUs granted .....	24,658	21,000	24,000
Weighted average market price at date of grant	\$8.42	\$4.78	\$8.04
Shares issued under RSUs .....	15,658	0	0
RSUs outstanding at year-end .....	30,000	21,000	24,000
Options exercisable at year-end .....	333,325	282,400	180,000

Our 2004 Stock Award and Incentive Plan (the "2004 Plan") was approved by our Board of Directors on April 30, 2004 and by our shareholders on June 24, 2004. This plan replaces our 1993 Employees' Stock Incentive Plan (the "1993 Plan"), our 1999 Associates' Stock Incentive Plan (the "1999 Plan"), and our 2000 Associates' Stock Incentive Plan (the "2000 Plan") (see below). This plan provides for the grant of options (including both incentive and non-qualified stock options), restricted stock, stock appreciation rights ("SARs"), restricted stock units ("RSUs"), and a variety of other types of awards of up to an aggregate of 6,500,000 shares of our common stock, together with shares remaining available under the 1993 Plan and shares recaptured from outstanding awards under the 1993 Plan, 1999 Plan, and 2000 Plan. Of the aggregate shares available, up to 2,000,000 shares may be issued in connection with "full-value" awards (equity awards other than options, SARs, or other awards for which a participant does not pay at least the grant-date fair market value of the award). Additional shares may be used for



CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

full-value awards by reducing the number of shares that remain available for options, SARs, and other non-full-value awards by three shares for each share to be used for full-value awards in excess of the 2,000,000 share limit. The aggregate number of shares subject to awards granted under the 2004 Plan in any fiscal year will not exceed 2% of our common stock on a fully diluted basis as of the last day of the preceding fiscal year. The 2004 Plan prohibits the amendment or replacement of options or SARs granted under the plan in a transaction that constitutes a re-pricing under generally accepted accounting principles without shareholder approval. The plan will be administered by our Board of Directors and its Compensation and Stock Option Committee. Additional information related to the 2004 Plan is as follows:

	2005
	----
Restricted stock awards granted.....	270,900
Weighted average market price at date of grant for awards granted.....	\$9.00
Shares issued under stock awards.....	0
Cancellations of restricted stock awards.....	0
Restricted awards outstanding at year-end.....	270,900
Options exercisable at year-end.....	0

Our Board of Directors adopted the 2000 Associates' Stock Incentive Plan (the "2000 Plan") on January 27, 2000. The 2000 Plan provided for the grant of options, SARs, restricted stock awards, deferred stock, or other stock-based awards of up to an aggregate total of 5,000,000 shares of our common stock. The form of the grants, exercise price, and maximum term, where applicable, were at the discretion of the Board of Directors and its Compensation and Stock Option Committee. Additional information related to the 2000 Plan is as follows:

	2005	2004	2003
	----	----	----
Restricted stock awards granted .....	439,500	97,000	111,000
Weighted average market price at date of grant for awards granted .....	\$7.31	\$3.36	\$5.98
Shares issued under stock awards .....	23,572	27,599	30,545
Cancellations of restricted stock awards .....	21,903	28,450	35,180
Restricted awards outstanding at year-end ....	623,816	229,791	188,840
Options exercisable at year-end .....	1,214,113	1,891,271	711,630

Our Board of Directors adopted the 1999 Associates' Stock Incentive Plan

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(the "1999 Plan") in February 1999. The 1999 Plan provided for the grant of options to purchase up to an aggregate total of 1,000,000 shares of our common stock. The exercise price of such options could not be less than the fair market value at the date of grant. The maximum term of options issued under the plan is ten years. As of January 29, 2005, January 31, 2004, and February 1, 2003, 191,200 options, 321,800 options, and 250,800 options, respectively, were exercisable under this plan.

73

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

As a result of our adoption of the 2004 Stock Award and Incentive Plan (see above), no further options or awards may be granted under the 2000 Plan or the 1999 Plan.

Our 1993 Employees' Stock Incentive Plan provided for the grant of options or awards for up to an aggregate total of 10,898,726 shares of common stock plus 1,843,258 shares available but unissued under our discontinued 1990 Employees' Stock Incentive Plan. The form of the grants and exercise price, where applicable, were at the discretion of our Board of Directors and its Compensation and Stock Option Committee. The maximum term of options issued under the 1993 Plan is ten years. As a result of the adoption of the 2004 Stock Award and Incentive Plan on April 30, 2004, we no longer intend to issue options or awards under this plan. Additional information related to this plan is as follows:

	2005	2004	2003
	----	----	----
Restricted stock awards granted .....	393,000	52,500	54,500
Weighted average market price at date of grant for awards granted .....	\$7.20	\$3.48	\$6.34
Shares issued under stock awards .....	157,760	88,060	95,278
Cancellations of restricted stock awards .....	11,400	18,900	2,400
Restricted awards outstanding at year-end ....	730,120	506,280	560,740
Options exercisable at year-end .....	2,127,498	6,398,767	4,681,587

Our 1988 Key Employee Stock Option Plan provides for the grant of options to our key employees to purchase up to an aggregate total of 3,000,000 shares of our common stock. The exercise price of options granted under this plan is \$1.00 per share. As of January 29, 2005, January 31, 2004, and February 1, 2003, 32,245 options, 55,482 options, and 60,982 options, respectively, were exercisable under this plan.

Our 1989 Non-Employee Director Stock Option Plan provided for the grant of options to each member of our Board of Directors who is not an employee of the Company to purchase up to 30,000 shares of common stock. The exercise price of such options could not be less than the fair market value of the stock on the date of grant. As of January 29, 2005, January 31, 2004, and February 1, 2003,

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25,000 options, 25,000 options, and 49,000 options, respectively, were exercisable under this plan. As a result of the adoption of the Amended and Restated Non-Employee Directors Program on July 1, 1999, we no longer intend to issue options under this plan.

74

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

The table below summarizes the activity in all Stock Option Plans:

	Option Shares -----	Average Option Price -----	Option Prices Per Share -----
Outstanding at February 2, 2002.....	11,070,130	\$ 5.895	\$ .500 - \$15.813
Granted - option price equal to market price...	3,029,500	6.295	4.351 - 8.460
Granted - option price less than market price..	11,100	1.000	1.000 - 1.000
Canceled/forfeited.....	(681,571)	8.156	1.000 - 15.813
Exercised.....	(1,326,561)	4.393	.500 - 6.813
-----			
Outstanding at February 1, 2003.....	12,102,598	6.028	1.000 - 15.813
Granted - option price equal to market price...	1,121,375	3.600	2.760 - 6.640
Granted - option price less than market price..	44,300	1.000	1.000 - 1.000
Canceled/forfeited.....	(913,828)	8.517	1.000 - 15.125
Exercised.....	(220,459)	3.882	1.000 - 6.000
-----			
Outstanding at January 31, 2004.....	12,133,986	5.637	1.000 - 12.125
Granted - option price equal to market price...	101,925	7.573	6.590 - 8.440
Granted - option price less than market price..	12,000	1.000	1.000 - 1.000
Canceled/forfeited.....	(493,811)	10.019	1.000 - 15.125
Exercised.....	(6,249,634)	5.390	1.000 - 8.460
-----			
Outstanding at January 29, 2005.....	5,504,466	\$ 5.549	\$1.000 - \$ 8.460
	=====	=====	=====

The weighted average grant date fair values for options and awards granted, using the Black-Scholes model and assumptions described under "NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES; Common Stock Plans" above, are as follows:

	2005 ----	2004 ----	2003 ----
Option price equal to market price.....	\$2.44	\$1.14	\$2.34
Option price less than market price.....	7.70	3.51	6.23

75

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

The table below summarizes information regarding weighted average exercise price and weighted average remaining contractual life in years for options outstanding and options exercisable as of January 29, 2005 for the ranges of exercise prices shown:

Ranges of Option Prices -----	Option Shares -----	Weighted Average Option Price -----	Weighted Average Remaining Life (Years) -----
\$0.00 - \$1.00:			
Options outstanding.....	97,369	\$1.000	6.32
Options exercisable.....	32,245	1.000	
\$1.01 - \$5.00:			
Options outstanding.....	1,518,246	\$3.738	2.89
Options exercisable.....	1,446,588	3.744	
\$5.01 - \$8.46:			
Options outstanding.....	3,888,851	\$6.370	4.89
Options exercisable.....	2,444,548	6.350	

At January 29, 2005, the following shares were available for grant under our various stock plans: 2004 Stock Award and Incentive Plan - 9,028,954 shares; 2003 Non-Employee Directors Compensation Plan - 445,417 shares; and 1988 Key Employee Stock Option Plan - 138,535 shares.

The shares issued and options granted under the above plans are subject to forfeiture if the employees do not remain employed by us for a specified period of time. Under the 1989 Non-Employee Director Stock Option Plan and the 2003 Non-Employee Directors Program, shares issued and options granted are subject to forfeiture if the individual does not remain a Director of the Company for a specified period of time except, under certain circumstances, in the case of retirement or voluntary termination.

NOTE 10. EMPLOYEE STOCK PURCHASE PLAN

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Our 1994 Employee Stock Purchase Plan permits employees to purchase shares of our common stock during quarterly offering periods at a price equal to 85% of the lower of the stock's market price on the first day of, or the fifth business day after the end of, the offering period. Employees purchase shares through accumulation of payroll deductions of up to 10% of the employee's compensation during each offering period. An aggregate total of 2,000,000 shares are reserved for grant under this plan. During Fiscal 2005, Fiscal 2004, and Fiscal 2003, 72,350 shares, 106,457 shares, and 109,269 shares, respectively, were purchased under the plan. The weighted average grant date market value for shares purchased during Fiscal 2005, Fiscal 2004, and Fiscal 2003 was \$7.23, \$4.57, and \$7.13 per share, respectively. At January 29, 2005, 1,303,704 shares were available for future purchases under this plan.

76

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

### NOTE 11. SHAREHOLDER RIGHTS PLAN

On April 12, 1999, pursuant to a Rights Agreement between the Company and American Stock Transfer & Trust Company, as Rights Agent, our Board of Directors declared a dividend distribution of one Right for each outstanding share of our common stock, payable upon the close of business on April 26, 1999. Each Right entitles the registered holder to purchase from us one three-hundredth of a share of Series A Junior Participating Preferred Stock, or, under certain circumstances, a combination of securities and assets of equivalent value, at a purchase price of \$20.00, subject to adjustment. The purchase price may be paid in cash or, if we permit, by the delivery of Rights under certain circumstances. The description and terms of the Rights are set forth in the Rights Agreement.

Initially, ownership of the Rights will be evidenced by the certificates representing shares of common stock then outstanding, and no separate Rights certificates will be distributed. The Rights will separate from the common stock and a "Distribution Date" will occur upon the earlier of: (i) 10 days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of our outstanding common stock (the "Stock Acquisition Date"); or (ii) the close of business on such date as may be fixed by our Board of Directors after the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of our outstanding common stock. Until the Distribution Date: (i) the Rights will be evidenced by the certificates representing shares of common stock and will be transferred with, and only with, such certificates; (ii) certificates issued after April 26, 1999 will contain a notation incorporating the Rights Agreement by reference; and (iii) the surrender for transfer of any certificates for our common stock outstanding will also constitute the transfer of the Rights associated with the common stock represented by such certificate.

In the event that at any time following the Distribution Date a person becomes an Acquiring Person, each holder of a Right will thereafter have the right to receive, upon exercise, our common stock (or, in certain circumstances, cash, property, or other securities of the Company) having a value equal to two times the exercise price of the Right. In lieu of requiring payment of the purchase price upon exercise of the Rights following any such event, we may

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permit the holders simply to surrender the Rights under certain circumstances, in which event they will be entitled to receive our common stock (and other property, as the case may be) with a value of 50% of what could be purchased by payment of the full purchase price. Notwithstanding any of the foregoing, all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by the Acquiring Person will be null and void. Rights are not exercisable until such time as the Rights are no longer redeemable by us as set forth in the Rights Agreement.

In the event that, at any time following the Stock Acquisition Date: (i) we are acquired in a merger or other business combination transaction in which we are not the surviving corporation (other than a merger that is described in, or that follows a tender offer or exchange offer described above); or (ii) 50% or more of our assets or earning power is sold or transferred, each holder of a Right (except Rights that previously have been voided as set forth above) shall thereafter have the right to receive, upon exercise, common shares of the acquiring company having a value equal to two times the exercise price of the Right. Again, provision is made to permit surrender of the Rights in exchange for one-half of the value otherwise purchasable. The events set forth in this paragraph and above are referred to as the "Triggering Events."

77

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

The purchase price payable and the number of shares of our common stock or other securities or property to be issued upon exercise of the Rights are subject to certain anti-dilution adjustments. With certain exceptions, no adjustment in the purchase price will be required until cumulative adjustments amount to at least 1% of the purchase price. Instead of fractional shares of our common stock, an adjustment in cash will be made based on the market price of our common stock on the last trading date before the date of exercise.

At any time until ten days following the Stock Acquisition Date, we may redeem the Rights in whole, but not in part, at a redemption price of \$.01 per Right, subject to adjustment. Our Board of Directors may extend the ten-day period as long as the Rights are still redeemable. Immediately upon the order of our Board of Directors to redeem the Rights, the Rights will terminate and the holders of Rights will only be able to receive the redemption price. Until a Right is exercised, the holder of the Right will have no rights as a shareholder of the Company, including, without limitation, the right to vote or to receive dividends.

#### NOTE 12. 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 generally join these programs by paying an annual membership fee. We recognize revenue from these loyalty programs as 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 we incur in connection with administering these programs as cost of goods sold when incurred.

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During Fiscal 2004, we introduced a FASHION BUG customer loyalty card program that we operate under our FASHION BUG proprietary credit card program. Like our other loyalty programs, this program entitles customers to various rebates, discounts, and other benefits upon payment of an annual membership fee. This program also provides customers with the option to cancel their membership within 90 days, entitling them to a full refund of their annual fee. Additionally, after 90 days, customers that cancel their membership are entitled to a pro rata fee refund based on the number of months remaining on the annual membership. Accordingly, we recognize 25% of the annual membership fee as revenue after 90 days, with the remaining fee recognized on a pro rata basis over nine months. During Fiscal 2005 and Fiscal 2004, we recognized revenues of \$7,594,000 and \$7,750,000, respectively, in connection with this program. As of the end of Fiscal 2005 and Fiscal 2004, we accrued \$700,000 and \$1,200,000, respectively, for the estimated costs of discounts earned and coupons issued and not redeemed.

Our CATHERINES brand also offers a loyalty card program. During Fiscal 2005, Fiscal 2004, and Fiscal 2003, we recognized revenues of \$7,470,000, \$7,507,000, and \$7,341,000, respectively, in connection with this program.

78

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

Under a previous FASHION BUG customer loyalty card program, we recognized revenues from annual membership fees as sales over the life of the membership based on discounts earned by the customer. For customers who did not earn discounts during the membership period that exceeded the card fee, the difference between the membership fee and discounts earned was recognized as revenue upon the expiration of the annual membership period. Upon early cancellation of the loyalty card, refunds of membership fees were reduced by the amount of any discounts granted to the member under the program. During Fiscal 2004 and Fiscal 2003, we recognized revenues of \$6,377,000 and \$21,828,000, respectively, in connection with this program. We discontinued the issuance of new cards under this program in December 2002, and we terminated the program during Fiscal 2004.

### NOTE 13. EMPLOYEE RETIREMENT BENEFIT PLANS

We provide a comprehensive retirement benefit program for our employees. This program provides for a noncontributory profit-sharing plan that covers substantially all full-time employees who meet age and service requirements. Contributions to this plan are completely discretionary and are determined by our Board of Directors on an annual basis.

The program also includes a 401(k) employee savings plan under which eligible participating employees may elect to contribute up to 80% of their compensation to an investment trust. The 401(k) plan includes a matching Company contribution of 50% of the participant's elective contribution on up to 6% of the participant's compensation. Participating employees are immediately vested

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in their own contributions. Full vesting in the matching Company contribution occurs on the earlier of the participant's attainment of 6 years of service or upon retirement, death, or disability, as defined in the plan. Company matching contributions are made in cash, and the available trust investment options do not include investment in our own common stock.

The total expense for the above plans was \$2,317,000, \$2,619,000, and \$2,582,000 for Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively.

We also provide a non-qualified deferred compensation plan to officers and certain key executives. Under this plan, participants may contribute up to 77% of their base compensation and 100% of bonus compensation. This plan includes a matching Company contribution of 50% of the participant's contribution on up to 6% of the participant's compensation, less any matching contributions made for the participant under our 401(k) plan. The total expense for this plan was \$1,153,000, \$1,155,000, and \$854,000 for Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively.

During Fiscal 2004, we established a non-qualified defined contribution supplemental retirement plan for certain management and key executives. Under this plan, we contribute amounts to participant accounts based on age and years of plan service, as well as earnings as defined in the plan. The total expense for this plan was \$1,847,000 for Fiscal 2005 and \$975,000 for Fiscal 2004.

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

NOTE 14. EXPENSES RELATED TO COST REDUCTION PLAN

On March 18, 2003, we announced a cost reduction plan, designed to take advantage of the centralization of all corporate administrative services throughout the Company and to realize certain efficiencies, in order to improve profitability. We accounted for the plan in accordance with the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Costs incurred in connection with the plan, payments/settlements of those costs, and the remaining accrual at year end, were as follows:

(In thousands)	Expenses Incurred -----	Payments/ Settlements -----	Ending Accrual -----
Fiscal 2005.....	\$ 605	\$(3,201)	\$ 0
Fiscal 2004.....	11,534	(8,938)	2,596

Costs incurred in connection with this plan during Fiscal 2004 included \$2,980,000 of workforce reduction costs, \$3,691,000 of lease termination and



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related costs, \$4,195,000 of accelerated depreciation (non-cash charge), and \$668,000 of other facility closure costs. Workforce reduction costs represent involuntary termination benefits and retention bonuses. Employees affected by the plan were notified during the first quarter of Fiscal 2004. During Fiscal 2004, we terminated 349 employees in connection with workforce reductions at our corporate and brand home offices and the closing of our Memphis, Tennessee distribution center, our Hollywood, Florida credit operations, and our remaining MONSOON stores. We accrued the severance benefit in accordance with SFAS No. 146 and recognized retention bonuses ratably over the employees' remaining service period. Lease termination and related costs mainly represent the estimated fair value of the remaining lease obligations at the Hollywood, Florida facility, reduced by estimated sublease income. In accordance with SFAS No. 146, we recognized the present value of the remaining lease obligation less estimated sublease income related to the Hollywood, Florida facility in June 2003 when we closed the facility.

Accelerated depreciation costs represent the acceleration of depreciation of the net book value of the assets at our Memphis distribution center and our Hollywood credit operations, which were closed in June 2003, to their estimated net realizable values. During the first quarter of Fiscal 2004, we made the decision to sell the Memphis, Tennessee distribution center, and began accelerating the depreciation of the asset to its estimated net realizable value as of its expected cease-use date of June 2003. During the third quarter of Fiscal 2004, we began to evaluate alternative uses for the facility, and began to depreciate the then-current carrying amount of the asset over its estimated useful life. During the fourth quarter of Fiscal 2005, we entered into an agreement to lease the Memphis facility to a third party for a three-year period.

As of January 31, 2004, the accrued lease termination costs related to the closing of the Hollywood facility were \$2,596,000. In October 2004, in accordance with SFAS No. 146, we revised our estimated sublease income on the remaining lease obligation and recognized an additional expense of \$605,000. In December 2004, we settled our remaining lease obligation for the Hollywood facility.

80

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

NOTE 15. NET INCOME (LOSS) PER SHARE

(In thousands)	2005 ----	2004 ---- (Restated)	2003 -- (Res)
Basic weighted average common shares outstanding .....	116,196	112,491	112,491
Dilutive effect of assumed conversion of convertible notes .....	15,182	15,182	15,182
Dilutive effect of stock options .....	1,796	885	885
	-----	-----	-----
Diluted weighted average common shares and equivalents outstanding	133,174	128,558	128,558

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	=====	=====	=====
Income before cumulative effect of accounting changes .....	\$64,526	\$38,042	\$4
Decrease in interest expense from assumed conversion of notes, net of income taxes .....	4,539	4,334	---
	-----	-----	-----
Income before cumulative effect of accounting changes used to determine diluted earnings per share .....	69,065	42,376	4
Cumulative effect of accounting changes, net of income taxes .....	0	0	(4
	-----	-----	-----
Net income (loss) used to determine diluted earnings per share ...	\$69,065	\$42,376	\$(
	=====	=====	=====

Options with weighted average exercise price greater than market price, excluded from computation of diluted earnings per share:

	2005	2004	2003
	----	----	----
Number of shares (thousands).....	369	8,255	4,583
Weighted average exercise price per share.....	\$8.28	\$6.63	\$7.66

Grants of stock awards under our restricted stock award programs generally require continuing employment for a specified period of time as a condition for vesting of the award. Grants that have not vested and are subject to a risk of forfeiture are included in the calculation of diluted earnings per share using the treasury stock method if the impact of the award is dilutive. Upon vesting, shares issued under these award programs are included in the calculation of basic earnings per share.

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

NOTE 16. ASSET SECURITIZATION

We record gains or losses on the securitization of our FASHION BUG credit card receivables based on the estimated fair value of the assets retained and liabilities incurred in the sale. Gains represent the present value of the estimated cash flows that we have retained over the estimated outstanding period of the receivables. This excess cash flow essentially represents an

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"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 service fees. During Fiscal 2005, Fiscal 2004, and Fiscal 2003, we recognized the following activity related to the I/O strip:

(In thousands)	2005 ----	2004 ----	2003 ----
Additions to the I/O strip.....	\$12,396	\$13,638	\$18,447
Amortization and valuation adjustments.....	11,214	14,000	14,856
Value of the I/O strip at end of year.....	10,390	9,208	9,570

In addition, we recognized a servicing liability in Fiscal Years 2005, 2004, and 2003 because the servicing fees we expect to receive from the securitizations do not provide adequate compensation for servicing the receivables. The servicing liability represents the present value of the excess of our cost of servicing over the servicing fees received, and is recorded at its estimated fair value. Because quoted market prices are generally not available for the servicing of proprietary credit card portfolios of comparable credit quality, we determine the fair value of the cost of servicing 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 for the I/O strip. During Fiscal 2005, Fiscal 2004, and Fiscal 2003, we recognized the following activity related to the servicing liability:

(In thousands)	2005 ----	2004 ----	2003 ----
Additions to the servicing liability.....	\$2,828	\$4,011	\$2,496
Amortization of the servicing liability.....	3,474	2,141	3,375
Value of the servicing liability at end of year.	2,404	3,050	1,180

We amortize the I/O strip and servicing liability on a straight-line basis over the expected life of the credit card receivables, which is generally less than one year. We estimate the expected life primarily by using the historical average of principal payments as a percent of outstanding trust receivables sold.

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The following table presents additional information relating to the Trust for Fiscal 2005, Fiscal 2004, and Fiscal 2003:

(In thousands)	2005 ----	2004 ----	2003 ----
Proceeds from sales of new receivables to Trust .....	\$335,875	\$331,718	\$384,162
Collections reinvested in revolving-period securitizations ...	409,796	422,793	450,363
Cash flows received on retained interests .....	46,999	41,951	45,708
Servicing fees received .....	4,826	6,634	5,723
Net credit losses .....	18,003	30,850	39,312
Investor certificates outstanding at end of year .....	295,750	269,425	301,300
Credit card accounts 90 or more days delinquent at end of year	7,952	9,795	13,102

We are the servicer of the Trust, and we receive a servicing fee of approximately 2% of the investor interest. The investor certificates outstanding as of January 29, 2005 mature as follows: \$15,750,000 in the fiscal year ending January 28, 2006, \$63,500,000 in the fiscal year ending February 2, 2008, \$36,500,000 in the fiscal year ending January 31, 2009, \$144,900,000 in the fiscal year ending January 30, 2010, and \$35,100,000 in the fiscal year ending January 29, 2011. Our certificates and retained interests in our securitizations, which aggregated \$52,485,000 and \$55,363,000 at January 29, 2005 and January 31, 2004, respectively, are generally subordinated in right of payment to certificates issued by the Trust to third-party investors. Our obligation to repurchase receivables sold to the Trust is limited to those receivables that, at the time of their transfer, fail to meet the Trust's eligibility standards under normal representations and warranties. To date, our repurchases of receivables pursuant to this obligation have been insignificant.

During Fiscal 2002, the Trust issued \$100,000,000 of new five-year asset-backed certificates ("Series 2002-1") in a private placement, of which \$80,000,000 had been sold to investors as of January 31, 2004. The weighted-average fixed interest rate on the certificates sold is 4.68%. These certificates replaced an \$83,500,000 securitization series that matured during the fourth quarter of Fiscal 2003. During Fiscal 2005, we sold the remaining \$20,000,000 of Series 2002-1 certificates that we had been holding as a retained interest and were included in the \$55,688,000 of short-term available-for-sale securities we held at January 31, 2004. Of the \$20,000,000 of Series 2002-1 certificates sold, \$9,500,000 were sold at a fixed interest rate. The weighted average interest rate on the fixed-rate certificates sold is 4.93%.

During Fiscal 2004, the Trust closed on a new conduit credit card securitization facility of \$132,000,000 that will provide additional funding of up to \$100,000,000 for a term of up to two years, subject to an annual renewal. As of January 29, 2005, no credit card receivables were funded under this facility.

On August 5, 2004, the Trust issued \$180,000,000 of new five-year asset-backed certificates ("Series 2004-1") in a private placement under Rule 144A. Of the \$180,000,000 of certificates issued, \$161,100,000 were sold to investors and we held \$18,900,000 as a retained interest. The certificates pay interest to investors on a floating-rate basis tied to one-month LIBOR. Concurrently, the Trust entered into a series of fixed-rate interest rate hedge agreements with respect to the \$161,100,000 of certificates sold to investors. The blended weighted-average interest rate on the hedged certificates is 4.90%. On August 5, 2004, the Trust used \$61,500,000 of the proceeds to pay down other securitization series and placed the remaining proceeds of \$118,500,000 into a

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pre-funding cash account. The Trust is using the proceeds from this pre-funding cash account to pay down Series 1999-1 (which is

83

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

currently in its amortization period) as well as to provide financing for additional receivables, including the acquisition of the CATHERINES proprietary credit card portfolio in March 2005 (see below). During Fiscal 2005, the Trust used \$72,800,000 of cash from the pre-funding cash account to fund the Series 1999-1 amortization. On August 24, 2004, we sold to investors \$9,450,000 of the \$18,900,000 we held as a retained interest.

Our management uses key valuation assumptions in determining the fair value of our I/O strip. We estimate the values for these assumptions using historical data, the impact of the current economic environment on the performance of the receivables sold, and the impact of the potential volatility of the current market for similar instruments in assessing the fair value of the retained interests. The key assumptions used to value our retained interest were as follows:

	January 29, 2005 ----	January 31, 2004 ----
Payment rate.....	11.1%	11.4%
Residual cash flows discount rate.....	14.5%	13.5%
Net credit loss percentage.....	10.5%	12.5%
Average life of receivables sold.....	0.8 years	0.7 years

The following table presents the decrease in our I/O strip receivable that would result from hypothetical adverse changes of 10% and 20% in the assumptions used to determine the fair value of the I/O strip. This information is presented in accordance with the requirements of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

(In thousands)	10% Change -----	20% Change -----
Payment rate.....	\$888	\$1,670
Residual cash flows discount rate.....	40	80
Credit loss percentage.....	879	1,746

Charming Shoppes Receivables Corp. ("CSRC") and Charming Shoppes Seller, Inc. ("CSSI"), our consolidated wholly-owned indirect subsidiaries, are separate special purpose entities created for the securitization facilities. As of January 29, 2005, CSRC held \$17,325,000 of Charming Shoppes Master Trust certificates and retained interests and CSSI held retained interests of

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\$10,390,000 (both of which are included in the \$52,857,000 of short-term available-for-sale securities we held at January 29, 2005 - see "NOTE 5. AVAILABLE-FOR-SALE SECURITIES" above). 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 Charming Shoppes Master Trust.

84

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

We have a non-recourse agreement under which a third party provides an accounts receivable proprietary credit card sales accounts receivable funding facility for our LANE BRYANT brand. This funding facility was scheduled to expire in January 2006. In January 2005, we entered into an amendment to the agreement which, among other things, extends the term of the agreement to October 2007. Under this agreement, we have the right to repurchase the receivables portfolio and the right to operate the LANE BRYANT proprietary credit card program from the third party upon termination of the agreement. For our CATHERINES brand, we also had a similar agreement with another third party that was scheduled to expire in January 2005. In January 2004, in accordance with the terms of the Merchant Services Agreement pursuant to which the CATHERINES proprietary credit cards were issued, we provided one year's notice to the third party bank in order to exercise our option to terminate the agreement and to purchase the portfolio. In July 2004, we entered into an amendment to the agreement which, among other things, extended the term of the agreement to March 2005. Spirit of America National Bank (our wholly-owned credit card bank) purchased the CATHERINES credit card portfolio in March 2005 for approximately \$56,600,000 (subject to adjustment). The purchase was funded through our securitization facilities, including a portion of the proceeds from the sale of Series 2004-1 certificates under that securitization facility (see above).

Under these agreements, the third parties reimburse(d) us daily with respect to the proprietary credit card sales generated by the respective store's credit card accounts. Additional information for Fiscal 2005, Fiscal 2004, and Fiscal 2003 regarding these agreements is as follows:

(In thousands)	2005	2004	2003
	----	----	----
Net funding received from sales of receivables:			
LANE BRYANT .....	\$284,426	\$262,004	\$251,619
CATHERINES .....	96,717	98,900	113,526
Net accounts receivable balance held by third party at end of year:			
LANE BRYANT .....	199,098	198,272	195,326
CATHERINES .....	58,167	70,416	85,754

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 29, 2005  
 (Continued)

NOTE 17. LEASES

We lease substantially all of our stores under non-cancelable operating lease agreements. Generally, these leases have initial periods of 5 to 20 years and contain provisions for co-tenancies, renewal options, additional rents based on a percentage of sales, and payment of real estate taxes and common area charges. We also lease certain other buildings and equipment.

Our rent expense was:

(In thousands)	2005	2004	2003
	----	----	----
		(Restated)	(Restated)
Minimum rent ..	\$193,256	\$192,902	\$199,429
Contingent rent	32,709	31,846	32,134
	-----	-----	-----
	\$225,965	\$224,748	\$231,563
	=====	=====	=====

Minimum annual rent commitments for all non-cancelable leases for the next five fiscal years and thereafter are: Fiscal 2006 - \$194,163,000; Fiscal 2007 - \$151,414,000; Fiscal 2008 - \$120,591,000; Fiscal 2009 - \$95,639,000; Fiscal 2010 - \$66,532,000; Thereafter - \$120,403,000.

Rent expense includes charges from Limited Brands for office and distribution center space in Reynoldsburg, Ohio under agreements which expire in February 2006 for the office space, and which expired in February 2004 for the distribution center space. These charges approximate market rates. The minimum annual rent commitments shown above include \$1,875,000 for Fiscal 2006 and \$156,000 for Fiscal 2007 to be paid under the office space agreement. The distribution center in Reynoldsburg, Ohio was replaced by our White Marsh, Maryland distribution center in February 2004.

In January 2005, we entered into an agreement with a separate third party that provides for the leasing of a 135,000 square foot facility in Columbus, Ohio, which will serve as a new home office for LANE BRYANT. Minimum annual rent under the lease for the Columbus facility will be \$1,704,000 per annum in year

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one through year five and \$1,759,000 in year six through year ten. The lease will commence on the later of January 20, 2006 or upon substantial completion of shell work and tenant improvements. The lease provides for two five-year renewal periods and an option to purchase, and contains customary termination rights.

LANE BRYANT currently subleases 107 properties from Limited Brands pursuant to a Master Sublease. The properties subject to the Master Sublease were operated as LANE BRYANT stores prior to our acquisition of LANE BRYANT. We have guaranteed the obligations of LANE BRYANT under the Master Sublease. In connection with such guaranty, we have entered into an agreement with Limited Brands that requires us to comply with certain financial covenants restricting the incurrence of additional debt and payments to shareholders. The minimum annual rent commitments shown above include amounts payable under the LANE BRYANT master sublease with Limited Brands which we have guaranteed, as follows: Fiscal 2006 - \$12,962,000; Fiscal 2007 - \$8,215,000; Fiscal 2008 - \$4,791,000; Fiscal 2009 - \$4,098,000; Fiscal 2010 - \$2,036,000; Thereafter - \$4,920,000.

86

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

NOTE 18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following is a summary of the carrying amounts and estimated fair values of our financial instruments:

(In thousands)	January 29, 2005		January 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>				
Cash and cash equivalents .....	\$273,049	\$273,049	\$123,781	\$123,781
Available-for-sale securities .....	53,097	53,097	70,209	70,209
<b>Liabilities:</b>				
4.75% Senior Convertible Notes due 2012	150,000	164,115	150,000	150,164
6.07% mortgage note, due October 2014 .	12,821	12,869	0	0
6.53% mortgage note, due November 2012	10,850	10,858	12,250	12,205
7.77% mortgage note, due December 2011	9,564	10,072	10,039	10,531
7.5% mortgage note, due March 2006 ....	5,605	5,605	5,840	6,053
8.15% note, due December 2004 .....	0	0	2,494	2,526
Other long-term debt .....	1,399	1,201	1,540	1,278

The fair value of cash and cash equivalents approximates their carrying amount because of the short maturities of such instruments. The fair value of available-for-sale securities is based on quoted market prices of the securities, except for certain low-income housing partnerships that have no



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available bid/ask or sales prices as they are not traded in the open market. The fair values of our convertible notes are based on quoted market prices for the securities. The fair values of the mortgage notes and other long-term debt are based on estimated current interest rates that we could obtain on similar borrowings.

### NOTE 19. RESTRUCTURING CREDIT

In January 2002, we announced a restructuring plan, including a number of initiatives designed to position the Company for increased profitability and growth in the plus-size businesses. The major components of the plan included: (i) the closing of 77 THE ANSWER/ADDED DIMENSIONS stores and the conversion of approximately 20% of the ADDED DIMENSIONS stores to CATHERINES stores; (ii) the closing of 130 under-performing FASHION BUG stores; and (iii) the conversion of 44 FASHION BUG store locations to LANE BRYANT stores. The restructuring plan resulted in a pre-tax charge of \$37,708,000 in Fiscal 2002. In connection with the restructuring plan, we closed 124 FASHION BUG stores, converted 30 FASHION BUG stores to LANE BRYANT stores, closed 65 CATHERINES/ADDED DIMENSIONS stores, and converted 12 ADDED DIMENSIONS stores to CATHERINES. We completed the restructuring program during Fiscal 2003 and recognized a pre-tax restructuring credit of \$4,813,000, which was primarily a result of our ability to negotiate lease terminations on terms more favorable than our original estimates.

87

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 29, 2005  
(Continued)

### NOTE 20. QUARTERLY FINANCIAL INFORMATION (Unaudited)

(In thousands, except per share amounts)	First Quarter(1) -----	Second Quarter(1) -----	Third Quarter(1) -----	Fourth Quarter(1) -----
Fiscal 2005				
Net sales.....	\$592,738	\$611,737	\$541,759	\$586,100
Gross profit.....	190,964(2)	180,224(2)	163,226	157,672
Net income.....	26,249	27,059	6,353	4,865
Basic net income per share....	.23	.23	.05	.04
Diluted net income per share..	.21	.21	.05	.04
Fiscal 2004				
Net sales.....	\$564,286	\$605,456	\$530,291	\$585,647
Gross profit.....	167,769	176,002	150,839(3)	148,254(3)
Net income.....	9,040(4)	17,996(4)	1,510(4)	9,496(4)
Basic net income per share....	.08	.16	.01	.08
Diluted net income per share..	.08	.15	.01	.08

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Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate and in such a manner as to allow timely decisions regarding required disclosure. We have a Disclosure Committee, which is made up of several key management employees and reports directly to the CEO and CFO, to centralize and enhance these controls and procedures and assist our management, including our CEO and CFO, in fulfilling their responsibilities for establishing and maintaining such controls and procedures and providing accurate, timely, and complete disclosure.

As of the end of the period covered by this report on Form 10-K (the "Evaluation Date"), our Disclosure Committee, under the supervision and with the participation of management, including our CEO and CFO, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our management, including our CEO and CFO, has concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

Evaluation of Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting as of January 29, 2005 appears on page 42 of this Report on Form 10-K, and is incorporated herein by reference. The Report of our Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting appears on pages 43 - 44 of this Report on Form 10-K, and is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

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There has been no change in our internal control over financial reporting that occurred during the fiscal quarter ended January 29, 2005 except for additional review procedures over the selection and monitoring of appropriate assumptions and factors affecting our lease accounting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Item 9B. Other Information

Not applicable.

89

## PART III

### Item 10. Directors and Executive Officers of the Registrant

Information regarding our directors and executive officers is included under the captions "Directors Standing for Election", "Biographies of Directors", "Corporate Governance at Charming Shoppes", "Compensation of Directors", and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days of the end of our fiscal year, which is incorporated herein by reference. Information regarding Executive Officers is included under "Additional Part I Information - Our Executive Officers," in Part I of this Report.

We have adopted the Charming Shoppes, Inc. Business Ethics and Standards of Conduct Policy (the "Policy"), that applies to all of our directors, officers, and associates, including our principal executive officer, principal financial officer, and principal accounting officer. The Policy has been filed as Exhibit 14 to this report on Form 10-K. We have also adopted corporate governance guidelines (the "Guidelines") and charters (the "Charters") for the audit committee, the compensation and stock option committee, the corporate governance and nominating committee, and the finance committee of our Board of Directors. The Policy, Guidelines, and Charters are available on our Internet website, [www.charmingshoppes.com](http://www.charmingshoppes.com), in the "About Us" section. A copy of the Policy, Guidelines, and Charters are also available, at no charge, upon written request to Charming Shoppes, Inc., Attn. Director of Investor Relations, 450 Winks Lane, Bensalem, PA, 19020.

Our Board of Directors has sole authority for making any amendments to, or granting waivers from, any provision of the Policy that affects our executive officers or directors, including our principal executive officer, principal financial officer, or principal accounting officer. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding any such amendment or waiver by disclosing the nature of such amendment or waiver in a report on Form 8-K within four days.

### Item 11. Executive Compensation

Information regarding executive compensation is included under the captions "Management Compensation" and "Report of the Compensation and Stock Option Committees of the Board of Directors on Executive Compensation", and a five-year

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graph of cumulative total shareholder return on our common stock is included under the caption "Stock Performance Chart," in our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days of the end of our fiscal year, which is incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding the security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans is included under the captions "Equity Compensation Plan Information" and "Principal Shareholders and Management Ownership" in our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days of the end of our fiscal year, which is incorporated herein by reference.

90

### Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships is included under the caption "Compensation Committee Interlocks and Insider Participation" in our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days of the end of our fiscal year, which is incorporated herein by reference.

### Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services is included under the caption "Audit and Other Fees" in our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days of the end of our fiscal year, which is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements

The following Consolidated Financial Statements of Charming Shoppes, Inc. and its subsidiaries are included in Part II, Item 8:

	Page
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Management's Report on Internal Control over Financial Reporting .....	42
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting .....	43-44
Report of Independent Registered Public Accounting Firm .....	45
Consolidated Balance Sheets - January 29, 2005 and January 31, 2004 .....	46
Consolidated Statements of Operations and Comprehensive Income (Loss) - Years Ended January 29, 2005, January 31, 2004, and February 1, 2003	47
Consolidated Statements of Stockholders' Equity - Years Ended January 29, 2005, January 31, 2004, and February 1, 2003 .....	48
Consolidated Statements of Cash Flows - Years Ended January 29, 2005, January 31, 2004, and February 1, 2003 .....	49
Notes to Consolidated Financial Statements .....	50

(a) (2) Financial Statement Schedules

All schedules required by Rule 5-04 of Regulation S-X have been omitted as they are not applicable or are not required.

(b) Exhibits, including those incorporated by reference

The following is a list of Exhibits filed as part of this Annual Report on Form 10-K. Where so indicated, Exhibits that were previously filed are incorporated by reference. For Exhibits incorporated by reference, the location of the Exhibit in the previous filing is indicated in parenthesis.

Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession

- 2.1 Stock Purchase Agreement, dated as of July 9, 2001, among Charming Shoppes, Inc., Venice Acquisition Corporation, LFAS, Inc. and Limited Brands, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.1).
- 2.2 Services Agreement, dated as of August 16, 2001, between LBH, Inc. and Limited Brands, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.2).
- 2.3 Covenant Agreement, dated as of August 16, 2001, between Charming Shoppes, Inc. and Limited Brands, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.3).
- 2.4 Master Sublease, dated as of August 16, 2001, between Limited Brands, Inc. and Lane Bryant, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.4).
- 2.5 Lease Agreement, dated as of August 16, 2001, by and between Distribution Land Corp. and Lane Bryant, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.5).
- 2.6 Agreement and Plan of Merger, dated as of November 15, 1999, by and among Catherines Stores Corporation, Charming Shoppes, Inc., and Rose Merger Sub, Inc., incorporated by reference to Schedule 14(D)-1 of the Registrant filed on November 19, 1999. (Item 11(c)(1)).

Articles of Incorporation and By-Laws

- 3.1 Restated Articles of Incorporation, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 1994. (File No. 000-07258, Exhibit 3.1).
- 3.2 By-Laws, as Amended and Restated, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999. (File No. 000-07258, Exhibit 3.2).

Instruments Defining the Rights of Security Holders, Including Indentures

- 4.1 Amended and Restated Rights Agreement, dated as of February 1, 2001, between Charming Shoppes, Inc. and American Stock Transfer & Trust Company, as Rights Agent, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 2001. (File No. 000-07258, Exhibit 4.1).
- 4.2 Registration Agreement, dated as of August 16, 2001, between Charming Shoppes, Inc. and Limited Brands, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (File No. 000-07258, Exhibit 4.1).
- 4.3 Indenture, dated as of May 28, 2002, between Charming Shoppes, Inc. and Wachovia Bank, National Association, incorporated by reference to Form 10-Q of the Registrant for the quarter ended May 4, 2002. (File No. 000-07258, Exhibit 4.1).
- 4.4 Registration Rights Agreement, dated as of May 28, 2002, by and among Charming Shoppes, Inc., as Issuer, and J. P. Morgan Securities, Inc., Bear Stearns & Co., Inc., First Union Securities, Inc., Lazard Freres & Co., LLC, and McDonald Investments, Inc., as Initial Purchasers, incorporated by reference to Form 10-Q of the Registrant for the quarter ended May 4, 2002. (File No. 000-07258, Exhibit 4.2).
- 4.5 Amended and Restated Loan and Security Agreement, dated as of January 29, 2004, by and among Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., Catherine Stores Corporation, Lane Bryant, Inc. and FB Apparel, Inc., as Borrowers; Charming Shoppes of Delaware, Inc., as Borrowers' Agent; Congress Financial Corporation, as Administrative Agent, Collateral Agent, and Joint Bookrunner; J.P. Morgan Business Credit Corp., as Co-Documentation Agent, Joint Lead Arranger, and Joint Bookrunner; Wachovia Bank, National Association, as Joint Lead Arranger; Bank of America, N.A. and Fleet Retail Group, Inc., as Co-Documentation Agents; and The Financial Institutions named therein, as Lenders, incorporated by reference to Form 8-K of the Registrant dated February 4, 2004. (File No. 000-07258, Exhibit 99.2).

Our miscellaneous long-term debt instruments and credit facility agreements, under which the underlying authorized debt is equal to less than 10% of our consolidated total assets, may not be filed as exhibits to this report. We agree to furnish to the Commission, upon request, copies of any such instruments not filed.

Material Contracts

- 10.1.1 Second Amended and Restated Pooling and Servicing Agreement, dated as of November 25, 1997, as amended on July 22, 1999, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and First Union National Bank as Trustee, incorporated by reference to Form 8-K of Charming Shoppes Master Trust and Charming Shoppes Receivables Corp., (File No. 333-71757) dated July 22, 1999. (Exhibit No. 4.1).
- 10.1.2 Fourth Amendment, dated as of August 5, 2004, to Second Amended and Restated Pooling and Servicing Agreement, dated as of November 25, 1997, as amended on July 22, 1999 and on May 8, 2001, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and

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Wachovia Bank, National Association (formerly known as First Union National Bank) as Trustee, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.4).

94

- 10.1.3 Amendment, dated as of March 18, 2005, to Second Amended and Restated Pooling and Servicing Agreement, dated as of November 25, 1997, as amended on July 22, 1999, May 8, 2001, and August 5, 2004, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and Wachovia Bank, National Association, as Trustee.
- 10.1.4 Series 1999-1 Supplement, dated as of July 22, 1999, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997, as amended on July 22, 1999, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and First Union National Bank, as Trustee, for \$150,000,000 Charming Shoppes Master Trust Asset-Backed Certificates Series 1999-1, incorporated by reference to Form 8-K of Charming Shoppes Master Trust and Charming Shoppes Receivables Corp., (File No. 333-71757) dated July 22, 1999. (Exhibit No. 4.2).
- 10.1.5 Receivables Purchase Agreement, dated as of May 28, 1999, among Charming Shoppes Seller, Inc. as Seller, Spirit of America, Inc., as Servicer, Clipper Receivables Corporation, as Purchaser, State Street Capital Corporation, as Administrator, and State Street Bank & Trust Company, as Relationship Bank, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.1.4).
- 10.1.6 Series 1999-2 Supplement, dated as of May 28, 1999, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997, as amended on July 22, 1999, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and First Union National Bank, as Trustee, for \$55,750,000 Charming Shoppes Master Trust Asset-Backed Certificates Series 1999-2, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 2000. (File No. 000-07258, Exhibit 10.1.23).
- 10.1.7 Series 2000-VFC Supplement, dated as of November 9, 2000, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and First Union National Bank, as Trustee, on behalf of the Series 2000-VFC Certificateholders, for up to \$60,122,700 Charming Shoppes Master Trust Series 2000-VFC, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 2001. (File No. 000-07258, Exhibit 10.1.16).
- 10.1.8 Certificate Purchase Agreement, dated as of November 9, 2000, among Charming Shoppes Receivables Corp. as Seller and as the Class B Purchaser, Spirit of America, Inc. as Servicer, Monte Rosa Capital Corporation as the Conduit Purchaser, and ING Baring (U.S.) Capital Markets LLC as Administrator for the Conduit Purchaser, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 2001. (File No. 000-07258, Exhibit 10.1.17).



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- 10.1.9 Merchant Services Agreement, between Hurley State Bank and Catherines, Inc., incorporated by reference to Form 10-Q of Catherines Stores Corp. for the quarter ended May 1, 1999. (File No. 000-19372, Exhibit 1).
- 10.1.10 Purchase Agreement dated as of March 14, 2005 between Citibank USA, N.A., Spirit of America National Bank and Catherines, Inc., incorporated by reference to Form 8-K of the Registrant dated March 18, 2005, filed on March 22, 2005. (File No. 000-07258, Exhibit 99).
- 10.1.11 Credit Card Processing Agreement, among World Financial Network National Bank, Lane Bryant, Inc. and Sierra Nevada Factoring, Inc., dated as of January 31, 1996, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.1.9).
- 10.1.12 Amendment to Credit Card Processing Agreement, among World Financial Network National Bank, Lane Bryant, Inc., and Sierra Nevada Factoring, Inc., dated as of January 28, 2005.

95

- 10.1.13 Purchase and Sale Agreement, among Spirit of America National Bank, as Seller, and Charming Shoppes Receivables Corp., as Purchaser, dated as of November 25, 1997, incorporated by reference to Form S-1/A of Charming Shoppes Receivables Corp. (File No. 333-71757) (Exhibit 10.1(a)).
- 10.1.14 First Amendment to Purchase and Sale Agreement, among Spirit of America National Bank, as Seller, and Charming Shoppes Receivables Corp., as Purchaser, dated as of July 22, 1999, incorporated by reference to Form 8-K of Charming Shoppes Receivables Corp. (File No. 333-71757) (Exhibit 10.1).
- 10.1.15 Series 2002-1 Supplement, dated as of November 20, 2002, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997, as amended on July 22, 1999 and on May 8, 2001, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and Wachovia Bank, National Association, as Trustee, for \$100,000,000 Charming Shoppes Master Trust Asset-Backed Certificates Series 2002-1, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.1).
- 10.1.16 Charming Shoppes Master Trust \$63,500,000 Fixed Rate Class A Asset Backed Certificates, Series 2002-1 and \$16,500,000 Fixed Rate Class B Asset Backed Certificates, Series 2002-1 Certificate Purchase Agreement, dated as of November 22, 2002, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.2).
- 10.1.17 Certificate Purchase Agreement, dated as of November 22, 2002, among Wachovia Bank, National Association, as Trustee, Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and The Class C Holders described therein, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.3).
- 10.1.18 Certificate Purchase Agreement, dated as of November 22, 2002, among Wachovia Bank, National Association, as Trustee, Charming Shoppes

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Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and The Class D Holders described therein, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.4).

- 10.1.19 \$14,000,000 Promissory Note, dated October 2002, between White Marsh Distribution, LLC., as Borrower, and General Electric Capital Business Asset Funding Corporation, as Payee and Holder, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.5).
- 10.1.20 Commercial Deed of Trust, Security Agreement, Assignment of Leases and Rents, and Fixture Filing, made as of October 2002, among the Grantor, White Marsh Distribution, LLC, as Borrower, in favor of James M. Smith, as Trustee, for the benefit of the Beneficiary, General Electric Capital Business Asset Funding Corporation, as Lender, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.6).
- 10.1.21 Certificate Purchase Agreement, dated as of January 21, 2004, among Charming Shoppes Receivables Corp., as Seller and as the Class B Purchaser, Spirit of America, Inc., as Servicer, Sheffield Receivables Corporation, as the Conduit Purchaser, and Barclay's Bank PLC as Administrator for the Conduit Purchaser, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2004. (File No. 000-07258, Exhibit 10.1.17).

96

- 10.1.22 Series 2004-VFC Supplement, dated as of January 21, 2004, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997 and amended as of July 22, 1999 and as of May 8, 2001, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and Wachovia Bank, National Association, as Trustee on behalf of the Series 2004-VFC Certificateholders, for up to \$132,000,000 Charming Shoppes Master Trust Asset-Backed Certificates Series 2004-VFC, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2004. (File No. 000-07258, Exhibit 10.1.18).
- 10.1.23 Series 2004-1 Supplement, dated as of August 5, 2004, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997 (as amended on July 22, 1999, on May 8, 2001 and on August 5, 2004), among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and Wachovia Bank, National Association, as Trustee, on behalf of the Series 2004-1 Certificateholders, for \$180,000,000 Charming Shoppes Master Trust Series 2004-1, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.5).
- 10.1.24 Certificate Purchase Agreement, dated as of July 21, 2004, among Charming Shoppes Receivables Corp., Fashion Service Corp., Spirit of America, Inc., and Barclay's Capital Inc. (as representative of the Initial Purchasers), incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.6).
- 10.1.25 Certificate Purchase Agreement, dated as of August 5, 2004, among

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Wachovia Bank, National Association as Trustee, Charming Shoppes Receivables Corp. as Seller, Spirit of America, Inc. as Servicer, and Clipper Receivables Company LLC as Initial Class C Holder, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.7).

- 10.1.26 Mortgage, Assignment of Leases and Rents and Security Agreement, dated as of October 6, 2004, between FB Distro Distribution Center, LLC, as Mortgagor, and BankAtlantic Commercial Mortgage Capital, LLC, as Mortgagee, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.9).
- 10.1.27 \$13,000,000 Mortgage Note, dated October 6, 2004, between FB Distro Distribution Center, LLC, as Maker, and BankAtlantic Commercial Mortgage Capital, LLC, as Payee, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.10).
- 10.1.28 Guaranty, executed as of October 6, 2004, by Charming Shoppes, Inc., as Guarantor, for the benefit of BankAtlantic Commercial Mortgage Capital, LLC, as Lender, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.11).
- 10.1.29 Hazardous Substances Indemnity Agreement, dated October 6, 2004, by FB Distro Distribution Center, LLC and by Charming Shoppes, Inc., jointly and severally as Indemnitors, in favor of BankAtlantic Commercial Mortgage Capital, LLC, as Holder, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.12).
- 10.1.30 Amended and Restated Class D Certificate Purchase Agreement, dated as of August 25, 2004, among Wachovia Bank, National Association as Trustee, Charming Shoppes Receivables Corp. as Seller and as Initial Class D-1 Holder, Spirit of America, Inc. as Servicer, and Clipper Receivables Company LLC, as the Class D-1 Holder, incorporated by reference to Form 8-K of the Registrant dated August 24, 2004, filed on August 27, 2004. (File No. 000-07258, Exhibit 99.1).

97

- 10.1.31 Amended and Restated Certificate Purchase Agreement, dated as of November 22, 2004 and Amended and Restated as of November 18, 2004, among Wachovia Bank, National Association as Trustee, Charming Shoppes Receivables Corp. as Seller, Spirit of America, Inc. as Servicer, and the Class D-2 Certificateholders Described Herein, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.13).

### Management Contracts and Compensatory Plans and Arrangements

- 10.2.1 The 1988 Key Employee Stock Option Plan of Charming Shoppes, Inc., as amended, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1993. (File No. 000-07258, Exhibit 10.2.3).
- 10.2.2 The 1989 Non-Employee Director Stock Option Plan of Charming Shoppes,

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Inc., as amended, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1993. (File No. 000-07258, Exhibit 10.2.5).

- 10.2.3 Non-Employee Directors' Restricted Stock Plan of Charming Shoppes, Inc., as amended, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1993. (File No. 000-07258, Exhibit 10.2.6).
  - 10.2.4 The Charming Shoppes, Inc. Non-Employee Directors Compensation Program, incorporated by reference to Registration Statement on Form S-8 of the Registrant, dated February 25, 1997. (Registration No. 333-22323, Exhibit 4.1).
  - 10.2.5 The Charming Shoppes, Inc. Non-Employee Directors Compensation Program, As Amended and Restated, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999. (File No. 000-07258, Exhibit 10.1).
  - 10.2.6 The Charming Shoppes, Inc. Non-Employee Directors Compensation Program, As Amended and Restated at June 27, 2002, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 1, 2003. (File No. 000-07258, Exhibit 10.2.6).
  - 10.2.7 The Charming Shoppes, Inc. Non-Employee Directors Compensation Program Stock Option Agreement, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999. (File No. 000-07258, Exhibit 10.2).
  - 10.2.8 The Charming Shoppes, Inc. Non-Employee Directors Compensation Program Restricted Stock Agreement, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999. (File No. 000-07258, Exhibit 10.3).
  - 10.2.9 The 1993 Employees' Stock Incentive Plan of Charming Shoppes, Inc., incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 1994. (File No. 000-07258, Exhibit 10.2.10).
  - 10.2.10 The Charming Shoppes, Inc. 1993 Employees' Stock Incentive Plan Restricted Stock Agreement, dated as of February 11, 2002, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.8).
  - 10.2.11 The Charming Shoppes, Inc. 1993 Employees' Stock Incentive Plan Stock Option Agreement (regular vesting schedule), incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.20).
- 98
- 10.2.12 The Charming Shoppes, Inc. 1993 Employees' Stock Incentive Plan Stock Option Agreement (accelerated vesting schedule), incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.21).
  - 10.2.13 The Charming Shoppes, Inc. 1993 Employees' Stock Incentive Plan Performance-Accelerated Stock Option Agreement, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.22).

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- 10.2.14 The Charming Shoppes, Inc. Employee Stock Purchase Plan, as amended, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 1996. (File No. 000-07258, Exhibit 10.2.10).
- 10.2.15 The Charming Shoppes, Inc. Restricted Stock Award Plan for Associates, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 1996. (File No. 000-07258, Exhibit 10.2.11).
- 10.2.16 The Charming Shoppes, Inc. 1996 Restricted Stock Award Program, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 1996. (File No. 000-07258, Exhibit 10.2.12).
- 10.2.17 The Charming Shoppes, Inc. 1996 Restricted Stock Award Program Restricted Stock Agreement, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 1996. (File No. 000-07258, Exhibit 10.2.13).
- 10.2.18 The Charming Shoppes, Inc. 1998 Restricted Award Program, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 1998. (File No. 000-07258, Exhibit 10.2.22).
- 10.2.19 The Charming Shoppes Inc. 1999 Associates' Stock Incentive Plan, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1999. (File No. 000-07258, Exhibit 10.2.24).
- 10.2.20 Charming Shoppes, Inc. 1999 Associates' Stock Incentive Plan Stock Option Agreement, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1999. (File No. 000-07258, Exhibit 10.2.25).
- 10.2.21 The Charming Shoppes, Inc. Amended and Restated 2000 Associates' Stock Incentive Plan, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 2001. (File No. 000-07258, Exhibit 10.2.29).
- 10.2.22 The Charming Shoppes, Inc. Amended and Restated 2000 Associates' Stock Incentive Plan Stock Option Agreement (regular vesting schedule) , incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.23).
- 10.2.23 The Charming Shoppes, Inc. Amended and Restated 2000 Associates' Stock Incentive Plan Stock Option Agreement (accelerated vesting schedule), incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.24).
- 10.2.24 The Charming Shoppes, Inc. Amended and Restated 2000 Associates' Stock Incentive Plan Restricted Stock Agreement, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.25).
- 10.2.25 2004 Stock Award and Incentive Plan, incorporated by reference to Appendix B of the Registrant's Proxy Statement Pursuant to Section 14 of the Securities Exchange Act of 1934, filed on May 19, 2004.
- 10.2.26 Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Stock Option Agreement, incorporated by reference to Form 10-Q of the Registrant for

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the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.15).

- 10.2.27 Form of Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Restricted Stock Agreement - Section 16 Officers, incorporated by reference to Form 8-K of the Registrant dated February 7, 2005, filed on February 11, 2005. (File No. 000-07258, Exhibit 99.2)
- 10.2.28 Form of Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Performance Share Agreement, incorporated by reference to Form 8-K of the Registrant dated February 7, 2005, filed on February 11, 2005. (File No. 000-07258, Exhibit 99.4)
- 10.2.29 Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Restricted Stock Agreement - Associates Other Than Section 16 Officers, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.17).
- 10.2.30 Charming Shoppes, Inc. Supplemental Retirement Plan, effective February 1, 2003, incorporated by reference to Form 10-Q of the Registrant for the quarter ended May 3, 2003. (File No. 000-07258, Exhibit 10.1).
- 10.2.31 2003 Incentive Compensation Plan, incorporated by reference to Appendix C of the Registrant's Proxy Statement Pursuant to Section 14 of the Securities Exchange Act of 1934, filed on May 22, 2003.
- 10.2.32 Amended and Restated Variable Deferred Compensation Plan for Executives, effective December 23, 2003, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.3).
- 10.2.33 Form of Bonus Agreement by and between Charming Shoppes, Inc. and the Executive Officer named in the Agreement, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.14).
- 10.2.34 Charming Shoppes, Inc. Annual Incentive Program As Amended and Restated January 19, 2005, incorporated by reference to Form 8-K of the Registrant dated January 19, 2005, filed January 25, 2005. (File No. 000-07258, Exhibit 99.1).
- 10.2.35 Employment Agreement, dated as of January 1, 2005, by and between Charming Shoppes, Inc. and Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated January 3, 2005, filed on January 4, 2005. (File No. 000-07258, Exhibit 99.1)
- 10.2.36 The Charming Shoppes, Inc. 1993 Employees' Stock Incentive Plan Restricted Stock Agreement, dated as of May 13, 2004, between Charming Shoppes, Inc. and Dorrit J. Bern, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.8).
- 10.2.37 Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Restricted Stock Agreement, dated as of January 3, 2005, between Charming Shoppes, Inc. and Dorrit J. Bern.
- 10.2.38 Form of Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Restricted Stock Agreement between Charming Shoppes, Inc. and Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated February 7, 2005, filed on February 11, 2005. (File No. 000-07258, Exhibit 99.1)

- 10.2.39 Form of Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Performance Share Agreement between Charming Shoppes, Inc. and Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated February 7, 2005, filed on February 11, 2005. (File No. 000-07258, Exhibit 99.3)
- 10.2.40 Employment Agreement, dated as of March 12, 2003, by and between Charming Shoppes, Inc. and Erna Zint, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 1, 2003. (File No. 000-07258, Exhibit 10.2.17).
- 10.2.41 Forms of Executive Severance Agreements by and between Charming Shoppes, Inc., the named executive officers in the company's Proxy Statement for the Annual Meeting held on June 15, 2000, and certain other executive officers and officers of Charming Shoppes, Inc. and its subsidiaries, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 2000. (File No. 000-07258, Exhibit 10.2.33).
- 10.2.42 Forms of First Amendment, dated as of February 6, 2003, to Forms of Executive Severance Agreements, dated July 15, 1999, by and between Charming Shoppes, Inc., and the executive officers and officers named in the Agreements, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 1, 2003. (File No. 000-07258, Exhibit 10.2.30).
- 10.2.43 Form of Executive Severance Agreement, dated February 6, 2003, by and between Charming Shoppes, Inc. and certain executive officers and officers of Charming Shoppes, Inc. and its subsidiaries, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 1, 2003. (File No. 000-07258, Exhibit 10.2.31).

Other Exhibits

- 14 Charming Shoppes, Inc. Business Ethics and Standards of Conduct Policy, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2004. (File No. 000-07258, Exhibit 14).
- 21 Subsidiaries of Registrant
- 23 Consent of independent registered public accounting firm
- 31.1 Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CHARMING SHOPPES, INC.  
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Date: April 14, 2005

/S/ DORRIT J. BERN  
-----

By: Dorrit J. Bern  
Chairman of the Board  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Charming Shoppes, Inc. and in the capacities and on the dates indicated:

/S/ DORRIT J. BERN  
-----

Dorrit J. Bern  
Chairman of the Board  
President and Chief Executive Officer  
April 14, 2005

/S/ ERIC M. SPECTER  
-----

Eric M. Specter  
Executive Vice President  
Chief Financial Officer  
April 14, 2005

/S/ JOHN J. SULLIVAN  
-----

John J. Sullivan  
Vice President, Corporate Controller  
Chief Accounting Officer  
April 14, 2005

/S/ JOSEPH L. CASTLE II  
-----

Joseph L. Castle II  
Director  
April 14, 2005

/S/ ALAN ROSSKAMM  
-----

Alan Rosskamm  
Director  
April 14, 2005

/S/ WILLIAM O. ALBERTINI  
-----

William O. Albertini  
Director  
April 14, 2005

/S/ KATHERINE M. HUDSON  
-----

Katherine M. Hudson  
Director  
April 14, 2005

/S/ PAMELA S. LEWIS  
-----

Pamela S. Lewis  
Director  
April 14, 2005

/S/ KENNETH S. OLSHAN  
-----

Kenneth S. Olshan  
Director  
April 14, 2005

/S/ CHARLES T. HOPKINS  
-----

Charles T. Hopkins  
Director  
April 14, 2005

/S/ YVONNE M. CURL  
-----



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Yvonne M. Curl  
Director  
April 14, 2005

102

### Exhibit Index

Exhibit No. -----	Item ----
2.1	Stock Purchase Agreement, dated as of July 9, 2001, among Charming Shoppes, Inc., Venice Acquisition Corporation, LFAS, Inc. and Limited Brands, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.1).
2.2	Services Agreement, dated as of August 16, 2001, between LBH, Inc. and Limited Brands, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.2).
2.3	Covenant Agreement, dated as of August 16, 2001, between Charming Shoppes, Inc. and Limited Brands, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.3).
2.4	Master Sublease, dated as of August 16, 2001, between Limited Brands, Inc. and Lane Bryant, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.4).
2.5	Lease Agreement, dated as of August 16, 2001, by and between Distribution Land Corp. and Lane Bryant, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.5).
2.6	Agreement and Plan of Merger, dated as of November 15, 1999, by and among Catherines Stores Corporation, Charming Shoppes, Inc., and Rose Merger Sub, Inc., incorporated by reference to Schedule 14(D)-1 of the Registrant filed on November 19, 1999. (Item 11(c)(1)).
3.1	Restated Articles of Incorporation, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 1994. (File No. 000-07258, Exhibit 3.1).
3.2	By-Laws, as Amended and Restated, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999. (File No. 000-07258, Exhibit 3.2).
4.1	Amended and Restated Rights Agreement, dated as of February 1, 2001, between Charming Shoppes, Inc. and American Stock Transfer & Trust Company, as Rights Agent, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 2001. (File No. 000-07258, Exhibit 4.1).

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- 4.2 Registration Agreement, dated as of August 16, 2001, between Charming Shoppes, Inc. and Limited Brands, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (File No. 000-07258, Exhibit 4.1).
- 4.3 Indenture, dated as of May 28, 2002, between Charming Shoppes, Inc. and Wachovia Bank, National Association, incorporated by reference to Form 10-Q of the Registrant for the quarter ended May 4, 2002. (File No. 000-07258, Exhibit 4.1).

103

- 4.4 Registration Rights Agreement, dated as of May 28, 2002, by and among Charming Shoppes, Inc., as Issuer, and J. P. Morgan Securities, Inc., Bear Stearns & Co., Inc., First Union Securities, Inc., Lazard Freres & Co., LLC, and McDonald Investments, Inc., as Initial Purchasers, incorporated by reference to Form 10-Q of the Registrant for the quarter ended May 4, 2002. (File No. 000-07258, Exhibit 4.2).
- 4.5 Amended and Restated Loan and Security Agreement, dated as of January 29, 2004, by and among Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., Catherine Stores Corporation, Lane Bryant, Inc. and FB Apparel, Inc., as Borrowers; Charming Shoppes of Delaware, Inc., as Borrowers' Agent; Congress Financial Corporation, as Administrative Agent, Collateral Agent, and Joint Bookrunner; J.P. Morgan Business Credit Corp., as Co-Documentation Agent, Joint Lead Arranger, and Joint Bookrunner; Wachovia Bank, National Association, as Joint Lead Arranger; Bank of America, N.A. and Fleet Retail Group, Inc., as Co-Documentation Agents; and The Financial Institutions named therein, as Lenders, incorporated by reference to Form 8-K of the Registrant dated February 4, 2004. (File No. 000-07258, Exhibit 99.2).
- 10.1.1 Second Amended and Restated Pooling and Servicing Agreement, dated as of November 25, 1997, as amended on July 22, 1999, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and First Union National Bank as Trustee, incorporated by reference to Form 8-K of Charming Shoppes Master Trust and Charming Shoppes Receivables Corp., (File No. 333-71757) dated July 22, 1999. (Exhibit No. 4.1).
- 10.1.2 Fourth Amendment, dated as of August 5, 2004, to Second Amended and Restated Pooling and Servicing Agreement, dated as of November 25, 1997, as amended on July 22, 1999 and on May 8, 2001, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and Wachovia Bank, National Association (formerly known as First Union National Bank) as Trustee, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.4).
- 10.1.3 Amendment, dated as of March 18, 2005, to Second Amended and Restated Pooling and Servicing Agreement, dated as of November 25, 1997, as amended on July 22, 1999, May 8, 2001, and August 5, 2004, among Charming Shoppes Receivables Corp., as Seller, Spirit

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of America, Inc., as Servicer, and Wachovia Bank, National Association, as Trustee.

- 10.1.4 Series 1999-1 Supplement, dated as of July 22, 1999, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997, as amended on July 22, 1999, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and First Union National Bank, as Trustee, for \$150,000,000 Charming Shoppes Master Trust Asset-Backed Certificates Series 1999-1, incorporated by reference to Form 8-K of Charming Shoppes Master Trust and Charming Shoppes Receivables Corp., (File No. 333-71757) dated July 22, 1999. (Exhibit No. 4.2).
- 10.1.5 Receivables Purchase Agreement, dated as of May 28, 1999, among Charming Shoppes Seller, Inc. as Seller, Spirit of America, Inc., as Servicer, Clipper Receivables Corporation, as Purchaser, State Street Capital Corporation, as Administrator, and State Street Bank & Trust Company, as Relationship Bank, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.1.4).
- 104
- 10.1.6 Series 1999-2 Supplement, dated as of May 28, 1999, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997, as amended on July 22, 1999, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and First Union National Bank, as Trustee, for \$55,750,000 Charming Shoppes Master Trust Asset-Backed Certificates Series 1999-2, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 2000. (File No. 000-07258, Exhibit 10.1.23).
- 10.1.7 Series 2000-VFC Supplement, dated as of November 9, 2000, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and First Union National Bank, as Trustee, on behalf of the Series 2000-VFC Certificateholders, for up to \$60,122,700 Charming Shoppes Master Trust Series 2000-VFC, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 2001. (File No. 000-07258, Exhibit 10.1.16).
- 10.1.8 Certificate Purchase Agreement, dated as of November 9, 2000, among Charming Shoppes Receivables Corp. as Seller and as the Class B Purchaser, Spirit of America, Inc. as Servicer, Monte Rosa Capital Corporation as the Conduit Purchaser, and ING Baring (U.S.) Capital Markets LLC as Administrator for the Conduit Purchaser, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 2001. (File No. 000-07258, Exhibit 10.1.17).
- 10.1.9 Merchant Services Agreement, between Hurley State Bank and Catherines, Inc., incorporated by reference to Form 10-Q of Catherines Stores Corp. for the quarter ended May 1, 1999. (File No. 000-19372, Exhibit 1).

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- 10.1.10 Purchase Agreement dated as of March 14, 2005 between Citibank USA, N.A., Spirit of America National Bank and Catherines, Inc., incorporated by reference to Form 8-K of the Registrant dated March 18, 2005, filed on March 22, 2005. (File No. 000-07258, Exhibit 99).
- 10.1.11 Credit Card Processing Agreement, among World Financial Network National Bank, Lane Bryant, Inc. and Sierra Nevada Factoring, Inc., dated as of January 31, 1996, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.1.9).
- 10.1.12 Amendment to Credit Card Processing Agreement, among World Financial Network National Bank, Lane Bryant, Inc., and Sierra Nevada Factoring, Inc., dated as of January 28, 2005.
- 10.1.13 Purchase and Sale Agreement, among Spirit of America National Bank, as Seller, and Charming Shoppes Receivables Corp., as Purchaser, dated as of November 25, 1997, incorporated by reference to Form S-1/A of Charming Shoppes Receivables Corp. (File No. 333-71757) (Exhibit 10.1(a)).
- 10.1.14 First Amendment to Purchase and Sale Agreement, among Spirit of America National Bank, as Seller, and Charming Shoppes Receivables Corp., as Purchaser, dated as of July 22, 1999, incorporated by reference to Form 8-K of Charming Shoppes Receivables Corp. (File No. 333-71757) (Exhibit 10.1).
- 10.1.15 Series 2002-1 Supplement, dated as of November 20, 2002, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997, as amended on July 22, 1999 and on May 8, 2001, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and Wachovia Bank, National Association, as Trustee, for \$100,000,000 Charming Shoppes Master Trust Asset-Backed Certificates Series 2002-1, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.1).
- 10.1.16 Charming Shoppes Master Trust \$63,500,000 Fixed Rate Class A Asset Backed Certificates, Series 2002-1 and \$16,500,000 Fixed Rate Class B Asset Backed Certificates, Series 2002-1 Certificate Purchase Agreement, dated as of November 22, 2002, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.2).
- 10.1.17 Certificate Purchase Agreement, dated as of November 22, 2002, among Wachovia Bank, National Association, as Trustee, Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and The Class C Holders described therein, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.3).
- 10.1.18 Certificate Purchase Agreement, dated as of November 22, 2002, among Wachovia Bank, National Association, as Trustee, Charming

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Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and The Class D Holders described therein, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.4).

- 10.1.19 \$14,000,000 Promissory Note, dated October 2002, between White Marsh Distribution, LLC., as Borrower, and General Electric Capital Business Asset Funding Corporation, as Payee and Holder, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.5).
- 10.1.20 Commercial Deed of Trust, Security Agreement, Assignment of Leases and Rents, and Fixture Filing, made as of October 2002, among the Grantor, White Marsh Distribution, LLC, as Borrower, in favor of James M. Smith, as Trustee, for the benefit of the Beneficiary, General Electric Capital Business Asset Funding Corporation, as Lender, incorporated by reference to Form 10-Q of the Registrant for the quarter ended November 2, 2002. (File No. 000-07258, Exhibit 10.6).
- 10.1.21 Certificate Purchase Agreement, dated as of January 21, 2004, among Charming Shoppes Receivables Corp., as Seller and as the Class B Purchaser, Spirit of America, Inc., as Servicer, Sheffield Receivables Corporation, as the Conduit Purchaser, and Barclay's Bank PLC as Administrator for the Conduit Purchaser, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2004. (File No. 000-07258, Exhibit 10.1.17).
- 10.1.22 Series 2004-VFC Supplement, dated as of January 21, 2004, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997 and amended as of July 22, 1999 and as of May 8, 2001, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and Wachovia Bank, National Association, as Trustee on behalf of the Series 2004-VFC Certificateholders, for up to \$132,000,000 Charming Shoppes Master Trust Asset-Backed Certificates Series 2004-VFC, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2004. (File No. 000-07258, Exhibit 10.1.18).
- 10.1.23 Series 2004-1 Supplement, dated as of August 5, 2004, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997 (as amended on July 22, 1999, on May 8, 2001 and on August 5, 2004), among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and Wachovia Bank, National Association, as Trustee, on behalf of the Series 2004-1 Certificateholders, for \$180,000,000 Charming Shoppes Master Trust Series 2004-1, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.5).
- 10.1.24 Certificate Purchase Agreement, dated as of July 21, 2004, among Charming Shoppes Receivables Corp., Fashion Service Corp., Spirit

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of America, Inc., and Barclay's Capital Inc. (as representative of the Initial Purchasers), incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.6).

- 10.1.25 Certificate Purchase Agreement, dated as of August 5, 2004, among Wachovia Bank, National Association as Trustee, Charming Shoppes Receivables Corp. as Seller, Spirit of America, Inc. as Servicer, and Clipper Receivables Company LLC as Initial Class C Holder, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.7).
- 10.1.26 Mortgage, Assignment of Leases and Rents and Security Agreement, dated as of October 6, 2004, between FB Distro Distribution Center, LLC, as Mortgagor, and BankAtlantic Commercial Mortgage Capital, LLC, as Mortgagee, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.9).
- 10.1.27 \$13,000,000 Mortgage Note, dated October 6, 2004, between FB Distro Distribution Center, LLC, as Maker, and BankAtlantic Commercial Mortgage Capital, LLC, as Payee, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.10).
- 10.1.28 Guaranty, executed as of October 6, 2004, by Charming Shoppes, Inc., as Guarantor, for the benefit of BankAtlantic Commercial Mortgage Capital, LLC, as Lender, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.11).
- 10.1.29 Hazardous Substances Indemnity Agreement, dated October 6, 2004, by FB Distro Distribution Center, LLC and by Charming Shoppes, Inc., jointly and severally as Indemnitors, in favor of BankAtlantic Commercial Mortgage Capital, LLC, as Holder, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.12).
- 10.1.30 Amended and Restated Class D Certificate Purchase Agreement, dated as of August 25, 2004, among Wachovia Bank, National Association as Trustee, Charming Shoppes Receivables Corp. as Seller and as Initial Class D-1 Holder, Spirit of America, Inc. as Servicer, and Clipper Receivables Company LLC, as the Class D-1 Holder, incorporated by reference to Form 8-K of the Registrant dated August 24, 2004, filed on August 27, 2004. (File No. 000-07258, Exhibit 99.1).
- 10.1.31 Amended and Restated Certificate Purchase Agreement, dated as of November 22, 2004 and Amended and Restated as of November 18, 2004, among Wachovia Bank, National Association as Trustee, Charming Shoppes Receivables Corp. as Seller, Spirit of America, Inc. as Servicer, and the Class D-2 Certificateholders Described Herein, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.13).

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- 10.2.1 The 1988 Key Employee Stock Option Plan of Charming Shoppes, Inc., as amended, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1993. (File No. 000-07258, Exhibit 10.2.3).
- 10.2.2 The 1989 Non-Employee Director Stock Option Plan of Charming Shoppes, Inc., as amended, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1993. (File No. 000-07258, Exhibit 10.2.5).
- 10.2.3 Non-Employee Directors' Restricted Stock Plan of Charming Shoppes, Inc., as amended, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1993. (File No. 000-07258, Exhibit 10.2.6).
- 10.2.4 The Charming Shoppes, Inc. Non-Employee Directors Compensation Program, incorporated by reference to Registration Statement on Form S-8 of the Registrant, dated February 25, 1997. (Registration No. 333-22323, Exhibit 4.1).
- 10.2.5 The Charming Shoppes, Inc. Non-Employee Directors Compensation Program, As Amended and Restated, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999. (File No. 000-07258, Exhibit 10.1).
- 10.2.6 The Charming Shoppes, Inc. Non-Employee Directors Compensation Program, As Amended and Restated at June 27, 2002, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 1, 2003. (File No. 000-07258, Exhibit 10.2.6).
- 10.2.7 The Charming Shoppes, Inc. Non-Employee Directors Compensation Program Stock Option Agreement, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999. (File No. 000-07258, Exhibit 10.2).
- 10.2.8 The Charming Shoppes, Inc. Non-Employee Directors Compensation Program Restricted Stock Agreement, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999. (File No. 000-07258, Exhibit 10.3).
- 10.2.9 The 1993 Employees' Stock Incentive Plan of Charming Shoppes, Inc., incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 1994. (File No. 000-07258, Exhibit 10.2.10).
- 10.2.10 The Charming Shoppes, Inc. 1993 Employees' Stock Incentive Plan Restricted Stock Agreement, dated as of February 11, 2002, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.8).
- 10.2.11 The Charming Shoppes, Inc. 1993 Employees' Stock Incentive Plan Stock Option Agreement (regular vesting schedule), incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.20).
- 10.2.12 The Charming Shoppes, Inc. 1993 Employees' Stock Incentive Plan Stock Option Agreement (accelerated vesting schedule), incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.21).

- 10.2.13 The Charming Shoppes, Inc. 1993 Employees' Stock Incentive Plan Performance-Accelerated Stock Option Agreement, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.22).
- 10.2.14 The Charming Shoppes, Inc. Employee Stock Purchase Plan, as amended, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 1996. (File No. 000-07258, Exhibit 10.2.10).
- 10.2.15 The Charming Shoppes, Inc. Restricted Stock Award Plan for Associates, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 1996. (File No. 000-07258, Exhibit 10.2.11).
- 10.2.16 The Charming Shoppes, Inc. 1996 Restricted Stock Award Program, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 1996. (File No. 000-07258, Exhibit 10.2.12).
- 10.2.17 The Charming Shoppes, Inc. 1996 Restricted Stock Award Program Restricted Stock Agreement, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 1996. (File No. 000-07258, Exhibit 10.2.13).
- 10.2.18 The Charming Shoppes, Inc. 1998 Restricted Award Program, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 1998. (File No. 000-07258, Exhibit 10.2.22).
- 10.2.19 The Charming Shoppes Inc. 1999 Associates' Stock Incentive Plan, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1999. (File No. 000-07258, Exhibit 10.2.24).
- 10.2.20 Charming Shoppes, Inc. 1999 Associates' Stock Incentive Plan Stock Option Agreement, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1999. (File No. 000-07258, Exhibit 10.2.25).
- 10.2.21 The Charming Shoppes, Inc. Amended and Restated 2000 Associates' Stock Incentive Plan, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 3, 2001. (File No. 000-07258, Exhibit 10.2.29).
- 10.2.22 The Charming Shoppes, Inc. Amended and Restated 2000 Associates' Stock Incentive Plan Stock Option Agreement (regular vesting schedule), incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.23).
- 10.2.23 The Charming Shoppes, Inc. Amended and Restated 2000 Associates' Stock Incentive Plan Stock Option Agreement (accelerated vesting schedule), incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No.



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000-07258, Exhibit 10.2.24).

10.2.24 The Charming Shoppes, Inc. Amended and Restated 2000 Associates' Stock Incentive Plan Restricted Stock Agreement, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 2, 2002. (File No. 000-07258, Exhibit 10.2.25).

109

10.2.25 2004 Stock Award and Incentive Plan, incorporated by reference to Appendix B of the Registrant's Proxy Statement Pursuant to Section 14 of the Securities Exchange Act of 1934, filed on May 19, 2004.

10.2.26 Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Stock Option Agreement, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.15).

10.2.27 Form of Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Restricted Stock Agreement - Section 16 Officers, incorporated by reference to Form 8-K of the Registrant dated February 7, 2005, filed on February 11, 2005. (File No. 000-07258, Exhibit 99.2)

10.2.28 Form of Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Performance Share Agreement, incorporated by reference to Form 8-K of the Registrant dated February 7, 2005, filed on February 11, 2005. (File No. 000-07258, Exhibit 99.4)

10.2.29 Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Restricted Stock Agreement - Associates Other Than Section 16 Officers, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.17).

10.2.30 Charming Shoppes, Inc. Supplemental Retirement Plan, effective February 1, 2003, incorporated by reference to Form 10-Q of the Registrant for the quarter ended May 3, 2003. (File No. 000-07258, Exhibit 10.1).

10.2.31 2003 Incentive Compensation Plan, incorporated by reference to Appendix C of the Registrant's Proxy Statement Pursuant to Section 14 of the Securities Exchange Act of 1934, filed on May 22, 2003.

10.2.32 Amended and Restated Variable Deferred Compensation Plan for Executives, effective December 23, 2003, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.3).

10.2.33 Form of Bonus Agreement by and between Charming Shoppes, Inc. and the Executive Officer named in the Agreement, incorporated by reference to Form 10-Q of the Registrant for the quarter ended October 30, 2004 (File No. 000-07258, Exhibit 10.14).

10.2.34 Charming Shoppes, Inc. Annual Incentive Program As Amended and Restated January 19, 2005, incorporated by reference to Form 8-K

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of the Registrant dated January 19, 2005, filed January 25, 2005. (File No. 000-07258, Exhibit 99.1).

- 10.2.35 Employment Agreement, dated as of January 1, 2005, by and between Charming Shoppes, Inc. and Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated January 3, 2005, filed on January 4, 2005. (File No. 000-07258, Exhibit 99.1)
- 10.2.36 The Charming Shoppes, Inc. 1993 Employees' Stock Incentive Plan Restricted Stock Agreement, dated as of May 13, 2004, between Charming Shoppes, Inc. and Dorrit J. Bern, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 2004 (File No. 000-07258, Exhibit 10.8).

110

- 10.2.37 Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Restricted Stock Agreement, dated as of January 3, 2005, between Charming Shoppes, Inc. and Dorrit J. Bern.
- 10.2.38 Form of Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Restricted Stock Agreement between Charming Shoppes, Inc. and Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated February 7, 2005, filed on February 11, 2005. (File No. 000-07258, Exhibit 99.1)
- 10.2.39 Form of Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan Performance Share Agreement between Charming Shoppes, Inc. and Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated February 7, 2005, filed on February 11, 2005. (File No. 000-07258, Exhibit 99.3)
- 10.2.40 Employment Agreement, dated as of March 12, 2003, by and between Charming Shoppes, Inc. and Erna Zint, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 1, 2003. (File No. 000-07258, Exhibit 10.2.17).
- 10.2.41 Forms of Executive Severance Agreements by and between Charming Shoppes, Inc., the named executive officers in the company's Proxy Statement for the Annual Meeting held on June 15, 2000, and certain other executive officers and officers of Charming Shoppes, Inc. and its subsidiaries, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 2000. (File No. 000-07258, Exhibit 10.2.33).
- 10.2.42 Forms of First Amendment, dated as of February 6, 2003, to Forms of Executive Severance Agreements, dated July 15, 1999, by and between Charming Shoppes, Inc., and the executive officers and officers named in the Agreements, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 1, 2003. (File No. 000-07258, Exhibit 10.2.30).
- 10.2.43 Form of Executive Severance Agreement, dated February 6, 2003, by and between Charming Shoppes, Inc. and certain executive officers and officers of Charming Shoppes, Inc. and its subsidiaries, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended February 1, 2003. (File No. 000-07258, Exhibit 10.2.31).

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- 14 Charming Shoppes, Inc. Business Ethics and Standards of Conduct Policy, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2004. (File No. 000-07258, Exhibit 14).
- 21 Subsidiaries of Registrant
- 23 Consent of independent registered public accounting firm
- 31.1 Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.