CHARMING SHOPPES INC
Form 10-Q
September 01, 2010

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

FORM 10-Q

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

For the quarterly period ended July 31, 2010

Or

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

For the transition period from ______________ to _______________

Commission File No. 000-07258

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

PENNSYLVANIA (State or other jurisdiction of incorporation or organization)	23-1721355 (I.R.S. Employer Identification No.)
3750 STATE ROAD, BENSALEM, PA 19020 (Address of principal executive offices) (Zip Code)	(215) 245-9100 (Registrant’s telephone number, including Area Code)

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

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

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):

Yes x No o

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

Large Accelerated Filer x	Accelerated Filer o
Non-accelerated Filer o	Smaller Reporting Company o

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

Yes o No x

The number of shares outstanding of the issuer's Common Stock (par value $.10 per share) as of August 30, 2010 was 115,460,399 shares.

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

Item 1. Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	July 31, 2010 (Unaudited)	January 30, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 210,055	$ 186,580
Available-for-sale securities	0	200
Accounts receivable, net of allowances of $2,148 and $5,345	4,761	33,647
Merchandise inventories	289,456	267,525
Deferred taxes	7,556	5,897
Prepayments and other	97,514	128,053
Total current assets	609,342	621,902
Property, equipment, and leasehold improvements – at cost	1,026,065	1,026,815
Less accumulated depreciation and amortization	738,115	721,732
Net property, equipment, and leasehold improvements	287,950	305,083
Trademarks, tradenames, and internet domain names	187,132	187,132
Goodwill	23,436	23,436
Other assets	23,033	24,104
Total assets	$ 1,130,893	$ 1,161,657
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 160,049	$ 126,867
Accrued expenses	140,333	153,175
Current portion – long-term debt	6,405	6,265
Total current liabilities	306,787	286,307
Deferred taxes	53,424	52,683
Other non-current liabilities	176,737	186,175
Long-term debt, net of debt discount of $28,037 and $42,105	133,201	171,558
Stockholders' equity		
Common Stock $.10 par value:		
Authorized – 300,000,000 shares		
Issued – 154,024,597 shares and 154,234,657 shares	15,402	15,423
Additional paid-in capital	505,611	505,033
Treasury stock at cost – 38,571,746 shares	(348,241)	(348,241)

Retained earnings	287,972	292,719
Total stockholders' equity	460,744	464,934
Total liabilities and stockholders' equity	$ 1,130,893	$ 1,161,657

See Notes to Condensed Consolidated Financial Statements

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

(In thousands, except per share amounts)	Thirteen Weeks Ended July 31, 2010	Thirteen Weeks Ended August 1, 2009
Net sales	$517,564	$527,217
Cost of goods sold	268,441	263,358
Gross profit	249,123	263,859
Occupancy and buying expenses	91,880	100,084
Selling, general, and administrative expenses	146,979	134,279
Depreciation and amortization	16,937	19,192
Restructuring and other charges	619	7,768
Total operating expenses	256,415	261,323
Income/(loss) from operations	(7,292)	2,536
Other income	396	283
Gain on repurchases of 1.125% Senior Convertible Notes	1,907	7,313
Interest expense	(4,096)	(4,485)
Income/(loss) before income taxes	(9,085)	5,647
Income tax (benefit)/provision	(443)	664
Net income/(loss)	$(8,642)	$4,983
Basic net income/(loss) per share	$(0.07)	$0.04
Diluted net income/(loss) per share	$(0.07)	$0.04

See Notes to Condensed Consolidated Financial Statements

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

	Twenty-six Weeks Ended	
(In thousands, except per share amounts)	July 31, 2010	August 1, 2009
Net sales	$1,022,369	$1,065,353
Cost of goods sold	496,657	513,919
Gross profit	525,712	551,434
Occupancy and buying expenses	184,104	202,640
Selling, general, and administrative expenses	306,152	291,781
Depreciation and amortization	33,748	39,274
Restructuring and other charges	1,508	16,473
Total operating expenses	525,512	550,168
Income from operations	200	1,266
Other income	534	481
Gain on repurchases of 1.125% Senior Convertible Notes	1,907	11,564
Interest expense	(8,570)	(9,505)
Income/(loss) before income taxes	(5,929)	3,806
Income tax (benefit)/provision	(1,182)	5,384
Net loss	(4,747)	(1,578)
Other comprehensive loss, net of tax		
Unrealized losses on available-for-sale securities	0	(5)
Comprehensive loss	$(4,747)	$(1,583)
Basic net loss per share	$(0.04)	$(0.01)
Diluted net loss per share	$(0.04)	$(0.01)

See Notes to Condensed Consolidated Financial Statements

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

(In thousands)	Twenty-six Weeks Ended July 31, 2010	August 1, 2009
Operating activities		
Net loss	$(4,747)	$(1,578)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	34,696	40,501
Stock-based compensation	2,010	2,974
Accretion of discount on 1.125% Senior Convertible Notes	3,974	5,434
Deferred income taxes	(918)	1,691
Gain on repurchases of 1.125% Senior Convertible Notes	(1,907)	(11,564)
Write-down of capital assets	0	7,128
Net loss from disposition of capital assets	534	237
Net loss from securitization activities	0	178
Changes in operating assets and liabilities		
Accounts receivable, net	28,886	29,941
Merchandise inventories	(21,931)	8,669
Accounts payable	33,182	21,645
Prepayments and other	30,916	(23,053)
Accrued expenses and other	(22,653)	(24,790)
Net cash provided by operating activities	82,042	57,413
Investing activities		
Investment in capital assets	(16,584)	(9,766)
Proceeds from sales of capital assets	0	1,219
Gross purchases of securities	0	(1,698)
Proceeds from sales of securities	200	8,588
(Increase)/decrease in other assets	(954)	3,354
Net cash provided/(used) by investing activities	(17,338)	1,697
Financing activities		
Repayments of long-term borrowings	(3,100)	(3,448)
Repurchases of 1.125% Senior Convertible Notes	(38,260)	(26,617)
Payments of deferred financing costs	0	(6,328)
Net payments for settlements of hedges on convertible notes	0	(31)
Net proceeds from shares issued under employee stock plans	131	254
Net cash used by financing activities	(41,229)	(36,170)

Increase in cash and cash equivalents	23,475	22,940
Cash and cash equivalents, beginning of period	186,580	93,759
Cash and cash equivalents, end of period	$210,055	$116,699

See Notes to Condensed Consolidated Financial Statements

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

Note 1. Condensed Consolidated Financial Statements

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC"). In our opinion, we have made all adjustments (which, except as otherwise disclosed in these notes, include only normal recurring adjustments) necessary to present fairly our financial position, results of operations and comprehensive income, and cash flows. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles. These financial statements and related notes should be read in conjunction with our financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010. The results of operations for the thirteen weeks and twenty-six weeks ended July 31, 2010 and August 1, 2009 are not necessarily indicative of operating results for the full fiscal year.

As used in these notes, "Fiscal 2010" refers to our fiscal year ending January 29, 2011, "Fiscal 2009" refers to our fiscal year ended January 30, 2010, "Fiscal 2008" refers to our fiscal year ended January 31, 2009, and "Fiscal 2007" refers to our fiscal year ended February 2, 2008. "Fiscal 2010 Second Quarter" refers to our fiscal quarter ended July 31, 2010, "Fiscal 2009 Second Quarter" refers to our fiscal quarter ended August 1, 2009, and "Fiscal 2008 Second Quarter" refers to our fiscal quarter ended August 2, 2008. "Fiscal 2009 Third Quarter" refers to our fiscal quarter ended October 31, 2009, "Fiscal 2009 Fourth Quarter" refers to our fiscal quarter ended January 30, 2010, and "Fiscal 2010 First Quarter" refers to our fiscal quarter ended May 1, 2010. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes Inc. and, where applicable, our consolidated subsidiaries.

Segment Reporting

We operate and report in two segments: Retail Stores and Direct-to-Consumer. We determine our operating segments based on the way our chief operating decision-makers review our results of operations. Additional information regarding our segment reporting is included in "Note 10. Segment Reporting" below.

Note 2. Accounts Receivable

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

(In thousands)	July 31, 2010	January 30, 2010
Due from customers	$6,909	$38,992
Allowance for doubtful accounts	(2,148)	(5,345)
Net accounts receivable	$4,761	$33,647

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

Note 3. Long-term Debt

(In thousands)	July 31, 2010	January 30, 2010
1.125% Senior Convertible Notes, due May 2014	$140,451	$189,636
Capital lease obligations	8,454	10,116
6.07% mortgage note, due October 2014	9,409	9,777
6.53% mortgage note, due November 2012	3,150	3,850
7.77% mortgage note, due December 2011	6,179	6,549
Total long-term debt principal	167,643	219,928
Less unamortized discount on 1.125% Senior Convertible Notes	(28,037)	(42,105)
Long-term debt – carrying value	139,606	177,823
Current portion	(6,405)	(6,265)
Net long-term debt	$133,201	$171,558

Upon maturity of the 1.125% Senior Convertible Notes (the "1.125% Notes") we will be obligated to repay the principal value of the outstanding notes.

During the thirteen weeks ended July 31, 2010 we repurchased $49,185,000 aggregate principal amount of 1.125% Notes with $10,094,000 of unamortized discount for a purchase price of $38,260,000 and recognized a gain of $1,907,000, net of unamortized issue costs. During the thirteen weeks ended August 1, 2009 we repurchased $38,235,000 aggregate principal amount of 1.125% Notes with $9,582,000 of unamortized discount for a purchase price of $20,986,000 and recognized a gain of $7,313,000, net of unamortized issue costs. During the twenty-six weeks ended August 1, 2009 we repurchased $51,735,000 aggregate principal amount of 1.125% Notes with $13,020,000 of unamortized discount for a purchase price of $26,617,000 and recognized a gain of $11,564,000, net of unamortized issue costs. In conjunction with the Fiscal 2009 repurchases, during the Fiscal 2009 Second Quarter we unwound a portion of our positions in the warrants and call options that we had sold and purchased in Fiscal 2007 to hedge the impact of the convertible debt, which had an immaterial impact on our consolidated financial statements.

The 6.07% mortgage 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 6.53% mortgage note is secured by a mortgage on land, a building, and certain fixtures we own at our distribution center in White Marsh, Maryland and by leases we own or rents we receive, if any, from tenants of the White Marsh facility. The 7.77% mortgage note is secured by a mortgage on land, buildings, and fixtures we own at our offices in Bensalem, Pennsylvania and by leases we own or rents we receive, if any, from tenants of the Bensalem facility.

We have a loan and security agreement (the "Agreement") for a $225,000,000 senior secured revolving credit facility that provides for committed revolving credit availability through July 31, 2012. The amount of credit available from time to time under the Agreement is determined as a percentage of the value of eligible inventory, accounts receivable, and cash, as reduced by certain reserves. In addition, the Agreement includes an option allowing us to increase our credit facility up to $300,000,000, based on certain terms and conditions. The credit facility may be used for general corporate purposes, and provides that up to $100,000,000 of the $225,000,000 may be used for letters of credit.

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

Note 3. Long-term Debt (Continued)

The Agreement provides for borrowings under either “Base Rate” loans or “Eurodollar Rate” loans. Borrowings under Base Rate loans will generally accrue interest at a margin ranging from 2.75% to 3.25% over the Base Rate (as defined in the Agreement) and Eurodollar Rate loans will generally accrue interest at a margin ranging from 3.75% to 4.25% over the London Interbank Offered Rate (“LIBOR”). As of July 31, 2010 the applicable rates under the facility were 6.00% (Base Rate plus 2.75%) for Base Rate Loans and 4.07% (LIBOR plus 3.75%) for 30-day Eurodollar Rate Loans.

The Agreement provides for customary representations and warranties and affirmative covenants. The Agreement also contains customary negative covenants providing limitations, subject to negotiated exceptions, for sales of assets; encumbrances; indebtedness; loans, advances and investments; acquisitions; guarantees; new subsidiaries; dividends and redemptions; transactions with affiliates; changes in business; limitations or restrictions affecting subsidiaries; credit card agreements; proprietary credit cards; and changes in control of certain of our subsidiaries. If at any time “Excess Availability” (as defined in the Agreement) is less than $40,000,000 then, in each month in which Excess Availability is less than $40,000,000, we will be required to maintain a minimum fixed charge coverage ratio of at least 1.1 to 1 for the then preceding twelve-month fiscal period. The Agreement also provides for certain rights and remedies if there is an occurrence of one or more events of default under the terms of the Agreement. Under certain conditions the maximum amount available under the Agreement may be reduced or terminated by the lenders and the obligation to repay amounts outstanding under the Agreement may be accelerated.

In connection with the Agreement we executed an Amended and Restated Guaranty (the “Amended Guaranty”). Pursuant to the Amended Guaranty, we and most of our subsidiaries jointly and severally guaranteed the borrowings and obligations under the Agreement, subject to standard insolvency limitations. Under the Amended Guaranty, collateral for the borrowings under the Agreement consists of pledges by us and certain of our subsidiaries of the capital stock of each such entity’s subsidiaries. The Agreement also provides for a security interest in substantially all of our assets excluding, among other things, equipment, real property, and stock or other equity and assets of excluded subsidiaries. Excluded subsidiaries are not Guarantors under the Agreement and the Amended Guaranty.

As of July 31, 2010 we had an aggregate total of $4,916,000 of unamortized deferred debt acquisition costs related to the facility that will be amortized on a straight-line basis over the life of the facility as interest expense. There were no borrowings outstanding under the facility as of July 31, 2010.

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

Note 4. Stockholders' Equity

The following table summarizes changes in total stockholders' equity for the period indicated:

(Dollars in thousands)	Twenty-six Weeks Ended July 31, 2010
Total stockholders' equity, beginning of period	$464,934
Net loss	(4,747)
Issuance of common stock (308,690 shares), net of shares withheld for payroll taxes	131
Equity component of repurchases of 1.125% Senior Convertible Notes	(1,584)
Stock-based compensation	2,010
Total stockholders' equity, end of period	$460,744

Note 5. Stock-based Compensation Plans

We have various stock-based compensation plans under which we are currently granting awards, which are more fully described in "Item 8. Financial Statements and Supplementary Data; Note 10. Stock-Based Compensation Plans" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010. Current grants of stock-based compensation consist primarily of stock appreciation rights ("SARs") and restricted stock units ("RSUs").

On April 28, 2010 our Board of Directors approved, and on June 24, 2010 our shareholders approved, our 2010 Stock Award and Incentive Plan (the "2010 Plan"). The 2010 Plan replaces our 2004 Stock Award and Incentive Plan (the "2004 Plan") and no new awards will be granted under the 2004 Plan. Shares for equity awards to our non-employee directors under our 2003 Non-Employee Directors Compensation Plan (the "2003 Plan"), including grants of awards in Fiscal 2010, will also be drawn from the 2010 Plan and no further awards will be granted from remaining shares which were reserved under the 2003 Plan. In addition, no further awards will be granted under our 1988 Key Employee Stock Option Plan (the "1988 Plan").

The number of shares reserved for issuance under the 2010 Plan consist of 4,000,000 shares plus (i) 2,413,587 shares remaining available under the 2004 Plan, which have been transferred to the 2010 plan, and (ii) shares subject to outstanding awards under the 2004 Plan and predecessor plans (2000 Associates' Stock Incentive Plan, 1999 Associates' Stock Incentive Plan, and 1993 Employees' Stock Incentive Plan) that are canceled, forfeited, or otherwise become available under the share recapture provisions of the 2010 Plan. Shares remaining available under the 2003 Plan and 1988 Plan will not be added to the shares authorized under the 2010 Plan.

The 2010 Plan provides for a broad range of awards, including stock options; SARs; RSUs; restricted stock awards ("RSAs"); deferred stock; other stock-based awards; dividend equivalents; performance shares or other stock-based performance awards; cash-based performance awards; and shares issuable in lieu of rights to cash compensation. Stock options include both incentive stock options and non-qualified stock options. Executive officers and other employees of Charming Shoppes, Inc. and its subsidiaries, non-employee directors, consultants, and others who provide substantial services to us are eligible for awards under the 2010 Plan.

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

Note 5. Stock-based Compensation Plans (Continued)

The 2010 Plan includes a limitation on the amount of awards that may be granted to any one participant in a given fiscal year in order to qualify awards as "performance-based" compensation not subject to the limitation on deductibility under Section 162(m) of the Internal Revenue Code. The 2010 Plan does not allow the amendment or replacement of options or SARs previously granted under the 2010 Plan in a transaction that constitutes a "re-pricing" under generally accepted accounting principles without shareholder approval and does not authorize loans to participants.

Additional information related to the 2010 Plan is as follows:

	Twenty-six Weeks Ended July 31, 2010
RSAs/RSUs granted	272,797
Weighted average market price at date of grant	$3.70
RSAs/RSUs outstanding at end of period	272,797

Shares available for future grants under our stock-based compensation plans as of July 31, 2010 were as follows:

2010 Stock Award and Incentive Plan	6,128,529
1994 Employee Stock Purchase Plan	490,221

Stock option and stock appreciation rights activity under our various stock-based compensation plans for the twenty-six weeks ended July 31, 2010 was as follows:

	Option/ SARs Shares	Average Option/ SARs Price	Option/SARs Prices per Share			Aggregate Intrinsic Value(1) (000's)
Outstanding at January 30, 2010	7,076,953	$ 2.92	$ 0.99	–	$ 13.84	$ 20,421
Granted – exercise price equal to market price	945,704	5.15	3.83	–	6.62	
Canceled/forfeited	(859,923)	4.60	1.00	–	11.28	
Exercised	(2,532)	1.40	1.00	–	2.93	12 (2)
Outstanding at July 31, 2010	7,160,202	$ 3.02	$ 0.99	–	$ 13.84	10,466
Exercisable at July 31, 2010	1,301,801	$ 4.01	$ 1.00	–	$ 13.84	612

(1) Aggregate market value less aggregate exercise price.
(2) As of date of exercise.

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

Note 5. Stock-based Compensation Plans (Continued)

During the Fiscal 2009 Second Quarter and the Fiscal 2008 Second Quarter we granted cash-settled RSUs under our 2003 Non-Employee Directors Compensation Plan. These cash-settled RSUs have been accounted for as liabilities in accordance with ASC 718-10-25-11, "Compensation – Stock Compensation; Recognition." Compensation expense related to cash-settled RSUs is recognized over the vesting period of one year from the date of grant and included in "Accrued expenses" in our consolidated balance sheets. Total compensation expense for cash-settled RSUs has been fully recognized as of the Fiscal 2010 Second Quarter.

Total stock-based compensation expense was as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
(In thousands)	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
Stock-based compensation expense, excluding cash-settled RSUs	$936	$1,264	$2,010	$2,974
Stock-based compensation expense, cash-settled RSUs	(237)	280	4	562
Total stock-based compensation expense	$699	$1,544	$2,014	$3,536

We use the Black-Scholes valuation model to estimate the fair value of stock options and stock appreciation rights. We amortize stock-based compensation on a straight-line basis over the requisite service period of an award except for awards that include a market condition, which are amortized on a graded vesting basis over their derived service period. Estimates and assumptions we use under the Black-Scholes model are more fully described in "Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies; Stock-based Compensation" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

Total stock-based compensation expense not yet recognized, related to the non-vested portion of stock options, stock appreciation rights, and awards outstanding, was $10,246,000 as of July 31, 2010. The weighted-average period over which we expect to recognize this compensation expense is approximately 3 years.

Note 6. Customer Loyalty Card Programs

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers join some of these programs by paying an annual membership fee. For these programs, we recognize revenue as a component of net sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. We recognize costs in connection with administering these programs as cost of goods sold when incurred.

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

Note 6. Customer Loyalty Card Programs (Continued)

(In thousands)	Thirteen Weeks Ended July 31, 2010	Thirteen Weeks Ended August 1, 2009	Twenty-six Weeks Ended July 31, 2010	Twenty-six Weeks Ended August 1, 2009
Loyalty card revenues recognized	$4,809	$4,955	$9,216	$9,974

Accrued expenses include $2,344,000 as of July 31, 2010 and $3,161,000 as of January 30, 2010 for the estimated costs of discounts earned and coupons issued and not yet redeemed under these programs.

Note 7. Net Income/(Loss) per Share

(In thousands, except per share amounts)	Thirteen Weeks Ended July 31, 2010	Thirteen Weeks Ended August 1, 2009	Twenty-six Weeks Ended July 31, 2010	Twenty-six Weeks Ended August 1, 2009
Basic weighted average common shares outstanding	115,699	115,612	115,851	115,396
Dilutive effect of stock options, stock appreciation rights ("SARs"), and awards	0 (1)	3,319	0 (1)	0 (1)
Diluted weighted average common shares and equivalents outstanding	115,699	118,931	115,851	115,396
Net income/(loss) used to determine basic and diluted net loss per share	$(8,642)	$4,983	$(4,747)	$(1,578)
Options/SARs with weighted average exercise price greater than market price, excluded from computation of diluted earnings per share:				
Number of shares	0 (1)	1,160	0 (1)	0 (1)
Weighted average exercise price per share	–	$6.63	–	–

(1) Stock options, SARs, and awards are excluded from the computation of diluted net income/(loss) per share as their effect would have been anti-dilutive.

Our 1.125% Notes will not impact our diluted net income per share until the price of our common stock exceeds the conversion price of $15.379 per share because we expect to settle the principal amount of the 1.125% Notes in cash upon conversion. Our call options are not included in the diluted net income per share calculation as their effect would be anti-dilutive. Should the price of our common stock exceed $21.607 per share, we would include the dilutive effect of the additional potential shares that may be issued related to our warrants, using the treasury stock method. See "Note 3. Long-term Debt" above and "Item 8. Financial Statements and Supplementary Data; Note 8. Long-term Debt" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010 for further information regarding our 1.125% Notes, call options, and warrants.

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

Note 8. Income Taxes

We calculate our interim tax provision in accordance with the provisions of ASC 740-270, “Income Taxes; Interim Reporting.” Due to the variability in pre-tax income/(loss) that we have experienced and the existence of a full valuation allowance on our net deferred tax assets, we have concluded that computing our actual year-to-date effective tax rate (as opposed to estimating our annual effective tax rate) provides an appropriate basis for recording income taxes in our interim periods. Additionally, we record an income tax expense or benefit that does not relate to ordinary income/(loss) in the current fiscal year discretely in the interim period in which it occurs. We also recognize the effect of changes in enacted tax laws or rates in the interim periods in which the changes occur.

In computing the income tax provision/(benefit) we make certain estimates and management judgments, such as estimated annual taxable income or loss, the nature and timing of permanent and temporary differences between taxable income for financial reporting and tax reporting, and the recoverability of deferred tax assets. Our estimates and assumptions may change as new events occur, additional information is obtained, or as the tax environment changes.

In accordance with ASC 740, “Income Taxes,” we recognize deferred tax assets for temporary differences that will result in deductible amounts in future years and for net operating loss (“NOL”) and credit carryforwards. ASC 740 requires recognition of a valuation allowance to reduce deferred tax assets if, based on existing facts and circumstances, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. During Fiscal 2008 we evaluated our assumptions regarding the recoverability of our deferred tax assets. Based on all available evidence we determined that the recoverability of our deferred tax assets is more-likely-than-not limited to our available tax loss carrybacks. Accordingly, we established a valuation allowance against our net deferred tax assets. During Fiscal 2009 we increased the valuation allowance and recognized an additional non-cash provision, net of a tax benefit resulting from the carryback of remaining Fiscal 2008 NOLs pursuant to H.R. 3548, the “Worker, Homeownership, and Business Assistance Act of 2009,” which was signed into law on November 6, 2009. In future periods we will continue to recognize a valuation allowance until such time as the certainty of future tax benefits can be reasonably assured. Pursuant to ASC 740, when our results of operations demonstrate a pattern of future profitability the valuation allowance may be adjusted, which would result in the reinstatement of all or a part of the net deferred tax assets.

Income taxes receivable, which primarily include available NOL carrybacks for Fiscal 2009 and Fiscal 2008 and amended return receivables, included in “Prepayments and other” on our condensed consolidated balance sheets, were as follows:

(In thousands)	July 31, 2010	January 30, 2010
Income taxes receivable	$5,910	$50,609

The reduction in income taxes receivable during the twenty-six weeks ended July 31, 2010 was principally a result of the receipt of $44,968,000 of Federal tax refunds that related primarily to our NOL carryback for Fiscal 2008 and an amended return.

As of July 31, 2010 our gross unrecognized tax benefits associated with uncertain tax positions were $30,195,000. If recognized, the portion of the liabilities for gross unrecognized tax benefits that would decrease our provision for income taxes and increase our net income was $20,595,000. The accrued interest and penalties as of July 31, 2010 were $15,913,000.

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

Note 8. Income Taxes (Continued)

During the twenty-six weeks ended July 31, 2010 the gross unrecognized tax benefits increased by $422,000 and the portion of the liabilities for gross unrecognized tax benefits that, if recognized, would decrease our provision for income taxes and increase our net income increased by $444,000. Accrued interest and penalties decreased by $2,158,000 during the twenty-six weeks ended July 31, 2010.

As of July 31, 2010 it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next twelve months by as much as $4,021,000 as a result of resolutions of audits related to U.S. Federal and state tax positions.

Our U.S. Federal income tax returns for Fiscal 2004 and beyond remain subject to examination by the U.S. Internal Revenue Service ("IRS") due to statute of limitations and the filing of amended returns. We file returns in numerous state jurisdictions, with varying statutes of limitations. Our state tax returns for Fiscal 2005 and subsequent years, depending upon the jurisdiction, generally remain subject to examination. The statute of limitations on a limited number of returns for years prior to Fiscal 2005 has been extended by agreement between us and the particular state jurisdiction. The earliest year still subject to examination by state tax authorities is Fiscal 1998.

Note 9. Asset Securitization

On October 30, 2009 we sold our proprietary credit card receivables programs to World Financial Network National Bank, a subsidiary of Alliance Data Systems Corporation, and entered into ten-year operating agreements with Alliance Data for the provision of private-label credit card programs for our customers. Prior to the sale of the proprietary credit card receivables programs, our proprietary credit card receivables were originated by Spirit of America National Bank (the "Bank"), our wholly-owned credit card bank under our asset securitization program. The Bank transferred its interest in the receivables associated with the proprietary credit card receivables programs to the Charming Shoppes Master Trust (the "Trust"), an unconsolidated qualified special-purpose entity ("QSPE"). The sale of our proprietary credit card receivables programs and the operations of our asset securitization program prior to the sale of our proprietary credit card receivables programs are more fully described in "Item 8. Financial Statements and Supplementary Data; Note 12. Sale of Proprietary Credit Card Receivables Programs" and "Note 17. Asset Securitization" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010. See "Note 12. Fair Value Measurements" below for further information related to our certificates and retained interests in our securitized receivables prior to the sale of the proprietary credit card receivables programs.

The following table presents additional information relating to the receivables in our Trust prior to the sale of the credit card portfolio:

(In thousands)	Thirteen Weeks Ended August 1, 2009	Twenty-six Weeks Ended August 1, 2009

Proceeds from sales of new receivables to QSPE	$183,957	$359,677
Collections reinvested in revolving-period securitizations	227,710	464,226
Cash flows received on retained interests	24,050	43,031
Servicing fees received	2,418	4,888
Net credit losses	10,975	22,593
Credit card balances 90 or more days delinquent at end of period	18,340	18,340

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

Note 10. Segment Reporting

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

The Retail Stores segment derives its revenues from sales through retail stores and store-related e-commerce sales under our LANE BRYANT® (including LANE BRYANT OUTLET®), FASHION BUG®, and CATHERINES PLUS SIZES® brands and, in Fiscal 2009, our PETITE SOPHISTICATE OUTLET® brand. The Direct-to-Consumer segment derives its revenues from catalog sales and catalog-related e-commerce sales under our FIGI'S title.

During Fiscal 2008 we decided to discontinue our LANE BRYANT WOMAN® catalog and our SHOETRADER.COM® website, which were included in our Direct-to-Consumer segment. During the Fiscal 2009 Second Quarter we completed the closing of our LANE BRYANT WOMAN catalog and during the Fiscal 2009 Third Quarter we completed the closing of our SHOETRADER.COM website. During the Fiscal 2009 Third Quarter we also decided to close our PETITE SOPHISTICATE OUTLET stores and convert a majority of the space to CATHERINES stores in outlet locations, which was started during the Fiscal 2009 Fourth Quarter and completed during the Fiscal 2010 First Quarter.

During the Fiscal 2009 Third Quarter we completed the sale of our proprietary credit card receivables programs. As a result of the sale, we began to allocate the operating results of our credit card operations, including revenue from our customer loyalty programs, to the Retail Stores segment. Accordingly, we have restated the results of the Retail Stores and Corporate and Other segments for the thirteen weeks and twenty-six weeks ended August 1, 2009 to reflect this change in how our chief operating decision-makers evaluate the performance of our operating segments.

The accounting policies of the segments are generally the same as those described in "Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010. Our chief operating decision-makers evaluate the performance of our operating segments based on a measure of their contribution to operations, which consists of net sales less the cost of merchandise sold and certain directly identifiable and allocable operating costs. We do not allocate certain corporate costs, such as shared services and insurance to our Retail Stores or Direct-to-Consumer segments. Information systems support costs are not allocated to the Retail Stores segment but are allocated to the Direct-to-Consumer segment. Operating costs for our Retail Stores segment consist primarily of store selling, occupancy, buying, and warehousing. Operating costs for our Direct-to-Consumer segment consist primarily of catalog development, production, and circulation; e-commerce advertising; warehousing; and order processing.

Corporate and Other operating costs include: unallocated general and administrative expenses; shared services; insurance; information systems support for the Retail Stores segment; corporate depreciation and amortization; corporate occupancy; and other non-routine charges. Operating contribution for the Retail Stores and Direct-to-Consumer segments less Corporate and Other net expenses equals income/(loss) before interest and income taxes.

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

Note 10. Segment Reporting (Continued)

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

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

(In thousands)	Retail Stores	Direct-to-Consumer	Corporate and Other	Consolidated
Thirteen weeks ended July 31, 2010				
Net sales	$512,219	$5,345	$0	$ 517,564
Depreciation and amortization	13,637	297	3,003	16,937
Income/(loss) from operations	14,119	(3,243)	(18,168)(1)	(7,292)
Gain on repurchases of 1.125% Senior Convertible Notes			1,907	1,907
Net interest expense and other income			(3,700)	(3,700)
Income tax benefit			443	443
Net income/(loss)	14,119	(3,243)	(19,518)	(8,642)
Capital expenditures	2,887	80	5,854	8,821
Thirteen weeks ended August 1, 2009				
Net sales	$520,847	$6,348	$22 (2)	$ 527,217
Depreciation and amortization	14,731	323	4,138	19,192
Income/(loss) from operations	40,126	(3,893)	(33,697)(3)	2,536
Gain on repurchases of 1.125% Senior Convertible Notes			7,313	7,313
Net interest expense and other income			(4,202)	(4,202)
Income tax provision			(664)	(664)
Net income/(loss)	40,126	(3,893)	(31,250)	4,983
Capital expenditures	1,541	12	3,511	5,064

(1) Includes restructuring and other charges of $619 (see "Note 11. Restructuring and Other Charges" below).
(2) Revenues related to figure® magazine, which was discontinued in the Fiscal 2009 First Quarter.
(3) Includes restructuring and other charges of $7,768 (see "Note 11. Restructuring and Other Charges" below).

(Table continued on next page)

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

Note 10. Segment Reporting (Continued)

(In thousands)	Retail Stores	Direct-to-Consumer	Corporate and Other	Consolidated
Twenty-six weeks ended July 31, 2010				
Net sales	$1,004,293	$18,076	$0	$ 1,022,369
Depreciation and amortization	26,756	595	6,397	33,748
Income/(loss) from operations	42,068	(4,909)	(36,959)(1)	200
Gain on repurchases of 1.125% Senior Convertible Notes			1,907	1,907
Net interest expense and other income			(8,036)	(8,036)
Income tax benefit			1,182	1,182
Net loss	42,068	(4,909)	(41,906)	(4,747)
Capital expenditures	8,157	80	8,347	