

CHARMING SHOPPES INC

Form 10-Q

December 02, 2009

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

FORM 10-Q

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

For the quarterly period ended October 31, 2009

Or

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

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

Commission File No. 000-07258

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

PENNSYLVANIA  
(State or other jurisdiction of incorporation or  
organization)

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

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  No

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  No

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

Large Accelerated Filer

Non-accelerated Filer

Accelerated Filer

Smaller Reporting Company

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

Yes  No

The number of shares outstanding of the issuer's Common Stock (par value \$.10 per share) as of November 30, 2009 was 115,585,753 shares.



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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

| (In thousands, except share amounts)                          | October 31,<br>2009 | January 31,<br>2009<br>(As<br>Adjusted) |
|---|---------------------|---|
| <b>ASSETS</b>   |                     |   |
| Current assets  |                     |   |
| Cash and cash equivalents                                     | \$223,944           | \$93,759                                |
| Available-for-sale securities                                 | 400                 | 6,398                                   |
| Accounts receivable, net of allowances of \$2,017 and \$6,018 | 4,100               | 33,300                                  |
| Investment in asset-backed securities                         | 0                   | 94,453                                  |
| Merchandise inventories                                       | 334,462             | 268,142                                 |
| Deferred taxes  | 3,439               | 3,439                                   |
| Prepayments and other   | 131,166             | 155,430                                 |
| Total current assets  | 697,511             | 654,921                                 |
| Property, equipment, and leasehold improvements – at cost     | 1,067,100           | 1,076,972                               |
| Less accumulated depreciation and amortization                | 734,768             | 693,796                                 |
| Net property, equipment, and leasehold improvements           | 332,332             | 383,176                                 |
| Trademarks and other intangible assets                        | 187,132             | 187,365                                 |
| Goodwill  | 23,436              | 23,436                                  |
| Other assets  | 25,497              | 28,243                                  |
| Total assets  | \$1,265,908         | \$1,277,141                             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                   |                     |   |
| Current liabilities   |                     |   |
| Accounts payable  | \$163,142           | \$99,520                                |
| Accrued expenses  | 184,344             | 166,631                                 |
| Current portion – long-term debt                              | 6,470               | 6,746                                   |
| Total current liabilities                                     | 353,956             | 272,897                                 |
| Deferred taxes  | 48,730              | 46,197                                  |
| Other non-current liabilities                                 | 188,979             | 188,470                                 |
| Long-term debt, net of debt discount of \$47,962 and \$72,913 | 183,630             | 232,722                                 |
| Stockholders' equity  |                     |   |
| Common Stock \$.10 par value:                                 |                     |   |
| Authorized – 300,000,000 shares                               |                     |   |
| Issued – 154,098,888 shares and 153,482,368 shares            | 15,410              | 15,348                                  |



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|  |             |             |
|--|-------------|-------------|
| Additional paid-in capital                                       | 502,339     | 498,551     |
| Treasury stock at cost – 38,514,410 shares and 38,482,213 shares | (347,877 )  | (347,730 )  |
| Accumulated other comprehensive income                           | 0           | 5           |
| Retained earnings  | 320,741     | 370,681     |
| Total stockholders' equity                                       | 490,613     | 536,855     |
| Total liabilities and stockholders' equity                       | \$1,265,908 | \$1,277,141 |

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)

| (In thousands, except per share amounts)  | October 31,<br>2009 | Thirteen Weeks Ended<br>November<br>1,<br>2008<br>(As<br>Adjusted) |
|---|---------------------|--|
| Net sales   | \$460,237           | \$553,066  |
| Cost of goods sold  | 223,421             | 299,196  |
| Gross profit  | 236,816             | 253,870  |
| Occupancy and buying expenses   | 95,020              | 106,552  |
| Selling, general, and administrative expenses                                       | 135,479             | 166,338  |
| Depreciation and amortization   | 18,260              | 23,131   |
| Sale of proprietary credit card receivables programs                                | 13,379              | 0  |
| Impairment of store assets  | 0                   | 20,216   |
| Restructuring and other charges   | 14,746              | 6,391  |
| Total operating expenses  | 276,884             | 322,628  |
| Loss from operations  | (40,068 )           | (68,758 )  |
| Other income  | 198                 | 1,876  |
| Gain on repurchases of 1.125% Senior Convertible Notes                              | 1,264               | 0  |
| Interest expense  | (4,822 )            | (4,862 )   |
| Loss from continuing operations before income taxes                                 | (43,428 )           | (71,744 )  |
| Income tax provision/(benefit)  | 4,934               | (11,858 )  |
| Loss from continuing operations   | (48,362 )           | (59,886 )  |
| Loss from discontinued operations, net of income tax benefit<br>of \$12,698 in 2008 | 0                   | (23,875 )  |
| Net loss  | \$(48,362 )         | \$(83,761 )  |
| Basic net loss per share:   |                     |  |
| Loss from continuing operations   | \$(0.42 )           | \$(0.52 )  |
| Loss from discontinued operations   | 0.00                | (0.21 )  |
| Net loss  | \$(0.42 )           | \$(0.73 )  |
| Diluted net loss per share:   |                     |  |
| Loss from continuing operations   | \$(0.42 )           | \$(0.52 )  |

|                                   |         |       |         |   |
|-----------------------------------|---------|-------|---------|---|
| Loss from discontinued operations | 0.00    | (0.21 | )       |   |
| Net loss                          | \$(0.42 | )     | \$(0.73 | ) |

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)

| (In thousands, except per share amounts)  | Thirty-nine Weeks Ended<br>October 31,<br>2009 | November<br>1,<br>2008<br>(As<br>Adjusted) |
|---|--|--|
| Net sales   | \$1,525,590                                    | \$1,843,028                                |
| Cost of goods sold  | 737,340  | 959,409                                    |
| Gross profit  | 788,250  | 883,619                                    |
| Occupancy and buying expenses   | 297,660  | 318,900                                    |
| Selling, general, and administrative expenses   | 427,260  | 517,119                                    |
| Depreciation and amortization   | 57,534   | 72,630                                     |
| Sale of proprietary credit card receivables programs  | 13,379   | 0  |
| Impairment of store assets  | 0  | 20,216                                     |
| Restructuring and other charges   | 31,219   | 24,947                                     |
| Total operating expenses  | 827,052  | 953,812                                    |
| Loss from operations  | (38,802 )                                      | (70,193 )                                  |
| Other income  | 679  | 3,183                                      |
| Gain on repurchases of 1.125% Senior Convertible Notes  | 12,828   | 0  |
| Interest expense  | (14,327 )                                      | (14,665 )                                  |
| Loss from continuing operations before income taxes   | (39,622 )                                      | (81,675 )                                  |
| Income tax provision/(benefit)  | 10,318   | (15,317 )                                  |
| Loss from continuing operations   | (49,940 )                                      | (66,358 )                                  |
| Loss from discontinued operations   | 0  | (74,922 )                                  |
| Net loss  | (49,940 )                                      | (141,280 )                                 |
| Other comprehensive loss, net of tax  |  |  |
| Unrealized losses on available-for-sale securities, net of income tax benefit of \$12 in 2008 | (5 )   | (24 )                                      |
| Comprehensive loss  | \$(49,945 )                                    | \$(141,304 )                               |
| Basic net loss per share:   |  |  |
| Loss from continuing operations   | \$(0.43 )                                      | \$(0.58 )                                  |

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|                                   |           |           |
|-----------------------------------|-----------|-----------|
| Loss from discontinued operations | 0.00      | (0.65 )   |
| Net loss                          | \$(0.43 ) | \$(1.23 ) |
| Diluted net loss per share:       |           |           |
| Loss from continuing operations   | \$(0.43 ) | \$(0.58 ) |
| Loss from discontinued operations | 0.00      | (0.65 )   |
| Net loss                          | \$(0.43 ) | \$(1.23 ) |

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)  | Thirty-nine Weeks Ended<br>October 31,<br>2009 | November<br>1,<br>2008<br>(As<br>Adjusted) |
|---|--|--|
| <b>Operating activities</b>   |  |  |
| Net loss  | \$(49,940 )                                    | \$(141,280 )                               |
| Adjustments to reconcile net loss to net cash provided by operating activities    |  |  |
| Depreciation and amortization   | 58,908   | 73,498                                     |
| Stock-based compensation  | 4,301  | 4,708                                      |
| Sale of proprietary credit card receivables programs                              | 13,379   | 0  |
| Net loss/(gain) from disposition of capital assets                                | 182  | (722 )                                     |
| Net loss/(gain) from securitization activities                                    | (2,465 )                                       | 531  |
| Accretion of discount on 1.125% Senior Convertible Notes                          | 7,786  | 8,199                                      |
| Loss on disposition of discontinued operations                                    | 0  | 46,736                                     |
| Impairment of store assets  | 0  | 20,216                                     |
| Deferred income taxes   | 2,536  | 11,025                                     |
| Gain on repurchases of 1.125% Senior Convertible Notes                            | (12,828 )                                      | 0  |
| Write-down of deferred taxes related to stock-based compensation                  | 0  | (1,352 )                                   |
| Write-down of capital assets  | 8,935  | 2,456                                      |
| Changes in operating assets and liabilities                                       |  |  |
| Accounts receivable, net  | 29,200   | 29,058                                     |
| Merchandise inventories   | (66,320 )                                      | (65,430 )                                  |
| Accounts payable  | 63,622   | 51,768                                     |
| Prepayments and other   | (13,369 )                                      | (11,322 )                                  |
| Accrued expenses and other  | 5,395  | (8,971 )                                   |
| Proceeds from sale of retained interests in proprietary credit card receivables   | 85,050   | 0  |
| Net cash provided by operating activities   | 134,372  | 19,118                                     |
| <b>Investing activities</b>   |  |  |
| Investment in capital assets  | (16,313 )                                      | (49,498 )                                  |
| Proceeds from sale of certificates related to proprietary credit card receivables | 51,250   | 0  |
| Proceeds from sales of capital assets   | 1,719  | 4,813                                      |
| Net proceeds from sale of discontinued operations                                 | 0  | 34,440                                     |
| Gross purchases of securities   | (2,448 )                                       | (3,935 )                                   |

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|   |           |           |
|---|-----------|-----------|
| Proceeds from sales of securities                           | 8,588     | 11,651    |
| Decrease in other assets                                    | 4,357     | 6,635     |
| Net cash provided by investing activities                   | 47,153    | 4,106     |
| Financing activities  |           |           |
| Proceeds from long-term borrowings                          | 0         | 108       |
| Repayments of long-term borrowings                          | (5,076 )  | (6,813 )  |
| Repurchases of 1.125% Senior Convertible Notes              | (39,323 ) | 0         |
| Net payments for settlements of hedges on convertible notes | (31 )     | 0         |
| Payments of deferred financing costs                        | (7,308 )  | (47 )     |
| Purchases of treasury stock                                 | 0         | (10,969 ) |
| Net proceeds from shares issued under employee stock plans  | 398       | 484       |
| Net cash used by financing activities                       | (51,340 ) | (17,237 ) |
| Increase in cash and cash equivalents                       | 130,185   | 5,987     |
| Cash and cash equivalents, beginning of period              | 93,759    | 61,842    |
| Cash and cash equivalents, end of period                    | \$223,944 | \$67,829  |

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

| (In thousands)   | Thirty-nine Weeks Ended<br>October 31,<br>2009 | November<br>1,<br>2008<br>(As<br>Adjusted) |
|--|--|--|
| Non-cash financing and investing activities              |  |  |
| Assets acquired through capital leases                   | \$0  | \$5,959                                    |
| See Notes to Condensed Consolidated Financial Statements |  |  |





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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. Certain prior-year amounts in the condensed consolidated statements of cash flows have been reclassified to conform to the current-year presentation. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles. These financial statements and related notes should be read in conjunction with our financial statements and related notes included in Exhibit 99.1 of our Form 8-K dated June 19, 2009, which retrospectively revised the financial statements and related notes included in our January 31, 2009 Annual Report on Form 10-K as a result of our adoption of certain provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Subtopic 470-20, “Debt With Conversion and Other Options” (formerly FASB Staff Position APB 14-1 “Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlements)”) in accordance with the transition provisions of ASC 470-20-65-1 (see “Change in Accounting Principle” and “Note 4. Long-term Debt” below). The results of operations for the thirteen and thirty-nine weeks ended October 31, 2009 and November 1, 2008 are not necessarily indicative of operating results for the full fiscal year.

In June 2009 the FASB established the ASC as the official single source of authoritative accounting principles to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) in the United States (see “Note 16. Recent Accounting Pronouncements” below). Information in the FASB ASC is organized numerically in descending order by topic, subtopic, section, and subsection. References to the ASC shown in these footnotes are abbreviated as “ASC” followed by the specific topic, subtopic, section, or subsection where the relevant literature is contained.

As used in these notes, the term “Fiscal 2009” refers to our fiscal year ending January 30, 2010, the term “Fiscal 2008” refers to our fiscal year ended January 31, 2009, and the term “Fiscal 2007” refers to our fiscal year ended February 2, 2008. The term “Fiscal 2009 Third Quarter” refers to our fiscal quarter ended October 31, 2009 and the term “Fiscal 2008 Third Quarter” refers to our fiscal quarter ended November 1, 2008. The term “Fiscal 2009 Second Quarter” refers to our fiscal quarter ended August 1, 2009 and the term “Fiscal 2008 Second Quarter” refers to our fiscal quarter ended August 2, 2008. The term “Fiscal 2008 First Quarter” refers to our fiscal quarter ended May 3, 2008. The term “Fiscal 2010” refers to our fiscal year ending January 29, 2011 and the term “Fiscal 2010 First Quarter” refers to our fiscal quarter ending May 1, 2010. The terms “the Company,” “we,” “us,” and “our” refer to Charming Shoppes, Inc. and, where applicable, our consolidated subsidiaries.

Reclassifications

Effective with the Fiscal 2009 Second Quarter we modified the presentation of our condensed consolidated statements of operations and comprehensive income to provide additional details of our operating expenses. The modifications consist primarily of separate disclosure of cost of goods sold and occupancy and buying expenses, and the reclassification of depreciation and amortization from occupancy, buying, selling, general, and administrative expenses to a separate line within operating expenses. A table presenting our cost of goods sold, gross profit, and operating expenses by quarter for Fiscal 2008 prepared on a consistent basis with the current-year presentation is

included in “Note 1. Condensed Consolidated Financial Statements” of our Report on Form 10-Q for the quarterly period ended August 1, 2009.

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

Note 1. Condensed Consolidated Financial Statements (Continued)

Change in Accounting Principle

The accompanying condensed consolidated balance sheet as of January 31, 2009 and the condensed consolidated statements of operations and comprehensive income for the thirteen and thirty-nine weeks ended November 1, 2008 have been adjusted to reflect the retrospective adoption as of February 1, 2009, in accordance with the transition provisions of ASC 470-20-65-1, of certain provisions of ASC 470-20, "Debt With Conversion and Other Options," related to certain debt instruments that may be settled in cash upon conversion. Our 1.125% Senior Convertible Notes due May 2014 (the "1.125% Notes") are within the scope of these provisions (see "Note 4. Long-term Debt" below for further information).

In connection with our adoption of these provisions we identified an error related to the accounting for deferred taxes for a purchased call option that we entered into contemporaneously with the issuance of our 1.125% Notes in Fiscal 2007. Concurrent with the issuance of the Notes we entered into a series of hedge transactions, which included the purchase of a call option with a cost of approximately \$90,500,000. The cost of the call option was accounted for as an equity transaction in our financial statements. For income tax purposes the cost of the call option is treated as original issue discount ("OID") and amortized over the life of the 1.125% Notes. We were recording the resulting tax benefit in our financial statements as an increase to additional paid-in capital as the tax benefit was reported in our annual income tax returns. However, the treatment of the call option as OID for income tax purposes created a book-tax basis difference on the issuance date of the debt for which a deferred tax asset of approximately \$33,000,000 should have been recognized, with a corresponding increase to additional paid-in capital.

During Fiscal 2008, based on our evaluation of the realization of deferred tax assets and negative evidence provided by recent losses, we recognized a non-cash income tax provision to establish a full valuation allowance against our net deferred tax assets. Accordingly, the understatement of deferred tax assets resulted in an understatement of the valuation allowance for deferred tax assets and the income tax provision in Fiscal 2008 of approximately \$30,000,000.

In evaluating these errors we considered the requirements in ASC 250, "Accounting Changes and Error Corrections," SEC Staff Accounting Bulletin No. 99 (ASC 250-10-S99-1), "Materiality," and ASC 270, "Interim Reporting." We considered both the quantitative and qualitative factors in evaluating the materiality of the errors and concluded that the errors are not material to the Fiscal 2007 and Fiscal 2008 financial statements. Accordingly, we have not restated our previously issued financial statements to correct these errors. However, the correction of these errors has been considered when adjusting the historical financial statements and related notes that are included in Exhibit 99.1 of our Form 8-K dated June 19, 2009 for the retrospective application of ASC 470-20. The financial statements and related footnotes included in the Form 8-K dated June 19, 2009 revise the financial statements included in our Form 10-K for the fiscal year ended January 31, 2009.



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

## Note 1. Condensed Consolidated Financial Statements (Continued)

In accordance with ASC 470-20-25 and ASC 470-20-30, the 1.125% Notes are separated into their debt and equity components. The carrying amount of the liability component is determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component represented by the embedded conversion option is then determined by deducting the fair value of the liability component from the initial proceeds ascribed to the convertible debt instrument as a whole. Upon measuring the liability in accordance with ASC 470-20-30, we determined that the tax basis and book basis of the debt are substantially the same; therefore the effects of the aforementioned financial statement errors in Fiscal 2007 and Fiscal 2008 related to deferred income taxes and income tax expense were substantially offset by the effects of adopting ASC 470-20.

## Discontinued Operations

On April 25, 2008 we announced that our Board of Directors began exploring a broad range of operating and strategic alternatives for our non-core misses apparel catalog titles (collectively, "Crosstown Traders") in order to provide a greater focus on our core brands and to enhance shareholder value. Crosstown Traders met the requirements to be accounted for as held for sale. Accordingly, the results of operations of Crosstown Traders were reported as discontinued operations in our consolidated statements of operations as of the beginning of the Fiscal 2008 First Quarter. In August 2008 we entered into a definitive agreement to sell the Crosstown Traders non-core misses apparel catalogs and the sale was completed in September 2008. Crosstown Traders' operations have been eliminated from our financial statements as of the date of sale.

In August 2008 we announced our plans to explore the sale of our FIGI'S® Gifts in Good Taste catalog business based in Wisconsin, stating at that time that we would only enter into a transaction at an acceptable valuation. The results of operations of FIGI'S were not reported as discontinued operations as they had not met the requirements to be accounted for as held for sale. In July 2009 we announced the discontinuation of the exploration of the sale of FIGI'S.

Results from discontinued operations for the thirteen and thirty-nine weeks ended November 1, 2008 (as restated) were as follows:

| (In thousands)   | Thirteen<br>Weeks<br>Ended<br>November<br>1,<br>2008(1) | Thirty-nine<br>Weeks<br>Ended<br>November<br>1,<br>2008(1) |
|--|---|--|
| Net sales  | \$34,563  | \$155,811  |
| Loss from discontinued operations                            | \$(11,177 ) <sup>(2)</sup>                              | \$(74,922 ) <sup>(2)</sup>                                 |
| Income tax benefit   | (12,698 ) <sup>(3)</sup>                                | 0  |
| Loss from discontinued operations, net of income tax benefit | \$(23,875 )   | \$(74,922 )  |

- (1) Through September 18, 2008 (the date of sale).
- (2) Includes \$7,209,000 of losses from operations and an increase of \$3,968,000 in the loss on disposition for the thirteen weeks ended November 1, 2008, and \$28,186,000 of losses from operations and a \$46,736,000 loss on disposition for the thirty-nine weeks ended November 1, 2008.
- (3) Reversal of previously recognized tax benefit as a result of our recognition of a valuation allowance against net deferred tax assets.

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

Note 1. Condensed Consolidated Financial Statements (Continued)

During the Fiscal 2008 Third Quarter we announced the closing of our LANE BRYANT WOMAN® catalog, which was completed during the Fiscal 2009 Second Quarter. The customers served by this catalog sales channel will continue to be served by our other LANE BRYANT® sales channels; therefore, the closing of the LANE BRYANT WOMAN catalog operations did not meet the requirements for being reported as a discontinued operation.

On August 13, 2009 we announced an agreement for the sale of our proprietary credit card receivables programs to World Financial Network National Bank, a subsidiary of Alliance Data Systems Corporation (“Alliance Data”). We also entered into ten-year operating agreements with Alliance Data for the provision of private-label credit card programs for our customers (see “Note 9. Sale of Proprietary Credit Card Receivables Programs” below). Due to our significant continuing involvement and retained cash flows as a result of the ten-year operating agreements with Alliance Data, the sale of the proprietary credit card receivables programs did not meet the requirements for being reported as a discontinued operation.

The financial information for the Fiscal 2008 periods included in these Notes to Condensed Consolidated Financial Statements reflects only the results of our continuing operations.

Segment Reporting

We operate and report in two segments: Retail Stores and Direct-to-Consumer. We determine our operating segments based on the way our chief operating decision-makers review our results of operations. Additional information regarding our segment reporting is included in “Note 11. Segment Reporting” below. We also include sales and operating profit by brand in our Management’s Discussion and Analysis of Results of Operations in order to provide additional information for our Retail Stores segment.

Stock-based Compensation

We have various stock-based compensation plans under which we are currently granting awards, which are more fully described in “Item 8. Financial Statements and Supplementary Data; Note 11. Stock-Based Compensation Plans” of Exhibit 99.1 to our Form 8-K dated June 19, 2009.

Shares available for future grants under our stock-based compensation plans as of October 31, 2009 were as follows:

|   |           |
|---|-----------|
| 2004 Stock Award and Incentive Plan           | 2,321,480 |
| 2003 Non-Employee Directors Compensation Plan | 161,897   |
| 1994 Employee Stock Purchase Plan             | 578,070   |
| 1988 Key Employee Stock Option Plan           | 122,105   |





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

## Note 1. Condensed Consolidated Financial Statements (Continued)

Current grants of stock-based compensation consist primarily of stock appreciation rights. Stock option and stock appreciation rights activity for the thirty-nine weeks ended October 31, 2009 was as follows:

|   | Option<br>Shares | Average<br>Option<br>Price | Option Prices<br>Per Share | Aggregate<br>Intrinsic<br>Value(1)<br>(000's) |
|---|------------------|----------------------------|----------------------------|---|
| Outstanding at January 31,<br>2009                | 3,292,385        | \$ 5.09                    | \$ 1.00                    | \$ 0  |
| Granted – exercise price<br>equal to market price | 4,771,540        | 1.74                       | 0.99                       | 5.72  |
| Canceled/forfeited                                | (513,894 )       | 4.96                       | 1.00                       | 11.28   |
| Exercised   | (7,260 )         | 1.00                       | 1.00                       | 23 (2)  |
| Outstanding at October 31,<br>2009                | 7,542,771        | \$ 2.99                    | \$ 0.99                    | \$ 11,653                                     |
| Exercisable at October 31,<br>2009                | 1,516,235        | \$ 5.82                    | \$ 1.00                    | \$ 0  |

(1) Aggregate market value less aggregate exercise price.

(2) As of date of exercise.

Total stock-based compensation expense was as follows:

|  | Thirteen Weeks Ended   |                        | Thirty-nine Weeks Ended |                        |
|--|------------------------|------------------------|-------------------------|------------------------|
|  | October<br>31,<br>2009 | November<br>1,<br>2008 | October<br>31,<br>2009  | November<br>1,<br>2008 |
| (In thousands)                         |                        |                        |                         |                        |
| Total stock-based compensation expense | \$1,327                | \$(306)                | \$(1) \$4,301           | \$4,708 (1)            |

(1) Includes \$955 reversal of previously recognized stock-based compensation related to performance-based awards.

During the Fiscal 2009 Second Quarter and the Fiscal 2008 Second Quarter we granted cash-settled restricted stock units (“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 a one-year period from the date of grant and included in “Accrued expenses” in our consolidated balance sheets. Compensation expense of \$199,000 for the thirteen weeks and \$761,000 for the thirty-nine weeks ended October 31, 2009 related to these cash-settled RSUs has been excluded from the above table. In addition, a decrease in compensation expense of \$214,000 for the thirteen

weeks and an increase in compensation expense of \$267,000 for the thirty-nine weeks ended November 1, 2008 have been excluded from the above table. The \$214,000 decrease in compensation expense is a result of a reduction in the market value of our common stock during the Fiscal 2008 Third Quarter. Total compensation expense for unvested cash-settled RSUs not yet recognized as of October 31, 2009 was \$426,000.

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 Exhibit 99.1 to our Form 8-K dated June 19, 2009.

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

## Note 1. Condensed Consolidated Financial Statements (Continued)

Total stock-based compensation expense not yet recognized, related to the non-vested portion of stock options, stock appreciation rights, and awards outstanding, was \$10,490,000 as of October 31, 2009. The weighted-average period over which we expect to recognize this compensation expense is approximately 3 years.

## Note 2. Accounts Receivable

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

| (In thousands)                  | October 31,<br>2009 | January 31,<br>2009 |
|---------------------------------|---------------------|---------------------|
| Due from customers              | \$6,117             | \$39,318            |
| Allowance for doubtful accounts | (2,017 )            | (6,018 )            |
| Net accounts receivable         | \$4,100             | \$33,300            |

## Note 3. Trademarks and Other Intangible Assets

| (In thousands)                                    | October 31,<br>2009 | January 31,<br>2009 |
|---|---------------------|---------------------|
| Trademarks, tradenames, and internet domain names | \$187,132           | \$187,132           |
| Customer relationships, net                       | 0                   | 233                 |
| Net trademarks and other intangible assets        | \$187,132           | \$187,365           |

## Note 4. Long-term Debt

| (In thousands)                                | October 31,<br>2009 | January 31,<br>2009<br>(As<br>Adjusted) |
|---|---------------------|---|
| 1.125% Senior Convertible Notes, due May 2014 | \$205,757           | \$275,000                               |
| Capital lease obligations                     | 11,192              | 14,041                                  |
| 6.07% mortgage note, due October 2014         | 9,954               | 10,419                                  |
| 6.53% mortgage note, due November 2012        | 4,200               | 5,250                                   |
| 7.77% mortgage note, due December 2011        | 6,729               | 7,249                                   |
| Other long-term debt                          | 230                 | 422                                     |
| Total long-term debt principal                | 238,062             | 312,381                                 |

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|  |            |            |
|--|------------|------------|
| Less unamortized discount on 1.125% Senior Convertible Notes | (47,962 )  | (72,913 )  |
| Long-term debt – carrying value                              | 190,100    | 239,468    |
| Current portion  | (6,470 )   | (6,746 )   |
| Net long-term debt   | \$ 183,630 | \$ 232,722 |

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

## Note 4. Long-term Debt (Continued)

ASC 470-20, "Debt With Conversion and Other Options," specifies, among other things, the accounting treatment for convertible securities that an issuer may settle fully or partially in cash. In accordance with ASC 470-20-65-1, we adopted the provisions of ASC 470-20 as of January 31, 2009 for our 1.125% Senior Convertible Notes due May 2014 (the "1.125% Notes"), which were issued in Fiscal 2007, and applied the provisions retrospectively to all past periods presented. Additional details regarding the 1.125% Notes are included in "Item 8. Financial Statements and Supplementary Data; Note 8. Long-term Debt" of Exhibit 99.1 to our Form 8-K dated June 19, 2009.

Prior to the adoption of ASC 470-20 we recorded the liability for our 1.125% Notes at their principal value and recognized the contractual interest on the notes as interest expense. Under ASC 470-20-25 and ASC 470-20-30, cash-settled convertible securities are separated into their debt and equity components. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature. As a result, the debt is recorded at a discount to adjust its below-market coupon interest rate to the market coupon interest rate for a similar debt instrument without the conversion feature. The difference between the proceeds for the convertible debt and the amount reflected as the debt component represents the fair value of the conversion feature and has been recognized as additional paid-in capital. We will accrete the debt to its principal value over its expected life using the effective interest method, with an offsetting increase in interest expense on our statements of operations to reflect the market rate for the debt component at the date of issuance. Upon maturity of the 1.125% Notes we will be obligated to repay the principal value of the notes to holders of outstanding notes (\$205,757,000 as of October 31, 2009).

Our adoption of ASC 470-20 resulted in an initial reduction in long-term debt and increase in stockholders' equity of \$91,715,000 as of the date of issuance of the debt (May 2007). The non-cash amortization of this discount component increases interest expense and long-term debt over the life of the 1.125% Notes (54 months as of October 31, 2009). The pre-tax amortization to interest expense and increase to long-term debt recognized retrospectively was \$7,770,000 for Fiscal 2007 (from the date of original issuance) and \$11,032,000 for Fiscal 2008. Adoption of ASC 470-20 does not affect our cash flows.

Our adoption of ASC 470-20 also resulted in the reclassification of \$2,564,000 of debt issuance costs from other assets to equity to allocate a proportionate share of the issuance costs related to the 1.125% Notes to the equity component recognized.

The carrying amount of the equity component of the 1.125% Notes and the principal value, unamortized discount, and net carrying amount of the liability component of the 1.125% Notes were as follows:

| (In thousands)   | October 31,<br>2009 | January 31,<br>2009 |
|--|---------------------|---------------------|
| Equity component of 1.125% Senior Convertible Notes    | \$90,750            | \$91,715            |
| Principal value of 1.125% Senior Convertible Notes     | \$205,757           | \$275,000           |
| Unamortized discount                                   | (47,962 )           | (72,913 )           |
| Liability component of 1.125% Senior Convertible Notes | \$157,795           | \$202,087           |



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

## Note 4. Long-term Debt (Continued)

Our retrospective adoption of ASC 470-20 resulted in the following adjustments to our condensed consolidated balance sheet as of January 31, 2009:

| (In thousands)                             | As<br>Previously<br>Reported | January 31, 2009        |                              | As<br>Adjusted |
|--|------------------------------|-------------------------|------------------------------|----------------|
|  |                              | Other<br>Adjustments(1) | ASC<br>470-20<br>Adjustments |                |
| Deferred taxes                             | \$4,066                      |                         | \$ (627 ) (2)                | \$3,439        |
| Other assets                               | 30,167                       |                         | (1,924 ) (3)                 | 28,243         |
| Total assets                               | 1,279,692                    |                         | (2,551 )                     | 1,277,141      |
| Deferred taxes                             | 46,824                       |                         | (627 ) (2)                   | 46,197         |
| Long-term debt                             | 305,635                      |                         | (72,913 ) (4)                | 232,722        |
| Additional paid-in capital                 | 411,623                      | \$ 30,208               | 56,720 (5)                   | 498,551        |
| Retained earnings                          | 386,620                      | (30,208 )               | 14,269 (6)                   | 370,681        |
| Total stockholders' equity                 | 465,866                      |                         | 70,989                       | 536,855        |
| Total liabilities and stockholders' equity | 1,279,692                    |                         | (2,551 )                     | 1,277,141      |

(1) Correction of accounting for deferred taxes related to purchased call option (see "Note 1. Condensed Consolidated Financial Statements; Change in Accounting Principle" above).

(2) Reallocation of deferred taxes.

(3) Cumulative adjustment to debt issuance costs related to 1.125% Notes.

(4) Unamortized discount as of January 31, 2009.

(5) Equity component of 1.125% Notes and debt issuance costs.

(6) Cumulative impact of amortization of debt discount and amortization of equity component of debt issuance costs, net of tax benefit.

The contractual interest expense, amortization of debt discount, and effective interest rate for the 1.125% Notes were as follows:

| (Dollars in thousands)        | Thirteen Weeks Ended   |                        | Thirty-nine Weeks Ended |                        |
|-------------------------------|------------------------|------------------------|-------------------------|------------------------|
|                               | October<br>31,<br>2009 | November<br>1,<br>2008 | October<br>31,<br>2009  | November<br>1,<br>2008 |
| Contractual interest expense  | \$612                  | \$773                  | \$2,057                 | \$2,320                |
| Amortization of debt discount | 2,352                  | 2,782                  | 7,786                   | 8,199                  |
| Total interest expense        | \$2,964                | \$3,555                | \$9,843                 | \$10,519               |
| Effective interest rate       | 7.4                    | % 7.4                  | % 7.4                   | % 7.4                  |





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CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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## Note 4. Long-term Debt (Continued)

Our adoption of ASC 470-20 resulted in the following adjustments to our condensed consolidated statements of operations for the thirteen and thirty-nine weeks ended October 31, 2009:

| (In thousands, except per-share amounts) | Before<br>Adoption | Adoption<br>of<br>ASC<br>470-20 | As<br>Adjusted |
|--|--------------------|---------------------------------|----------------|
| Thirteen weeks ended October 31, 2009    |                    |                                 |                |
| Interest expense                         | \$2,562            | \$2,260                         | (1) \$4,822    |
| Income tax provision                     | 4,934              | 0                               | 4,934          |
| Loss from continuing operations          | (46,102 )          | (2,260 )                        | (48,362 )      |
| Net loss                                 | (46,102 )          | (2,260 )                        | (48,362 )      |
| Basic net loss per share                 | (0.40 )            | (0.02 )                         | (0.42 )        |
| Diluted net loss per share               | (0.40 )            | (0.02 )                         | (0.42 )        |
| Thirty-nine weeks ended October 31, 2009 |                    |                                 |                |
| Interest expense                         | \$6,816            | \$7,511                         | (1) \$14,327   |
| Income tax provision                     | 10,318             | 0                               | 10,318         |
| Loss from continuing operations          | (42,429 )          | (7,511 )                        | (49,940 )      |
| Net loss                                 | (42,429 )          | (7,511 )                        | (49,940 )      |
| Basic net loss per share(2)              | (0.37 )            | (0.07 )                         | (0.43 )        |
| Diluted net loss per share(2)            | (0.37 )            | (0.07 )                         | (0.43 )        |

(1) Amortization of the debt discount related to the 1.125% Notes less amortization of debt issue costs related to the equity component.

(2) Results do not add across due to rounding.



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

## Note 4. Long-term Debt (Continued)

Our adoption of ASC 470-20 resulted in the following adjustments to our condensed consolidated statements of operations for the thirteen and thirty-nine weeks ended November 1, 2008:

| (In thousands, except per-share amounts)        | As<br>Previously<br>Reported | Other<br>Adjustments(1) | Adoption<br>of<br>ASC<br>470-20 | As<br>Adjusted |
|---|------------------------------|-------------------------|---------------------------------|----------------|
| <b>Thirteen weeks ended November 1, 2008</b>    |                              |                         |                                 |                |
| Interest expense                                | \$2,172                      |                         | \$2,690 (2)                     | \$4,862        |
| Income tax benefit                              | (11,269 )                    | \$ 27,283               | (27,872 )(3)                    | (11,858 )      |
| Loss from continuing operations                 | (57,785 )                    | (27,283 )               | 25,182                          | (59,886 )      |
| Net loss  | (81,660 )                    | (27,283 )               | 25,182                          | (83,761 )      |
| <b>Basic net loss per share:</b>                |                              |                         |                                 |                |
| Continuing operations                           | (0.50 )                      | (0.24 )                 | 0.22                            | (0.52 )        |
| Net loss  | (0.71 )                      | (0.24 )                 | 0.22                            | (0.73 )        |
| <b>Diluted net loss per share:</b>              |                              |                         |                                 |                |
| Continuing operations                           | (0.50 )                      | (0.24 )                 | 0.22                            | (0.52 )        |
| Net loss  | (0.71 )                      | (0.24 )                 | 0.22                            | (0.73 )        |
| <b>Thirty-nine weeks ended November 1, 2008</b> |                              |                         |                                 |                |
| Interest expense                                | \$6,742                      |                         | \$7,923 (2)                     | \$14,665       |
| Income tax benefit                              | (12,914 )                    | \$ 27,293               | (29,696 )(3)                    | (15,317 )      |
| Loss from continuing operations                 | (60,838 )                    | (27,293 )               | 21,773                          | (66,358 )      |
| Net loss  | (135,760 )                   | (27,293 )               | 21,773                          | (141,280 )     |
| <b>Basic net loss per share:</b>                |                              |                         |                                 |                |
| Continuing operations                           | (0.53 )                      | (0.24 )                 | 0.19                            | (0.58 )        |
| Net loss  | (1.18 )                      | (0.24 )                 | 0.19                            | (1.23 )        |
| <b>Diluted net loss per share:</b>              |                              |                         |                                 |                |
| Continuing operations                           | (0.53 )                      | (0.24 )                 | 0.19                            | (0.58 )        |
| Net loss  | (1.18 )                      | (0.24 )                 | 0.19                            | (1.23 )        |

(1) Correction of accounting for deferred taxes related to purchased call option (see “Note 1. Condensed Consolidated Financial Statements; Change in Accounting Principle” above).

(2) Amortization of the debt discount related to the 1.125% Notes less amortization of debt issue costs related to the equity component.

(3) Tax effect of adoption of ASC 470-20.

During the thirteen weeks ended October 31, 2009 we repurchased \$17,508,000 aggregate principal amount of 1.125% Notes with \$4,145,000 of unamortized discount for a purchase price of \$12,706,000 and recognized a gain of \$1,264,000 net of unamortized issue costs. During the thirty-nine weeks ended October 31, 2009 we repurchased \$69,243,000 aggregate principal amount of 1.125% Notes with \$17,165,000 of unamortized discount for a purchase

price of \$39,323,000 and recognized a gain of \$12,828,000 net of unamortized issue costs. In accordance with ASC 470-20 approximately \$965,000 of the aggregate purchase price was accounted for as a reduction of stockholders' equity during the thirty-nine weeks ended October 31, 2009. In conjunction with the repurchases, during the Fiscal 2009 Second Quarter and Fiscal 2009 Third 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. Subsequent to October 31, 2009 we repurchased additional 1.125% Notes (see "Note 17. Subsequent Events" below).

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

Note 4. Long-term Debt (Continued)

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.

On July 31, 2009 we entered into an amended and restated loan and security agreement (the "Agreement") for a \$225,000,000 senior secured revolving credit facility. The amended facility replaced our then-existing \$375,000,000 revolving credit facility and 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.

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").

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; change 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 October 31, 2009 we had an aggregate total of \$6,700,000 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 October 31, 2009.

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

## Note 5. Stockholders' Equity

|   | Thirty-nine<br>Weeks<br>Ended<br>October 31,<br>2009 |
|---|--|
| (Dollars in thousands)  |  |
| Total stockholders' equity, beginning of period (as adjusted)                       | \$536,855 (1)  |
| Net loss  | (49,940 )  |
| Issuance of common stock (616,520 shares), net of shares withheld for payroll taxes | 398  |
| Stock-based compensation  | 4,301  |
| Net payments for settlement of hedges on convertible notes                          | (31 ) (2)  |
| Equity component of repurchases of 1.125% Senior Convertible Notes                  | (965 ) (2)   |
| Unrealized losses on available-for-sale securities                                  | (5 )   |
| Total stockholders' equity, end of period   | \$490,613  |

(1) We adopted the provisions of ASC 470-20 retrospectively as of the beginning of Fiscal 2009 and recognized a net increase in stockholders' equity of \$70,989,000 as of January 31, 2009 (see "Note 4. Long-term Debt" above).

(2) See "Note 4. Long-term Debt" above.

## 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.

We recognized revenues of \$4,836,000 during the thirteen weeks ended October 31, 2009, \$14,810,000 during the thirty-nine weeks ended October 31, 2009, \$5,270,000 during the thirteen weeks ended November 1, 2008, and \$15,644,000 during the thirty-nine weeks ended November 1, 2008 in connection with our loyalty card programs. We accrued \$2,935,000 as of October 31, 2009 and \$3,597,000 as of January 31, 2009 for the estimated costs of discounts earned and coupons issued and not yet redeemed under these programs.





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## Note 7. Net Loss Per Share

| (In thousands, except per share amounts)  | Thirteen Weeks Ended<br>October 31,<br>2009 | November<br>1,<br>2008<br>(As<br>Adjusted) | Thirty-nine Weeks Ended<br>October 31,<br>2009 | November<br>1,<br>2008<br>(As<br>Adjusted) |
|---|---|--|--|--|
| Basic weighted average common shares outstanding  | 115,816                                     | 114,877                                    | 115,536  | 114,602                                    |
| Dilutive effect of stock options, stock appreciation rights, and awards(1)  | 0   | 0  | 0  | 0  |
| Diluted weighted average common shares and equivalents outstanding  | 115,816                                     | 114,877                                    | 115,536  | 114,602                                    |
| Loss from continuing operations   | \$(48,362 )                                 | \$(59,886 )                                | \$(49,940 )                                    | \$(66,358 )                                |
| Loss from discontinued operations, net of income tax benefit  | 0   | (23,875 )                                  | 0  | (74,922 )                                  |
| Net loss used to determine diluted net loss per share   | \$(48,362 )                                 | \$(83,761 )                                | \$(49,940 )                                    | \$(141,280 )                               |
| Options with weighted average exercise price greater than market price, excluded from computation of net loss per share:(1) |   |  |  |  |
| Number of shares  | -   | -  | -  | -  |
| Weighted average exercise price per share   | -   | -  | -  | -  |

(1) Stock options, stock appreciation rights, and awards are excluded from the computation of diluted net 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 4. Long-term Debt" above and "Item 8. Financial Statements and Supplementary Data; Note 8. Long-term Debt" of Exhibit 99.1 to our Form 8-K dated June 19, 2009 for further information regarding our 1.125% Notes, call options, and warrants.

## Note 8. Income Taxes

We calculate our interim tax provision in accordance with the provisions of ASC 740-270, "Income Taxes; Interim Reporting." For interim periods, we estimate our annual effective income tax rate and apply the estimated rate to our

year-to-date income or loss before income taxes. We also compute the tax provision or benefit related to items we report separately, such as discontinued operations, and recognize the items net of their related tax effect in the interim periods in which they occur. We also recognize the effect of changes in enacted tax laws or rates in the interim periods in which the changes occur.

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(Unaudited)

Note 8. Income Taxes (Continued)

In computing the annual estimated effective tax rate 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 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 the Fiscal 2008 Third Quarter 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. 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 tax receivables, which include available net operating loss carrybacks for Fiscal 2008, amended return receivables, and prepaid income taxes and are net of income tax payables, of \$17,125,000 as of October 31, 2009 and \$47,303,000 as of January 31, 2009 are included in "Prepayments and other" on our condensed consolidated balance sheets. The decrease in the net income tax receivables is substantially due to the receipt during the Fiscal 2009 Third Quarter of a Federal tax refund related to our available net operating loss carryback for Fiscal 2008.

The sale of our proprietary credit card receivables programs (see "Note 9. Sale of Proprietary Credit Card Receivables Programs" below) resulted in the reversal of deferred tax liabilities relating to these receivables. After considering these reversals, as well as our financial statement loss from continuing operations and other estimated movements in deferred taxes, we are expecting a Federal and state income tax liability for Fiscal 2009. However, we are able to fully offset this liability using some of our available net operating loss carryforwards as of January 31, 2009. There is no resulting benefit to our income tax provision from the utilization of the net operating loss carryforwards as the previously-mentioned deferred tax liabilities associated with our proprietary credit card receivables programs had been considered in determining the required valuation allowance.

As of October 31, 2009 our gross unrecognized tax benefits associated with uncertain tax positions were \$29,813,000. 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 \$19,704,000. The accrued interest and penalties as of October 31, 2009 were \$12,993,000. During the thirty-nine weeks ended October 31, 2009 the gross unrecognized tax benefits increased by \$635,000 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 \$857,000. Accrued interest and penalties increased by \$262,000 during the thirty-nine weeks ended October 31, 2009.

As of October 31, 2009 it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next twelve months by as much as \$3,582,000 as a result of resolutions of audits related to U.S. Federal and state tax positions.

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Note 8. Income Taxes (Continued)

Our U.S. Federal income tax returns for Fiscal 2005 and beyond remain subject to examination by the U.S. Internal Revenue Service (“IRS”) and the IRS is currently examining our amended return for Fiscal 2004. We file returns in numerous state jurisdictions, with varying statutes of limitations. Our state tax returns for Fiscal 2004 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 2004 has been extended by agreement between us and the particular state jurisdiction. The earliest year still subject to examination by state tax authorities is Fiscal 1998.

On November 6, 2009, H.R. 3548, the “Worker, Homeownership, and Business Assistance Act of 2009” (the “Act”) was signed into law. The Act contains a number of tax law changes, including a provision that permits companies to carryback applicable 2008 or 2009 net operating losses (“NOL”) up to five years, instead of the general two-year carryback. The Act defines an applicable NOL as a NOL that arises in a tax year either beginning or ending in 2008 or 2009. We previously carried a portion of our Fiscal 2008 NOL back two years; however, we now have the opportunity to carry back the remaining NOL to the preceding three years to offset taxable income in those years and receive a cash refund. Under ASC 740, “Income Taxes,” the tax effects of the Act, including the re-measurement of existing current and deferred tax assets and liabilities, as well as related valuation allowances, are recognized in the interim period that includes the enactment date of the change (our Fiscal 2009 Fourth Quarter). We are currently evaluating the Act, and any resulting impact on our income tax provision has not yet been determined.

Note 9. Sale of Proprietary Credit Card Receivables Programs

On August 13, 2009 we announced an agreement for the sale of our proprietary credit card receivables programs to World Financial Network National Bank (“WFNNB”), a subsidiary of Alliance Data Systems Corporation (“Alliance Data”). We also entered into ten-year operating agreements with Alliance Data for the provision of private-label credit card programs for our customers. The transaction closed on October 30, 2009. We received net cash proceeds of \$136,300,000 related to the transaction and recognized one-time net charges as a result of the sale of \$13,379,000 for the thirteen weeks and thirty-nine weeks ended October 31, 2009, primarily related to contract termination, transaction, severance, and retention costs.

The transaction consisted of the sale of our proprietary credit card portfolio, along with certain other assets and liabilities that are required to support these card programs, including our consolidated balance sheet asset “Investment in asset-backed securities.” The components of the investment in asset-backed securities comprising the net sales proceeds were \$51,250,000 of outstanding trust certificates owned by Charming Shoppes Receivables Corp. (“CSRC”), \$59,690,000 of cash account balances in the Charming Shoppes Master Trust (the “Trust”) that had been funded by CSRC, an interest-only strip of \$21,700,000, and other retained interests of \$3,660,000.

The proceeds of the transaction are subject to a true-up within 60 days of the closing of the sale, which could increase or decrease the final proceeds of the sale. Gross proceeds from the transaction were \$166,300,000. Approximately \$30,000,000 of the gross proceeds were used to fund the termination of contractual obligations related to the transaction as well as exit costs. In addition, on the sale date, we surrendered the charter of the Spirit of America National Bank (the “Bank”), our wholly-owned credit card bank, and merged the remaining assets and liabilities of the Bank into another non-banking subsidiary.



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Note 9. Sale of Proprietary Credit Card Receivables Programs (Continued)

We will receive ongoing payments from Alliance Data under the ten-year operating agreements based on credit sales generated by our private-label credit card customers. Alliance Data will assume the servicing obligations for the Trust, which was renamed the World Financial Network Credit Card Trust II effective as of the date of sale. Prior to the sale, the Trust was an unconsolidated qualified special-purpose entity (“QSPE”) through which the Charming Shoppes credit card receivables were financed. Therefore, we will have no further obligations with respect to financing our credit card programs. The ten-year operating agreements may be terminated early by either party for cause upon the occurrence of certain events as specified in the agreements including, but not limited to: unsatisfactory performance by WFNNB under the terms of the agreements; substantial declines in private-label credit card sales volume or substantial closings of sales channels; and events of insolvency or other material defaults.

Note 10. Asset Securitization

Prior to the sale of our proprietary credit card receivables programs our FASHION BUG®, LANE BRYANT, CATHERINES®, and PETITE SOPHISTICATE® proprietary credit card receivables were originated by Spirit of America National Bank (the “Bank”), our wholly-owned credit card bank. The Bank transferred its interest in all of the receivables associated with these programs to the Charming Shoppes Master Trust (the “Trust”) through Charming Shoppes Receivables Corp., a separate and distinct special-purpose entity. In connection with the sale of our proprietary credit card receivables programs to WFNNB we paid off and terminated the two conduit securitization facilities previously in the Trust and WFNNB assumed all future responsibility for the Trust and all remaining securitization series in the Trust.

Prior to the November 14, 2008 sale of our misses apparel catalog credit card receivables in connection with the sale of the related Crosstown Traders catalog titles (see “Note 1. Condensed Consolidated Financial Statements; Discontinued Operations” above), our Crosstown Traders apparel-related catalog credit card receivables were also originated by the Bank. On December 31, 2008 we finalized the sale of these receivables. In connection with the sale we paid off and terminated the related Series 2005-RPA conduit securitization facility that was dedicated to these receivables.

Our asset securitization program prior to the sale of our proprietary credit card receivables programs is more fully described in “Item 8. Financial Statements and Supplementary Data; Note 17. Asset Securitization” of Exhibit 99.1 to our Form 8-K dated June 19, 2009.

We held certificates and retained interests in our securitizations of \$136,300,000 as of October 30, 2009, which were sold to Alliance Data in connection with the sale of our proprietary credit card receivables programs (see “Note 9. Sale of Proprietary Credit Card Receivables Programs” above).





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## Note 10. Asset Securitization (Continued)

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

| (In thousands)   | Thirty-nine Weeks Ended<br>October 31,<br>2009(1) | November<br>1,<br>2008 |
|--|---|------------------------|
| Proceeds from sales of new receivables to QSPE             | \$530,544   | \$674,817              |
| Collections reinvested in revolving-period securitizations | 667,611   | 829,188                |
| Cash flows received on retained interests                  | 68,326  | 82,679                 |
| Servicing fees received                                    | 7,228   | 8,590                  |
| Net credit losses  | 37,035  | 34,027                 |

(1) Through October 30, 2009 (the date of sale of the proprietary credit card receivables programs).

Prior to the sale of our proprietary credit card receivables programs we accounted for the securitization of our proprietary credit card receivables as follows:

We recorded gains or losses on the securitization of our proprietary credit card receivables based on the estimated fair value of the assets retained and liabilities incurred in the sale. Gains represented the present value of the estimated cash flows that we retained over the estimated outstanding period of the receivables. This excess cash flow essentially represented an I/O strip, consisting of the present value of the finance charges and late fees in excess of the amounts paid to certificate holders, credit losses, and servicing fees.

We used various valuation assumptions in determining the fair value of our I/O strip. We estimated 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.

In addition, we recognized a servicing liability because the servicing fees we expected to receive from the securitizations did not provide adequate compensation for servicing the receivables. The servicing liability represented the present value of the excess of our cost of servicing over the servicing fees received and was recorded at its estimated fair value. Because quoted market prices were generally not available for the servicing of proprietary credit card portfolios of comparable credit quality, we determined 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 discounted 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 were consistent with those used for the I/O strip.

See “Note 14. Fair Value Measurements” below for further information related to our certificates and retained interests in our securitized receivables, including activity related to our I/O strip and servicing liability.

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Note 11. Segment Reporting

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

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

During Fiscal 2008 we decided to discontinue our LANE BRYANT WOMAN catalog and our SHOETRADER.COM website. 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 completed the sale of our proprietary credit card receivables programs (see "Note 9. Sale of Proprietary Credit Card Receivables Programs" above).

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 Exhibit 99.1 to our Form 8-K dated June 19, 2009. 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, information systems support, and insurance to our Retail Stores or Direct-to-Consumer segments. Retail Stores segment operating costs consist primarily of store selling, occupancy, buying, and warehousing. Direct-to-Consumer segment operating costs consist primarily of catalog development, production, and circulation; e-commerce advertising; warehousing; and order processing.

"Corporate and Other" net sales consist primarily of revenue related to loyalty card fees. Corporate and Other operating costs include: unallocated general and administrative expenses; shared services; insurance; information systems support; corporate depreciation and amortization; corporate occupancy; the results of our private-label credit card operations; and other non-routine charges. Operating contribution for the Retail Stores and Direct-to-Consumer segments less Corporate and Other net expenses equals income/(loss) before interest and income taxes.

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

Selected financial information for our operations by reportable segments and a reconciliation of the information by segment to our consolidated totals is included in the table on the following page.

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CHARMING SHOPPES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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## Note 11. Segment Reporting (Continued)

| (In thousands)  | Retail<br>Stores | Direct-to-<br>Consumer | Corporate<br>and Other | Consolidated |
|---|------------------|------------------------|------------------------|--------------|
| <b>Thirteen weeks ended October 31, 2009</b>                      |                  |                        |                        |              |
| Net sales   | \$448,298        | \$9,419                | \$2,520                | \$ 460,237   |
| Depreciation and amortization                                     | 12,829           | 227                    | 5,204                  | 18,260       |
| Loss from operations  | 3,715            | (3,968 )               | (39,815 )              | (40,068 )    |
| Gain on repurchases of 1.125% Senior Convertible<br>Notes         |                  |                        | 1,264                  | 1,264        |
| Net interest expense and other income                             |                  |                        | (4,624 )               | (4,624 )     |
| Income tax provision  |                  |                        | 4,934                  | 4,934        |
| Net loss  | 3,715            | (3,968 )               | (48,109 )              | (48,362 )    |
| Capital expenditures  | 2,426            | 0                      | 4,121                  | 6,547        |
| <b>Thirteen weeks ended November 1, 2008 (As adjusted)</b>        |                  |                        |                        |              |
| Net sales   | \$528,501        | \$21,311               | \$3,254                | \$ 553,066   |
| Depreciation and amortization                                     | 14,979           | 228                    | 7,924                  | 23,131       |
| Loss from operations  | (12,104 )        | (6,077 )               | (50,577 )              | (68,758 )    |
| Net interest expense and other income                             |                  |                        | (2,986 )               | (2,986 )     |
| Income tax benefit  |                  |                        | (11,858 )              | (11,858 )    |
| Loss from continuing operations                                   | (12,104 )        | (6,077 )               | (41,705 )              | (59,886 )    |
| Capital expenditures  | 9,314            | 78                     | 1,633                  | 11,025 (3)   |
| <b>Thirty-nine weeks ended October 31, 2009</b>                   |                  |                        |                        |              |
| Net sales   | \$1,482,118      | \$35,222               | \$8,250                | \$ 1,525,590 |
| Depreciation and amortization                                     | 38,338           | 667                    | 18,529                 | 57,534       |
| Loss from operations  | 67,210           | (11,578 )              | (94,434 )              | (38,802 )    |
| Gain on repurchases of 1.125% Senior Convertible<br>Notes         |                  |                        | 12,828                 | 12,828       |
| Net interest expense and other income                             |                  |                        | (13,648 )              | (13,648 )    |
| Income tax provision  |                  |                        | 10,318                 | 10,318       |
| Net loss  | 67,210           | (11,578 )              | (105,572 )             | (49,940 )    |
| Capital expenditures  | 7,574            | 6                      | 8,733                  | 16,313       |
| <b>Thirty-nine weeks ended November 1, 2008 (As<br/>adjusted)</b> |                  |                        |                        |              |
| Net sales   | \$1,762,604      | \$70,804               | \$9,620                | \$ 1,843,028 |
| Depreciation and amortization                                     | 43,417           | 672                    | 28,541                 | 72,630 (6)   |
| Loss from operations  | 69,473           | (16,244 )              | (123,422 )             | (70,193 )    |
| Net interest expense and other income                             |                  |                        | (11,482 )              | (11,482 )    |
| Income tax benefit  |                  |                        | (15,317 )              | (15,317 )    |
| Loss from continuing operations                                   | 69,473           | (16,244 )              | (119,587 )             | (66,358 )    |

|                      |        |     |       |        |     |
|----------------------|--------|-----|-------|--------|-----|
| Capital expenditures | 41,473 | 354 | 7,190 | 49,017 | (6) |
|----------------------|--------|-----|-------|--------|-----|

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(1) Includes restructuring and other charges of \$14,746 (see “Note 13. Restructuring and Other Charges” below) and one-time net charges as a result of the sale of our proprietary credit card receivables programs of \$13,379 (see “Note 9. Sale of Proprietary Credit Card Receivables Programs” above).

(2) Includes restructuring and other charges of \$6,391 and impairment of store assets of \$20,216 (see “Note 12. Impairment of Store Assets” and “Note 13. Restructuring and Other Charges” below).

(3) Excludes \$14 of capital expenditures related to our discontinued operations.

(4) Includes restructuring and other charges of \$31,219 (see “Note 13. Restructuring and Other Charges” below) and one-time net charges as a result of the sale of our proprietary credit card receivables programs of \$13,379 (see “Note 9. Sale of Proprietary Credit Card Receivables Programs” above).

(5) Includes restructuring and other charges of \$24,947 and impairment of store assets of \$20,216 (see “Note 12. Impairment of Store Assets” and “Note 13. Restructuring and Other Charges” below).

(6) Excludes \$777 of depreciation and amortization and \$481 of capital expenditures related to our discontinued operations.

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Note 12. Impairment of Store Assets

We evaluate the recoverability of our long-lived assets in accordance with ASC 360-10, "Property, Plant, and Equipment; Overall." 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, and we 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. The estimates and assumptions that we use to evaluate possible impairment require certain significant assumptions regarding factors such as future sales growth and operating performance, and they may change as new events occur or as additional information is obtained.

Based on our assessment of the carrying value of long-lived assets conducted in accordance with ASC 360-10, during the Fiscal 2008 Third Quarter we identified approximately 120 stores with asset carrying values in excess of such stores' respective forecasted undiscounted cash flows. Accordingly, we recognized a non-cash charge of \$20,216,000 to write down these stores to their respective fair values.

In accordance with the provisions of ASC 350-20-35, "Goodwill; Subsequent Measurement," we also performed a review during the Fiscal 2008 Third Quarter of our goodwill and other intangible assets with indefinite lives for possible impairment and determined that these assets were not impaired.

Note 13. Restructuring and Other Charges

During the Fiscal 2009 Third Quarter we continued to execute on our multi-year transformational initiatives announced during Fiscal 2008. These initiatives include the closing of under-performing stores, discontinuation of the LANE BRYANT WOMAN catalog, and the transformation of our operations into a vertical specialty store model. See "Item 8. Financial Statements and Supplementary Data; Note 14. Restructuring and Other Charges" of Exhibit 99.1 to our Form 8-K dated June 19, 2009 for further discussion of these initiatives.

As part of the definitive agreement announced in Fiscal 2008 to sell our Crosstown Traders non-core misses apparel catalogs, we retained certain components of the infrastructure of the Crosstown apparel catalogs. Accordingly, we entered into transitional service agreements with the buyer to provide certain services for specified time periods ranging up to one year from the date of the agreement, depending on the services provided. Subsequent to the transitional period we are responsible for the remaining lease liabilities for the retained facilities. We ceased to use the retained facilities during the Fiscal 2009 Third Quarter when the transitional service agreements ended. In accordance with ASC 420-10, "Exit or Disposal Cost Obligations," we recorded the fair value of the remaining lease liability, reduced by estimated sublease rentals, as of the "cease use" date. This fair value measurement was performed using level 3 inputs (see "Note 14. Fair Value Measurements" below for further discussion of fair value measurements). In accordance with ASC 420-10 we will recognize the effect of any changes in estimated sublease rentals or other assumptions as an adjustment to the remaining lease liability in the period of the change.



During the Fiscal 2009 Second Quarter and Fiscal 2009 Third Quarter, as part of our multi-year transformational initiatives, we outsourced certain information technology and business service center functions to a third-party provider. These actions will result in the elimination of approximately 50 positions at our Bensalem, Pennsylvania corporate offices. We completed the outsourcing of the information technology functions during the Fiscal 2009 Third Quarter and expect to complete the outsourcing of the business service center functions during the Fiscal 2010 First Quarter.

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## Note 13. Restructuring and Other Charges (Continued)

The following two tables summarize our restructuring and other charges as of October 31, 2009:

| (In thousands)                       | Accrued<br>as of<br>January 31<br>2009(1) | Costs<br>Incurred<br>for<br>Thirty-nine<br>Weeks<br>Ended<br>October 31,<br>2009 | Payments/<br>Settlements | Accrued<br>as of<br>October 31,<br>2009(1) |
|--------------------------------------|---|--|--------------------------|--|
| Fiscal 2007 Announcements            |   |  |                          |  |
| Relocation of CATHERINES operations: |   |  |                          |  |
| Relocation and other charges         | \$0                                       | \$212  | \$212                    | \$0  |
| Closing of under-performing stores:  |   |  |                          |  |
| Store lease termination charges      | 1,687                                     | 1,145  | 1,129                    | 1,703                                      |
| Fiscal 2008 Announcements            |   |  |                          |  |
| Severance and retention costs(2)     | 9,891                                     | 763  | 3,870                    | 6,784                                      |
| Non-core misses apparel assets:      |   |  |                          |  |
| Lease termination charges            | 0   | 12,131   | 568                      | 11,563                                     |
| Other costs                          | 420                                       | 0  | 79                       | 341  |
| Transformational initiatives:        |   |  |                          |  |
| Professional fees                    | 1,379                                     | 7,078  | 7,340                    | 1,117                                      |
| Severance and retention costs        | 0   | 1,002  | 205                      | 797  |
| figure® magazine closing costs       | 819                                       | (48 )  | 766                      | 5  |
| Total                                | \$14,196                                  | \$22,283   | \$14,169                 | \$22,310                                   |

(1) Included in "Accrued expenses" in the accompanying consolidated balance sheets.

(2) Primarily severance for departure of former CEO, the closing of our LANE BRYANT WOMAN catalog, and the elimination of other positions.



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## Note 13. Restructuring and Other Charges (Continued)

| (In thousands)  | Costs<br>Incurred<br><br>As of<br>January 31,<br>2009 | Costs<br>Incurred<br>for<br>Thirty-nine<br>Weeks<br>Ended<br>October 31,<br>2009 | Estimated<br>Remaining<br>Costs<br>to be<br>Incurred | Total<br>Estimated/<br>Actual<br>Costs as of<br>October 31,<br>2009 |
|---|---|--|--|---|
| Fiscal 2007 Announcements   |   |  |  |   |
| Relocation of CATHERINES operations:                                  |   |  |  |   |
| Severance and retention costs   | \$2,079   | \$0  | \$0  | \$2,079   |
| Non-cash write down and accelerated Depreciation                      | 3,808   | 0  | 0  | 3,808   |
| Relocation and other charges  | 1,166   | 212  | 0  | 1,378   |
| Closing of under-performing stores:                                   |   |  |  |   |
| Non-cash accelerated depreciation                                     | 691   | 170  | 0  | 861   |
| Store lease termination charges                                       | 6,909   | 1,145  | 0  | 8,054   |
| Severance and retention costs related to the elimination of positions | 1,244   | 0  | 0  | 1,244   |
| Fiscal 2008 Announcements   |   |  |  |   |
| Severance for departure of former CEO                                 | 9,446   | 104  | 38   | 9,588   |
| Closing of LANE BRYANT WOMAN Catalog:                                 |   |  |  |   |
| Severance and retention costs   | 1,557   | 504  | 0  | 2,061   |
| Non-cash accelerated depreciation                                     | 934   | 838  | 0  | 1,772   |
| Severance and retention costs related to the elimination of positions | 3,873   | 155  | 0  | 4,028   |
| Non-core misses apparel assets:                                       |   |  |  |   |

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|                                   |          |          |         |          |
|-----------------------------------|----------|----------|---------|----------|
| Non-cash accelerated depreciation | 2,968    | 7,928    | 0       | 10,896   |
| Lease termination charges         | 0        | 12,131   | 1,177   | 13,308   |
| Other costs                       | 420      | 0        | 0       | 420      |
| Transformational initiatives:     |          |          |         |          |
| Professional fees                 | 2,563    | 7,078    | 0       | 9,641    |
| Severance and retention costs     | 0        | 1,002    | 35      | 1,037    |
| figure magazine closing costs     | 819      | (48 )    | 0       | 771      |
| Total                             | \$38,477 | \$31,219 | \$1,250 | \$70,946 |

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CHARMING SHOPPES, INC. AND SUBSIDIARIES  
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## Note 14. Fair Value Measurements

ASC 820-10-20, "Fair Value Measurements and Disclosures," defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use various methods to determine fair value, including discounted cash flow projections based on available market interest rates and management estimates of future cash payments.

Financial assets and liabilities that are measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

Our financial assets and liabilities subject to ASC 820-10 as of October 31, 2009 were as follows:

| (In thousands)                   | As of<br>October 31,<br>2009 | Fair Value<br>Method<br>Used<br>Level 2 |
|----------------------------------|------------------------------|---|
| Assets                           |                              |   |
| Available-for-sale securities(1) | \$400                        | \$400                                   |

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

Prior to the sale of our proprietary credit card receivables programs during the Fiscal 2009 Third Quarter (see "Note 9. Sale of Proprietary Credit Card Receivables Programs" above) our financial assets included certificates and retained interests in our securitized receivables and our financial liabilities included a servicing liability related to our asset securitization program. We measured these assets and liabilities using level 3 inputs and reported them at fair value in accordance with ASC 820-10.

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

The fair value of our servicing liability represented the present value of the excess of our cost of servicing over the servicing fees received. We determined the fair value by calculating all costs associated with billing, collecting,

maintaining, and providing customer service during the expected life of the securitized credit card receivable balances. We discounted 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 were consistent with those used to value the certificates and retained interests.

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

## Note 14. Fair Value Measurements (Continued)

The table below presents a reconciliation of the beginning and ending balances of our certificates and retained interests and our servicing liability during the thirty-nine weeks ended October 31, 2009:

| (In thousands)   | Retained<br>Interests | Servicing<br>Liability |
|--|-----------------------|------------------------|
| Balance, January 31, 2009                                      | \$94,453              | \$3,046                |
| Additions to I/O strip and servicing liability                 | 24,341                | 2,977                  |
| Net additions to other retained interests                      | 39,964                | 0                      |
| Reductions and maturities of QSPE certificates                 | (150 )                | 0                      |
| Amortization of the I/O strip and servicing liability          | (26,865 )             | (3,149 )               |
| Valuation adjustments to the I/O strip and servicing liability | 4,939                 | 110                    |
| Sale of asset securitization program assets and liabilities    | (136,682 )            | (2,984 )               |
| Balance, October 31, 2009                                      | \$0                   | \$0                    |

## Note 15. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of our financial instruments are as follows:

| (In thousands)                            | October 31, 2009   |               | January 31, 2009   |               |
|---|--------------------|---------------|--------------------|---------------|
|   | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| <b>Assets:</b>                            |                    |               |                    |               |
| Cash and cash equivalents                 | \$223,944          | \$223,944     | \$93,759           | \$93,759      |
| Available-for-sale securities             | 400                | 400           | 6,398              | 6,398         |
| Investment in asset-backed securities     | 0                  | 0             | 94,453             | 94,453        |
| <b>Liabilities:</b>                       |                    |               |                    |               |
| 1.125% Senior Convertible Notes, due 2014 | 157,795            | (1) 146,129   | 202,087            | (1) 75,295    |
| 6.07% mortgage note, due October 2014     | 9,954              | 9,209         | 10,419             | 11,330        |
| 6.53% mortgage note, due November 2012    | 4,200              | 4,098         | 5,250              | 5,493         |
| 7.77% mortgage note, due December 2011    | 6,729              | 6,731         | 7,249              | 7,959         |
| Other long-term debt                      | 230                | 248           | 422                | 414           |

(1) Net of unamortized discount of \$47,962 at October 31, 2009 and \$72,913 at January 31, 2009 (see “Note 4. Long-term Debt” above).

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. The fair value of our 1.125% Senior Convertible Notes is 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.

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

Note 16. Impact of Recent Accounting Pronouncements

In June 2009 the FASB established the “FASB Accounting Standards Codification” (the “ASC”) as the official single source of authoritative accounting principles to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) in the United States. All guidance in the ASC carries an equal level of authority. Rules and interpretive releases of the SEC under authority of Federal securities laws are also considered authoritative for SEC registrants and are included in the ASC. As of the effective date of the ASC all non-grandfathered non-SEC accounting guidance that is not included in the ASC is considered non-authoritative. The ASC is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Initial adoption of the ASC is not intended to change existing GAAP. Therefore, other than updating citations to accounting standards included in our financial statements and related footnotes to reflect the ASC, our adoption of the ASC did not have an impact on our financial position or results of operations.

In December 2007 the FASB issued standards included in ASC 805, “Business Combinations,” that establish principles and requirements for the recognition and measurement of identifiable assets acquired and liabilities assumed by an acquirer in a business combination and establish accounting and reporting standards for a non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. These provisions, which were effective prospectively as of the beginning of Fiscal 2009, did not have an impact on our financial position or results of operations.

In April 2009 the FASB also issued standards included in ASC 805 that amended previous guidance to require that assets acquired and liabilities assumed in a business combination that arise from contingencies (“pre-acquisition contingencies”) be recognized at fair value if the fair value can be determined during the measurement period. If the fair value of a pre-acquisition contingency cannot be determined during the measurement period, the contingency should be recognized at the acquisition date in accordance with ASC 450, “Contingencies,” if it meets the criteria for recognition in that guidance. These provisions, which were effective as of the beginning of Fiscal 2009, did not have an impact on our financial position or results of operations.

In February 2008 the FASB issued standards included in ASC 860, “Transfers and Servicing” that provide implementation guidance on accounting for a transfer of a financial asset and repurchase financing. These standards presume that the initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (a linked transaction) under ASC 860. However, if certain criteria specified in the guidance are met, the initial transfer and repurchase financing may be evaluated separately and not as a linked transaction under ASC 860. These provisions, which were effective prospectively as of the beginning of Fiscal 2009, did not have an impact on our financial position or results of operations.

In February 2008 the FASB issued standards included in ASC 820-10, “Fair Value Measurements and Disclosures,” which delayed the effective date of ASC 820-10 until fiscal years beginning after November 15, 2008 for non-financial assets and non-financial liabilities that are not currently being recognized or disclosed at fair value on a recurring basis. We adopted the provisions of ASC 820-10 prospectively as of the beginning of Fiscal 2009 for assets included within the scope of the standards issued in February 2008 (such as goodwill, intangible assets, and fixed assets related to evaluation of potential impairment). Our adoption of these standards did not have an impact on our financial position or results of operations.



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

Note 16. Impact of Recent Accounting Pronouncements (Continued)

In March 2008 the FASB issued standards included in ASC 815-10, "Derivatives and Hedging," that require entities to provide enhanced disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under ASC 815-10; and how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. These provisions, which were effective prospectively as of the beginning of Fiscal 2009, did not have an impact on our financial position or results of operations.

In June 2008 the FASB issued standards included in ASC 815-40-15, "Derivatives and Hedging; Contracts in Entity's Own Equity," that address the scope exception in ASC 815-10-15-74 that specifies that a contract that is both indexed to its own stock and classified in stockholders' equity is not a derivative. The objective of these standards is to provide guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. These standards, which we adopted as of the beginning of Fiscal 2009, did not have an impact on our financial position or results of operations.

In April 2009 the FASB issued standards included in ASC 820-10, "Fair Value Measurements and Disclosures," that provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. The standards also provide additional guidance on circumstances that may indicate that a transaction is not orderly and requires additional disclosures about fair value measurements in annual and interim reporting periods. The FASB also issued standards that extended the disclosure requirements of ASC 820-10 to interim financial statements of publicly traded companies. These standards, which were effective prospectively for annual and interim periods as of the beginning of our Fiscal 2009 Second Quarter, did not have a material impact on our financial position or results of operations.

In April 2009 the FASB issued standards included in ASC 320-10-35, "Investments – Debt and Equity Securities; Subsequent Measurement," that provide new guidance on the recognition and presentation of other-than-temporary impairments of debt securities classified as available-for-sale or held-to-maturity and require additional disclosures for both debt and equity securities within the scope of ASC 320-10. These standards, which were effective prospectively as of the beginning of our Fiscal 2009 Second Quarter, did not have a material impact on our financial position or results of operations.

In May 2009 the FASB issued standards included in ASC 855-10, "Subsequent Events," that require entities to disclose the date through which the entity has evaluated subsequent events and the basis for that date (whether that date represents the date the financial statements were issued or were available to be issued). This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. Our adoption of these standards did not have a material impact on our financial position or results of operations.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an amendment of FASB Statement 140," and SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." These statements have not yet been integrated with the ASC and are, therefore, still considered authoritative until such time as they are integrated. These statements change the way entities account for transfers of financial assets and determine what entities must be consolidated. As a result of the sale of our proprietary credit card receivables programs (see "Note 9.

Sale of Proprietary Credit Card Receivables Programs” above, the adoption of these statements will have no impact on our financial position or results of operations.

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

Note 17. Subsequent Events

Subsequent to the end of the Fiscal 2009 Third Quarter we repurchased 1.125% Senior Convertible Notes with an aggregate principal amount of \$16,121,000 for an aggregate purchase price of \$11,310,000 (see “Note 4. Long -term Debt” above). We expect to recognize a gain on the repurchase of approximately \$1,151,000 net of unamortized issue costs during the Fiscal 2009 Fourth Quarter. Including the 1.125% Notes purchased during the first three quarters of Fiscal 2009, we have repurchased notes with an aggregate principal amount of \$85,364,000 for an aggregate purchase price of \$50,633,000, and will recognize an aggregate gain on the repurchases of approximately \$13,979,000 net of unamortized issue costs.

There were no other material subsequent events through December 2, 2009 (the issuance date of this report on Form 10-Q).



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

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes included in Item 1 of this report. It should also be read in conjunction with the management's discussion and analysis of financial condition and results of operations, financial statements, and accompanying notes appearing in Exhibit 99.1 of our Form 8-K dated June 19, 2009, which retrospectively revised the financial statements and related notes included in our January 31, 2009 Annual Report on Form 10-K as a result of our adoption of certain provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 470-20 related to certain debt instruments that may be settled in cash upon conversion (see "Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 1. Condensed Consolidated Financial Statements" above). As used in this management's discussion and analysis, "Fiscal 2009" refers to our fiscal year ending 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 2009 First Quarter" refers to our fiscal quarter ended May 2, 2009 and "Fiscal 2008 First Quarter" refers to our fiscal quarter ended May 3, 2008. "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 and "Fiscal 2008 Third Quarter" refers to our fiscal quarter ended November 1, 2008. "Fiscal 2009 Fourth Quarter" refers to our fiscal quarter ending January 30, 2010 and "Fiscal 2007 Fourth Quarter" refers to our fiscal quarter ended February 2, 2008. The terms "Charming Shoppes," "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and consolidated subsidiaries except where the context otherwise requires or as otherwise indicated.

FORWARD-LOOKING STATEMENTS

With the exception of historical information, the matters contained in the following analysis and elsewhere in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, projections of revenues, income or loss, cost reductions, capital expenditures, liquidity, divestitures, financing needs or plans, store closings, merchandise strategy, and plans for future operations, as well as assumptions relating to the foregoing. The words "expect," "could," "should," "project," "estimate," "predict," "anticipate," "plan," "intend," "believes," and similar expressions are also intended to identify forward-looking statements.

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

Factors that could cause our actual results of operations or financial condition to differ from those described in this report include, but are not necessarily limited to, the following, which are discussed in more detail in "PART I; Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended January 31, 2009 and in "PART II. OTHER INFORMATION; Item 1A. Risk Factors" below:

Our business is dependent upon our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors, which we may not be able to successfully accomplish in the future.



The women's specialty retail apparel and direct-to-consumer markets are highly competitive and we may be unable to compete successfully against existing or future competitors.

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We cannot assure the successful implementation of our business plan for the development of our core brands, the increased profitability and growth in our Retail Stores or Direct-to-Consumer segments, or that we will achieve our objectives as quickly or as effectively as we plan. We may be unable to successfully implement our plan to improve merchandise assortments. Recent changes in management may fail to achieve improvement in our operating results.

A continuing slowdown in the United States economy, an uncertain economic outlook, and fluctuating energy costs could lead to reduced consumer demand for our products in the future.

Our inability to successfully manage labor costs, occupancy costs, or other operating costs, or our inability to take advantage of opportunities to reduce operating costs, could adversely affect our operating margins and our results of operations. We cannot assure the successful implementation of our planned cost reduction and capital budget reduction plans or the realization of our anticipated annualized expense savings from our restructuring programs. We may be unable to obtain adequate insurance for our operations at a reasonable cost.

We are subject to the Fair Labor Standards Act and various state and Federal laws and regulations governing such matters as minimum wages, exempt status classification, overtime, and employee benefits. Changes in Federal or state laws or regulations regarding minimum wages, unionization, or other employee benefits could cause us to incur additional wage and benefit costs, which could adversely affect our results of operations.

We depend on the availability of credit for our working capital needs, including credit we receive from our bankers, our factors, our suppliers and their agents, and on our ongoing payments from our strategic alliance related to private-label credit card sales. The current global financial crisis could adversely affect our ability or the ability of our vendors to secure adequate credit financing. If we or our vendors are unable to obtain sufficient financing at an affordable cost, our ability to merchandise our retail stores or e-commerce businesses could be adversely affected.

We cannot assure that we will realize the expected benefits from the ten-year private-label credit card operating agreements with Alliance Data. A significant portion of our sales revenues are generated through our private-label credit cards. Therefore, changes in the private-label credit card programs that adversely impact our ability to facilitate customer credit may adversely impact our results of operations. Alliance Data will have discretion over certain policies and arrangements with the cardholders and may change these policies and arrangements in ways that could affect our relationship with the cardholders. Any such changes could adversely affect our private-label credit card sales and our results of operations. Our ability to continue to offer private-label credit card programs to our customers will depend on the success of our strategic alliance with Alliance Data.

Credit card operations are subject to numerous Federal and state laws that impose disclosure and other requirements upon the origination, servicing, and enforcement of

credit accounts, and limitations on the amount of finance charges that may be charged by a credit card provider. Alliance Data may be subject to regulations to which we were not subject prior to the sale of the proprietary credit card portfolio on October 30, 2009. To the extent that such limitations or regulations materially limit the availability of credit or increase the cost of credit to our cardholders or negatively impact provisions which affect our revenue streams associated with the ten-year operating agreements, our results of operations could be adversely affected. In addition, changes in credit card use, payment patterns, or default rates could be affected by a variety of economic, legal, social, or other factors over which we have no control and cannot predict with certainty and which could also negatively impact the availability of credit or increase the cost of credit to our cardholders or negatively impact provisions that affect our revenue streams associated with the ten-year operating agreements.

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Our Retail Stores and Direct-to-Consumer segments experience seasonal fluctuations in net sales and operating income. Any decrease in sales or margins during our peak sales periods or in the availability of working capital during the months preceding such periods could have a material adverse effect on our business. In addition, extreme or unseasonable weather conditions may have a negative impact on our sales.

Certain of our business processes that are dependent on technology are outsourced to third parties. Such processes include credit card authorization and processing, our e-commerce platform, and certain other information technology functions. Although we make a diligent effort to insure that all providers of outsourced services observe proper internal control practices and procedures, we cannot assure that failures will not occur. The failure of such third parties to provide adequate services could adversely affect our results of operations, liquidity, or our ability to provide adequate financial and management reporting.

We depend on the efforts and abilities of our executive officers and their management teams and we may not be able to retain or replace these employees or recruit additional qualified personnel.

Our business plan is largely dependent upon continued growth in the plus-size women's apparel market, which may not occur.

We depend on our distribution and fulfillment centers and third-party freight consolidators and service providers for prompt and efficient deliveries of merchandise to our stores and customers, and could incur significantly higher costs and longer lead times associated with distributing our products to our stores and shipping our products to our e-commerce and catalog customers if operations at any of these locations were to be disrupted for any reason.

Natural disasters, as well as war, acts of terrorism, or other armed conflict, or the threat of any such event may negatively impact availability of merchandise and customer traffic to our stores, or otherwise adversely affect our business.

Successful operation of our e-commerce websites and our catalog business is dependent on our ability to maintain efficient and uninterrupted customer service and fulfillment operations.

We rely significantly on foreign sources of production and face a variety of risks generally associated with doing business in foreign markets and importing merchandise from abroad. Such risks include (but are not necessarily limited to) political instability; imposition of or changes in duties or quotas; trade restrictions; increased security requirements applicable to imports; delays in shipping; increased costs of transportation; and issues relating to compliance with domestic or international labor standards.

Our manufacturers may be unable to manufacture and deliver merchandise to us in a timely manner or to meet our quality standards. In addition, if any one of our manufacturers or vendors fails to operate in compliance with applicable laws and regulations, is perceived by the public as failing to meet certain United States labor

standards, or employs unfair labor practices, our business could be adversely affected.

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Our long-term growth plan depends on our ability to open and profitably operate new retail stores, to convert, where applicable, the formats of existing stores on a profitable basis, and to continue to expand our outlet distribution channel. Our retail stores depend upon a high volume of traffic in the strip centers and malls in which our stores are located, and our future retail store growth is dependent upon the availability of suitable locations for new stores. In addition, we will need to identify, hire, and retain a sufficient number of qualified personnel to work in our stores. We cannot assure that desirable store locations will continue to be available, or that we will be able to hire and retain a sufficient number of suitable sales associates at our stores.

We may be unable to protect our trademarks and other intellectual property rights, which are important to our success and our competitive position.

Inadequate systems capacity, a disruption or slowdown in telecommunications services, changes in technology, changes in government regulations, systems issues, security breaches, a failure to integrate order management systems, or customer privacy issues could result in reduced sales or increases in operating expenses as a result of our efforts or our inability to remedy such issues.

We continually evaluate our portfolio of businesses and may decide to acquire or divest businesses or enter into joint venture or strategic alliances. If we fail to manage the risks associated with divestitures, joint ventures, or other alliances, our business, financial condition, and operating results could be materially and adversely affected.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports. Our independent registered public accounting firm is also required to report on whether or not they believe that we maintained, in all material respects, effective internal control over financial reporting. If we are unable to maintain effective internal control over financial reporting we could be subject to regulatory sanctions and a possible loss of public confidence in the reliability of our financial reporting. Such a failure could result in our inability to provide timely and/or reliable financial information and could adversely affect our business.

The holders of our 1.125% Senior Convertible Notes due May 1, 2014 (the 1.125% Notes) could require us to repurchase the principal amount of the notes for cash before maturity of the notes upon the occurrence of a “fundamental change” as defined in the prospectus filed in connection with the 1.125% Notes. Such a repurchase would require significant amounts of cash, would be subject to important limitations on our ability to repurchase, such as the risk of our inability to obtain funds for such repurchase, and could adversely affect our financial condition.

Changes to existing accounting rules or the adoption of new rules could have an adverse impact on our reported results of operations.

We make certain significant assumptions, estimates, and projections related to the useful lives and valuation of our property, plant, and equipment and the valuation of goodwill and other intangible assets related to acquisitions. The carrying amount and/or useful life

of these assets are subject to periodic and/or annual valuation tests for impairment. Impairment results when the carrying value of an asset exceeds the undiscounted (or for goodwill and indefinite-lived intangible assets the discounted) future cash flows associated with the asset. If actual experience were to differ materially from the assumptions, estimates, and projections used to determine useful lives or the valuation of property, plant, equipment, or intangible assets, a write-down for impairment of the carrying value of the assets, or acceleration of depreciation or amortization of the assets, could result. Such a write-down or acceleration of depreciation or amortization could have an adverse impact on our reported results of operations.

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CRITICAL ACCOUNTING POLICIES

We have prepared the financial statements and accompanying notes included in Item 1 of this report in conformity with United States generally accepted accounting principles. This requires us to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. These estimates and assumptions are based on historical experience, analysis of current trends, and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions.

We periodically reevaluate our accounting policies, assumptions, and estimates and make adjustments when facts and circumstances warrant. Our significant accounting policies are described in the notes accompanying the consolidated financial statements that appear in Exhibit 99.1 to our Form 8-K dated June 19, 2009.

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

Senior Convertible Notes

In May 2008 the FASB adopted certain provisions of ASC 470-20, "Debt With Conversion and Other Options" that changed the accounting treatment for convertible securities that an issuer may settle fully or partially in cash. Under ASC 470-20, cash-settled convertible securities are separated into their debt and equity components. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature. As a result, the debt is recorded at a discount to adjust its below-market coupon interest rate to the market coupon interest rate for a similar debt instrument without the conversion feature. The difference between the proceeds for the convertible debt and the amount reflected as the debt component represents the value of the conversion feature and is recorded as additional paid-in capital. The debt is subsequently accreted to its par value over its expected life with an offsetting non-cash increase in interest expense on the income statement to reflect interest expense at the market rate for the debt component at the date of issuance.

We adopted the provisions of ASC 470-20 for our 1.125% Senior Convertible Notes and applied the provisions retrospectively to all past periods presented (see "Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 1. Condensed Consolidated Financial Statements" and "Note 4. Long-term Debt" above).

RECENT DEVELOPMENTS

On August 13, 2009 we announced an agreement for the sale of our proprietary credit card receivables programs to World Financial Network National Bank, a subsidiary of Alliance Data Systems Corporation ("Alliance Data"). We also entered into ten-year operating agreements with Alliance Data for the provision of private-label credit card programs for our customers. During the Fiscal 2009 Third Quarter we obtained the customary regulatory approvals and the transaction was closed on October 30, 2009. See "Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 9. Sale of Proprietary Credit Card Receivables Programs" and "Note 10. Asset Securitization" above for further information regarding our private-label credit card receivables programs.

We received net cash proceeds of approximately \$136.3 million related to the transaction and recognized a loss as a result of the sale of approximately \$13.4 million, primarily related to one-time contract termination and transaction-related costs, as well as severance and retention costs. The transaction consisted of the sale of our proprietary credit card portfolio, along with certain other assets and liabilities that are required to support these credit card programs, including our consolidated balance sheet asset "Investment in Asset-Backed Securities." The proceeds



of the transaction are subject to a true-up within 60 days of the closing of the sale, which could increase or decrease the final proceeds of the sale. This true-up is not projected to be material to our results of operations.

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Gross proceeds from the transaction were approximately \$166.3 million of which approximately \$30 million was used to fund the termination of contractual obligations related to the transaction as well as exit costs. In addition, as of the sale date we reclassified \$34.9 million of cash in Spirit of America National Bank (the “Bank”), our wholly-owned credit card bank, that prior to the sale was held to satisfy regulatory capital and collateral requirements, from “Prepayments and other” to “Cash and cash equivalents” on our consolidated balance sheet as of October 31, 2009. Additionally, on the sale date we surrendered the charter of the Bank and merged the remaining assets and liabilities of the Bank into another non-banking subsidiary.

Under the ten-year operating agreements, Alliance Data will continue to offer private-label credit cards bearing our retail brand names and we will receive ongoing payments from Alliance Data related to private-label credit card sales, reimbursement of some private-label credit card program marketing costs, and net revenue sharing associated with the marketing of certain enhancement services to cardholders. The level of ongoing payments we receive may increase or decrease as a result of changes in the performance of the private-label credit card programs or changes in the legal and regulatory requirements affecting Alliance Data in its conduct of the program.

## OVERVIEW

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

### Results of Operations

Consolidated net sales for the Fiscal 2009 Third Quarter decreased 17% as compared to the Fiscal 2008 Third Quarter due primarily to a 13% decrease in comparable store sales. Our sales decline reflected both the positive and the negative: on the positive side it reflected our focus on profitable revenue; on the negative side it reflected assortments that were not yet where we want them to be. The sales decline reflected (1) weak traffic across our brands (particularly in our mall stores); (2) substantial declines in the amount of markdown sales without requisite increases in non-markdown business; (3) a sub-optimal bottoms program across our brands; and (4) a core assortment that did not deliver on our customer’s need for fashion basics positioned with entry price points in the context of both the substantial reductions in markdowns available to customers in our stores and today’s value-conscious customer.

Reflecting our focus on profitable revenue and EBITDA (Earnings Before Income Taxes, Depreciation, and Amortization), our gross margin did increase 560 basis points as compared to the prior-year period, and we did control expenses, which together allowed us to mitigate the impact of our volume declines on the bottom line. As we move into 2010 we will continue with our culture of driving profitable revenue while we address our assortment weakness as noted above. Our inventory decreased approximately 17% on a comparable-store basis as compared to the end of the Fiscal 2008 Third Quarter. Furthermore, we entered the fourth quarter with reduced seasonal carry-over inventory in our stores as compared to the prior-year period.

We believe we can be more intensively customer-focused and can improve our store traffic conversion rates and sales by providing the customer with a more balanced assortment. We know through recent customer research that size and fit are the leading priority for our customer. We are working to leverage and improve our fit expertise and sizing approach to strengthen our overall merchandise programs. We are focused on offering a more balanced assortment with a stronger focus on our core merchandise assortment while also addressing the fashion needs of our customers.



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Our occupancy and buying expenses increased as a percent of sales for the Fiscal 2009 Third Quarter as a result of negative leverage from the decrease in net sales. However, total expense dollars decreased as a result of the operation of fewer stores and occupancy reductions secured from landlords. Our selling, general, and administrative expenses decreased as a percentage of sales and in total expense dollars for the Fiscal 2009 Third Quarter as compared to the prior-year period as a result of our expense reduction initiatives and the closing of under-performing stores.

Our consolidated operating results for the Fiscal 2009 Third Quarter continued to reflect a difficult retail environment, with disappointing comparable store sales. However, improvements in gross margins in each of our brands and reductions in occupancy and buying expenses and in selling, general, and administrative expenses improved operating results as compared to the prior-year period. Our loss from operations was \$40.1 million for the Fiscal 2009 Third Quarter, a \$28.7 million improvement from our loss from operations of \$68.8 million for the comparable prior-year period.

## Financial Position

Our balance sheet remained strong, with ample liquidity through our \$224.3 million of cash and available-for-sale securities as of the end of the Fiscal 2009 Third Quarter as compared to \$100.2 million as of the end of Fiscal 2008. We continued to generate positive operating cash flow and ended the quarter with no borrowings against our \$225.0 million committed revolving credit facility. As of October 31, 2009 our available borrowing capacity under the facility was \$196.6 million.

During the Fiscal 2009 Third Quarter we completed the sale of our proprietary credit card receivables programs (see “RECENT DEVELOPMENTS” above). In addition to partnering with one of the country’s premier credit card providers, the benefits of this transaction include the following:

- It allows us to further focus on our core business;

- It eliminates the financing risk associated with our proprietary credit card receivables programs and the credit risk of the underlying credit card portfolio;

- The net cash proceeds to us of \$136.3 million has strengthened our liquidity and financial flexibility; and

- We will receive ongoing payments from Alliance Data based on credit sales generated by our private-label credit card portfolio.

Additionally, during the Fiscal 2009 Third Quarter we received a Federal income tax refund in the amount of \$27.7 million related to a carryback of net operating losses.

Our liquidity allowed us to opportunistically repurchase \$17.5 million principal amount of our 1.125% Senior Convertible Notes at a 27% discount during the Fiscal 2009 Third Quarter. The total principal amount of debt repurchased to-date as of the end of the Fiscal 2009 Third Quarter was \$69.2 million.

## Management Initiatives

We continue to execute on the following key priorities to guide our organization: (1) focus on the customer; (2) stabilize and begin to grow profitable revenue; (3) increase EBITDA; (4) increase cash flow; and (5) employee empowerment with accountability. Our management initiatives are designed to reinforce and support the execution of our key priorities.



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The following are our key initiatives:

We are working to improve our marketing to insure a balance between marketing to our current customers and to inactive and new customers. We believe we can better succeed by focusing on the basics of efficiently driving traffic both to our stores and online, and by focusing on increasing the conversion rate for customers in our stores and on our websites.

We are focused on assortments planning and selling outfits. We believe we can better succeed by improving our buying and in-store merchandising of appropriate assortments of bottoms, tops, accessories, intimates, and related products. We believe we can improve our store traffic and conversion rates by providing the customer with a more balanced assortment. We know through customer research that size and fit are the leading priority for our customer. We are working to leverage and improve our fit expertise and sizing approach to strengthen our overall merchandise programs. Additionally, we are focused on offering a more balanced assortment with a stronger focus on our core merchandise while also addressing the fashion needs of our customers.

We are working to increase our internally designed and developed product and we are transforming each of our core brands into more independent, distinct brands. During the Fiscal 2009 Third Quarter we added global sourcing talent at each of our brands to assist in this process and to better leverage our scale in order to deliver more efficient cost of goods expense.

We are focused on increasing our e-commerce penetration across all of our brands. We overhauled each of our core brands' websites and successfully converted our core brands to a new e-commerce technology platform during the beginning of the Fiscal 2009 Third Quarter. Our objective is to provide an improved on-line customer experience that will result in increased website traffic and sales conversion rates.

We are committed to adopting a multi-channel mindset. We will encourage and make it easy for our customer to shop in three convenient ways – in our stores, online, and via telephone. We will also be multi-vehicle in our communications with both existing and new customers, whether via direct mail, email, online, or in our stores.

To further focus on our core brands, during the Fiscal 2009 Third Quarter we decided to close the PETITE SOPHISTICATE OUTLET stores and convert a majority of the space to CATHERINES outlet stores. We expect the conversion to CATHERINES outlet stores to be complete by February 2010.

The changes we have made to our core retail brands, including new floor-set and merchandise strategies, will take time to mature and for our customer to become accustomed to and embrace. Compared to the prior year, we reduced inventory levels, enjoyed better sell-through generally, and, as a result, reduced the magnitude of markdown inventory, thereby improving our gross margin and the profitability of our sales. We will continue to maintain appropriate inventory levels while focusing on presenting a more balanced and compelling assortment of merchandise and we will continue to proactively control our operating expenses.

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

above).

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## RESULTS OF OPERATIONS

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

|  | Thirteen Weeks         |                        |                                   | Percentage             |                        | Thirty-nine Weeks                 |           |   | Percentage                        |  |  |
|--|------------------------|------------------------|-----------------------------------|------------------------|------------------------|-----------------------------------|-----------|---|-----------------------------------|--|--|
|  | Ended(1)               |                        | Change<br>From<br>Prior<br>Period | Ended(1)               |                        | Change<br>From<br>Prior<br>Period |           |   | Change<br>From<br>Prior<br>Period |  |  |
|  | October<br>31,<br>2009 | November<br>1,<br>2008 |                                   | October<br>31,<br>2009 | November<br>1,<br>2008 |                                   |           |   |                                   |  |  |
| Net sales  | 100.0                  | % 100.0                | % (16.8 )                         | %                      | 100.0                  | % 100.0                           | % (17.2 ) | % |                                   |  |  |
| Cost of goods sold                                   | 48.5                   | 54.1                   | (25.3 )                           |                        | 48.3                   | 52.1                              | (23.1 )   |   |                                   |  |  |
| Gross profit   | 51.5                   | 45.9                   | (6.7 )                            |                        | 51.7                   | 47.9                              | (10.8 )   |   |                                   |  |  |
| Occupancy and buying expenses                        | 20.6                   | 19.3                   | (10.8 )                           |                        | 19.5                   | 17.3                              | (6.7 )    |   |                                   |  |  |
| Selling, general, and Administrative expenses        | 29.4                   | 30.1                   | (18.6 )                           |                        | 28.0                   | 28.1                              | (17.4 )   |   |                                   |  |  |
| Depreciation and amortization                        | 4.0                    | 4.2                    | (21.1 )                           |                        | 3.8                    | 3.9                               | (20.8 )   |   |                                   |  |  |
| Sale of proprietary credit card receivables programs | 2.9                    | –                      | –                                 |                        | 0.9                    | –                                 | –         |   |                                   |  |  |
| Impairment of store assets                           | –                      | 3.7                    | –                                 |                        | –                      | 1.1                               | –         |   |                                   |  |  |
| Restructuring and other charges                      | 3.2                    | 1.2                    | 130.7                             |                        | 2.0                    | 1.3                               | 25.1      |   |                                   |  |  |
| Loss from operations                                 | (8.7 )                 | (12.4 )                | (41.7 )                           |                        | (2.5 )                 | (3.8 )                            | (44.7 )   |   |                                   |  |  |
| Other income   | 0.0                    | 0.3                    | (89.4 )                           |                        | 0.0                    | 0.2                               | (78.7 )   |   |                                   |  |  |
| Gain on repurchase of debt                           | 0.3                    | –                      | –                                 |                        | 0.8                    | –                                 | –         |   |                                   |  |  |
| Interest expense                                     | 1.0                    | 0.9                    | (0.8 )                            |                        | (0.9 )                 | 0.8                               | (2.3 )    |   |                                   |  |  |
| Income tax provision/(benefit)                       | 1.1                    | (2.1 )                 | (141.6 )                          |                        | 0.7                    | (0.8 )                            | (167.4 )  |   |                                   |  |  |
| Loss from continuing operations                      | (10.5 )                | (10.8 )                | (19.2 )                           |                        | (3.3 )                 | (3.6 )                            | (24.7 )   |   |                                   |  |  |
| Loss from discontinued operations, net of tax        | –                      | (4.3 )                 | –                                 |                        | –                      | (4.1 )                            | –         |   |                                   |  |  |
| Net loss   | (10.5 )                | (15.1 )                | (42.3 )                           |                        | (3.3 )                 | (7.7 )                            | (64.7 )   |   |                                   |  |  |

(1) Results may not add due to rounding.





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The following table shows information related to the change in our consolidated total net sales:

|  | Thirteen Weeks Ended   |                        | Thirty-nine Weeks Ended |                        |
|--|------------------------|------------------------|-------------------------|------------------------|
|  | October<br>31,<br>2009 | November<br>1,<br>2008 | October<br>31,<br>2009  | November<br>1,<br>2008 |
| <b>Retail Stores segment</b>   |                        |                        |                         |                        |
| Increase (decrease) in comparable store sales(1) :   |                        |                        |                         |                        |
| Consolidated retail stores   | (13 )%                 | (9 )%                  | (14 )%                  | (11 )%                 |
| LANE BRYANT(3)   | (14 )                  | (10 )                  | (14 )                   | (11 )                  |
| FASHION BUG  | (14 )                  | (9 )                   | (15 )                   | (10 )                  |
| CATHERINES   | (5 )                   | (10 )                  | (7 )                    | (13 )                  |
| <b>Sales from new stores as a percentage of total consolidated prior-period sales(2):</b>              |                        |                        |                         |                        |
| LANE BRYANT(3)   | 1                      | 4                      | 2                       | 4                      |
| FASHION BUG  | 0                      | 1                      | 0                       | 1                      |
| CATHERINES   | 0                      | 0                      | 0                       | 0                      |
| Other retail stores(4)   | 0                      | 0                      | 0                       | 0                      |
| <b>Prior-period sales from closed stores as a percentage of total consolidated prior-period sales:</b> |                        |                        |                         |                        |
| LANE BRYANT(3)   | (2 )                   | (3 )                   | (2 )                    | (3 )                   |
| FASHION BUG  | (2 )                   | (3 )                   | (2 )                    | (2 )                   |
| CATHERINES   | (0 )                   | (0 )                   | (0 )                    | (0 )                   |
| Other retail stores(4)   | (0 )                   | (0 )                   | (0 )                    | (0 )                   |
| Decrease in Retail Stores segment sales  | (15 )                  | (10 )                  | (16 )                   | (10 )                  |
| <b>Direct-to-Consumer segment</b>  |                        |                        |                         |                        |
| Increase/(decrease) in Direct-to-Consumer segment sales(5)   |                        |                        |                         |                        |
|  | (56 )                  | 130                    | (50 )                   | 187                    |
| Decrease in consolidated total net sales   | (17 )                  | (8 )                   | (17 )                   | (7 )                   |

(1) “Comparable store sales” is not a measure that has been defined under generally accepted accounting principles. The method of calculating comparable store sales varies across the retail industry and, therefore, our calculation of comparable store sales is not necessarily comparable to similarly-titled measures reported by other companies. We define comparable store sales as sales from stores operating in both the current and prior-year periods. New stores are added to the comparable store sales base 13 months after their open date. Sales from stores that are relocated within the same mall or strip-center, remodeled, or have a legal square footage change of less than 20% are included in the calculation of comparable store sales. Sales from stores that are relocated outside the existing mall or strip-center, or have a legal square footage change of 20% or more, are excluded from the calculation of comparable store sales until 13 months after the relocated store is opened. Stores that are temporarily closed for a period of 4 weeks or more are excluded from the calculation of comparable store sales for the applicable periods in the year of closure and the subsequent year. Non-store sales, such as catalog and internet

sales, are excluded from the calculation of comparable store sales.

(2) Includes incremental Retail Stores segment e-commerce sales.

(3) Includes LANE BRYANT OUTLET stores.

(4) Includes PETITE SOPHISTICATE stores, which were closed in August 2008, and PETITE SOPHISTICATE OUTLET stores.

(5) Primarily LANE BRYANT WOMAN catalog which began operations in the Fiscal 2007 Fourth Quarter. During the Fiscal 2008 Third Quarter we announced our decision to discontinue the LANE BRYANT WOMAN catalog, which we completed during the Fiscal 2009 Second Quarter.

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The following table shows details of our consolidated net sales, depreciation and amortization, and loss from operations:

| (In millions)  | Net<br>Sales | Depreciation<br>and<br>Amortization | Loss From<br>Operations |
|--|--------------|-------------------------------------|-------------------------|
| Thirteen weeks ended October 31, 2009                |              |                                     |                         |
| LANE BRYANT(1)                                       | \$218.0      | \$ 8.0                              | \$15.4                  |
| FASHION BUG  | 155.0        | 3.1                                 | (12.2 )                 |
| CATHERINES   | 71.3         | 1.7                                 | 0.6                     |
| Other retail stores(2)                               | 4.0          | 0.0                                 | (0.1 )                  |
| Total Retail Stores segment                          | 448.3        | 12.8                                | 3.7                     |
| Total Direct-to-Consumer segment                     | 9.4          | 0.2                                 | (4.0 )                  |
| Credit operations                                    | 2.5          | (3) 0.4                             | 18.0 (4)                |
| Corporate and other                                  | –            | 4.9                                 | (29.7 )                 |
| Sale of proprietary credit card receivables programs | –            | –                                   | (13.4 )                 |
| Restructuring and other charges                      | –            | –                                   | (14.7 )                 |
| Total consolidated                                   | \$460.2      | \$ 18.3                             | \$(40.1 )               |
| Thirteen weeks ended November 1, 2008                |              |                                     |                         |
| LANE BRYANT(1)                                       | \$257.2      | \$ 8.9                              | \$17.2                  |
| FASHION BUG  | 191.1        | 4.1                                 | (27.6 )                 |
| CATHERINES   | 74.2         | 2.0                                 | (1.7 )                  |
| Other retail stores(2)                               | 6.0          | 0.0                                 | 0.0                     |
| Total Retail Stores segment                          | 528.5        | 15.0                                | (12.1 )                 |
| Total Direct-to-Consumer segment                     | 21.3         | 0.2                                 | (6.1 )                  |
| Credit operations                                    | 2.9          | (3) 0.4                             | 13.1 (4)                |
| Corporate and other                                  | 0.4          | (5) 7.5                             | (37.1 )                 |
| Impairment of store assets                           | –            | –                                   | (20.2 )                 |
| Restructuring and other charges                      | –            | –                                   | (6.4 )                  |
| Total consolidated                                   | \$553.1      | \$ 23.1                             | \$(68.8 )               |

(1) Includes LANE BRYANT OUTLET stores.

(2) Includes PETITE SOPHISTICATE stores, which began operations in October 2007 and were closed in August 2008, and PETITE SOPHISTICATE OUTLET stores, which began operations in September 2006.

(3) Primarily revenue related to loyalty card fees.

(4) Net of expenses allocated to Retail Stores brands.

(5) Revenues related to our figure magazine, which was discontinued in the Fiscal 2009 First Quarter.

Continued on next page)



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| (In millions)  | Net<br>Sales | Depreciation<br>and<br>Amortization | Loss From<br>Operations |
|--|--------------|-------------------------------------|-------------------------|
| Thirty-nine weeks ended October 31, 2009             |              |                                     |                         |
| LANE BRYANT(1)                                       | \$718.8      | \$ 24.1                             | \$58.7                  |
| FASHION BUG  | 523.1        | 9.0                                 | (5.8 )                  |
| CATHERINES   | 227.2        | 5.1                                 | 14.4                    |
| Other retail stores(2)                               | 13.0         | 0.1                                 | (0.1 )                  |
| Total Retail Stores segment                          | 1,482.1      | 38.3                                | 67.2                    |
| Total Direct-to-Consumer segment                     | 35.2         | 0.7                                 | (11.6 )                 |
| Credit operations                                    | 7.9          | (3) 1.3                             | 38.0 (4)                |
| Corporate and other                                  | 0.4          | (5) 17.2                            | (87.8 )                 |
| Sale of proprietary credit card receivables programs | –            | –                                   | (13.4 )                 |
| Restructuring and other charges                      | –            | –                                   | (31.2 )                 |
| Total consolidated                                   | \$1,525.6    | \$ 57.5                             | \$(38.8 )               |
| Thirty-nine weeks ended November 1, 2008             |              |                                     |                         |
| LANE BRYANT(1)                                       | \$839.6      | \$ 25.5                             | \$59.1                  |
| FASHION BUG  | 659.8        | 13.4                                | (0.9 )                  |
| CATHERINES   | 244.3        | 4.4                                 | 11.2                    |
| Other retail stores(2)                               | 18.9         | 0.1                                 | 0.1                     |
| Total Retail Stores segment                          | 1,762.6      | 43.4                                | 69.5                    |
| Total Direct-to-Consumer segment                     | 70.8         | 0.7                                 | (16.3 )                 |
| Credit operations                                    | 8.5          | (3) 1.3                             | 36.6 (4)                |
| Corporate and other                                  | 1.1          | (5) 27.2                            | (114.9 )                |
| Impairment of store assets                           | –            | –                                   | (20.2 )                 |
| Restructuring and other charges                      | –            | –                                   | (24.9 )                 |
| Total consolidated                                   | \$1,843.0    | \$ 72.6                             | \$(70.2 )               |

(1) Includes LANE BRYANT OUTLET stores.

(2) Includes PETITE SOPHISTICATE stores, which began operations in October 2007 and were closed in August 2008, and PETITE SOPHISTICATE OUTLET stores, which began operations in September 2006.

(3) Primarily revenue related to loyalty card fees.

(4) Net of expenses allocated to Retail Stores brands.

(5) Revenues related to our figure magazine, which was discontinued in the Fiscal 2009 First Quarter.



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The following table sets forth information with respect to our year-to-date retail store activity for Fiscal 2009 and planned store activity for all of Fiscal 2009:

|                                | LANE<br>BRYANT | FASHION<br>BUG | CATHERINES | PETITE<br>SOPHISTICATE<br>OUTLET | Total |
|--------------------------------|----------------|----------------|------------|----------------------------------|-------|
| Fiscal 2009 Year-to-Date:      |                |                |            |                                  |       |
| Stores at January 31, 2009     | 892            | 897            | 463        | 49                               | 2,301 |
| Stores opened                  | 8              | 1              | 0          | 0                                | 9     |
| Stores converted(1)            | –              | –              | 5          | (5)                              | –     |
| Stores closed(2)               | (21)           | (50)           | (5)        | (7)                              | (83)  |
| Net change in stores           | (13)           | (49)           | 0          | (12)                             | (74)  |
| Stores at October 31, 2009     | 879            | 848            | 463        | 37                               | 2,227 |
| Stores relocated during period | 5              | 1              | 0          | 0                                | 6     |
| Fiscal 2009:                   |                |                |            |                                  |       |
| Planned store openings         | 8              | 1              | 0          | 0                                | 9     |
| Planned store conversions(1)   | –              | –              | 5          | (33)                             | –     |
| Planned store closings         | 42             | 95             | 9          | 16                               | 162   |
| Planned store relocations      | 5              | 2              | 0          | 0                                | 7     |

(1) During Fiscal 2009 we decided to close our PETITE SOPHISTICATE OUTLET stores and convert a majority of the locations to CATHERINES outlet stores. We completed the conversion of 5 stores during the first three quarters of Fiscal 2009 and we expect to complete the remaining 28 conversions by the end of February 2010.

(2) Includes 14 FASHION BUG and 6 LANE BRYANT stores closed as part of the store closing initiatives announced in February 2008 and November 2008.

## Comparison of Thirteen Weeks Ended October 31, 2009 and November 1, 2008

## Consolidated Results of Operations

## Net Sales

Fiscal 2009 Third Quarter consolidated net sales decreased as compared to the Fiscal 2008 Third Quarter as a result of decreases in net sales from each of the brands in our Retail Stores segment, which were driven primarily by negative comparable store sales. Reduced store traffic levels and our efforts to reduce non-productive promotional markdowns contributed to our negative comparable store sales. Retail Stores segment sales were also impacted by 115 net store closings during the preceding twelve-month period. Additionally, a lack of balanced assortments in inventory continued to negatively impact our Retail Stores segment sales. Retail Stores segment e-commerce sales for the Fiscal 2009 Third Quarter increased 5.7% from the Fiscal 2008 Third Quarter and represented 4.7% of consolidated net sales for the current-year period as compared to 3.7% of consolidated net sales for the prior-year period. Net sales from our Direct-to-Consumer segment decreased primarily as a result of the closing of our Lane Bryant Woman catalog business, which we completed during the Fiscal 2009 Second Quarter.





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### Gross Profit

Consolidated gross profit declined \$17.1 million due to store closings and negative comparable-store sales, partially offset by an improved gross margin. Consolidated gross margin increased 560 basis points in the Fiscal 2009 Third Quarter as compared to the prior-year period. The increase is primarily attributable to reduced markdown activity during the current-year period as a result of our continuing efforts to tightly manage our inventories. We were significantly less promotional during the Fiscal 2009 Third Quarter as compared to the prior-year period, especially at FASHION BUG, which contributed to the improvement in gross margin in the current year period. Catalog advertising expenses decreased as compared to the prior-year period primarily as a result of the closing of our LANE BRYANT WOMAN catalog business, which was completed in the Fiscal 2009 Second Quarter.

### Occupancy and Buying

Although consolidated occupancy and buying expenses increased 1.4% as a percentage of consolidated net sales as compared to the prior-year period, they decreased \$11.5 million primarily as a result of operating fewer stores, as well as other store-related occupancy savings.

### Selling, General, and Administrative

Consolidated selling, general, and administrative expenses decreased 0.6% as a percentage of consolidated net sales and decreased \$30.9 million from the prior-year period. The decrease was primarily in store selling payroll and other store related expenses and was attributable to operating fewer stores and our expense reduction initiatives. The decrease in selling, general, and administrative expenses as a percentage of sales in spite of double-digit declines in comparable store sales is reflective of our continued focus on controlling operating expenses.

### Retail Stores Segment Results of Operations

#### Net Sales

Comparable store sales for the Fiscal 2009 Third Quarter decreased at each of our Retail Stores brands as compared to the Fiscal 2008 Third Quarter. Net sales for all of our brands continued to be negatively impacted by reduced store traffic levels, a lack of a balanced merchandise assortment, and weak consumer spending due to the current economic environment. Additionally, the 115 net store closings during the preceding 12-month period contributed to the decrease in net sales at our Retail Stores brands. Retail Stores segment e-commerce sales for the Fiscal 2009 Third Quarter increased 5.7% from the Fiscal 2008 Third Quarter and represented 4.8% of Retail Stores segment net sales for the current-year period as compared to 3.9% of Retail Stores segment net sales for the prior-year period.

LANE BRYANT sales decreased as compared to the prior-year period primarily as a result of negative comparable store sales and net store closings. A double-digit decrease in traffic was only partially offset by an improvement in conversion rate and average dollar sale. A 16% decrease in LANE BRYANT inventories on a comparable-store basis resulted in less promotional activity and less carryover of spring clearance sales, which contributed to the decrease in net sales but benefited gross margin.

FASHION BUG sales decreased as a result of negative comparable store sales, net store closings, the elimination of the girls and juniors departments during the current year, and decreased spring clearance and closeout sales, which were partially offset by improved fall and year-round merchandise sales. The lower clearance volume resulted from reduced inventory, which decreased 28% on a comparable-store basis, and from improved management of in-season merchandise markdowns. Additionally, FASHION BUG sales in the prior-year period included significantly greater promotional markdowns to sell-through slow-moving seasonal inventory as compared to the current-year period. The

reduction in traffic at FASHION BUG and a decrease in average dollar sale were partially offset by an improvement in the conversion rate.

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CATHERINES sales were below the prior year primarily as a result of negative comparable store sales due to a double-digit decrease in traffic, which was partially offset by an improvement in average dollar sale. At our CATHERINES brand we made progress on more balanced and compelling assortments, as well as reduced promotional activity as compared to the prior-year period.

During the Fiscal 2009 Third Quarter we recognized revenues of \$4.8 million in connection with our loyalty card programs as compared to revenues of \$5.3 million during the Fiscal 2008 Third Quarter.

### Gross Profit

Gross profit for the Retail Stores segment as a percentage of net sales increased 5.2% due to reduced markdown activity on fall and fall transitional merchandise during the current-year period as a result of lean inventories. Markdowns as a percentage of sales decreased as compared to the prior-year period at each of our brands, especially at FASHION BUG, which had significantly lower promotional activity in the current-year period due to lower inventory purchases. Gross profit as a percentage of net sales increased 3.2% for LANE BRYANT, 8.3% for FASHION BUG, and 4.0% for CATHERINES.

Although LANE BRYANT experienced reduced levels of promotional activity in the current year at a higher initial markup, which resulted in an increased gross margin rate, the increase in the gross margin rate was not sufficient to offset the negative impact from the decrease in sales. CATHERINES experienced increased gross margins due to reduced markdown activity as a result of improved inventory management, a higher initial markup, and better sell-through of fall and spring merchandise.

### Occupancy and Buying

Occupancy and buying expenses for the Retail Stores segment increased 1.1% as a percentage of net sales in the current-year period as compared to the prior-year period, primarily as a result of negative leverage from the decrease in Retail Stores net sales. However, expense dollars decreased as a result of operating fewer stores and other expense reduction initiatives. Occupancy and buying expenses as a percentage of net sales increased 2.0% for LANE BRYANT and 1.2% for FASHION BUG, and decreased 0.4% for CATHERINES.

### Selling, General, and Administrative

Selling, general, and administrative expenses for the Retail Stores segment as a percentage of net sales increased 0.9% primarily as a result of negative leverage from the decrease in Retail Stores net sales. However, selling, general, and administrative expenses decreased in dollar amount from the prior-year period at each of our brands, particularly at FASHION BUG and LANE BRYANT, where the closing of stores and other store expense reduction initiatives resulted in reductions of store selling payroll and store related expenses. Selling, general, and administrative expenses as a percentage of net sales increased 1.3% for LANE BRYANT, 0.7% for FASHION BUG, and 1.6% for CATHERINES.

### Direct-to-Consumer Segment Results of Operations

#### Net Sales

The decrease in net sales from our Direct-to-Consumer segment was primarily attributable to the closing of our LANE BRYANT WOMAN catalog and related website during the Fiscal 2009 Second Quarter. Net sales from our FIGI'S catalog were comparable to the prior-year period.



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Gross Profit

Gross profit for the Direct-to-Consumer segment increased 17.4% as a percentage of sales as compared to the prior-year period. The increase resulted primarily from the markdowns recorded in the prior year for the closing of our LANE BRYANT WOMAN catalog business, which was announced during the Fiscal 2008 Third Quarter and completed in the Fiscal 2009 Second Quarter.

Occupancy and Buying

Occupancy and buying expenses as a percentage of net sales for our Direct-to-Consumer segment increased 5.5% primarily as a result of negative leverage from the decrease in net sales and from costs associated with the retained facilities and fixed assets from the sale of our non-core misses apparel catalog business, which was completed in the prior year period, and the closing of our LANE BRYANT WOMAN catalog business.

Selling, General, and Administrative

Selling, general, and administrative expenses for our Direct-to-Consumer segment increased 24.2% as a percentage of sales primarily as a result of the reduction in net sales from the closing of our LANE BRYANT WOMAN catalog business, but decreased in dollar amount as compared to the prior-year period.

Depreciation and Amortization

Depreciation and amortization expense was flat as a percentage of sales as compared to the prior-year period, but decreased in dollar amount primarily as a result of our operation of fewer stores in the current-year period as compared to the prior-year period.

Sale of Proprietary Credit Card Receivables Programs

On August 13, 2009 we announced an agreement for the sale of our proprietary credit card receivables programs (see "RECENT DEVELOPMENTS" above). The transaction was closed on October 30, 2009 and we recognized one-time net charges of \$13.4 million as a result of the sale during the Fiscal 2009 Third Quarter, primarily related to contract termination and transaction-related costs and severance and retention costs. See "Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 9. Sale of Proprietary Credit Card Receivables Programs" above for further information regarding our proprietary credit card receivables programs.

Impairment of Store Assets

As a result of the impact of the economic environment on our operating results during Fiscal 2008, during the Fiscal 2008 Third Quarter we identified approximately 120 stores with asset carrying values in excess of such stores' respective forecasted undiscounted cash flows. Accordingly, we recognized a non-cash charge of \$20.2 million to write down these stores to their respective fair values. There were no indicators of impairment identified during the Fiscal 2009 Third Quarter.



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Restructuring and Other Charges

During the Fiscal 2009 Third Quarter we continued to execute on our multi-year transformational initiatives and recognized the following pre-tax charges recorded as restructuring and other charges:

\$11.1 million for lease termination and related costs for the retained lease facilities from the sale of the non-core misses apparel catalog business that ceased operations during the Fiscal 2009 Third Quarter.

\$1.7 million for accelerated depreciation related to fixed assets retained from the sale of the non-core misses apparel catalog business and our decision to outsource the development and hosting of our new e-commerce platform. These fixed assets were fully depreciated as of the Fiscal 2009 Third Quarter.

\$1.9 million for costs related to our multi-year business transformation initiatives and other costs.

During the Fiscal 2008 Third Quarter we recognized charges of approximately \$2.4 million for lease termination, severance, relocation, and other costs related to restructuring initiatives announced during 2007 and 2008. We also recognized approximately \$0.9 million of non-cash charges for write-downs of assets retained from the sale of the non-core misses apparel catalog business. In addition, we recognized a total of approximately \$3.1 million of severance costs related to our decision to discontinue our LANE BRYANT WOMAN catalog operations and the elimination of 20 corporate positions.

Gain on Repurchase of 1.125% Senior Convertible Notes

During the Fiscal 2009 Third Quarter we repurchased 1.125% Notes with an aggregate principal amount of \$17.5 million and an aggregate unamortized discount of \$4.1 million for an aggregate purchase price of \$12.7 million and recognized a gain on the repurchase of \$1.3 million net of unamortized issue costs. In accordance with ASC 470-20, "Debt With Conversion and Other Options," approximately \$0.8 million of the aggregate purchase price was accounted for as a reduction of stockholders' equity.

Subsequent to the end of the Fiscal 2009 Third Quarter we repurchased 1.125% Senior Convertible Notes with an aggregate principal amount of \$16.1 million for an aggregate purchase price of \$11.3 million. We expect to recognize a gain on the repurchase of approximately \$1.2 million net of unamortized issue costs during the Fiscal 2009 Fourth Quarter. Including the 1.125% Notes purchased during the first three quarters of Fiscal 2009, we have repurchased notes with an aggregate principal amount of \$85.4 million for an aggregate purchase price of \$50.6 million, and will recognize an aggregate gain on the repurchases of approximately \$14.0 million net of unamortized issue costs.

Income Tax Provision/(Benefit)

Our income tax provision for the Fiscal 2009 Third Quarter was \$4.9 million on a loss from continuing operations before taxes of \$43.4 million as compared to a tax benefit of \$11.9 million on a loss from continuing operations before taxes of \$71.7 million for the Fiscal 2008 Third Quarter. We continue to have a valuation allowance recorded against our net deferred tax assets and, as such, the income tax provision for the Fiscal 2009 Third Quarter was primarily a result of state income taxes payable as well as required deferred taxes, and a net increase in our liability for unrecognized tax benefits, interest, and penalties in accordance with ASC 740-10, "Income Taxes."



The Fiscal 2008 Third Quarter income tax benefit was unfavorably affected by a non-cash provision to establish a valuation allowance against our net deferred tax assets, adjustments relating to the reconciliation of our Fiscal 2007 Federal tax provision to our filed tax return, and an increase in our liability for unrecognized tax benefits, interest, and penalties. Additionally, the Fiscal 2008 Third Quarter benefit was favorably impacted by the filing of amended returns for which we were able to realize the benefits of certain tax credits that were previously not benefited due to uncertainty regarding their realization.

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During the Fiscal 2008 Third Quarter we evaluated our assumptions regarding the recoverability of our net deferred tax assets. Based on all available evidence we determined that the recoverability of our deferred tax assets is limited to our available tax loss carrybacks. Accordingly, we recognized a non-cash provision of \$17.9 million to establish a valuation allowance against our net deferred tax assets. We will continue to record a valuation allowance until such time as the certainty of future tax benefits can be reasonably assured.

The recognition of a tax valuation allowance does not have any impact on cash, nor does such an allowance preclude us from using the underlying tax net operating loss and credit carryforwards or other deferred tax assets in the future when results are profitable. Pursuant to ASC 740-10, when our results demonstrate a pattern of future profitability the valuation allowance may be adjusted, which would result in the reinstatement of all or a portion of the net deferred tax assets.

On November 6, 2009 H.R. 3548, the “Worker, Homeownership, and Business Assistance Act of 2009” (the “Act”) was signed into law. The Act contains a number of tax law changes, including a provision that permits companies to carryback applicable 2008 or 2009 net operating losses (“NOL”) up to five years, instead of the general two-year carryback. The Act defines an applicable NOL as a NOL that arises in a tax year either beginning or ending in 2008 or 2009. We previously carried a portion of our Fiscal 2008 NOL back two years; however, we now have the opportunity to carry back the remaining NOL to the preceding three years to offset taxable income in those years and receive a cash refund. Under ASC 740, “Income Taxes,” the tax effects of the Act, including the re-measurement of existing current and deferred tax assets and liabilities, as well as related valuation allowances, are recognized in the interim period that includes the enactment date of the change (our Fiscal 2009 Fourth Quarter). We are currently evaluating the Act, and any resulting impact on our income tax provision has not yet been determined.

## Discontinued Operations

Discontinued operations consist of the results of operations of the non-core misses catalog titles operated under our Crosstown Traders brand, which were sold during the Fiscal 2008 Third Quarter (see “Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); “Note 1. Condensed Consolidated Financial Statements; Discontinued Operations” above). During the Fiscal 2008 Third Quarter we recognized a net loss from discontinued operations of \$7.2 million, an increase in the loss on disposition of the discontinued operations of \$4.0 million, and a reversal of previously recognized tax benefits related to the discontinued operations of \$12.7 million as a result of our recognition of a valuation allowance against net deferred tax assets.

## Comparison of Thirty-nine Weeks Ended October 31, 2009 and November 1, 2008

### Consolidated Results of Operations

#### Net Sales

Consolidated net sales for the first three quarters of Fiscal 2009 decreased as compared to the first three quarters of Fiscal 2008 as a result of decreases in net sales from each of the brands in our Retail Stores segment driven primarily by negative comparable store sales. Reduced store traffic levels and our efforts to reduce non-productive promotional markdowns contributed to our negative comparable store sales. Retail Stores segment sales were also impacted by 115 net store closings during the preceding twelve-month period. Additionally, conservative inventory planning and a lack of balanced assortments in inventory negatively impacted our Retail Stores segment sales. Retail Stores segment e-commerce sales for the first three quarters of Fiscal 2009 increased 4.3% from the first three quarters of Fiscal 2008 and represented 4.4% of consolidated net sales for the current-year period as compared to 3.5% of consolidated net sales for the prior-year period. Net sales from our Direct-to-Consumer segment decreased primarily as a result of the

closing of our LANE BRYANT WOMAN catalog business, which we completed during the Fiscal 2009 Second Quarter.

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### Gross Profit

Consolidated gross profit increased 3.7% as a percentage of consolidated net sales in the first three quarters of Fiscal 2009 as compared to the first three quarters of Fiscal 2008. The increase is primarily attributable to reduced markdown activity during the current-year period as a result of our efforts to tightly manage our inventories. During the prior-year period we were significantly more promotional in order to sell-through slow-moving seasonal inventory. Catalog advertising expenses decreased as compared to the prior-year period primarily as a result of the closing of our LANE BRYANT WOMAN catalog, which was completed during the Fiscal 2009 Second Quarter.

### Occupancy and Buying

Consolidated occupancy and buying expenses increased 2.2% as a percentage of consolidated net sales in the first three quarters of Fiscal 2009 as compared to the prior-year period primarily as a result of negative leverage from the decrease in consolidated net sales. Although occupancy and buying expenses de-leveraged as compared to the prior year, they decreased in dollar amount primarily as a result of the closing of under-performing stores, as well as other store-related occupancy savings. Consolidated occupancy and buying expenses for the first three quarters of Fiscal 2008 included a gain of approximately \$1.8 million from the sale of our Memphis, Tennessee distribution center.

### Selling, General, and Administrative

Consolidated selling, general, and administrative expenses were flat as a percentage of consolidated net sales in the first three quarters of Fiscal 2009 and decreased in dollar amount from the prior-year period. The decrease in expense dollars was primarily attributable to the closing of under-performing stores and our expense reduction initiatives. During the first three quarters of Fiscal 2008 we recognized \$5.9 million of expenses in connection with advisory and legal fees related to a proxy contest which was settled in May 2008.

### Retail Stores Segment Results of Operations

#### Net Sales

Comparable store sales for the first three quarters of Fiscal 2009 decreased at each of our Retail Stores brands as compared to the first three quarters of Fiscal 2008. Net sales for all of our brands continued to be negatively impacted by reduced traffic levels and weak consumer spending due to the current economic environment. Additionally, the 115 net store closings during the preceding 12-month period contributed to the decrease in net sales at our Retail Stores brands. The average number of transactions per store decreased for each of our brands, while the average unit retail per transaction increased for each of our brands except for FASHION BUG. Retail Stores segment e-commerce sales for the first three quarters of Fiscal 2009 increased 4.3% from the first three quarters of Fiscal 2008 and represented 4.5% of Retail Stores segment net sales for the current-year period as compared to 3.7% of Retail Stores segment net sales for the prior-year period.

LANE BRYANT sales decreased as compared to the prior-year period primarily as a result of negative comparable store sales and net store closings. Reductions in traffic attributable to reduced consumer demand and a lack of a balanced assortment of fashion and core merchandise contributed to the reduction in sales. LANE BRYANT sales experienced reduced levels of promotional activity in the current-year period.

FASHION BUG sales decreased as a result of negative comparable store sales, net store closings, and the elimination of the girls and juniors departments during the current year. Additionally, FASHION BUG sales in the prior-year period included significantly greater promotional markdowns to sell-through slow-moving seasonal inventory as compared to the current-year period. Although the prior year's promotional activity had a negative impact on this

year's comparable store sales, the reduced level of promotions in the current-year period contributed to an improvement in gross margins.

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CATHERINES sales were below the prior year primarily as a result of negative comparable store sales, but CATHERINES experienced reduced levels of promotional activity in the current-year period.

During the first three quarters of Fiscal 2009 we recognized revenues of \$14.8 million in connection with our loyalty card programs as compared to revenues of \$15.6 million during the first three quarters of Fiscal 2008.

### Gross Profit

Gross profit for the Retail Stores segment as a percentage of net sales increased 2.8%, reflecting reduced markdown activity during the current-year period as a result of our proactive management of inventory in response to reduced consumer demand. Gross profit as a percentage of net sales increased 3.7% for LANE BRYANT, 1.2% for FASHION BUG, and 3.5% for CATHERINES. The increases in merchandise margins at LANE BRYANT and CATHERINES were a result of reduced markdown activity and higher initial markups while increased merchandise margins at FASHION BUG were partially offset by markdown activity related to clearance of slow-moving seasonal merchandise.

### Occupancy and Buying

Occupancy and buying expenses increased 1.5% as a percentage of net sales in the current-year period as compared to the prior-year period, primarily as a result of negative leverage from the decrease in Retail Stores net sales. However, expense dollars decreased as a result of the closing of under-performing stores and other expense reduction initiatives. Occupancy and expenses as a percentage of net sales increased 1.8% for LANE BRYANT and 2.1% for FASHION BUG, and decreased 0.3% for CATHERINES.

### Selling, General, and Administrative

Selling, general, and administrative expenses for the Retail Stores segment as a percentage of net sales increased 0.6% primarily as a result of negative leverage from the decrease in Retail Stores net sales. However, selling, general, and administrative expenses decreased in dollar amount from the prior-year period at each of our brands, particularly at FASHION BUG and LANE BRYANT, where the closing of under-performing stores and other store expense reduction initiatives resulted in reductions to selling, general, and administrative expenses. Selling, general, and administrative expenses as a percentage of net sales increased 1.0% for LANE BRYANT, 0.4% for FASHION BUG, and 1.6% for CATHERINES.

### Direct-to-Consumer Segment Results of Operations

#### Net Sales

The decrease in net sales from our Direct-to-Consumer segment was primarily attributable to reduced sales from our LANE BRYANT WOMAN catalog and related website. During the Fiscal 2009 Second Quarter we completed the closing of our LANE BRYANT WOMAN catalog business.

#### Gross Profit

Gross profit for the Direct-to-Consumer segment increased 5.6% as a percentage of sales as compared to the prior-year period. The increase resulted from improved merchandise margins from the closing of our LANE BRYANT WOMAN catalog business, which was completed in the Fiscal 2009 Second Quarter and reduced catalog advertising expenses at FIGI'S.

Occupancy and Buying

Occupancy and buying expenses as a percentage of net sales for our Direct-to-Consumer segment increased 6.7% primarily as a result of negative leverage from the decrease in net sales related to the closing of our LANE BRYANT WOMAN catalog business.

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Selling, General, and Administrative

Selling, general, and administrative expenses for our Direct-to-Consumer segment increased 7.8% as a percentage of sales as compared to the prior-year period primarily as a result of the closing of our LANE BRYANT WOMAN catalog business.

Depreciation and Amortization

Depreciation and amortization expense was flat as a percentage of sales as compared to the prior-year period, but decreased in dollar amount primarily as a result of our operation of fewer stores in the current-year period as compared to the prior-year period.

Sale of Proprietary Credit Card Receivables Programs

On August 13, 2009 we announced an agreement for the sale of our proprietary credit card receivables programs (see “RECENT DEVELOPMENTS” above). The transaction was closed on October 30, 2009 and we recognized one-time net charges of \$13.4 million as a result of the sale during the Fiscal 2009 Third Quarter, primarily related to contract termination and transaction-related costs and severance and retention costs. See “Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 9. Sale of Proprietary Credit Card Receivables Programs” and “Note 10. Asset Securitization” above for further information regarding our proprietary credit card receivables programs.

Impairment of Store Assets

As discussed in the quarterly comparisons above, during the Fiscal 2008 Third Quarter we identified approximately 120 stores with asset carrying values in excess of such stores’ respective forecasted undiscounted cash flows. Accordingly, we recognized a non-cash charge of \$20.2 million to write down these stores to their respective fair values. There were no indicators of impairment identified during the current-year period.

Restructuring and Other Charges

During the first three quarters of Fiscal 2009 we continued to execute on our multi-year transformational initiatives and recognized the following pre-tax charges recorded as restructuring and other charges:

\$12.1 million for lease termination costs related to the retained leased facilities from the sale of the non-core misses apparel catalog business. These retained facilities ceased operations by the end of the Fiscal 2009 Third Quarter.

\$8.6 million for costs related to our multi-year business transformation initiatives.

\$7.9 million for accelerated depreciation related to fixed assets retained from the sale of the non-core misses apparel catalog business and our decision to outsource the development and hosting of our new e-commerce platform. These fixed assets were fully depreciated by the end of the Fiscal 2009 Third Quarter.

\$1.3 million for retention costs and accelerated depreciation for the planned closing of the LANE BRYANT WOMAN catalog operations, which we completed during the Fiscal 2009 Second Quarter.



\$1.3 million for lease termination costs and accelerated depreciation related to the closing of under-performing stores and other costs.

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During the first three quarters of Fiscal 2008 we recognized pre-tax charges of \$9.3 million for lease termination, severance, retention, and relocation costs related to the closing of under-performing stores and the consolidation of our CATHERINES operations from Memphis, Tennessee to our Bensalem headquarters. We also recognized \$2.3 million of non-cash pre-tax charges for write-downs of assets related to under-performing stores to be closed and accelerated depreciation related to the closing of the Memphis facility, and \$0.9 million of asset write-downs from the sale of our non-core misses apparel catalog business. Additionally, during the first three quarters of Fiscal 2008 we recognized \$9.3 million of severance costs in connection with the resignation of our former Chief Executive Officer, Dorrit J. Bern and approximately \$3.1 million of severance costs related to our decision to discontinue our LANE BRYANT WOMAN catalog operations and the elimination of 20 corporate positions.

Gain on Repurchase of 1.125% Senior Convertible Notes

During the first three quarters of Fiscal 2009 we repurchased 1.125% Notes with an aggregate principal amount of \$69.2 million and an aggregate unamortized discount of \$17.1 million for an aggregate purchase price of \$39.3 million and recognized a gain on the repurchase of \$12.8 million net of unamortized issue costs. In accordance with ASC 470-20, "Debt With Conversion and Other Options," approximately \$1.0 million of the aggregate purchase price was accounted for as a reduction of stockholders' equity.

Subsequent to the end of the Fiscal 2009 Third Quarter we repurchased 1.125% Senior Convertible Notes with an aggregate principal amount of \$16.1 million for an aggregate purchase price of \$11.3 million. We expect to recognize a gain on the repurchase of approximately \$1.2 million net of unamortized issue costs during the Fiscal 2009 Fourth Quarter. Including the 1.125% Notes purchased during the first three quarters of Fiscal 2009, we have repurchased notes with an aggregate principal amount of \$85.4 million for an aggregate purchase price of \$50.6 million, and will recognize an aggregate gain on the repurchases of approximately \$14.0 million net of unamortized issue costs.

Income Tax Provision/(Benefit)

Our income tax provision for the first three quarters of Fiscal 2009 was \$10.3 million on a loss from continuing operations before taxes of \$39.6 million as compared to a tax benefit of \$15.3 million on a loss from continuing operations before taxes of \$81.7 million for the first three quarters of Fiscal 2008. We continue to have a valuation allowance recorded against our net deferred tax assets and, as such, the income tax provision for the first three quarters of Fiscal 2009 was primarily a result of: (i) a net increase in our liability for unrecognized tax benefits, interest, and penalties in accordance with ASC 740-10, "Income Taxes," after a decrease due to settlements with state tax authorities; (ii) state income taxes payable; and (iii) required deferred taxes.

The tax benefit for the first three quarters of Fiscal 2008 was unfavorably impacted by a non-cash provision to establish a valuation allowance against our net deferred tax assets (see the quarterly comparison above), adjustments relating to the reconciliation of our Fiscal 2007 Federal tax provision to our filed tax return, and an increase in our liability for unrecognized tax benefits, interest, and penalties in accordance with ASC 740-10. These unfavorable impacts were partially offset by the filing of amended returns for which we were able to realize the benefits of certain tax credits that were previously not benefited due to uncertainty regarding their realization, the receipt of non-taxable life insurance proceeds, and adjustments to certain state tax accruals.



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On November 6, 2009 H.R. 3548, the “Worker, Homeownership, and Business Assistance Act of 2009” (the “Act”) was signed into law. The Act contains a number of tax law changes, including a provision that permits companies to carryback applicable 2008 or 2009 net operating losses (“NOL”) up to five years, instead of the general two-year carryback. The Act defines an applicable NOL as a NOL that arises in a tax year either beginning or ending in 2008 or 2009. We previously carried a portion of our Fiscal 2008 NOL back two years; however, we now have the opportunity to carry back the remaining NOL to the preceding three years to offset taxable income in those years and receive a cash refund. Under ASC 740, “Income Taxes,” the tax effects of the Act, including the re-measurement of existing current and deferred tax assets and liabilities, as well as related valuation allowances, are recognized in the interim period that includes the enactment date of the change (our Fiscal 2009 Fourth Quarter). We are currently evaluating the Act, and any resulting impact on our income tax provision has not yet been determined.

## Discontinued Operations

Discontinued operations consist of the results of operations of the non-core misses catalog titles operated under our Crosstown Traders brand, which were sold during the Fiscal 2008 Third Quarter (see “Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 1. Condensed Consolidated Financial Statements; Discontinued Operations” above). During the first three quarters of Fiscal 2008 we recognized a net loss from discontinued operations of \$28.2 million and an estimated loss on disposition of the discontinued operations of \$46.7 million.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of working capital are cash flow from operations, our private-label credit card receivables programs (see “Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 9. Sale of Proprietary Credit Card Receivables Programs” and “Note 10. Asset Securitization,” and “RECENT DEVELOPMENTS” above for further information regarding our proprietary credit card programs), our investment portfolio, and our revolving credit facility. The following table highlights certain information related to our liquidity and capital resources:

| (Dollars in millions)          | October 31,<br>2009 | January 31,<br>2009 |      |   |
|--------------------------------|---------------------|---------------------|------|---|
| Cash and cash equivalents      | \$223.9             | \$93.8              |      |   |
| Available-for-sale securities  | \$0.4               | \$6.4               |      |   |
| Working capital                | \$343.6             | \$382.0             |      |   |
| Current ratio                  | 2.0                 | 2.4                 |      |   |
| Long-term debt to equity ratio | 37.4                | %                   | 43.3 | % |

The following discussion of cash flows is based on our consolidated statements of cash flows included in “Item 1. Financial Statements (Unaudited)” above, which includes the results of both our continuing operations and our discontinued operations for the first three quarters of Fiscal 2008.

Our net cash provided by operating activities increased to \$134.4 million for the first three quarters of Fiscal 2009 from \$19.1 million for the first three quarters of Fiscal 2008. The increase was primarily a result of \$85.1 million in net proceeds from the sale of our retained interests in our proprietary credit card receivable program (the remaining \$51.3 million of the net proceeds from the sale was recorded as cash from investing activities), a \$16.4 million decrease in the loss from continuing operations, and an \$11.0 million decrease in our investment in inventories (net of accounts payable) as compared to the prior-year period. Additionally, during the Fiscal 2009 Third Quarter we received a Federal income tax refund of \$27.7 million related to a carryback of net operating losses previously recorded as a component of “Prepayments and other” on our consolidated balance sheet. On a comparable-store basis,

inventories decreased 17% as of October 31, 2009 as compared to November 1, 2008.

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During the first three quarters of Fiscal 2009 we repurchased 1.125% Senior Convertible Notes with an aggregate principal amount of \$69.2 million and a carrying value of \$52.1 million (net of unamortized discount) for an aggregate purchase price of \$39.3 million. Subsequent to the end of the Fiscal 2009 Third Quarter we repurchased additional 1.125% Notes with an aggregate principal amount of \$16.1 million and a carrying value of \$12.4 million (net of unamortized discount) for an aggregate purchase price of \$11.3 million. In addition, during the first three quarters of Fiscal 2009 we used \$5.1 million for repayments of other long-term borrowings and \$7.3 million for deferred financing costs related to our new revolving credit facility (see “FINANCING; Revolving Credit Facility” below). During the first three quarters of Fiscal 2008 we used \$6.8 million of cash for repayments of long-term debt and \$11.0 million of cash to purchase 2.0 million shares of common stock.

## Capital Expenditures

Our gross capital expenditures, excluding construction allowances received from landlords, were \$16.3 million during the first three quarters of Fiscal 2009 as compared to \$49.5 million for the first three quarters of Fiscal 2008. Capital expenditures net of construction allowances received from landlords were \$12.1 million during the first three quarters of Fiscal 2009 as compared to \$24.9 million for the first three quarters of Fiscal 2008. We also acquired equipment through capital leases of \$6.0 million during the first three quarters of Fiscal 2008.

We significantly reduced capital expenditures during Fiscal 2009. We plan to open approximately 14 new stores in Fiscal 2009 as compared to 48 new stores in Fiscal 2008, and anticipate that our Fiscal 2009 gross capital expenditures will be approximately \$32.5 million before construction allowances received from landlords as compared to gross capital expenditures of \$55.8 million for Fiscal 2008. We expect to finance these capital expenditures primarily through internally-generated funds and to a lesser extent through capital lease financing.

## Repurchases of Common Stock

During the Fiscal 2008 First Quarter we repurchased an aggregate total of 0.5 million shares of common stock for \$2.7 million under a \$200 million share repurchase program announced in November 2007 and 1.5 million shares of common stock for \$8.3 million under a prior authorization from our Board of Directors. We have not repurchased any shares of common stock subsequent to the Fiscal 2008 First Quarter. Our amended revolving credit facility allows the repurchase of our common stock subject to maintaining a minimum level of “Excess Availability” (as defined in the facility agreement) for 30 days before such repurchase, immediately after such repurchase, and on a projected pro-forma basis for the 12 consecutive fiscal months thereafter. See “PART II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds” below for additional information regarding the share-repurchase program announced in November 2007.

## Dividends

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; our financial condition; and other relevant factors. Our amended revolving credit facility allows the payment of dividends on our common stock not to exceed \$15 million in any fiscal year. Such payments are subject to maintaining a minimum level of “Excess Availability” (as defined in the facility agreement) for 30 days before the payment of such dividends, immediately after the payment of such dividends, and on a projected pro-forma basis for the 12 consecutive fiscal months thereafter.



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FINANCING

Off-Balance-Sheet Financing

Sale of Proprietary Credit Card Receivables Programs

On August 13, 2009 we announced an agreement for the sale of our proprietary credit card receivables programs to World Financial Network National Bank (“WFNNB”), a subsidiary of Alliance Data Systems Corporation (“Alliance Data”). We also entered into ten-year operating agreements with Alliance Data for the provision of private-label credit card programs for our customers. The transaction was closed on October 30, 2009. See “Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 9. Sale of Proprietary Credit Card Receivables Programs” and “RECENT DEVELOPMENTS” above for further details regarding the sale of our proprietary credit card receivables programs.

Asset Securitization Program

Prior to the sale of our proprietary credit card receivables programs, our asset securitization program primarily involved the sale of proprietary credit card receivables to a special-purpose entity, which in turn transferred the receivables to a separate and distinct qualified special-purpose entity (“QSPE”). The QSPE’s assets and liabilities were not consolidated in our balance sheet and the receivables transferred to the QSPEs were isolated for purposes of the securitization program. We used our asset securitization facilities to fund the credit card receivables generated by our FASHION BUG, LANE BRYANT, CATHERINES, and PETITE SOPHISTICATE proprietary credit card programs. Additional information regarding our asset securitization facilities, including the sale of our proprietary credit card receivables programs, is included in “Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 9. Sale of Proprietary Credit Card Receivables Programs” and “Note 10. Asset Securitization” above; under the caption “MARKET RISK” below; and in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; CRITICAL ACCOUNTING POLICIES; Asset Securitization” and “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 17. ASSET SECURITIZATION” of Exhibit 99.1 to our Form 8-K dated June 19, 2009.

Our Proprietary Credit Card Programs

Prior to the October 30, 2009 sale of the proprietary credit card portfolio we managed our proprietary credit card programs to enhance customer loyalty and to allow us to integrate our direct-mail marketing strategy when communicating with our core customers. We also earned revenue from operating the proprietary credit card programs. As discussed above, we utilized asset securitization as the primary funding source for our proprietary credit card receivables programs. As a result, our primary source of benefits was derived from the distribution of net excess spread revenue from our QSPEs.

The transfer of proprietary credit card receivables under our previous asset securitization program was without recourse and we accounted for the program in accordance with ASC 860, “Transfers and Servicing.” Under ASC 860, our benefit from the proprietary credit card receivables represented primarily the net excess spread revenues we received from monthly securitization distributions associated with the collections on managed outstanding receivables. We recognized on an accrual basis these net excess spread revenues, which generally represented finance charge revenues in excess of securitization funding costs, net credit card charge-offs, and the securitization servicing fee. Finance charge revenues included finance charges and fees assessed to the proprietary credit card customers. Net credit card charge-offs represented gross monthly charge-offs on customer accounts less recoveries on accounts previously charged-off. For purposes of the table provided below, we also included any collection agency costs associated with recoveries as part of the net excess spread revenues from proprietary credit card receivables.





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In addition to the actual net excess spread revenues described above we recorded our beneficial interest in the Trust as an “interest-only strip” (“I/O strip”), which represented the estimated present value of cash flows we expected to receive over the estimated period the receivables were outstanding. In addition to the I/O strip we recognized a servicing liability, which represented the present value of the excess of the costs of servicing over the servicing fees we expected to receive, and was recorded at estimated fair value. We used the same discount rate and estimated life assumptions in valuing the I/O strip and the servicing liability. We amortized the I/O strip and the servicing liability on a straight-line basis over the expected life of the proprietary credit card receivables.

The benefits from operating our proprietary credit card programs also included other revenues generated from the program. These other net revenues included revenue from additional products and services that customers may purchase with their credit cards, including debt cancellation protection, fee-based loyalty program revenues, and net commissions from third-party products that customers may buy through their credit cards. Other proprietary credit card revenues also included interest income earned on funds invested in the credit entities. The credit contribution was net of expenses associated with operating the program. These expenses included the costs to originate, bill, collect, and operate the proprietary credit card programs. Except for net fees associated with the fee-based loyalty programs that we included in net sales, we included the net credit contribution as a reduction of selling, general, and administrative expenses in our consolidated statements of operations and comprehensive income.

Subsequent to the sale of the program, under the ten-year operating agreements Alliance Data will continue to offer private-label credit cards bearing our retail brand names and we will receive ongoing payments from Alliance Data related to private-label credit card sales, reimbursement of some private-label credit card program marketing costs, and net revenue sharing associated with marketing of certain enhancement services to cardholders. The level of ongoing payments we receive may increase or decrease as a result of changes in the performance of the private-label credit card programs or changes in the legal and regulatory requirements affecting Alliance Data in its conduct of the program.

The enhancement programs described above give Alliance Data the exclusive right (but not the obligation) to offer to our private-label credit cardholders credit protection programs (including debt cancellation) and other enhancement marketing services and to market these programs through credit card billing statements and other channels. In addition, we may offer third-party vendor products that do not compete with Alliance Data’s products and services as described in this paragraph subject to certain limitations and fees.

Further details of our net credit contribution prior to the sale of the program are as follows:

| (In millions)  | Thirteen Weeks Ended   |                        | Thirty-nine Weeks Ended |                        |
|--|------------------------|------------------------|-------------------------|------------------------|
|  | October 31,<br>2009(1) | November<br>1,<br>2008 | October 31,<br>2009(1)  | November<br>1,<br>2008 |
| Net securitization excess spread revenues            | \$23.7                 | \$25.6                 | \$63.7                  | \$75.2                 |
| Net changes to the I/O strip and servicing liability | 2.7                    | (0.6 )                 | 2.5                     | (0.6 )                 |
| Other credit card revenues, net(2)                   | 2.7                    | 3.9                    | 8.8                     | 9.8                    |
| Total proprietary credit card revenues               | 29.1                   | 28.9                   | 75.0                    | 84.4                   |
| Less total credit card program expenses              | 13.4                   | 17.4                   | 42.3                    | 52.4                   |
| Total credit contribution                            | \$15.7                 | \$11.5                 | \$32.7                  | \$32.0                 |

(1) Through October 30, 2009 (the date of sale of the proprietary credit card receivables programs).

(2) Excludes inter-company merchant fees between our credit entities and our retail entities.



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The changes in the total credit contribution for the thirteen weeks and thirty-nine weeks ended October 30, 2009 as compared to the thirteen weeks and thirty-nine weeks ended November 1, 2008 reflect the impact of the decreases in outstanding balances as a result of the November 2008 sale of the Crosstown Traders apparel-related catalog credit card receivables as well as receivables declines in the other brand credit card portfolios as a result of reduced sales. These balance decreases lowered both net securitization excess spread revenues and program expenses. However, the reduction in net securitization excess spread revenues was partially offset by increased collection of fee income. Also, the increased collection of fee income had a positive impact on the I/O strip valuation.

Further details of our outstanding receivables are as follows:

| (In millions)                             | Thirteen Weeks Ended   |                        | Thirty-nine Weeks Ended |                        |
|---|------------------------|------------------------|-------------------------|------------------------|
|   | October 31,<br>2009(1) | November<br>1,<br>2008 | October 31,<br>2009(1)  | November<br>1,<br>2008 |
| Average managed receivables outstanding   | \$484.9                | \$583.7                | \$496.9                 | \$587.0                |
| Ending managed receivables outstanding(2) | –                      | \$588.5                | –                       | \$588.5                |

(1) Through October 30, 2009 (the date of sale of the proprietary credit card receivables programs).

(2) There are no managed receivables as of October 31, 2009 due to the sale of the credit card portfolio.

Subsequent to the sale of our proprietary credit card receivables programs, the revenues associated with the program will change. Revenues associated with the securitization net excess spread revenues, the I/O valuation, and a portion of the other credit revenues will be replaced with the payments from Alliance Data under the ten-year operating agreements. The majority of the expenses associated with the proprietary credit card receivables programs will be eliminated.

### Operating Leases

We lease substantially all of our operating stores and certain administrative facilities under non-cancelable operating lease agreements. Additional details on these leases, including minimum lease commitments, are included in “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 18. Leases” of Exhibit 99.1 to our Form 8-K dated June 19, 2009.

### Revolving Credit Facility

Through July 30, 2009 we had a revolving credit facility agreement that provided for a revolving credit facility with a maximum availability of \$375 million, subject to certain limitations as defined in the facility agreement, which was scheduled to expire on July 28, 2010. On July 31, 2009 we entered into an amended and restated loan and security agreement (the “amended agreement” or “amended facility”) for a \$225 million senior secured revolving credit facility. The amended agreement includes an option allowing us to increase our credit facility up to \$300 million, based on certain terms and conditions. The credit facility may be used for general corporate purposes, and provides that up to \$100 million of the \$225 million may be used for letters of credit. The amended facility replaces the \$375 million revolving credit facility and provides for committed revolving credit availability through July 31, 2012. See “Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 4. Long-term Debt” above for further details regarding the amended facility. There were no borrowings outstanding under the facility as of October 31, 2009.

The amended agreement provides for borrowings under either “Base Rate” loans or “Eurodollar Rate” loans. As of October 31, 2009 the applicable interest rates under the amended facility were 6.00% for Base Rate loans and 3.99% for 30 day Eurodollar Rate loans.

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The amended agreement provides for customary representations and warranties and affirmative covenants, and contains customary negative covenants. The amended 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 amended agreement. Under certain conditions the maximum amount available under the amended agreement may be reduced or terminated by the lenders and the obligation to repay amounts outstanding under the amended agreement may be accelerated. In each month in which Excess Availability (as defined in the amended agreement) is less than \$40 million, we will be required to maintain a fixed charge coverage ratio of at least 1.1 to 1 for the then preceding twelve-month fiscal period. As of October 31, 2009 the Excess Availability under the amended facility was \$196.6 million and we were in compliance with all of the covenants included in the facility.

### Long-term Debt

During the first three quarters of Fiscal 2009 we repurchased 1.125% Senior Convertible Notes with an aggregate principal amount of \$69.2 million and a carrying value (net of unamortized discount) of \$52.1 million for an aggregate purchase price of \$39.3 million and we repurchased additional 1.125% notes subsequent to the end of the Fiscal 2009 Third Quarter (see “Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 4. Long-term Debt” and “Note 17. Subsequent Events” above). We may elect to repurchase additional notes in privately negotiated transactions or in the open market under circumstances that we believe to be favorable to us as circumstances may allow.

See “FORWARD-LOOKING STATEMENTS” above and “PART I; Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended January 31, 2009 for a discussion of the potential impact to our liquidity as a result of the occurrence of a “fundamental change” as defined in the prospectus filed in connection with the 1.125% Notes.

Additional information regarding our long-term borrowings is included in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Part II, Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 8. Long-term Debt” of Exhibit 99.1 to our Form 8-K dated June 19, 2009.

In Fiscal 2009 we plan to continue to utilize our combined financial resources to fund our inventory and inventory-related purchases, advertising and marketing initiatives, and our store development and infrastructure strategies. We believe our cash and available-for-sale securities, our ten-year operating agreements with Alliance Data related to our proprietary credit cards, and our borrowing facilities will provide adequate liquidity for our business operations and growth opportunities during Fiscal 2009. However, our liquidity is affected by many factors, including some that are based on normal operations and some that are related to our industry and the economy. We may seek, as we believe appropriate, additional debt or equity financing to provide capital for corporate purposes or to fund strategic business opportunities. We may also elect to redeem debt financing prior to maturity or to purchase additional 1.125% Senior Convertible Notes under circumstances that we believe to be favorable to us. At this time, we cannot determine the timing or amount of such potential capital requirements, which will depend on a number of factors, including demand for our merchandise, industry conditions, competitive factors, the market value of our outstanding debt, the condition of financial markets, and the nature and size of strategic business opportunities that we may elect to pursue.

### MARKET RISK

As a result of the sale of our proprietary credit card receivables portfolio on October 30, 2009, we are no longer exposed to interest-rate risk or basis risk associated with the portfolio.

As of October 31, 2009 there were no borrowings outstanding under our revolving credit facility. Future borrowings made under the facility, if any, could be exposed to variable interest rates.

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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 1. Notes To Condensed Consolidated Financial Statements (Unaudited); Note 16. Impact of Recent Accounting Pronouncements” above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; MARKET RISK,” above.

Item 4. 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. Our Disclosure Committee, which is made up of several key management employees and reports directly to the CEO and CFO, assists 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-Q (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. Furthermore, there has been no change in our internal control over financial reporting that occurred during the period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.





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PART II. OTHER INFORMATION

Item 1. 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.

Item 1A. Risk Factors

“Part I. Item 1A. Risk Factors” of our Form 10-K for the fiscal year ended January 31, 2009 included disclosure of the following risk factor:

We depend on key personnel and may not be able to retain or replace these employees or recruit additional qualified personnel.

Our success and our ability to execute our business strategy depend largely on the efforts and abilities of our executive officers and their management teams. We also must motivate employees to remain focused on our strategies and goals, particularly during a period of changing executive leadership at both our corporate level and our operating division level. The inability to find a suitable permanent replacement for our Interim Chief Executive Officer within a reasonable time period could have a material adverse effect on our business. We do not maintain key-person life insurance policies with respect to any of our employees.

On April 3, 2009 we announced the appointment of James P. Fogarty as President and Chief Executive Officer and a member of our Board of Directors, replacing Alan Rosskamm, our then Interim Chief Executive Officer. Mr. Rosskamm continues to serve as Chairman of our Board of Directors. Nevertheless, we remain largely dependent on our executive officers and their management team to execute our business strategy.

“Part I. Item 1A. Risk Factors” of our Form 10-K for the fiscal year ended January 31, 2009 also included disclosure of the following risk factor:

If we are unable to maintain the standards necessary for continued listing on the NASDAQ Global Select Market our common stock could be de-listed. Such de-listing could have an adverse effect on the market liquidity of our common stock and could harm our business.

Our common stock is currently listed on the NASDAQ Global Select Market. NASDAQ rules require, among other things, that the minimum closing bid price of our common stock be at least \$1.00. Recently, our common stock has traded below \$1.00 per share. If the minimum closing bid price of our common stock fails to meet NASDAQ’s minimum bid price requirement for a period of 30 consecutive business days, NASDAQ may take steps to de-list our common stock. However, before any de-listing could occur, we would have an initial 180-day cure period in which to achieve compliance with the minimum closing bid price. If we were unable to achieve compliance within this 180-day period, we could transfer to the NASDAQ Capital Market if we then meet its initial listing criteria (other than the minimum bid price). Following such transfer, we would have an additional 180-day period in which to achieve compliance with the minimum bid price.



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On March 23, 2009 NASDAQ suspended the \$1.00 per share minimum closing bid price requirement through at least July 20, 2009. Consequently, for as long as NASDAQ's rule suspension remains in effect NASDAQ will not take steps to de-list our common stock if the minimum closing bid price for our common stock trades below \$1.00 per share during the rule suspension period. We can provide no assurance, however, that NASDAQ will extend this rule suspension period beyond July 20, 2009.

Any de-listing would likely have an adverse impact on the liquidity of our common stock and, as a result, the market price for our common stock could become more volatile and significantly decline. We may seek to avoid de-listing by requesting shareholder approval for a reverse stock split. However, we can give no assurance that such action would stabilize the market price, improve the liquidity of our common stock, or would prevent our common stock from dropping below the NASDAQ minimum closing bid price requirement in the future. Such consequences may however be mitigated by our dual-listing on the Chicago Stock Exchange.

Holders of our 1.125% Notes have the right to require us to repurchase their notes for cash prior to maturity upon a "fundamental change," which is deemed to have occurred if, among other events, our common stock at any time is not listed for trading on a U.S. national or regional securities exchange. Due to the above risk that we could be subject to de-listing from the NASDAQ Global Select Market, we applied for dual-listing on the Chicago Stock Exchange ("CHX") and began trading on March 26, 2009. The CHX does not have a \$1.00 minimum stock price requirement for listing.

Subsequent to our filing on April 1, 2009 of our Form 10-K for the fiscal year ended January 31, 2009 our common stock has traded in a price range between \$1.33 and \$5.84 (through December 2, 2009). We believe that our dual listing on the Chicago Stock Exchange and the recent trading prices of our common stock have mitigated this risk factor.

As a result of our announcement on August 13, 2009 that we have entered into an agreement for the sale of our proprietary credit card receivables programs we have modified our risk factors relating to our private-label credit card programs to the following:

We cannot assure that we will realize the expected benefits from the ten-year private-label credit card operating agreements with Alliance Data. A significant portion of our sales revenues are generated through our private-label credit cards. Therefore, changes in the private-label credit card programs that adversely impact our ability to facilitate customer credit may adversely impact our results of operations. Alliance Data will have discretion over certain policies and arrangements with the cardholders and may change these policies and arrangements in ways that could affect our relationship with the cardholders. Any such changes could adversely affect our private-label credit card sales and our results of operations. Our ability to continue to offer private-label credit card programs to our customers will depend on the success of our strategic alliance with Alliance Data.

Credit card operations are subject to numerous Federal and state laws that impose disclosure and other requirements upon the origination, servicing, and enforcement of credit accounts, and limitations on the amount of finance charges that may be charged by a credit card provider. Alliance Data may be subject to regulations to which we were not subject prior to the sale of the credit card portfolio on October 30, 2009. To the extent that such limitations or regulations materially limit the availability of credit or increase the cost of credit to our cardholders or negatively impact provisions which affect our revenue streams associated with the ten-year operating agreements, our results of operations could be adversely affected. In addition, changes in credit card use, payment patterns, or default rates could be affected by a variety of economic, legal, social, or other factors over which we have no control and cannot predict with certainty and which could also negatively impact the availability of credit or increase the cost of credit to our cardholders or negatively impact provisions that affect our revenue streams associated with the ten-year operating agreements.



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As a result of our entering into certain third-party outsourcing arrangements, we are adding the following to the risk factors that we have previously disclosed:

Certain of our business processes that are dependent on technology are outsourced to third parties. Such processes include credit card authorization and processing, our e-commerce platform, and certain other information technology functions. Although we make a diligent effort to insure that all providers of outsourced services observe proper internal control practices and procedures, we cannot assure that failures will not occur. The failure of such third parties to provide adequate services could adversely affect our results of operations, liquidity, or our ability to provide adequate financial and management reporting.

Other than the above, we have not become aware of any material changes in the risk factors previously disclosed in “Part I; Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended January 31, 2009. See also “Part I; Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; FORWARD-LOOKING STATEMENTS” and “RECENT DEVELOPMENTS” above.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period                                      | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total<br>Number<br>of Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs(2) | Maximum<br>Number of<br>Shares that<br>May Yet be<br>Purchased<br>Under the<br>Plans or<br>Programs(2) |
|---|---|------------------------------------|--|--|
| August 2, 2009 through<br>August 29, 2009   | 1,363                                     | (1) \$5.14                         | –  |  |
| August 30, 2009 through<br>October 3, 2009  | 1,076                                     | (1) 4.93                           | –  |  |
| October 4, 2009 through<br>October 31, 2009 | 0   | 0.00                               | –  |  |
| Total                                       | 2,439                                     | \$5.05                             | –  | (2)  |

(1) Shares withheld for the payment of payroll taxes on employee stock awards that vested during the period.

(2) On November 8, 2007 we publicly announced that our Board of Directors granted authority to repurchase shares of our common stock up to an aggregate value of \$200 million. Shares may be purchased in the open market or through privately-negotiated transactions, as market conditions allow. During the period from February 3, 2008 through May 3, 2008 we repurchased a total of 505,406 shares of stock (\$5.21 average price paid per share) in the open market under this program. No shares have been purchased under this plan subsequent to May 3, 2008. As of October 31, 2009, \$197,364,592 was available for future repurchases under this program. This repurchase program has no expiration date.



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Item 6. Exhibits

The following is a list of Exhibits filed as part of this Quarterly Report on Form 10-Q. 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 parentheses.

- 2.1 Stock Purchase Agreement dated May 19, 2005 by and among Chestnut Acquisition Sub, Inc., Crosstown Traders, Inc., the Securityholders of Crosstown Traders, Inc. whose names are set forth on the signature pages thereto, and J.P. Morgan Partners (BHCA), L.P., as the Sellers' Representative, incorporated by reference to Form 8-K of the Registrant dated June 2, 2005, filed on June 8, 2005 (File No. 000-07258, Exhibit 2.1).
- 2.2 Stock Purchase Agreement dated as of August 25, 2008 by and between Crosstown Traders, Inc., Norm Thompson Outfitters, Inc., Charming Shoppes, Inc. and the other persons listed on the signature page thereto, incorporated by reference to Form 8-K of the Registrant dated August 25, 2008, filed on August 28, 2008 (File No. 000-07258, Exhibit 10.1).
- 2.3 Amendment No. 1 to Stock Purchase Agreement dated as of September 18, 2008 by and among Crosstown Traders, Inc. and Norm Thompson Outfitters, Inc., incorporated by reference to Form 8-K of the Registrant dated September 18, 2008, filed on September 19, 2008 (File No. 000-07258, Exhibit 10.2).
- 2.4 Transition Services Agreement dated as of September 18, 2008 by and between Charming Shoppes of Delaware, Inc. and Arizona Mail Order Company, incorporated by reference to Form 8-K of the Registrant dated September 18, 2008, filed on September 19, 2008 (File No. 000-07258, Exhibit 10.3).
- 3.1 Restated Articles of Incorporation, incorporated by reference to Form 10-Q of the Registrant for the quarter ended August 2, 2008 (File No. 000-07258, Exhibit 3.1).
- 3.2 Bylaws, as Amended and Restated, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2009 (File No. 000-07258, Exhibit 3.2).
- 4.1 Third Amended and Restated Loan and Security Agreement, dated July 31, 2009, by and among Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., FB Apparel, Inc., Catherines Stores Corporation, and Lane Bryant, Inc. as borrowers; a syndicate of banks and other financial institutions as lenders, including Wells Fargo Retail Finance, LLC as agent for the lenders; and certain of the Company's subsidiaries as guarantors, incorporated by reference to Form 8-K of the Registrant dated July 31, 2009, filed on August 6, 2009 (File No. 000-07258, Exhibit 4.1).
- 10.1 Offer Letter dated as of April 2, 2009 by and between Charming Shoppes, Inc. and James P. Fogarty, incorporated by reference to Form 8-K of the Registrant dated April 2, 2009, filed on April 7, 2009 (File No. 000-07258, Exhibit 10.1).
- 10.2 Severance Agreement dated as of April 2, 2009 by and between Charming Shoppes, Inc. and James P. Fogarty, incorporated by reference to Form 8-K of the Registrant dated April 2, 2009, filed on April 7, 2009 (File No. 000-07258, Exhibit 10.2).



- 10.3 Stock Appreciation Rights Agreement dated as of April 2, 2009 by and between Charming Shoppes, Inc. and James P. Fogarty (Inducement Grant), incorporated by reference to Form 8-K of the Registrant dated April 2, 2009, filed on April 7, 2009 (File No. 000-07258, Exhibit 10.3).
- 10.4 Stock Appreciation Rights Agreement dated as of April 2, 2009 by and between Charming Shoppes, Inc. and James P. Fogarty (Time-Based Grant), incorporated by reference to Form 8-K of the Registrant dated April 2, 2009, filed on April 7, 2009 (File No. 000-07258, Exhibit 10.4).

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- 10.5 Form of Amendment to the Severance Agreements between certain executive vice presidents and the Company, including the following named executive officers: Eric M. Specter, Joseph M. Baron, James G. Bloise and Colin D. Stern, incorporated by reference to Form 8-K of the Registrant dated May 1, 2009, filed on May 5, 2009 (File No. 000-07258, Exhibit 10.1).
- 10.6 Purchase Agreement dated as of August 12, 2009 among SOANB and CSRC, as sellers, SOAI, and WFNNB, as purchaser, incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.1).
- 10.7 Private Label Credit Card Plan Agreement for Lane Bryant and Petite Sophisticate dated as of August 12, 2009 between WFNNB and Lane Bryant, Inc., Petite Sophisticate, Inc., Outlet Division Management Co., Inc., and Sierra Nevada Factoring, Inc., incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.2).
- 10.8 Private Label Credit Card Plan Agreement for Fashion Bug dated as of August 12, 2009 between WFNNB and Fashion Bug Retail Companies, Inc. and Sierra Nevada Factoring, Inc., incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.3).
- 10.9 Private Label Credit Card Plan Agreement for Catherines dated as of August 12, 2009 among WFNNB, Catherines Stores Corporation, and Sierra Nevada Factoring, Inc., incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.4).
- 10.10 Agreement Regarding CHRS Subsidiary Private Label Plans dated as of August 12, 2009 between CSI and WFNNB, incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.5).
- 10.11 Fourth Amendment to the Purchase and Sale Agreement, dated October 30, 2009, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.1).
- 10.12 Sixth Amendment to Pooling and Servicing Agreement, dated October 30, 2009, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.2).
- 10.13 Series 2004-VFC Payoff and Release Agreement, dated October 25, 2009, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.3).
- 10.14 Series 1999-2 Payoff and Release Agreement, dated October 25, 2009, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.4).
- 10.15 Second Amendment to Purchase and Sale Agreement, dated November 9, 2000, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on

November 3, 2009 (File No. 000-07258, Exhibit 10.5).

- 10.16 Third Amendment to Purchase and Sale Agreement, dated May 8, 2001, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.6).

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- 10.17 Second Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated May 8, 2001, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.7).
- 10.18 Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan, incorporated by reference to Appendix A of the Registrant's Proxy Statement pursuant to Section 14 of the Securities Exchange Act of 1934, filed on May 15, 2009 (File No. 000-07258).
- 10.19 2003 Non-Employee Directors Compensation Plan, Amended and Restated Effective May 1, 2009, incorporated by reference to Form 10-Q of the Registrant for the quarter ended August 1, 2009 (File No. 000-07258, Exhibit 10.12).
- 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.



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SIGNATURES

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

CHARMING SHOPPES, INC.  
(Registrant)

Date: December 2, 2009

/S/ JAMES P. FOGARTY  
James P. Fogarty  
President  
Chief Executive Officer

Date: December 2, 2009

/S/ ERIC M. SPECTER  
Eric M. Specter  
Executive Vice President  
Chief Financial Officer



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EXHIBIT INDEX

| Exhibit No. | Item  |
|-------------|---|
| 2.1         | Stock Purchase Agreement dated May 19, 2005 by and among Chestnut Acquisition Sub, Inc., Crosstown Traders, Inc., the Securityholders of Crosstown Traders, Inc. whose names are set forth on the signature pages thereto, and J.P. Morgan Partners (BHCA), L.P., as the Sellers' Representative, incorporated by reference to Form 8-K of the Registrant dated June 2, 2005, filed on June 8, 2005 (File No. 000-07258, Exhibit 2.1).  |
| 2.2         | Stock Purchase Agreement dated as of August 25, 2008 by and between Crosstown Traders, Inc., Norm Thompson Outfitters, Inc., Charming Shoppes, Inc. and the other persons listed on the signature page thereto, incorporated by reference to Form 8-K of the Registrant dated August 25, 2008, filed on August 28, 2008 (File No. 000-07258, Exhibit 10.1).   |
| 2.3         | Amendment No. 1 to Stock Purchase Agreement dated as of September 18, 2008 by and among Crosstown Traders, Inc. and Norm Thompson Outfitters, Inc., incorporated by reference to Form 8-K of the Registrant dated September 18, 2008, filed on September 19, 2008 (File No. 000-07258, Exhibit 10.2).   |
| 2.4         | Transition Services Agreement dated as of September 18, 2008 by and between Charming Shoppes of Delaware, Inc. and Arizona Mail Order Company, incorporated by reference to Form 8-K of the Registrant dated September 18, 2008, filed on September 19, 2008 (File No. 000-07258, Exhibit 10.3).  |
| 3.1         | Restated Articles of Incorporation, incorporated by reference to Form 10-Q of the Registrant for the quarter ended August 2, 2008 (File No. 000-07258, Exhibit 3.1).  |
| 3.2         | Bylaws, as Amended and Restated, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2009 (File No. 000-07258, Exhibit 3.2).   |
| 4.1         | Third Amended and Restated Loan and Security Agreement, dated July 31, 2009, by and among Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., FB Apparel, Inc., Catherines Stores Corporation, and Lane Bryant, Inc. as borrowers; a syndicate of banks and other financial institutions as lenders, including Wells Fargo Retail Finance, LLC as agent for the lenders; and certain of the Company's subsidiaries as guarantors, incorporated by reference to Form 8-K of the Registrant dated July 31, 2009, filed on August 6, 2009 (File No. 000-07258, Exhibit 4.1). |
| 10.1        | Offer Letter dated as of April 2, 2009 by and between Charming Shoppes, Inc. and James P. Fogarty, incorporated by reference to Form 8-K of the Registrant dated April 2, 2009, filed on April 7, 2009 (File No. 000-07258, Exhibit 10.1).  |
| 10.2        | Severance Agreement dated as of April 2, 2009 by and between Charming Shoppes, Inc. and James P. Fogarty, incorporated by reference to Form 8-K of the Registrant dated April 2, 2009, filed on April 7, 2009 (File No. 000-07258, Exhibit 10.2).   |
| 10.3        | Stock Appreciation Rights Agreement dated as of April 2, 2009 by and between Charming Shoppes, Inc. and James P. Fogarty (Inducement Grant), incorporated by reference to Form 8-K of the Registrant dated April 2, 2009, filed on April 7, 2009 (File No. 000-07258, Exhibit 10.3).  |





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- 10.4 Stock Appreciation Rights Agreement dated as of April 2, 2009 by and between Charming Shoppes, Inc. and James P. Fogarty (Time-Based Grant), incorporated by reference to Form 8-K of the Registrant dated April 2, 2009, filed on April 7, 2009 (File No. 000-07258, Exhibit 10.4).
- 10.5 Form of Amendment to the Severance Agreements between certain executive vice presidents and the Company, including the following named executive officers: Eric M. Specter, Joseph M. Baron, James G. Bloise and Colin D. Stern, incorporated by reference to Form 8-K of the Registrant dated May 1, 2009, filed on May 5, 2009 (File No. 000-07258, Exhibit 10.1).
- 10.6 Purchase Agreement dated as of August 12, 2009 among SOANB and CSRC, as sellers, SOAI, and WFNNB, as purchaser, incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.1).
- 10.7 Private Label Credit Card Plan Agreement for Lane Bryant and Petite Sophisticate dated as of August 12, 2009 between WFNNB and Lane Bryant, Inc., Petite Sophisticate, Inc., Outlet Division Management Co., Inc., and Sierra Nevada Factoring, Inc., incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.2).
- 10.8 Private Label Credit Card Plan Agreement for Fashion Bug dated as of August 12, 2009 between WFNNB and Fashion Bug Retail Companies, Inc. and Sierra Nevada Factoring, Inc., incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.3).
- 10.9 Private Label Credit Card Plan Agreement for Catherines dated as of August 12, 2009 among WFNNB, Catherines Stores Corporation, and Sierra Nevada Factoring, Inc., incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.4).
- 10.10 Agreement Regarding CHRS Subsidiary Private Label Plans dated as of August 12, 2009 between CSI and WFNNB, incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.5).
- 10.11 Fourth Amendment to the Purchase and Sale Agreement, dated October 30, 2009, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.1).
- 10.12 Sixth Amendment to Pooling and Servicing Agreement, dated October 30, 2009, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.2).
- 10.13 Series 2004-VFC Payoff and Release Agreement, dated October 25, 2009, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.3).
- 10.14 Series 1999-2 Payoff and Release Agreement, dated October 25, 2009, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.4).
- 10.15

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Second Amendment to Purchase and Sale Agreement, dated November 9, 2000, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.5).

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- 10.16 Third Amendment to Purchase and Sale Agreement, dated May 8, 2001, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.6).
- 10.17 Second Amendment to the Second Amended and Restated Pooling and Servicing Agreement, dated May 8, 2001, incorporated by reference to Form 8-K of the Registrant dated October 30, 2009, filed on November 3, 2009 (File No. 000-07258, Exhibit 10.7).
- 10.18 Charming Shoppes, Inc. 2004 Stock Award and Incentive Plan, incorporated by reference to Appendix A of the Registrant's Proxy Statement pursuant to Section 14 of the Securities Exchange Act of 1934, filed on May 15, 2009 (File No. 000-07258).
- 10.19 2003 Non-Employee Directors Compensation Plan, Amended and Restated Effective May 1, 2009, incorporated by reference to Form 10-Q of the Registrant for the quarter ended August 1, 2009 (File No. 000-07258, Exhibit 10.12).
- 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.



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