CHARMING SHOPPES INC
Form 10-Q
September 01, 2011

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

FORM 10-Q

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

For the quarterly period ended July 30, 2011

Or

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

For the transition period from _____ to _____

Commission File No. 000-07258

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

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

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

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

Yes x No o

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

to submit and post such files):

Yes x No o

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

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

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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 o No x

The number of shares outstanding of the issuer's Common Stock (par value $.10 per share) as of August 26, 2011 was 116,474,254 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	July 30, 2011 (Unaudited)	January 29, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$227,436	$117,482
Accounts receivable, net of allowances of $2,326 and $5,667	5,395	36,568
Merchandise inventories	271,862	282,248
Deferred taxes	3,153	3,153
Prepayments and other	95,839	98,458
Total current assets	603,685	537,909
Property, equipment, and leasehold improvements – at cost	1,009,497	1,028,843
Less accumulated depreciation and amortization	772,312	772,895
Net property, equipment, and leasehold improvements	237,185	255,948
Trademarks, tradenames, and internet domain names	187,132	187,132
Goodwill	23,436	23,436
Other assets	18,659	18,233
Total assets	$1,070,097	$1,022,658
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$136,222	$107,882
Accrued expenses	142,318	142,002
Current portion – long-term debt	10,826	11,449
Total current liabilities	289,366	261,333
Deferred taxes	53,237	51,466
Other non-current liabilities	155,291	167,089
Long-term debt, net of debt discount of $21,247 and $24,679	132,056	128,350
Stockholders' equity		
Common Stock $.10 par value:		
Authorized – 300,000,000 shares		
Issued – 155,087,788 shares and 154,185,373 shares	15,509	15,419
Additional paid-in capital	510,174	508,664
Treasury stock at cost – 38,617,180 shares	(348,400)	(348,400)
Retained earnings	262,864	238,737

Total stockholders' equity	440,147	414,420
Total liabilities and stockholders' equity	$1,070,097	$1,022,658

See Notes to Condensed Consolidated Financial Statements

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

(In thousands, except per share amounts)	Thirteen Weeks Ended July 30, 2011	July 31, 2010
Net sales	$499,202	$517,564
Cost of goods sold	253,296	268,441
Gross profit	245,906	249,123
Occupancy and buying expenses	86,601	91,880
Selling, general, and administrative expenses	140,847	146,979
Depreciation and amortization	14,482	16,937
Restructuring and other charges	474	619
Total operating expenses	242,404	256,415
Income/(loss) from operations	3,502	(7,292)
Other income	96	396
Gain on repurchases of 1.125% Senior Convertible Notes	0	1,907
Interest expense	(3,898)	(4,096)
Loss before income taxes	(300)	(9,085)
Income tax provision/(benefit)	1,611	(443)
Net loss	$(1,911)	$(8,642)
Basic and diluted net loss per share	$(0.02)	$(0.07)

See Notes to Condensed Consolidated Financial Statements

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

(In thousands, except per share amounts)	Twenty-six Weeks Ended July 30, 2011	July 31, 2010
Net sales	$1,003,555	$1,022,369
Cost of goods sold	472,328	496,657
Gross profit	531,227	525,712
Occupancy and buying expenses	176,012	184,104
Selling, general, and administrative expenses	296,094	306,152
Depreciation and amortization	28,890	33,748
Gain from sale of office premises	(5,185)	0
Restructuring and other charges/(credits)	(139)	1,508
Total operating expenses	495,672	525,512
Income from operations	35,555	200
Other income	237	534
Gain on repurchases of 1.125% Senior Convertible Notes	0	1,907
Interest expense	(7,674)	(8,570)
Income/(loss) before income taxes	28,118	(5,929)
Income tax provision/(benefit)	3,991	(1,182)
Net income/(loss)	$24,127	$(4,747)
Basic net income/(loss) per share	$0.21	$(0.04)
Diluted net income/(loss) per share	$0.20	$(0.04)

See Notes to Condensed Consolidated Financial Statements

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

(In thousands)	Twenty-six Weeks Ended July 30, 2011	July 31, 2010
Operating activities		
Net income/(loss)	$24,127	$(4,747)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation and amortization	29,991	34,696
Stock-based compensation	2,387	2,010
Accretion of discount on 1.125% Senior Convertible Notes	3,432	3,974
Deferred income taxes	1,771	(918)
Gain on repurchases of 1.125% Senior Convertible Notes	0	(1,907)
Write-down of capital assets due to restructuring	822	0
Net (gain)/loss from disposition of capital assets	(4,849)	534
Changes in operating assets and liabilities		
Accounts receivable, net	31,173	28,886
Merchandise inventories	10,386	(21,931)
Accounts payable	28,340	33,182
Prepayments and other	2,619	30,916
Accrued expenses and other	(7,010)	(22,653)
Net cash provided by operating activities	123,189	82,042
Investing activities		
Investment in capital assets	(14,596)	(16,584)
Proceeds from sales of capital assets	7,537	0
Proceeds from sales of securities	0	200
Increase in other assets	(345)	(954)
Net cash used by investing activities	(7,404)	(17,338)
Financing activities		
Repayments of long-term borrowings	(3,232)	(3,100)
Repurchases of 1.125% Senior Convertible Notes	0	(38,260)
Payment of deferred financing costs	(1,812)	0
Issuance of common stock under employee stock plans, net of amounts withheld for payroll taxes	(787)	131
Net cash used by financing activities	(5,831)	(41,229)
Increase in cash and cash equivalents	109,954	23,475
Cash and cash equivalents, beginning of period	117,482	186,580

Cash and cash equivalents, end of period	$227,436	$210,055
Non-cash financing and investing activities		
Assets acquired through capital leases	$2,883	$0

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 cash flows. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles. These financial statements and related notes should be read in conjunction with our financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2011. The results of operations for the thirteen weeks and twenty-six weeks ended July 30, 2011 and July 31, 2010 are not necessarily indicative of operating results for the full fiscal year. As used in these notes, the terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, our consolidated subsidiaries.

Note 2. Accounts Receivable

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

(In thousands)	July 30, 2011	January 29, 2011
Due from customers	$7,721	$42,235
Allowance for doubtful accounts	(2,326)	(5,667)
Net accounts receivable	$5,395	$36,568

Note 3. Long-term Debt

(In thousands)	July 30, 2011	January 29, 2011
1.125% Senior Convertible Notes, due May 1, 2014	$140,451	$140,451
6.07% mortgage note, due October 11, 2014	8,646	9,035
6.53% mortgage note, due November 1, 2012	1,750	2,450
7.77% mortgage note, due December 1, 2011	5,393	5,793
Capital lease obligations	7,889	6,749
Total long-term debt principal	164,129	164,478
Less unamortized discount on 1.125% Senior Convertible Notes	(21,247)	(24,679)
Long-term debt – carrying value	142,882	139,799
Current portion	(10,826)	(11,449)
Net long-term debt	$132,056	$128,350

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

Note 3. Long-term Debt (Continued)

On July 14, 2011 we entered into an amended and restated loan and security agreement (the "Amended Agreement") for a $200,000,000 senior secured revolving credit facility (the "Amended Facility"). The Amended Facility replaces our $225,000,000 senior secured revolving credit facility and provides for committed revolving credit availability through July 14, 2016. The amount of credit available from time to time under the Amended Facility is determined as a percentage of the value of eligible inventory, accounts receivable, and cash, as reduced by certain reserves (the "Borrowing Base."). In addition, the Amended Agreement includes an option allowing us to increase our credit facility to an amount not in excess of $300,000,000, based on certain terms and conditions. The Amended Facility may be used for working capital and other general corporate purposes, and provides that up to $100,000,000 of the $200,000,000 may be used for letters of credit.

The Amended Agreement provides for borrowings under either "Base Rate" loans or "Eurodollar Rate" loans. Borrowings under Base Rate loans are variable and will generally accrue interest at a margin ranging from 1.0% to 1.5% over the Base Rate (as defined in the Agreement). Eurodollar Rate loans will generally accrue interest at a margin ranging from 2.0% to 2.5% over the London Interbank Offered Rate ("LIBOR") as adjusted for reserves. The applicable margin will be adjusted each fiscal month based on our Monthly Average Liquidity (as defined in the Amended Agreement) for the preceding month. We are also required to pay a monthly unused line fee ranging from 0.375% to 0.5% of the amount by which the maximum credit available under the Amended Facility exceeds the average daily principal balance of any outstanding revolving loans and letters of credit. As of July 30, 2011 the applicable rates under the facility were 4.5% (Base Rate plus 1.25%) for Base Rate Loans and 2.4% (LIBOR plus 2.25%) for Eurodollar Rate Loans.

The Amended Agreement provides for customary representations and warranties and affirmative covenants. The Amended Agreement also contains customary negative covenants providing limitations, subject to negotiated exceptions, for sales of assets; encumbrances; indebtedness; loans, advances and investments; acquisitions; guarantees; new subsidiaries; dividends and redemptions; transactions with affiliates; changes in business; certain actions affecting subsidiaries; credit card agreements; private-label credit cards; and changes in control of certain of our subsidiaries. At all times we are required to maintain Excess Availability (as defined in the Amended Agreement) of at least the greater of 10% of the Borrowing Base or $15,000,000. 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 connection with the Amended Agreement we executed an Amended and Restated Guarantee (the "Amended Guarantee"). Pursuant to the Amended Guarantee, we and most of our subsidiaries jointly and severally guaranteed the borrowings and obligations under the Amended Agreement, subject to standard insolvency limitations. In accordance with the Amended Guarantee, collateral for the borrowings under the Amended Agreement consists of pledges by us and certain of our subsidiaries of the capital stock of each such entity's subsidiaries. The Amended 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 Amended Agreement and the Amended Guarantee.

As of July 30, 2011 we had an aggregate total of $4,270,000 of unamortized deferred debt acquisition costs related to the facility that will be amortized on a straight-line basis over the life of the Amended Facility as interest expense. There were no borrowings outstanding under the facility as of July 30, 2011.

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

Note 4. Stockholders' Equity

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

(Dollars in thousands)	Twenty-six Weeks Ended July 30, 2011
Total stockholders' equity, beginning of period	$414,420
Net income	24,127
Issuance of common stock under employee stock plans (902,415 shares), net of amounts withheld for payroll taxes	(787)
Stock-based compensation	2,387
Total stockholders' equity, end of period	$440,147

Note 5. Stock-based Compensation Plans

We have various stock-based compensation plans under which we are currently granting awards, which are more fully described in "Item 8. Financial Statements and Supplementary Data; Note 9. Stock-Based Compensation Plans" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011. Current grants of stock-based compensation consist primarily of stock appreciation rights ("SARs") and restricted stock units ("RSUs").

SARS and stock option activity under our various stock-based compensation plans for the twenty-six weeks ended July 30, 2011 was as follows:

	Option/ SARs Shares	Weighted Average Exercise Price	Range of Exercise Prices per Share	Aggregate Intrinsic Value(1) (000's)
Outstanding at January 29, 2011(2)	6,098,153	$ 3.10	$ 1.00 – $ 13.84	$ 0
Granted – exercise price equal to market price	2,414,258	4.00	3.20 – 4.37	
Canceled/forfeited	(761,095)	5.05	1.00 – 13.84	
Exercised(3)	(1,598,696)	1.80	1.00 – 2.93	2,145 (4)
Outstanding at July 30, 2011(5)	6,152,620	$ 3.55	$ 1.00 – $ 11.28	3,410
Exercisable at July 30, 2011(5)	1,405,713	$ 3.29	$ 1.00 – $ 11.28	1,136

(1) Aggregate market value less aggregate exercise price.

(2) Includes 1,416,496 shares related to “inducement grants” of SARs in accordance with Nasdaq Marketplace Rule 5635(c)(4).
(3) Includes 825,000 shares exercised related to “inducement grants” (see note (2) above).
(4) As of date of exercise.
(5) Includes 591,496 shares outstanding related to “inducement grants” (see note (2) above), of which 127,476 shares were exercisable.

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

Note 5. Stock-based Compensation Plans (Continued)

As of July 30, 2011 the following shares were available for future grants under our stock-based compensation plans:

2010 Stock Award and Incentive Plan	4,594,025
1994 Employee Stock Purchase Plan	348,025

Total stock-based compensation expense was as follows:

(In thousands)	Thirteen Weeks Ended July 30, 2011	Thirteen Weeks Ended July 31, 2010	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Stock-based compensation expense, excluding cash-settled RSUs	$1,356	$936	$2,387	$2,010
Stock-based compensation expense, cash-settled RSUs(1)	0	(237)	0	4
Total stock-based compensation expense	$1,356	$699	$2,387	$2,014

(1) During the Fiscal 2009 Second Quarter we granted cash-settled RSUs under our 2003 Non-Employee Directors Compensation Plan. We accounted for these cash-settled RSUs as liabilities and recognized compensation expense over the vesting period of one year from the date of grant. Total compensation expense for these cash-settled RSUs was fully recognized as of the Fiscal 2010 Second Quarter.

We use the Black-Scholes valuation model to estimate the fair value of stock options and SARs. 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” and “Note 9. Stock-Based Compensation Plans” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

Total stock-based compensation expense not yet recognized, related to the non-vested portion of stock options, SARs, and awards outstanding, was $13,218,000 as of July 30, 2011. The weighted-average period over which we expect to recognize this compensation expense is approximately 3 years.

Note 6. Customer Loyalty Card Programs

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts 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 we incur in connection with administering these programs as selling, general, and

administrative expenses when incurred. Our loyalty card programs are more fully described in "Item 8. Financial Statements and Supplementary Data; Note 10. Customer Loyalty Card Programs" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

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

Note 6. Customer Loyalty Card Programs (Continued)

Additional information with respect to our various loyalty card programs is as follows:

(In thousands)	Thirteen Weeks Ended July 30, 2011	Thirteen Weeks Ended July 31, 2010	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Loyalty card revenues recognized	$4,593	$4,809	$9,168	$9,216

(In thousands)	Accrued as of July 30, 2011	Accrued as of January 29, 2011
Discounts earned but not yet issued and discounts issued but not yet redeemed	$1,920	$2,277

Note 7. Net Income/(Loss) per Share

(In thousands, except per share amounts)	Thirteen Weeks Ended July 30, 2011		Thirteen Weeks Ended July 31, 2010		Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010	
Basic weighted average common shares outstanding	116,743		115,699		116,459	115,851	
Dilutive effect of SARs, stock options, and awards	0	(1)	0	(1)	1,344	0	(1)
Diluted weighted average common shares and equivalents outstanding	116,743		115,699		117,803	115,851	
Net income/(loss) used to determine basic and diluted net income per share	$(1,911)		$(8,642)		$24,127	$(4,747)	
SARs and stock options with weighted average exercise price greater than market price, excluded from computation of diluted net income per share:							
Number of shares	0	(1)	0	(1)	3,453	0	(1)
Weighted average exercise price per share					$4.70		

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

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

Note 7. Net Income/(Loss) per Share (Continued)

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 also include the dilutive effect of the additional potential shares that may be issued related to the warrants, using the treasury stock method. See “Item 8. Financial Statements and Supplementary Data; Note 7. Long-term Debt” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 for further information regarding our 1.125% Notes, call options, and warrants.

Note 8. Income Taxes

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

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

We recognize deferred tax assets for temporary differences that will result in deductible amounts in future years and for net operating loss (“NOL”) and credit carryforwards. We recognize 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 our deferred tax assets will not be realized. During Fiscal 2008 we evaluated our assumptions regarding the recoverability of our deferred tax assets. Based on all available evidence we determined that the recoverability of our deferred tax assets is more-likely-than-not limited to our available tax loss carrybacks. Accordingly, we established a valuation allowance against our net deferred tax assets. During Fiscal 2009 we increased the valuation allowance and recognized an additional non-cash provision, net of a tax benefit resulting from the carryback of remaining Fiscal 2008 NOLs pursuant to H.R. 3548, the “Worker, Homeownership, and Business Assistance Act of 2009,” which was signed into law on November 6, 2009. During Fiscal 2010 we further increased our valuation allowance and recognized an additional non-cash provision. 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. 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.

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

Note 8. Income Taxes (Continued)

Income taxes receivable, net, which primarily include amended return receivables as of July 30, 2011, and amended return receivables and the NOL carryback for Fiscal 2009 as of January 29, 2011, are included in "Prepayments and other" on our condensed consolidated balance sheets, and were as follows:

(In thousands)	July 30, 2011	January 29, 2011
Income taxes receivable, net	$8,872	$10,733

The reduction in income taxes receivable during the twenty-six weeks ended July 30, 2011 was principally a result of the receipt of $1,620,000 of net Federal tax refunds that related primarily to our NOL carryback for Fiscal 2009.

As of July 30, 2011 our gross unrecognized tax benefits associated with uncertain tax positions were $28,290,000. If recognized, the portion of the liabilities for gross unrecognized tax benefits that would decrease our provision for income taxes and increase our net income was $18,601,000. The accrued interest and penalties as of July 30, 2011 were $14,471,000.

During the twenty-six weeks ended July 30, 2011 the gross unrecognized tax benefits decreased by $503,000 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 decreased by $454,000. Accrued interest and penalties decreased by $284,000 during the twenty-six weeks ended July 30, 2011. These decreases are primarily the result of payments relating to audits of state tax positions, partially offset by additional accruals for uncertain tax positions.

As of July 30, 2011 it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next twelve months by as much as $2,418,000 as a result of resolutions of audits related to U.S. Federal and state tax positions.

Our U.S. Federal income tax returns for Fiscal 2004 and beyond remain subject to examination by the U.S. Internal Revenue Service ("IRS") due to statute of limitations and the filing of amended returns and NOL carryback claims. We file returns in numerous state jurisdictions, with varying statutes of limitations. Our state tax returns for Fiscal 2006 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 2006 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 2003.

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

Note 9. Segment Reporting

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 the "Retail Stores" segment. Our catalog and catalog-related e-commerce operations are separately reported under the Direct-to-Consumer segment. Further information regarding our operating segments is included in "Item 8. Financial Statements and Supplementary Data; Note 18. Segment Reporting" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

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

(In thousands)	Retail Stores	Direct-to-Consumer	Corporate and Other	Consolidated
Thirteen weeks ended July 30, 2011				
Net sales	$492,778	$6,424	$0	$ 499,202
Depreciation and amortization	11,057	262	3,163	14,482
Income from operations	33,268	(3,808)	(25,958)(1)	3,502
Net interest expense and other income			(3,802)	(3,802)
Income tax provision			1,611	1,611
Net loss	33,268	(3,808)	(31,371)	(1,911)
Capital expenditures	2,131	445	3,132	5,708
Thirteen weeks ended July 31, 2010				
Net sales	$512,219	$5,345	$0	$ 517,564
Depreciation and amortization	13,637	297	3,003	16,937
Loss from operations	14,119	(3,243)	(18,168)(2)	(7,292)
Gain on repurchases of 1.125% Senior Convertible Notes			1,907	1,907
Net interest expense and other income			(3,700)	(3,700)
Income tax benefit			(443)	(443)
Net loss	14,119	(3,243)	(19,518)	(8,642)
Capital expenditures	2,887	80	5,854	8,821

(1) Includes $474 of restructuring and other charges (see "Note 10. Restructuring and Other Charges/(Credits)" below).
(2) Includes $619 of restructuring and other charges (see "Note 10. Restructuring and Other Charges/(Credits)" below).

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

Note 9. Segment Reporting (Continued)

(In thousands)	Retail Stores	Direct-to-Consumer	Corporate and Other	Consolidated
Twenty-six weeks ended July 30, 2011				
Net sales	$983,359	$20,196	$0	$ 1,003,555
Depreciation and amortization	22,084	516	6,290	28,890
Income from operations	88,916	(5,784)	(47,577)(1)	35,555
Net interest expense and other income			(7,437)	(7,437)
Income tax provision			3,991	3,991
Net income	88,916	(5,784)	(59,005)	24,127
Capital expenditures	5,490	1,190	7,916	14,596
Twenty-six weeks ended July 31, 2010				
Net sales	$1,004,293	$18,076	$0	$ 1,022,369
Depreciation and amortization	26,756	595	6,397	33,748
Income from operations	42,068	(4,909)	(36,959)(2)	200
Gain on repurchases of 1.125% Senior Convertible Notes			1,907	1,907
Net interest expense and other income			(8,036)	(8,036)
Income tax benefit			(1,182)	(1,182)
Net loss	42,068	(4,909)	(41,906)	(4,747)
Capital expenditures	8,157	80	8,347	16,584

(1) Includes $139 of restructuring and other credits (see “Note 10. Restructuring and Other Charges/(Credits)” below) and a $5,185 gain from the sale of office premises.
(2) Includes $1,508 of restructuring and other charges (see “Note 10. Restructuring and Other Charges/(Credits)” below).

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

Note 10. Restructuring and Other Charges/(Credits)

The following table summarizes our restructuring and other charges:

(In thousands)	Costs Incurred as of January 29, 2011	Costs Incurred for Twenty-six Weeks Ended July 30, 2011	Estimated Remaining Costs To be Incurred	Total Estimated/ Actual Costs as of July 30, 2011
Fiscal 2010 Announcements				
Closing of under-performing stores:				
Non-cash impairment charge for CATHERINES® stores in outlet locations	$3,210	$0	$0	$3,210
Store lease termination and other charges	0	11	5,815	5,826
Severance for departure of former CEO	2,898	0	0	2,898
Fiscal 2009 Announcements				
Closing of PETITE SOPHISTICATE OUTLET® stores:				
Non-cash accelerated depreciation	612	0	0	612
Store lease termination charges	1,070	0	0	1,070
Other non-cash costs	195	0	0	195
Closing of under-performing stores:				
Store lease termination charges	2,691	0	3,300	5,991
Fiscal 2007 and Fiscal 2008 Announcements				
Lease termination and accretion charges	11,575	(157)	1,912 (1)	13,330
Severance, retention, and other costs	5,123	7	0	5,130
Closing of under-performing stores:				
Store lease termination charges	8,305	0	0	8,305
Total	$35,679	$(139)	$11,027	$46,567

(1) Accretion charges related to lease termination liability for assets retained from the sale of our Crosstown Traders apparel catalogs.

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

Note 10. Restructuring and Other Charges/(Credits) (Continued)

The following table summarizes our accrued restructuring and other charges:

(In thousands)	Accrued as of January 29, 2011(1)	Twenty-six Weeks Ended July 30, 2011 Costs Incurred	Payments/ Settlements	Accrued as of July 30, 2011(1)
Fiscal 2010 Announcements				
Severance for departure of former CEO	$1,910	$0	$(571)	$1,339
Closing of under-performing stores:				
Store lease termination charges	0	1,075	(900)	175
Fiscal 2009 Announcements				
Closing of PETITE SOPHISTICATE OUTLET stores:				
Store lease termination charges	599	0	(248)	351
Closing of under-performing stores:				
Store lease termination charges	1,104	0	(25)	1,079
Fiscal 2007 and Fiscal 2008 Announcements				
Non-core misses apparel assets:				
Lease termination charges	7,074	(157)	(1,610)	5,307
Other costs	153	0	0	153
Transformational initiatives:				
Severance and retention costs	117	7	(121)	3
Closing of under-performing stores:				
Store lease termination charges	798	0	(183)	615
Total	$11,755	$925	$(3,658)	$9,022

(1) Included in “Accrued expenses” in the accompanying condensed consolidated balance sheets.

The net credit in restructuring and other charges for the twenty-six weeks ended July 30, 2011 consisted primarily of adjustments to store-related deferred allowances as a result of the closure of under-performing stores identified for closure during the Fiscal 2010 Fourth Quarter and the settlement of minor lease obligations for certain facilities retained in connection with the sale of our Crosstown Traders apparel catalogs. These charges were partially offset by lease termination costs, non-cash accelerated depreciation, and cash severance costs for store personnel related to under-performing stores identified for closure during the Fiscal 2010 Fourth Quarter.

Restructuring and other charges for the twenty-six weeks ended July 31, 2010 consisted primarily of lease termination costs for the closing of under-performing stores identified during the Fiscal 2009 Fourth Quarter and accretion charges on lease termination costs for facilities retained in connection with the sale of our Crosstown Traders apparel catalogs.

See “Item 8. Financial Statements and Supplementary Data; Note 13. Restructuring and Other Charges” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 for further information regarding our restructuring and other charges.

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

Note 11. Fair Value of Financial Instruments

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

	July 30, 2011		January 29, 2011	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$227,436	$227,436	$117,482	$117,482
Liabilities:				
1.125% Senior Convertible Notes, due May 1, 2014	119,204 (1)	126,406	115,772 (1)	118,681
6.07% mortgage note, due October 11, 2014	8,646	8,509	9,035	8,887
6.53% mortgage note, due November 1, 2012	1,750	1,750	2,450	2,451
7.77% mortgage note, due December 1, 2011	5,393	5,488	5,793	5,921

(1) Net of unamortized discount of $21,247at July 30, 2011 and $24,679 at January 29, 2011 (see “Note 3. 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 the 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.

Note 12. Gain from Sale of Office Premises

During the Fiscal 2011 First Quarter we sold office premises in Hong Kong, which served as the home office for our international sourcing operations, for gross proceeds of $7,512,000 and recognized a gain on the sale of $5,185,000. Our international sourcing operations now utilize leased space in Hong Kong.

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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 our Annual Report on Form 10-K for the fiscal year ended January 29, 2011. As used in this management's discussion and analysis, the terms "Charming Shoppes," "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and its consolidated subsidiaries except where the context otherwise requires or as otherwise indicated.

FORWARD-LOOKING STATEMENTS

With the exception of historical information, the matters contained in the following analysis and elsewhere in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, projections of revenues, income or loss, cost reductions, capital expenditures, liquidity, divestitures, financing needs or plans, store closings and openings, 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 in 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. Given those risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. 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.

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, and the other factors 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 29, 2011 and in our other filings with the Securities and Exchange Commission:

- ongoing economic conditions, including unemployment levels;
- our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors and our ability to effectively manage our inventory levels;
- competitive conditions in the women's specialty retail apparel and direct-to-consumer markets;
- the continuation of growth in the plus-size women's apparel market;
- our ability to attract, hire, and retain qualified officers and management;

our ability to successfully execute and realize the benefits of our business plans;

our ability to successfully manage labor costs, occupancy costs, transportation costs, and other operating costs, particularly in the face of inflationary pressures;

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the availability and price volatility of key raw materials in our products, such as cotton, wool, and synthetic fabrics;

our continued access to sufficient financing at an affordable cost;

recent significant changes in our private-label credit card programs and the impact of Federal and state laws on the availability and cost of providing credit to our cardholders;

seasonal fluctuations in net sales and extreme or unseasonable weather conditions;

our reliance on technology outsourced to third parties and such third parties' failure to observe proper internal control practices and procedures;

our ability to maintain efficient and uninterrupted customer service and fulfillment operations through our distribution and fulfillment centers and our third-party freight consolidators and service providers;

natural disasters, acts of terrorism or other armed conflict, or the threat of any such event;

our ability to successfully operate our e-commerce websites and our catalog business and the failure to manage and remedy disruptions in technology, including security breaches;

our dependence on foreign sources of production;

litigation and regulatory actions relating to our business;

our ability to develop and profitably operate new retail stores, and to maintain good relationships with all of our landlords;

our ability to effectively implement our plan for closing under-performing stores;

the failure to integrate and manage acquired businesses successfully or to manage the risks associated with divestitures, joint ventures, or other alliances;

the failure to maintain effective internal control over financial reporting; and

changes to existing accounting rules or the adoption of new rules.

CRITICAL ACCOUNTING POLICIES

We have prepared the financial statements and accompanying notes included in "Item 1. Financial Statements" 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.

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We periodically reevaluate our accounting policies, assumptions, and estimates and make adjustments when facts and circumstances warrant. Our significant accounting policies are described in "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 1. Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011. The accounting policies and related assumptions that we consider to be more critical to the preparation of our financial statements and accompanying notes and involve the most significant management judgments and estimates are described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; Critical Accounting Policies" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011. 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.

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

During the Fiscal 2011 Second Quarter we continued to improve on our operating results, with increases in our consolidated Retail Stores segment comparable store sales and Adjusted EBITDA (see "RESULTS OF OPERATIONS; EBITDA and Adjusted EBITDA" below). Consolidated Adjusted EBITDA for the Fiscal 2011 Second Quarter increased by $8.2 million to $18.5 million as compared to $10.3 million for the prior-year period, reflecting improved profitability at each of our brands. The year-over-year operating improvement was driven by decreases in expenses, a more fashionable apparel assortment, and disciplined inventory management across all of our brands. During the Fiscal 2010 Second Quarter we were over-receipted in seasonal non-core merchandise and our Adjusted EBITDA was negatively impacted by heavy discounting to clear the seasonal merchandise.

Consolidated net sales for the Fiscal 2011 Second Quarter reflected an increase of 1% in consolidated comparable store sales and a 17% increase in e-commerce net sales as compared to the Fiscal 2010 Second Quarter. The improvement in comparable store sales was led by LANE BRYANT, with a 3% comparable store sales increase. However, these increases were more than offset by the impact of 155 net store closings during the preceding 12-month period in connection with our store closing program. Our improved Spring and Summer assortments have been resonating with our customer, resulting in higher conversion rates during the Fiscal 2011 Second Quarter as compared to the prior-year period.

Our gross margin increased as a percent of sales for the Fiscal 2011 Second Quarter as compared to the Fiscal 2010 Second Quarter. The increase was driven by improvements across all of our brands, and benefited from improved Spring and Summer assortments and disciplined inventory management, which resulted in fewer markdowns as compared to the prior-year period. The decline in gross profit dollars was primarily driven by the net closure of 155 stores over the preceding 12 months in connection with our store closing program.

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Our operating expenses (excluding restructuring and other charges of $0.5 million) decreased by $13.9 million and by 90 basis points as a percent of sales, driven primarily by the impact of the 155 net store closures and expense reductions at our LANE BRYANT and FASHION BUG brands. Our occupancy and buying expenses decreased both in dollar amount and as a percentage of net sales for the Fiscal 2011 Second Quarter as compared to the prior-year period, primarily related to lower rent expense as a result of the operation of fewer stores and the negotiation of store lease terms. Selling, general, and administrative expenses decreased both in dollar amount and as a percentage of net sales for the Fiscal 2011 Second Quarter as compared to the prior-year period, primarily as a result of a combination of lower store payroll attributable to operating fewer stores, lower advertising expenses, leverage from the increase in comparable store sales at our LANE BRYANT and CATHERINES brands, and higher credit income.

Depreciation and amortization expenses decreased by $2.4 million for the Fiscal 2011 Second Quarter as compared to the prior-year period primarily as a result of the operation of fewer stores and the write-down of store assets during the Fiscal 2010 Fourth Quarter.

Restructuring and other charges for the Fiscal 2011 Second Quarter were primarily for non-cash accelerated depreciation and severance costs for store personnel related to the closing of under-performing stores. Fiscal 2010 Second Quarter charges were primarily for lease termination costs related to our store closing program and accretion charges on lease termination costs for facilities retained from the sale of our Crosstown Traders apparel catalogs.

Cost increases associated with cotton, wool, and synthetic fabrics and increases in labor costs and inflation in developing countries during the first half of Fiscal 2011 have had a moderate impact on our Fiscal 2011 Second Quarter results and will have a greater impact on our Fall and Holiday seasons. We have only partially mitigated these price increases through value-engineering product, shifting production to lower-cost countries, and adjusting our product mix. Additionally, each of our brands has strategically increased initial ticket pricing. Although the upward trend of these costs has reversed and they are now decreasing, due to product lead times required for our Fall and Holiday 2011 seasons we do not expect to benefit from such decreases until our Spring 2012 season. We will continue to make price adjustments as warranted to ensure an appropriate value proposition for our customer.

Our Spring and Summer assortments of both core and fashion apparel continue to resonate with our customer, as evidenced by our increased conversion rates. However, traffic levels at our stores were down on a year-over-year basis and were below our expectations. Sales and traffic slowed in the latter half of the quarter, principally as a result of our inventory management plan to end the quarter with considerably lower Summer clearance inventory than the prior-year period. In response to these traffic trends, we continue to be more aggressive with our marketing efforts in an attempt to drive additional traffic to our stores and our websites. We will continue to manage inventories in order to protect our gross margins and operating results.

Financial Position

We ended the Fiscal 2011 Second Quarter with $227 million of cash as compared to $117 million as of the end of Fiscal 2010 and ended the quarter with a net cash position as compared to a net debt position as of the end of Fiscal 2010. Our cash position increased primarily as a result of improved operating results during the first half of Fiscal 2011, disciplined inventory management, improved sell-through of our seasonal merchandise at each of our brands, collections of accounts receivable generated from December 2010 holiday season sales by our Direct-to-Consumer segment, and proceeds of $7.5 million from the sale of office premises. Our comparable store inventories decreased 5% on a cost basis as of the end of the Fiscal 2011 Second Quarter. Our disciplined inventory management has led to better inventory productivity, as fewer units drove improved turns of seasonal merchandise.

On July 14, 2011 we entered into an amended and restated loan and security agreement for a $200,000,000 senior secured revolving credit facility, which replaces our $225,000,000 senior secured revolving credit facility and provides for committed revolving credit availability through July 14, 2016. See “FINANCING; Revolving Credit Facility” below for further discussion of the amended agreement. We ended the quarter with no borrowings against the revolving credit facility. As of July 30, 2011, our total liquidity position was $374 million.

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Management Initiatives

In March 2011 we announced the following areas of focus designed to further position the Company for a return to profitability (see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; OVERVIEW" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 for further discussion of these initiatives):

intensify our focus on our primary target customers specific to each of our brands;

increase inventory productivity both qualitatively and quantitatively;

improve the overall profitability by brand and at the enterprise level; and

build a winning culture.

Our results for the first half of Fiscal 2011 reflect the beginning of the execution of the above initiatives. Our intensified focus on our primary target customer has led to improved fashion assortments, which are resonating with our target customer and are resulting in improved conversion rates. The improved assortments are generating increased inventory productivity and improved gross margins, which have led to improved overall profitability and increased Adjusted EBITDA.

We are encouraged by our progress and improved financial results. However, we have a number of challenges to address, including generating additional traffic and continued optimization of our inventory mix, while navigating through the challenges of the current macro-economic environment. We have positioned ourselves to compete aggressively in this challenging macro-economic environment by continuing our disciplined inventory management and with more focused marketing, including appropriate promotional pricing adjustments, as our consumer dictates and as circumstances warrant. We recognize that the real measure of success will be consistent, improving performance. We will continue to execute on our initiatives throughout the remainder of Fiscal 2011.

RESULTS OF OPERATIONS

EBITDA and Adjusted EBITDA

We believe that Adjusted EBITDA, along with other measures, provides a useful pre-tax measure of our ongoing operating performance and our ability to meet debt service and capital requirements on a comparable basis excluding the impact of certain items and capital-related non-cash charges. We use Adjusted EBITDA to monitor and evaluate the performance of our business operations and we believe that it enhances our investors' ability to analyze trends in our business, compare our performance to other companies in our industry, and evaluate our ability to service our debt and capital needs. In addition, we use Adjusted EBITDA as a performance metric in our compensation programs.

Although Adjusted EBITDA provides useful information on an operating cash flow basis, it is a limited measure in that it excludes the impact of cash requirements for interest expense, income taxes, capital expenditures, and certain other items requiring cash outlays or generating cash receipts. Therefore, Adjusted EBITDA should be used as a supplement to results of operations and cash flows as reported under Generally Accepted Accounting Principles ("GAAP") and should not be used as a singular measure of operating performance or as a substitute for GAAP results.

Further information regarding our definition of EBITDA and Adjusted EBITDA is included in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; Results of Operations; EBITDA and Adjusted EBITDA” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

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The tables on the following pages show details of our consolidated net sales and a reconciliation of our income/(loss) from continuing operations to EBITDA and Adjusted EBITDA for the periods indicated.

Net Sales and Reconciliation of Net Income/(Loss) to EBITDA and Adjusted EBITDA

(In millions)	LANE BRYANT(1)	FASHION BUG	CATHERINES	Total Retail Stores
Thirteen weeks ended July 30, 2011				
Net sales	$ 251.5	$161.4	$ 79.9	$492.8
Net loss	14.7	12.5	6.1	33.3
Income tax provision	–	–	–	–
Net interest expense and other income	–	–	–	–
Depreciation and amortization	7.7	1.8	1.5	11.0
EBITDA	22.4	14.3	7.6	44.3
Restructuring and other charges	–	–	–	–
Adjusted EBITDA	$ 22.4	$14.3	$ 7.6	$44.3
Adjusted EBITDA as a % of net sales	8.9 %	8.9 %	9.5 %	9.0 %

(1) Includes LANE BRYANT OUTLET® stores, with net sales of $34.7 and Adjusted EBITDA of $7.1.

(In millions)	Direct-to-Consumer(2)	Corporate And Other	Consolidated
Thirteen weeks ended July 30, 2011			
Net sales	$ 6.4	$0.0	$ 499.2
Net loss	(3.8)	(31.4)	(1.9)
Income tax provision	–	1.6	1.6
Net interest expense and other income	–	3.8	3.8
Depreciation and amortization	0.3	3.2	14.5
EBITDA	(3.5)	(22.8)	18.0
Restructuring and other charges	–	0.5	0.5
Adjusted EBITDA	$ (3.5)	$(22.3)	$ 18.5
Adjusted EBITDA as a % of net sales	(54.7)%	– (3)	3.7 %

(2) Primarily FIGI'S catalog business. A substantial portion of FIGI's sales occur during the December holiday season.
(3) Not meaningful.

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Net Sales and Reconciliation of Net Income/(Loss) to EBITDA and Adjusted EBITDA
(Continued)

(In millions)	LANE BRYANT(1)	FASHION BUG	CATHERINES	Total Retail Stores
Thirteen weeks ended July 31, 2010				
Net sales	$ 249.2	$182.8	$ 80.2	$512.2
Net loss	3.8	6.4	3.9	14.1
Income tax benefit	–	–	–	–
Net interest expense and other income	–	–	–	–
Depreciation and amortization	8.9	2.7	2.0	13.6
EBITDA	12.7	9.1	5.9	27.7
Gain on repurchases of 1.125% Senior Convertible Notes				
Restructuring and other charges	–	–	–	–
Adjusted EBITDA	$ 12.7	$9.1	$ 5.9	$27.7
Adjusted EBITDA as a % of net sales	5.1 %	5.0 %	7.4 %	5.4 %

(1) Includes LANE BRYANT OUTLET stores, with net sales of $31.8 and Adjusted EBITDA of $5.8.

(In millions)	Direct-to-Consumer(2)	Corporate And Other(3)	Consolidated
Thirteen weeks ended July 31, 2010			
Net sales	$ 5.4	$0.0	$ 517.6
Net loss	(3.2)	(19.5)	(8.6)
Income tax benefit	–	(0.4)	(0.4)
Net interest expense and other income	–	3.7	3.7
Depreciation and amortization	0.3	3.0	16.9
EBITDA	(2.9)	(13.2)	11.6
Gain on repurchases of 1.125% Senior Convertible Notes	–	(1.9)	(1.9)
Restructuring and other charges	–	0.6	0.6
Adjusted EBITDA	$ (2.9)	$(14.5)	$ 10.3
Adjusted EBITDA as a % of net sales	(53.7)%	– (4)	2.0 %

(2) Primarily FIGI'S catalog business. A substantial portion of FIGI's sales occur during the December holiday season.

(3) Corporate and Other includes the results of our direct sourcing operation. In the Fiscal 2010 Second Quarter the results of our Corporate and Other segment included the favorable impact of buying efficiencies gained from buying a higher percentage of apparel products through our direct sourcing operation.
(4) Not meaningful.

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Net Sales and Reconciliation of Net Income/(Loss) to EBITDA and Adjusted EBITDA
(Continued)

(In millions)	LANE BRYANT(1)	FASHION BUG	CATHERINES	Total Retail Stores
Twenty-six weeks ended July 30, 2011				
Net sales	$ 514.3	$311.4	$ 157.7	$983.4
Net income	56.3	21.0	11.6	88.9
Income tax provision	–	–	–	–
Net interest expense and other income	–	–	–	–
Depreciation and amortization	15.1	3.9	3.1	22.1
EBITDA	71.4	24.9	14.7	111.0
Gain from sale of office premises	–	–	–	–
Restructuring and other credits	–	–	–	–
Adjusted EBITDA	$ 71.4	$24.9	$ 14.7	$111.0
Adjusted EBITDA as a % of net sales	13.9 %	8.0 %	9.3 %	11.3 %

(1) Includes LANE BRYANT OUTLET® stores, with net sales of $63.9 and Adjusted EBITDA of $11.5.

(In millions)	Direct-to-Consumer(2)	Corporate And Other	Consolidated
Twenty-six weeks ended July 30, 2011			
Net sales	$ 20.2	$0.0	$ 1,003.6
Net income	(5.8)	(59.0)	24.1
Income tax provision	–	4.0	4.0
Net interest expense and other income	–	7.4	7.4
Depreciation and amortization	0.5	6.3	28.9
EBITDA	(5.3)	(41.3)	64.4
Gain from sale of office premises	–	(5.2)	(5.2)
Restructuring and other credits	–	(0.1)	(0.1)
Adjusted EBITDA	$ (5.3)	$(46.6)	$ 59.1
Adjusted EBITDA as a % of net sales	(26.2)%	– (3)	5.9 %

(2) Primarily FIGI'S catalog business. A substantial portion of FIGI's sales occur during the December holiday season.
(3) Not meaningful.

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Net Sales and Reconciliation of Net Income/(Loss) to EBITDA and Adjusted EBITDA
(Continued)

(In millions)	LANE BRYANT(1)	FASHION BUG	CATHERINES	Total Retail Stores
Twenty-six weeks ended July 31, 2010				
Net sales	$ 495.3	$348.7	$ 160.3	$1,004.3
Net loss	29.5	5.4	7.2	42.1
Income tax benefit	–	–	–	–
Net interest expense and other income	–	–	–	–
Depreciation and amortization	17.4	5.5	3.9	26.8
EBITDA	46.9	10.9	11.1	68.9
Gain on repurchases of 1.125% Senior Convertible Notes				
Restructuring and other charges	–	–	–	–
Adjusted EBITDA	$ 46.9	$10.9	$ 11.1	$68.9
Adjusted EBITDA as a % of net sales	9.5 %	3.1 %	6.9 %	6.9 %

(1) Includes LANE BRYANT OUTLET stores, with net sales of $58.7 and Adjusted EBITDA of $9.7.

(In millions)	Direct-to-Consumer(2)	Corporate And Other	Consolidated
Twenty-six weeks ended July 31, 2010			
Net sales	$ 18.1	$0.0	$ 1,022.4
Net loss	(4.9)	(41.9)	(4.7)
Income tax benefit	–	(1.2)	(1.2)
Net interest expense and other income	–	8.0	8.0
Depreciation and amortization	0.6	6.4	33.8
EBITDA	(4.3)	(28.7)	35.9
Gain on repurchases of 1.125% Senior Convertible Notes	–	(1.9)	(1.9)
Restructuring and other charges	–	1.5	1.5
Adjusted EBITDA	$ (4.3)	$(29.1)	$ 35.5
Adjusted EBITDA as a % of net sales	(23.8)%	– (3)	3.5 %

(2) Primarily FIGI'S catalog business. A substantial portion of FIGI's sales occur during the December holiday season.
(3) Not meaningful.

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The following table shows information related to the change in our Retail Stores segment net sales:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
Increase/(decrease) in comparable store sales(1) :				
Consolidated retail stores	1%	1%	1%	(1)%
LANE BRYANT(2)	3	1	5	(1)
FASHION BUG®	(3)	3	(3)	1
CATHERINES	2	0	0	(1)
Sales from new stores as a percentage of prior-period consolidated net sales(3):				
LANE BRYANT(2)	2	1	2	1
FASHION BUG	0	0	0	0
CATHERINES(4)	0	1	0	1
Prior-period sales from closed stores as a percentage of prior-period consolidated net sales:				
LANE BRYANT(2)	(2)	(1)	(2)	(1)
FASHION BUG	(3)	(3)	(3)	(3)
CATHERINES	(1)	0	0	0
Other retail stores(5)	0	(1)	0	(1)
Decrease in Retail Stores segment net sales	(4)	(2)	(2)	(3)

(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. Sales from 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 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 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 LANE BRYANT OUTLET stores.

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

(4) Includes CATHERINES stores in outlet locations, which were converted from PETITE SOPHISTICATE OUTLET stores during the Fiscal 2009 Fourth Quarter and Fiscal 2010 First Quarter.

(5) Includes PETITE SOPHISTICATE OUTLET stores, which were closed or converted to CATHERINES stores in outlet locations during the Fiscal 2009 Fourth Quarter and Fiscal 2010 First Quarter.

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Retail Store Activity for Fiscal 2011

	LANE BRYANT(1)	FASHION BUG	CATHERINES	Total
Fiscal 2011 Year-to-Date:				
Stores at January 29, 2011	846	743	475	2,064
Stores opened	2	1	0	3
Stores closed(2)	(31)	(60)	(23)	(114)
Net change in stores	(29)	(59)	(23)	(111)
Stores at July 30, 2011	817	684	452	1,953
Stores relocated during period	6	0	0	6
Fiscal 2011 Plan:				
Store openings	5-7	1	0	6-8
Store closings(3)	50-55	135-140	40-45	225-240
Store relocations	10-13	0	0	10-13

(1) Includes LANE BRYANT OUTLET stores.
(2) Primarily includes stores closed as part of our previously announced store closing initiatives.
(3) Includes approximately 210 under-performing stores and 15 CATHERINES stores in outlet locations (see “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 13. RESTRUCTURING AND OTHER CHARGES” of our annual report on Form 10-K for the fiscal year ended January 29, 2011).

Comparison of Thirteen Weeks Ended July 30, 2011 and July 31, 2010

Net Sales

(Dollars in millions)	Thirteen Weeks Ended July 30, 2011	% of Net Sales	Thirteen Weeks Ended July 31, 2010	% of Net Sales	Change From Prior Period Dollars	Change From Prior Period Percent
LANE BRYANT(1)	$251.5	50.4 %	$249.2	48.2 %	$2.3	0.9 %
FASHION BUG	161.4	32.3	182.8	35.3	(21.4)	(11.7)
CATHERINES	79.9	16.0	80.2	15.5	(0.3)	(0.4)
Total Retail Stores	492.8	98.7	512.2	99.0	(19.4)	(3.8)
Direct-to-Consumer	6.4	1.3	5.4	1.0	1.0	18.5
Consolidated net sales	$499.2	100.0 %	$517.6	100.0 %	$(18.4)	(3.5)%

(1) Includes LANE BRYANT OUTLET stores.

A 1% increase in Retail Stores segment comparable store sales and a 17% increase in store-related e-commerce net sales for the Fiscal 2011Second Quarter as compared to the Fiscal 2010 Second Quarter were more than offset by the impact of 155 net store closings during the preceding 12-month period. As discussed in the overview above, the improvement in our comparable store sales was primarily attributable to our LANE BRYANT brand and was driven by a more fashionable apparel assortment and disciplined inventory management across all of our brands.

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LANE BRYANT sales increased as compared to the prior-year period primarily as a result of a 3% increase in comparable store sales and a 20% increase in store-related e-commerce net sales, partially offset by 38 net store closings during the preceding 12-month period. LANE BRYANT has experienced five consecutive quarters of positive comparable store sales, which reflects the improvements to their merchandise assortments. An improvement in average dollar sale was partially offset by a decrease in traffic levels as compared to the prior-year period.

FASHION BUG sales decreased primarily as a result of 89 net store closings during the preceding 12-month period and a 3% decrease in comparable store sales, partially offset by a 3% increase in store-related e-commerce net sales. The decrease in comparable store sales reflects the impact of increased levels of clearance sales in the prior-year period as a result of our efforts to liquidate slow-moving seasonal merchandise. Decreases in traffic levels and units per transaction as compared to the prior-year period were partially offset by improvements in conversion rate and average dollar sale.

CATHERINES sales decreased slightly as compared to the prior-year period as a 2% increase in comparable store sales and a 23% increase in store-related e-commerce net sales were more than offset by the impact of 28 net store closings during the preceding 12-month period. Improvements in the conversion rate and average dollar sale were partially offset by decreases in traffic levels and units per transaction as compared to the prior-year period.

Retail Stores segment e-commerce net sales for the Fiscal 2011 Second Quarter represented 7% of Retail Stores segment net sales for the current-year period as compared to 6% of Retail Stores segment net sales for the prior-year period. The improvement in e-commerce net sales reflects our continuing efforts to enhance our customers' on-line shopping experience, which include an expanding selection of new brands through our SONSI® website and the September 2011 launch of new outfitting technology that will improve the customers' ability to shop for outfits.

During the Fiscal 2011 Second Quarter we recognized revenues of $4.6 million in connection with our loyalty card programs as compared to revenues of $4.8 million during the Fiscal 2010 Second Quarter.

For our Direct-to-Consumer segment, the increase in net sales was attributable to a planned increase in the circulation of our FIGI'S Spring season and Gallery catalogs. The Direct-to-Consumer segment generates a substantial portion of its sales during the December holiday season.

Gross Profit

(Dollars in millions)	Thirteen Weeks Ended July 30, 2011	% of Net Sales	Thirteen Weeks Ended July 31, 2010	% of Net Sales	Change as a Percentage of Net Sales
Consolidated gross profit	$245.9	49.3 %	$249.1	48.1 %	1.2 %

Consolidated gross profit as a percentage of net sales increased primarily as a result of improvements in gross margins from improved assortments and disciplined inventory management. We were more promotional in the Fiscal 2010 Second Quarter to sell through slow-moving seasonal inventory, which negatively impacted gross margins in the prior-year period. The Fiscal 2011 Second Quarter gross margin was moderately affected by cost increases associated with cotton, wool, and synthetic fabrics, as discussed in the overview above.

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For our Retail Stores segment, gross profit as a percentage of Retail Stores net sales increased 190 basis points as compared to the prior-year period. Gross profit as a percentage of net sales increased 370 basis points for FASHION BUG, 130 basis points for CATHERINES, and 60 basis points for LANE BRYANT as compared to the prior-year period. As noted in the overview above, the increase in Retail Stores segment gross margin was primarily the result of improved assortments and disciplined inventory management, which resulted in faster inventory turnover of seasonal merchandise and fewer markdowns during the current-year period. Additionally, FASHION BUG and CATHERINES were less promotional in the current-year period as compared to the prior-year period as a result of improved sell-through of our seasonal inventory.

Gross profit for the Direct-to-Consumer segment increased as a result of the increase in Direct-to-Consumer segment net sales but decreased as a percentage of net sales primarily due to the mix of food and non-food catalog sales for Fiscal 2011.

Occupancy and Buying

(Dollars in millions)	Thirteen Weeks Ended July 30, 2011	% of Net Sales	Thirteen Weeks Ended July 31, 2010	% of Net Sales	Change as a Percentage of Net Sales
Consolidated occupancy and buying	$86.6	17.4 %	$91.9	17.8 %	(0.4) %

Consolidated occupancy and buying expenses decreased both in dollar amount and as a percentage of net sales primarily as a result of 155 net store closings during the preceding twelve-month period as part of our initiative to close under-performing stores, as well as from rent reductions secured from landlords as a result of lease negotiations.

Occupancy and buying expenses for our Retail Stores segment as a percentage of Retail Stores net sales decreased 80 basis points. Occupancy and buying expenses as a percentage of net sales decreased 170 basis points for LANE BRYANT and decreased 80 basis points for CATHERINES, primarily as a result of leverage from increases in comparable store sales. For FASHION BUG, buying and occupancy expenses decreased in dollar amount but increased 10 basis points as a percentage of net sales as a result of negative leverage from the decrease in comparable store sales.

Occupancy and buying expenses for our Direct-to-Consumer segment were comparable to the prior-year period.

Selling, General, and Administrative

(Dollars in millions)	Thirteen Weeks Ended July 30, 2011	% of Net Sales	Thirteen Weeks Ended July 31, 2010	% of Net Sales	Change as a Percentage of Net Sales
	$140.8	28.2 %	$147.0	28.4 %	(0.2) %

Consolidated selling, general,
and administrative

Consolidated selling, general, and administrative expenses decreased as a percentage of net sales and in dollar amount primarily as a result of a combination of lower store payroll as a result of operating fewer stores, lower advertising expenses, leverage from the increase in comparable store sales at our LANE BRYANT and CATHERINES brands, and higher credit income.

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Retail Stores segment selling, general, and administrative expenses decreased 90 basis points as a percentage of Retail Stores net sales as compared to the prior-year period. Selling, general, and administrative expenses as a percentage of net sales decreased 160 basis points for LANE BRYANT, primarily as a result of leverage from the increase in comparable store sales, decreased 30 basis points for FASHION BUG, and were flat for CATHERINES.

Selling, general, and administrative expenses for our Direct-to-Consumer segment increased as compared to the prior-year period primarily as a result of selling expenses related to our SONSI social media website, which was launched in the latter part of Fiscal 2010.

Depreciation and Amortization

(Dollars in millions)	Thirteen Weeks Ended July 30, 2011	% of Net Sales	Thirteen Weeks Ended July 31, 2010	% of Net Sales	Change as a Percentage of Net Sales
Depreciation and amortization	$14.5	2.9 %	$16.9	3.3 %	(0.4) %

Depreciation and amortization expense decreased primarily as a result of our operation of fewer stores in the current-year period as compared to the prior-year period and the write-down of store assets during the Fiscal 2010 Fourth Quarter.

Restructuring and Other Charges

Restructuring and other charges for the Fiscal 2011 Second Quarter consisted primarily of non-cash accelerated depreciation and severance costs for store personnel related to the closing of under-performing stores.

Restructuring and other charges for the Fiscal 2010 Second Quarter consisted primarily of lease termination costs for the closing of under-performing stores identified during the Fiscal 2009 Fourth Quarter and accretion charges on lease termination costs for facilities retained from the sale of our Crosstown Traders apparel catalogs.

Gain on Repurchases of 1.125% Senior Convertible Notes

During the Fiscal 2010 Second Quarter we repurchased 1.125% Senior Convertible Notes due May 1, 2014 with an aggregate principal amount of $49.2 million and recognized a gain on the repurchases of $1.9 million, net of unamortized issue costs.

Income Tax Provision/(Benefit)

The income tax provision/(benefit) continues to reflect the impact of a valuation allowance recorded against our net deferred tax assets. Accordingly, the income tax provision for the Fiscal 2011 Second Quarter resulted primarily from certain state and foreign income taxes payable as well as required deferred taxes and an increase in our liability for unrecognized tax benefits, interest, and penalties associated with uncertain tax positions. The income tax benefit for the Fiscal 2010 Second Quarter was primarily a result of a net decrease in our liability for unrecognized tax benefits, interest, and penalties offset by certain state and foreign income taxes payable as well as required deferred taxes.

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Comparison of Twenty-six Weeks Ended July 30, 2011 and July 31, 2010

Net Sales

(Dollars in millions)	Twenty-six Weeks Ended July 30, 2011	% of Net Sales	Twenty-six Weeks Ended July 31, 2010	% of Net Sales	Change From Prior Period Dollars	Percent
LANE BRYANT(1)	$514.3	51.3 %	$495.3	48.4 %	$19.0	3.8 %
FASHION BUG	311.4	31.0	348.7	34.1	(37.3)	(10.7)
CATHERINES	157.7	15.7	160.3	15.7	(2.6)	(1.6)
Total Retail Stores	983.4	98.0	1,004.3	98.2	(20.9)	(2.1)
Direct-to-Consumer	20.2	2.0	18.1	1.8	2.1	11.6
Consolidated net sales	$1,003.6	100.0 %	$1,022.4	100.0 %	$(18.8)	(1.8)%

(1) Includes LANE BRYANT OUTLET stores.

A 1% increase in Retail Stores segment comparable store sales and a 17% increase in store-related e-commerce net sales for the first half of Fiscal 2011 as compared to the first half of Fiscal 2010 were more than offset by the impact of 155 net store closings during the preceding 12-month period. The improvement in our comparable store sales was primarily attributable to our LANE BRYANT brand and was driven by a more fashionable apparel assortment and disciplined inventory management across all of our brands.

LANE BRYANT sales increased as compared to the prior-year period primarily as a result of a 5% increase in comparable store sales and an 18% increase in store-related e-commerce net sales, partially offset by 38 net store closings during the preceding 12-month period. Improvements in average dollar sale, units per transaction, and conversion rate were partially offset by declines in traffic levels as compared to the prior-year period.

FASHION BUG sales decreased primarily as a result of 89 net store closings during the preceding 12-month period and a 3% decrease in comparable store sales, partially offset by a 5% increase in store-related e-commerce net sales. A decrease in traffic levels as compared to the prior-year period was partially offset by improvements in average dollar sale and conversion rate.

CATHERINES sales decreased as compared to the prior-year period as a 24% increase in store-related e-commerce net sales was more than offset by the impact of 28 net store closings during the preceding 12-month period. Improvements in average dollar sale and units per transaction were more than offset by a decrease in traffic levels as compared to the prior-year period.

Retail Stores segment e-commerce net sales for the first half of Fiscal 2011 represented 7% of Retail Stores segment net sales for the current-year period as compared to 6% of Retail Stores segment net sales for the prior-year period. The improvement in e-commerce net sales reflects our continuing efforts to enhance our customers' on-line shopping experience, which include an expanding selection of new brands through our SONSI website and the September 2011 launch of new outfitting technology that will improve the customers' ability to shop for outfits.

During the first half of Fiscal 2011 we recognized revenues of $9.2 million in connection with our loyalty card programs as compared to revenues of $9.2 million during the first half of Fiscal 2010.

For our Direct-to-Consumer segment, the increase in net sales was attributable to a planned increase in the circulation of our FIGI'S Spring season and Gallery catalogs. The Direct-to-Consumer segment generates a substantial portion of its sales during the December holiday season.

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Gross Profit

(Dollars in millions)	Twenty-six Weeks Ended July 30, 2011	% of Net Sales	Twenty-six Weeks Ended July 31, 2010	% of Net Sales	Change as a Percentage of Net Sales
Consolidated gross profit	$531.2	52.9 %	$525.7	51.4 %	1.5 %

Consolidated gross profit as a percentage of net sales increased primarily as a result of improvements in gross margins from improved assortments and disciplined inventory management. We were more promotional in the first half of Fiscal 2010 to sell through slow-moving seasonal inventory, which negatively impacted gross margins in the prior-year period. The gross margin for the first half of Fiscal 2011 was moderately affected by cost increases associated with cotton, wool, and synthetic fabrics, as discussed in the overview above.

For our Retail Stores segment, gross profit as a percentage of Retail Stores net sales increased 240 basis points as compared to the prior-year period. Gross profit as a percentage of net sales increased 500 basis points for FASHION BUG, 200 basis points for CATHERINES, and 40 basis points for LANE BRYANT as compared to the prior-year period. As noted in the overview above, the increase in Retail Stores segment gross profit was primarily the result of improved assortments and disciplined inventory management, which resulted in faster inventory turnover of seasonal merchandise and fewer markdowns during the current-year period. Additionally, FASHION BUG and CATHERINES were less promotional in the current-year period as compared to the prior-year period as a result of improved sell-through of our seasonal inventory.

Gross profit for the Direct-to-Consumer segment increased slightly in dollar amount as a result of the increase in net sales, but decreased 140 basis points as a percentage of net sales primarily due to the mix of food and non-food catalog sales for Fiscal 2011.

Occupancy and Buying

(Dollars in millions)	Twenty-six Weeks Ended July 30, 2011	% of Net Sales	Twenty-six Weeks Ended July 31, 2010	% of Net Sales	Change as a Percentage of Net Sales
Consolidated occupancy and buying	$176.0	17.5 %	$184.1	18.0 %	(0.5) %

Consolidated occupancy and buying expenses decreased both in dollar amount and as a percentage of net sales primarily as a result of 155 net store closings during the preceding twelve-month period as part of our initiative to close under-performing stores, as well as from rent reductions secured from landlords as a result of lease negotiations.

Occupancy and buying expenses for our Retail Stores segment as a percentage of Retail Stores net sales decreased 80 basis points. Occupancy and buying expenses as a percentage of net sales decreased 170 basis points for LANE BRYANT, primarily as a result of leverage from the increase in comparable store sales, and 60 basis points for CATHERINES. For FASHION BUG, buying and occupancy expenses decreased in dollar amount but increased 20 basis points as a percentage of net sales as a result of negative leverage from the decrease in comparable store sales.

Occupancy and buying expenses for our Direct-to-Consumer segment were comparable to the prior-year period.

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Selling, General, and Administrative

(Dollars in millions)	Twenty-six Weeks Ended July 30, 2011	% of Net Sales	Twenty-six Weeks Ended July 31, 2010	% of Net Sales	Change as a Percentage of Net Sales
Consolidated selling, general, and administrative	$296.1	29.5 %	$306.2	29.9 %	(0.4) %

Consolidated selling, general, and administrative expenses decreased as a percentage of net sales and in dollar amount primarily as a result of a combination of lower payroll as a result of operating fewer stores, higher credit income, and lower advertising expenses primarily due to the non-recurrence of our national television campaign that occurred in the prior-year period.

Retail Stores segment selling, general, and administrative expenses decreased 120 basis points as a percentage of Retail Stores net sales as compared to the prior-year period. Selling, general, and administrative expenses as a percentage of net sales decreased 240 basis points for LANE BRYANT, primarily as a result of leverage from the increase in comparable store sales, were flat for FASHION BUG, and increased 20 basis points for CATHERINES.

Selling, general, and administrative expenses for our Direct-to-Consumer segment increased as compared to the prior-year period primarily as a result of selling expenses related to our SONSI social media website, which was launched in the latter part of Fiscal 2010.

Depreciation and Amortization

(Dollars in millions)	Twenty-six Weeks Ended July 30, 2011	% of Net Sales	Twenty-six Weeks Ended July 31, 2010	% of Net Sales	Change as a Percentage of Net Sales
Depreciation and amortization	$28.9	2.9 %	$33.7	3.3 %	(0.4) %

Depreciation and amortization expense decreased primarily as a result of our operation of fewer stores in the current-year period as compared to the prior-year period and the write-down of store assets during the Fiscal 2010 Fourth Quarter.

Gain from Sale of Office Premises

During the Fiscal 2011 First Quarter we sold office premises in Hong Kong, which served as the home office for our international sourcing operations, for gross proceeds of $7.5 million and recognized a gain on the sale of $5.2 million. Our international sourcing operations now utilize leased space in Hong Kong.

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Restructuring and Other Charges/(Credits)

The net credit in restructuring and other charges for the first half of Fiscal 2011 consisted primarily of adjustments to store-related deferred allowances as a result of the closure of under-performing stores identified for closure during the Fiscal 2010 Fourth Quarter and the settlement of minor lease obligations for certain facilities retained in connection with the sale of our Crosstown Traders apparel catalogs. These charges were partially offset by lease termination costs, non-cash accelerated depreciation, and cash severance costs for store personnel related to under-performing stores identified for closure during the Fiscal 2010 Fourth Quarter.

Restructuring and other charges for the first half of Fiscal 2010 consisted primarily of lease termination costs for the closing of under-performing stores identified during the Fiscal 2009 Fourth Quarter and accretion charges on lease termination costs for facilities retained from the sale of our Crosstown Traders apparel catalogs.

Gain on Repurchases of 1.125% Senior Convertible Notes

During the Fiscal 2010 Second Quarter we repurchased 1.125% Senior Convertible Notes due May 1, 2014 with an aggregate principal amount of $49.2 million and recognized a gain on the repurchases of $1.9 million, net of unamortized issue costs.

Income Tax Provision/(Benefit)

The income tax provision/(benefit) continues to reflect the impact of a valuation allowance recorded against our net deferred tax assets, as well as the availability of net operating loss carryforwards. Accordingly, the income tax provision for the first half of Fiscal 2011 resulted primarily from certain state and foreign income taxes payable as well as required deferred taxes and an increase in our liability for unrecognized tax benefits, interest, and penalties associated with uncertain tax positions. The income tax benefit for the first half of Fiscal 2010 was primarily a result of a reduction in our valuation allowance associated with our net operating loss carryback and a net decrease in our liability for unrecognized tax benefits, interest, and penalties offset by certain state and foreign income taxes payable as well as required deferred taxes.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding for our working capital requirements are our available cash balances, cash flow from operations (including our private-label credit card programs), and our revolving credit facility. The following table highlights certain information related to our liquidity and capital resources:

(Dollars in millions)	July 30, 2011	January 29, 2011
Cash and cash equivalents	$227.4	$117.5
Available borrowing capacity under revolving credit facility	$165.0	$153.8
Working capital	$314.3	$276.6
Current ratio	2.1	2.1
Long-term debt to equity ratio	37.3 %	39.7 %

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Cash Provided by Operating Activities

Our net cash provided by operating activities was $123.2 million for the first half of Fiscal 2011 as compared to cash provided by operating activities of $82.0 million for the first half of Fiscal 2010. The increase in cash provided by operating activities as compared to the prior-year period was primarily the result of improved operating results and a reduction in our investment in inventories net of accounts payable in the current-year period, partially offset by the impact of the timing of payments of accrued expenses. Cash provided by operating activities for the first half of Fiscal 2011 included $1.6 million of Federal income tax refunds related to a net operating loss ("NOL") carryback for Fiscal 2009, while cash provided by operations for the first half of Fiscal 2010 included $45.0 million of Federal income tax refunds related to a NOL carryback for Fiscal 2008 and an amended return. Overall, inventories decreased 5% on a comparable store cost basis.

Cash Used by Investing Activities

Gross capital expenditures, excluding construction allowances received from landlords, were $14.6 million for the first half of Fiscal 2011 as compared to $16.6 million for the first half of Fiscal 2010. Capital expenditures net of construction allowances received from landlords were $14.0 million for the first half of Fiscal 2011 as compared to $14.7 million for the first half of Fiscal 2010. During the Fiscal 2011 Second Quarter we also acquired $2.9 million of equipment through a capital lease. During the Fiscal 2011 First Quarter we received proceeds of $7.5 million from the sale of office premises in Hong Kong.

We anticipate that our projected gross capital expenditures for Fiscal 2011 will be approximately $39-$41 million before construction allowances received from landlords as compared to gross capital expenditures of $35.8 million for Fiscal 2010. We anticipate that our Fiscal 2011 capital expenditures, net of construction allowances received from landlords, will be approximately $37-$39 million as compared to net capital expenditures of $32.8 million for Fiscal 2010. We expect to make these expenditures according to disciplined return on investment criteria for 6-8 new store openings, store remodels, and store refurbishments; for fixturing for new merchandise assortments; to test brand combinations and conversions; and for the implementation of information technology tools to assist in improving our business results. We expect to finance these capital expenditures primarily through internally-generated funds.

Cash Used by Financing Activities

During the first half of Fiscal 2011 we used $3.2 million of cash and during the first half of Fiscal 2010 we used $3.1 million of cash for scheduled repayments of long-term borrowings. In addition, during the Fiscal 2011 Second Quarter we used $1.8 million of cash for payments of deferred financing fees related to our amended revolving credit facility (see "FINANCING; Revolving Credit Facility" below). During the Fiscal 2010 Second Quarter we repurchased $49.2 million aggregate principal amount of 1.125% Senior Convertible Notes due May 1, 2014 for an aggregate purchase price of 38.3 million.

Repurchases of Common Stock

In November 2007 our Board of Directors authorized a $200 million share repurchase program to make share repurchases from time to time in the open market or through privately-negotiated transactions. The timing of such repurchases and the number of shares repurchased will depend on market conditions. We intend to hold shares repurchased as treasury shares. We have not repurchased any shares of common stock subsequent to the Fiscal 2008 First Quarter.

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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 the six months preceding the date of such repurchase, as of the date of such repurchase, and on a projected pro-forma basis for the 12 consecutive fiscal months thereafter. The agreement allows common stock repurchases at lower levels of "Excess Availability" subject to maintaining a minimum "Fixed Charge Coverage Ratio" (as defined in the facility agreement) on a pro-forma basis for the12 months immediately preceding such repurchase. 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 subject to maintaining a minimum level of "Excess Availability" (as defined in the facility agreement) for the six months preceding the payment of such dividends, as of the date of payment of such dividends, and on a projected pro-forma basis for the 12 consecutive fiscal months thereafter. The agreement allows the payment of dividends at lower levels of "Excess Availability" subject to maintaining a minimum "Fixed Charge Coverage Ratio" (as defined in the facility agreement) on a pro-forma basis for the12 months immediately preceding such payment.

FINANCING

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 17. Leases" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

Revolving Credit Facility

On July 14, 2011 we entered into an amended and restated loan and security agreement (the "Amended Agreement") for a $200 million senior secured revolving credit facility (the "Amended Facility"). The Amended Facility replaces our $225 million senior secured revolving credit facility and provides for committed revolving credit availability through July 14, 2016. In addition, the Amended Agreement includes an option allowing us to increase our credit facility to an amount not in excess of $300 million, based on certain terms and conditions. The Amended Facility may be used for working capital and other general corporate purposes, and provides that up to $100 million of the $200 million may be used for letters of credit. See "Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 3. Long-term Debt" above for further details regarding the amended credit facility. There were no borrowings outstanding under the credit facility as of July 30, 2011.

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 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. At all times we are required to maintain Excess Availability (as defined in the Amended Agreement) of at least the greater of 10% of the Borrowing Base (as defined in the Amended Agreement) or $15,000,000. As of July 30, 2011, the Excess Availability under the credit facility was $171.4 million and we were in compliance with all of the covenants included in the facility.

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Long-term Debt

See “PART I; Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 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 our 1.125% Senior Convertible Notes due May 1, 2014.

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; Financing; Long-term Debt” and “Part II, Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 7. Long-term Debt” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

In Fiscal 2011 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 cash equivalents, our operating agreements with Alliance Data related to our private-lable credit cards, and our revolving credit facility will provide adequate liquidity for our business operations and growth opportunities during Fiscal 2011. 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 of July 30, 2011 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.

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

Not applicable.

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.

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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

In August 2009, Sharon Bates and Tamara Baggett, former Store Sales Managers ("SSMs") of stores under our trade name "Catherines," filed a Complaint with the United States District Court, District of Connecticut, against Catherines, Inc. ("Catherines"). The complaint, as amended, alleges that the plaintiffs were unlawfully denied overtime compensation. See "Item 3. Legal Proceedings" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 for further discussion of the complaint.

On July 15, 2011 the Court entered an order granting preliminary approval to a settlement reached by the parties and on July 27, 2011 the parties signed a formal Settlement Agreement and Release. The settlement remains subject to final court approval following expiration of the notice period (which will expire on or about October 28, 2011). The terms of the settlement will not have a material impact on our financial condition or results of operations.

Except for ordinary routine litigation incidental to our business, there are no other material pending 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, if adversely determined, are expected to have a material adverse effect on our financial condition or results of operations.

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

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 $200,000,000. Shares may be purchased in the open market or through privately-negotiated transactions, as market conditions allow. During Fiscal 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. We have not repurchased any shares of our common stock under this program subsequent to Fiscal 2008. As of July 30, 2011, $197,365,000 was available for future repurchases under this program. This repurchase program has no expiration date.

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.

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	Fourth Amended and Restated Loan and Security Agreement, dated July 14, 2011, 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 Bank, National Association, 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 14, 2011, filed on July 19, 2011 (File No. 000-07258, Exhibit 4.1).

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10.1	Stock Appreciation Rights Agreement for grant of 400,000 SARs to Anthony M. Romano dated as of March 29, 2011, incorporated by reference to Form 8-K of the Registrant dated March 23, 2011, filed on March 29, 2011 (File No. 000-07258, Exhibit 10.1).
10.2	Second Amendment to Severance Agreement dated as of March 28, 2011 between Charming Shoppes, Inc. and Anthony M. Romano, incorporated by reference to Form 8-K of the Registrant dated March 23, 2011, filed on March 29, 2011 (File No. 000-07258, Exhibit 10.4).
10.3	Form of Stock Appreciation Rights Agreement for executive officers dated as of March 29, 2011, incorporated by reference to Form 8-K of the Registrant dated March 23, 2011, filed on March 29, 2011 (File No. 000-07258, Exhibit 10.5).
10.4	Charming Shoppes, Inc. 2003 Non-Employee Directors Compensation Plan (A Subplan under the 2010 Stock Award and Incentive Plan), Amended and Restated Effective June 24, 2010, incorporated by reference to Form 10-Q of the Registrant for the quarter ended April 30, 2011 (File No. 000-07258, Exhibit 10.4).
10.5	Charming Shoppes, Inc. 2003 Non-Employee Directors Compensation Plan (A Subplan under the 2010 Stock Award and Incentive Plan) Restricted Share Units Agreement – Share Settled, incorporated by reference to Form 10-Q of the Registrant for the quarter ended April 30, 2011 (File No. 000-07258, Exhibit 10.5).
10.6	Fourth Amended and Restated Guarantee, dated July 14, 2011, by Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., FB Apparel, Inc., Catherines Stores Corporation, Lane Bryant, Inc., and certain of the Company's subsidiaries for the benefit of the lenders party to the Fourth Amended and Restated Loan and Security Agreement, dated July 14, 2011, incorporated by reference to Form 8-K of the Registrant dated July 14, 2011, filed on July 19, 2011 (File No. 000-07258, Exhibit 10.1).
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.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema.*

101.CAL	XBRL Taxonomy Extension Calculation Linkbase.*
101.LAB	XBRL Taxonomy Extension Label Linkbase.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase.*

* Pursuant to Rule 406T of Regulation S-T, the XBRL-related information in Exhibits 101 to this Quarterly Report on Form 10-Q shall not be deemed “filed” as a part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

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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: September 1, 2011

/S/ ANTHONY M. ROMANO
Anthony M. Romano
President
Chief Executive Officer

Date: September 1, 2011

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

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EXHIBIT INDEX

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