CHARMING SHOPPES INC
Form 10-K
April 01, 2009

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

FORM 10-K

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

For the fiscal year ended January 31, 2009

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 Number: 000-07258

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (par value $.10 per share)	The NASDAQ Stock Market LLC Chicago Stock Exchange, Inc.
Stock Purchase Rights	The NASDAQ Stock Market LLC

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

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:
Yes x No o

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:
Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:
x

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Yes o No x

The aggregate market value of the outstanding common stock of the registrant held by non-affiliates as of August 2, 2008 (the last day of the registrant's most recently completed second fiscal quarter), based on the closing price on August 1, 2008, was approximately $616,261,448.

As of March 23, 2009, 115,291,618 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this Form 10-K is incorporated by reference herein from the registrant's definitive proxy statement for its 2009 annual shareholders meeting, which is expected to be filed within 120 days after the end of the fiscal year covered by this Annual Report.

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FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

GENERAL

We are a multi-brand, specialty apparel retailer with a leading market share in women's plus-size specialty apparel. During our fiscal year ended January 31, 2009 ("Fiscal 2009") the sale of plus-size apparel represented approximately 80% of our total net sales. Through our multiple channels, fashion content, and broad merchandise assortments, we seek to appeal to customers from a broad range of socioeconomic, demographic, and cultural groups. During Fiscal 2009 our business operations consisted primarily of three distinct core brands: LANE BRYANT®, FASHION BUG®, and CATHERINES PLUS SIZES®. These core brands operate retail stores and store-related e-commerce websites under our Retail Stores business segment.

LANE BRYANT® is a widely recognized brand name in plus-size fashion. Through private labels such as VENEZIA®, CACIQUE®, and LANE BRYANT®, we offer fashionable and sophisticated apparel in plus-sizes 14 – 28, including intimate apparel, wear-to-work and casual sportswear, and accessories. LANE BRYANT has a loyal customer base, generally ranging in age from 35 to 55 years old, which shops for fashionable merchandise in the moderate price range. Our 786 LANE BRYANT retail stores are located in 47 states, in a combination of destination malls, lifestyle centers, and strip malls, and average approximately 5,900 square feet. During Fiscal 2009 our LANE BRYANT website (lanebryant.com) averaged 2.3 million unique visitors per month with an established on-line community.

Our LANE BRYANT intimate apparel side-by-side store pairs LANE BRYANT's casual and wear-to-work sportswear assortments with an expanded line of CACIQUE intimates as well as additional national brands, presented in a double store-front. This larger footprint of approximately 7,200 square feet per combined store compares with the full-line LANE BRYANT store footprint of approximately 5,600 square feet. Included in the 786 stores operated by LANE BRYANT as of January 31, 2009 are 132 stores operated in the side-by-side format.

LANE BRYANT OUTLET® is the only national chain exclusively offering women's plus-size apparel in the outlet sales channel. Through our private labels and selected national brands we offer fashionable and sophisticated apparel in plus-sizes 14 – 28, including intimate apparel, wear-to-work and casual sportswear, and accessories, as well as selected footwear and social occasion apparel. As of January 31, 2009 we operated 106 LANE BRYANT OUTLET stores in 34 states throughout the country. LANE BRYANT OUTLET stores average approximately 5,800 square feet.

FASHION BUG® stores specialize in selling plus-size and misses apparel in sizes 6 – 30 serving women's lifestyle needs from casual to dressy, as well as accessories, intimate apparel, and footwear. FASHION BUG customers generally range in age from 20 to 49 years old and shop in the low-to-moderate price range. Our 897 FASHION BUG stores are located in 43 states, primarily in strip shopping centers, and average approximately 8,700 square feet. During Fiscal 2009 our FASHION BUG website (fashionbug.com) averaged 988,000 unique visitors per month.

CATHERINES PLUS SIZES® is particularly known for extended sizes (over size 28) and petite plus-sizes. CATHERINES® offers classic apparel and accessories for wear-to-work and casual lifestyles. CATHERINES customers are generally in the 40 years old and older age group, shop in the moderate price range, and are concerned with fit and value. Our 463 CATHERINES stores are located in 44 states, primarily in strip shopping centers, and average approximately 4,200 square feet. During Fiscal 2009 our CATHERINES website (catherines.com) averaged more than 503,000 unique visitors per month.

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PETITE SOPHISTICATE OUTLET® is the only national chain exclusively offering women's petite-size apparel in the outlet sales channel. PETITE SOPHISTICATE OUTLET targets women 35 – 55 years old and offers traditional and contemporary apparel in casual and career assortments. We offer clothing tailored to women 4'11" – 5'4" who wear petite sizes 0 – 14. Substantially all of the PETITE SOPHISTICATE OUTLET stores operate with a LANE BRYANT OUTLET store in side-by-side locations. As of January 31, 2009 we operated 49 PETITE SOPHISTICATE OUTLET stores in 24 states throughout the country. These stores average approximately 2,600 square feet and the side-by-side locations average a combined total of approximately 8,900 square feet. During Fiscal 2009 our PETITE SOPHISTICATE OUTLET website (petitesophisticate.com) began e-commerce operations and in March 2009 it transitioned from an e-commerce website to a marketing and informational website.

In addition to the core brands operated under our Retail Stores segment, during Fiscal 2009 our Crosstown Traders and LANE BRYANT WOMAN catalog and catalog-related e-commerce websites operated under our Direct-to-Consumer segment. Crosstown Traders marketed women's apparel through various catalog titles and related e-commerce websites, and marketed food and specialty gift products through its FIGI'S® catalog and related e-commerce website. The LANE BRYANT WOMAN catalog and related e-commerce website targeted a different core customer from our LANE BRYANT retail stores with different fashion and price points. In April 2008 we began to explore strategic alternatives for our Crosstown Traders business in order to provide a greater focus on our core brands and to enhance shareholder value. In September 2008 we completed the sale of our Crosstown Traders non-core misses apparel catalogs. During the third quarter of Fiscal 2009 we also decided to discontinue the LANE BRYANT WOMAN catalog in order to focus on our core LANE BRYANT retail customer and began to actively explore the sale of our FIGI'S gift catalog. We expect to discontinue the LANE BRYANT WOMAN catalog operations during the first half of our fiscal year ending January 30, 2010 ("Fiscal 2010"). These steps will enable us to focus all of our direct-to-consumer efforts on our three core brands, particularly on their e-commerce businesses.

Financial information by business segment for each of our last three fiscal years is included in "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements; NOTE 19. SEGMENT REPORTING" below.

We are currently reviewing our organizational structure with a view towards empowering each of our core brands to take full ownership of all aspects of the customers' experience while collectively seeking to maximize synergies from being a multi-brand retailer. With the assistance of a global management consulting firm we are in the process of transforming our operations into a vertical specialty store model and increasing our percentage of internally designed, developed, and sourced fashion product. We plan to develop and source more of our own proprietary fashion merchandise, become more focused on fashion and less driven by commodity product, and ultimately create an enhanced brand experience for our customers through an improved assortment across each of our core brands. Under the vertical specialty store model, each of our brands can project a unique fashion point-of-view with a consistent fit, color, and brand attitude. Increasing the percentage of merchandise we source directly will lead to gross margin enhancement opportunities and better value for our customers. During Fiscal 2009 we appointed experienced brand presidents for each of our core brands and hired product design and development executives as part of our commitment to this transformation and to support this process.

In conjunction with these organizational initiatives, we also began to implement a multi-year strategy to enhance our competitive position and improve our financial results. The strategy includes: a re-focus on our core retail brands; divestiture of non-core assets; substantial reductions in operating expenses and a streamlining of our operations; and maintaining and protecting our strong financial position. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; OVERVIEW" below for further discussion of our planned organizational initiatives and details of our multi-year strategy.

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RETAIL STORES SEGMENT

Stores

Our 2,301 retail stores (as of January 31, 2009) are primarily located in suburban areas and small towns. Approximately 79% of these stores are located in strip shopping centers and lifestyle centers, with the remainder located in community and regional malls. The majority of our FASHION BUG, CATHERINES, and outlet stores are strip-center based. Approximately 51% of our LANE BRYANT stores are located in strip and lifestyle shopping centers, with the remaining stores located primarily in national malls.

We believe that our customers visit strip shopping centers frequently as a result of the tenant mix and convenience of strip shopping centers. Our long-term real estate strategy is to continue to increase the percentage of total stores in strip and lifestyle centers, primarily through growth at the LANE BRYANT brand. Availability of strip and lifestyle center retail space significantly outpaces mall expansion. In addition, we benefit in strip and lifestyle centers from substantially lower occupancy costs as compared to occupancy costs in malls. We continue to seek additional store locations that meet our financial and operational objectives.

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

All retail stores are operated under our direct management. Each store has a manager and/or an assistant manager or supervisor who is in daily operational control of the location. We also employ district managers who travel to all stores in their district on a frequent basis to supervise store operations. Each district manager has responsibility for an average of 14 stores. Regional managers, who report to a Vice President of Stores, supervise the district managers. Generally, we appoint district managers from our pool of store managers and our store managers from our pool of assistant store managers. We seek to motivate our store management through internal advancement and promotion, competitive wages, and various incentive, medical, and retirement plans. We centrally develop store operations, merchandising, and buying policies, and assign to individual store management the principal duties of display, selling, and reporting through point-of-sale terminals.

The recessionary economy that existed during Fiscal 2009 has resulted in a continuing downward trend in traffic levels in our retail stores. The women's specialty apparel market has been particularly hard hit, as consumers are delaying purchases in response to the increasingly uncertain economic environment and a deteriorating job market. In response to the continuing weak retail and economic environment, during February 2008 we announced a significant reduction in the number of planned store openings and the closing of approximately 150 under-performing stores during Fiscal 2009. In November 2008 we announced the closing of as many as 100 additional stores and a significant reduction in store openings and relocations during Fiscal 2010. We also announced a substantial reduction in capital spending in Fiscal 2010 that will result in the opening and relocation of fewer stores than in prior years. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; OVERVIEW" below for additional information regarding our planned store openings and closings.

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

	Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
Store Activity:			
Number of stores open at beginning of period	2,409	2,378	2,236
Opened during period	48 (1)	103(2)	198(3)
Closed during period	(156)(4)	(72)	(56)
Number of stores open at end of period	2,301	2,409	2,378
Number of Stores Open at End of Period by Brand:			
FASHION BUG	897	989	1,009
LANE BRYANT	892(5)	896(5)	859(5)
CATHERINES	463	468	465
PETITE SOPHISTICATE OUTLET	49	56(6)	45
Number of stores open at end of period	2,301	2,409	2,378

(1) Includes 7 LANE BRYANT OUTLET stores, 11 LANE BRYANT/CACIQUE intimate apparel side-by-side stores, and 4 PETITE SOPHISTICATE OUTLET stores.

(2) Includes 19 LANE BRYANT OUTLET stores, 37 LANE BRYANT intimate apparel side-by-side stores, 7 PETITE SOPHISTICATE OUTLET stores, and 4 PETITE SOPHISTICATE stores.

(3) Includes 82 LANE BRYANT OUTLET stores and 45 PETITE SOPHISTICATE OUTLET stores.

(4) Includes 78 FASHION BUG, 10 CATHERINES, 21 LANE BRYANT, 2 LANE BRYANT OUTLET, 1 PETITE SOPHISTICATE OUTLET, and 4 PETITE SOPHISTICATE stores in connection with the closure of under-performing stores announced in February 2008.

(5) Includes LANE BRYANT OUTLET stores as follows: 106 in Fiscal 2009, 101 in Fiscal 2008, and 82 in Fiscal 2007.

(6) Includes 4 PETITE SOPHISTICATE stores.

Our planned store activity by brand for Fiscal 2010 is as follows:

	Openings	Closings(1)	Relocations
FASHION BUG	0	45	3

LANE BRYANT	6	30	9
CATHERINES	0	13	0
PETITE SOPHISTICATE OUTLET	0	12	0
Total	6	100	12

(1) Closure of under-performing stores announced in November 2008.

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Merchandising and Buying

We employ a merchandising and buying strategy that is focused on providing an attractive selection of apparel and accessories that reflect the fashion preferences of the core customer for each of our retail store brands. The marketing and merchandising operations for each of our core brands operate as separate groups. We believe that the specialization of marketers and buyers within each brand enhances each brand’s identity and distinctiveness. We also use domestic and international fashion market guidance, fashion advisory services, proprietary design, and in-store and e-commerce testing to determine the optimal product assortments for each of our brands. We believe that this approach results in greater success in predicting customer preferences while reducing our inventory investment and risk. We seek to maintain high quality standards with respect to merchandise fabrication, construction, and fit. Our merchandising and buying philosophy, coupled with enhancements in inventory management, helps facilitate the timely and orderly purchase and flow of merchandise. This enables our stores to offer fresh product assortments on a regular basis.

We continually refine our merchandise assortments to reflect the needs and demands of our diverse customer groups and the demographics of each store location. At LANE BRYANT we offer a combination of fashion basics, seasonal fashions, and high fashion in casual and wear-to-work merchandise and our CACIQUE brand of intimate apparel, as well as other national brand intimate apparel and accessories. We translate current trends into plus-sizes and strive to be first to market with our styles. At FASHION BUG we offer a broad assortment of both casual and wear-to-work apparel in plus and misses sizes at low-to-moderate prices. FASHION BUG’s merchandise typically reflects established fashion trends and includes a broad offering of ready-to-wear apparel as well as footwear, accessories, intimate apparel, and seasonal items, such as outerwear. At CATHERINES we offer a broad assortment of plus-size merchandise in classic styles designed to provide “head-to-toe” dressing for our customers. CATHERINES features casual and career sportswear, dresses, intimate apparel, suits, and accessories in a variety of plus-sizes, including petites and extended sizes. CATHERINES has developed a unique expertise in the fit, design, and manufacturing of extended sizes, making it one of the few retailers to emphasize these sizes. Our “Right Fit by Lane Bryant®”, “Right Fit by Fashion Bug®”, and “Right Fit by Catherines®” campaigns support our core denim and career pant assortments using a unique fit and sizing technology, based on an extensive fit survey. Right Fit adapts to three different body shapes: straight, moderately curvy, and curvy.

LANE BRYANT OUTLET features products developed exclusively for our outlet stores, which include updated key items and best-sellers from our full-line LANE BRYANT brand. Selected national brands and expanded categories, such as intimate apparel, footwear, and social occasion, are also offered at LANE BRYANT OUTLET. PETITE SOPHISTICATE OUTLET offers career and casual sportswear in petite sizes 0-14. The brand provides traditional, updated classics, and collections to meet the customers’ everyday work and casual needs, with an emphasis on outfitting.

As discussed under the caption “GENERAL” above, we are in the process of transforming our merchandising operations into a vertical specialty store model and increasing our percentage of internally designed, developed and sourced fashion product. We plan to develop more of our own proprietary fashion merchandise, become more focused on fashion and less driven by commodity product, present a strong fashion point-of-view, and ultimately create an enhanced brand experience for our customers through an improved assortment across each of our core brands.

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

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

Our stores experience a normal seasonal sales pattern for the retail apparel industry, with peak sales typically occurring during the spring and December holiday seasons. We generally build inventory levels before these peak sales periods. To maintain current and fashionable inventory we reduce the price of slow-moving merchandise throughout the year. Much of our merchandise is developed for one or more of our four seasons: Spring, Summer, Fall, and Holiday. End-of-season sales are conducted with the objective of carrying a minimal amount of seasonal merchandise over from one season to another. Retail Stores segment sales for the four quarters of Fiscal 2009, as a percent of annual Retail Stores segment sales, were 26.8%, 27.0%, 23.1%, and 23.1%, respectively.

Marketing and Promotions

We use several types of advertising to stimulate retail store customer traffic. We primarily use targeted direct-mail and e-mail advertising to preferred customers selected from a database of approximately 27.9 million proprietary credit card, third-party credit card, and cash customers who have purchased merchandise from us within the past three years. We may also use radio, television, newspaper, and internet advertising and fashion shows to stimulate traffic at certain strategic times of the year. We also use pricing policies, displays, store promotions, and convenient store hours to attract customers. We maintain websites for our LANE BRYANT, FASHION BUG, CATHERINES, and PETITE SOPHISTICATE OUTLET brands that provide information regarding current fashions and promotions and, except for PETITE SOPHISTICATE OUTLET, also provide internet shopping. We believe that, with the planning and guidance of our specialized home-office personnel, each brand provides such displays and advertising as may be necessary to feature certain merchandise or certain promotional selling prices from time to time.

We offer our FASHION BUG, LANE BRYANT, CATHERINES, and PETITE SOPHISTICATE OUTLET retail store customers various loyalty card programs. Customers who join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers join some of these programs by paying an annual membership fee. These membership fee programs include those administered by our proprietary credit card programs as well as those administered outside of our proprietary credit card programs. The proprietary credit card programs provide customers with the option to cancel their membership within 30 days, entitling them to a full refund of their annual fee. Other programs are offered that do not require the payment of a membership fee but allow cardholders to earn points for purchases using a proprietary credit card, which may be redeemed for merchandise coupons upon the accumulation of a specified number of points. Additional information on our loyalty card programs is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; CRITICAL ACCOUNTING POLICIES; Revenue Recognition" below.

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Sourcing

To meet the demands of our customers we access both the domestic wholesale and overseas markets for our retail store merchandise purchases. This allows us to maintain flexible lead times, respond quickly to current fashion trends, and replenish merchandise inventory as necessary. During Fiscal 2009 we purchased merchandise from approximately 580 suppliers located throughout the world. We use our overseas sourcing operations, which generally require longer lead times, primarily to purchase fashion-basic merchandise for our stores. In Fiscal 2009 our overseas sourcing operations accounted for approximately 40% of retail store merchandise purchases. Overseas sourcing by brand, as a percent of merchandise purchases, was approximately 38% for FASHION BUG, 41% for LANE BRYANT, 33% for CATHERINES, and 60% for LANE BRYANT OUTLET and PETITE SOPHISTICATE OUTLET. We also purchase a portion of our LANE BRYANT merchandise from Mast Industries, Inc. (“Mast”), a contract manufacturer and apparel importer that is a wholly-owned subsidiary of Limited Brands, Inc. These purchases from Mast accounted for approximately 5% of our total retail store merchandise purchases and approximately 15% of merchandise purchases for LANE BRYANT during Fiscal 2009. No other vendor accounted for more than 2% of total retail store merchandise purchases during Fiscal 2009.

As discussed under the caption “GENERAL” above, we are in the process of transforming our operations into a vertical specialty store model and increasing our percentage of internally sourced fashion product. Increasing the percentage of merchandise we source directly will lead to gross margin enhancement opportunities and better value for our customers.

We pay for a majority of our merchandise purchases outside the United States on an open account basis. We pay for the remainder of our purchases outside the United States through corporate-issued letters of credit and, to a lesser extent, through bank-issued letters of credit where we are the importer of record. The geographic diversification of our sourcing network provides us with the flexibility to locate alternate sources for our products in order to meet our pricing targets.

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

Distribution and Logistics

We currently operate two distribution centers for our Retail Stores segment. For our FASHION BUG, LANE BRYANT OUTLET, and PETITE SOPHISTICATE OUTLET stores we operate a distribution center in Greencastle, Indiana. This facility is located on a 150-acre tract of land and contains a building of approximately 1,040,000 square feet. We estimate that this facility has the capacity to service up to approximately 1,800 stores. For our LANE BRYANT and CATHERINES stores we operate a distribution center in White Marsh, Maryland. The White Marsh facility is located on 28 acres of land and contains a building of approximately 513,000 square feet that is currently designed to service up to approximately 1,800 stores.

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

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Inventory and fulfillment activities for our store-related e-commerce operations are handled by a third-party warehouse facility in Indianapolis, Indiana. We utilize approximately 375,000 square feet of space that is used for merchandise receipt, storage, picking, packing, shipping, and returns processing. A majority of this merchandise is received from our Greencastle and White Marsh distribution centers.

Our distribution and logistics operations provide adequate capacity for the foreseeable future, and we continually evaluate our overall long-term distribution and logistics requirements.

DIRECT-TO-CONSUMER SEGMENT

We established our Direct-to-Consumer segment in June 2005 with the acquisition of Crosstown Traders, Inc. Crosstown Traders operated multiple catalog titles and related websites, with the majority of revenues derived from the catalog sales of women's apparel, footwear, and accessories. Crosstown Traders also derived revenues from the catalog sales of food and gifts through its FIGI'S catalog. A substantial majority of sales through the FIGI'S catalog occur during the December holiday season. In October 2007 the LANE BRYANT catalog trademark, which had been licensed to a third party, reverted to us and we launched our LANE BRYANT WOMAN catalog and related website.

In April 2008 we began to explore strategic alternatives for our Crosstown Traders business in order to provide a greater focus on our core brands and to enhance shareholder value. In September 2008 we completed the sale of our Crosstown Traders non-core misses apparel catalogs to an affiliate of Orchard Brands, a portfolio company owned by Golden Gate Capital. During the third quarter of Fiscal 2009 we also decided to discontinue the LANE BRYANT WOMAN catalog and began to actively explore the sale of our FIGI'S gift catalog. As of the end of Fiscal 2009 our Direct-to-Consumer segment consisted of the operations of our FIGI'S and LANE BRYANT WOMAN catalogs. We expect to discontinue the LANE BRYANT WOMAN catalog operations during the first half of our fiscal year ending January 30, 2010 ("Fiscal 2010").

In connection with the sale of the Crosstown Traders apparel catalogs we retained certain components of its infrastructure. Accordingly, we entered into transitional service agreements with an affiliate of Orchard Brands to provide certain services, including information technology, use of existing facilities, and financial services. These services are to be provided for specified time periods ranging up to one year from the date of the agreement, depending on the services provided. In addition, an affiliate of Orchard Brands agreed to provide certain transitional services to us, including distribution and call center services, for specified time periods ranging up to one year from the date of the agreement. Subsequent to the transitional period we will be responsible for any remaining lease liabilities for the retained facilities and we will discontinue using the fixed assets related to the retained facilities.

We own 125,000 square-feet of automated distribution center space in Marshfield, Wisconsin that serves as the main distribution area for our FIGI'S catalog and ships approximately 2,400,000 packages per year. A 122,000 square-foot leased facility in Stevens Point, Wisconsin and a 46,000 square-foot owned facility in Neillsville, Wisconsin also service FIGI'S. These facilities provide adequate capacity for our FIGI'S catalog operations for the foreseeable future.

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PROPRIETARY CREDIT PROGRAMS

We seek to encourage sales through the promotion of our proprietary credit cards. We believe that our credit cards act as promotional vehicles by engendering customer loyalty, creating a substantial base for targeted direct-mail promotion, and encouraging incremental sales. Our FASHION BUG, LANE BRYANT, CATHERINES, and PETITE SOPHISTICATE brands each offer our customers the convenience of proprietary credit card programs.

Our FASHION BUG credit card program accounted for approximately 33% of FASHION BUG retail sales in Fiscal 2009 and has approximately 2.0 million active accounts. Our CATHERINES credit card program accounted for approximately 35% of CATHERINES retail sales in Fiscal 2009 and has approximately 0.6 million active accounts. The LANE BRYANT credit card program accounted for approximately 30% of LANE BRYANT retail sales in Fiscal 2009 and has approximately 1.9 million active accounts. The PETITE SOPHISTICATE credit card program accounted for approximately 18% of PETITE SOPHISTICATE OUTLET retail sales in Fiscal 2009 and has approximately 45 thousand active accounts. Our LANE BRYANT WOMAN CATALOG credit card accounted for approximately 31% of LANE BRYANT WOMAN catalog apparel sales in Fiscal 2009 and has approximately 128 thousand active accounts.

We control credit policies and service the FASHION BUG, CATHERINES, LANE BRYANT, PETITE SOPHISTICATE, and LANE BRYANT WOMAN CATALOG proprietary credit card files and, through various agreements, we securitize and sell the credit card receivables generated by these programs.

On August 25, 2008 we announced that we had entered into an agreement to sell our misses apparel catalog credit card receivables in conjunction with the sale of the related Crosstown Traders catalog titles (see “DIRECT-TO-CONSUMER SEGMENT” above). On December 31, 2008, we finalized the sale of the credit card receivables portfolio associated with the Crosstown Traders misses apparel catalogs to World Financial Network National Bank, a unit of Alliance Data Systems Corporation. The portfolio was sold for a par value of $43.5 million. We utilized a portion of the proceeds to pay off and terminate the related securitization funding facility and realized net cash proceeds of $12.5 million.

In addition to our credit card programs our FIGI’S non-apparel catalog brand offers interest-free, three-payment credit terms over three months to its customers, with the first payment due on a defined date 30 to 60 days after a stated holiday.

A more comprehensive description of our proprietary credit programs and our asset securitization process is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; FINANCIAL CONDITION; Off-Balance-Sheet Arrangements” and “Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements; NOTE 17. ASSET SECURITIZATION” below.

COMPETITION

The women's specialty retail apparel business is highly competitive, with numerous competitors, including individual and chain fashion specialty stores, department stores, discount stores, catalog retailers, and Internet-based retailers. We cannot reasonably estimate the number of our competitors due to the large number of women’s apparel retailers. The primary elements of competition are merchandise style, size, selection, fit, quality, display, price, attractive website layout, efficient fulfillment of website mail orders, and personalized service to our customers. For our retail stores, store location, design, advertising, and promotion are also significant elements of competition.

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EMPLOYEES

As of the end of Fiscal 2009 we employed approximately 28,700 associates, which included approximately 20,700 part-time employees. In addition, we hire a number of temporary employees during the December holiday season. Approximately 60 of our employees are represented by unions whose contracts are currently due to expire in August 2009. We believe that our overall relationship with these unions and our associates in general is satisfactory.

TRADEMARKS AND SERVICEMARKS

We own, or are in the process of obtaining, all rights to the trademarks and trade names we believe are necessary to conduct our business as presently operated. “FASHION BUG®”, “FASHION BUG PLUS®”, “FIGURE®”, “L.A. BLUES®”, “STUDIO 1940®”, “RIGHT FIT BY FASHION BUG®”, “CATHERINES®”, “CATHERINES PLUS SIZES® “MAGGIE BARNES®”, “ANNA MAXWELL®”, “LIZ&ME®”, “SERENADA®”, “RIGHT FIT BY CATHERINES®”, “LA BRYANT®”, “LANE BRYANT OUTLET®”, “LANE BRYANT WOMAN®”, “VENEZIA®”, “CACIQUE®”, “RIGHT F BY LANE BRYANT®”, “PETITE SOPHISTICATE®”, “PETITE SOPHISTICATE OUTLET®”, “FIGI’S®”, “SHOETRADER®”, and several other trademarks and servicemarks of lesser importance to us have been registered or are in the process of being registered with the United States Patent and Trademark Office and in other countries.

We also own the following Internet domain name registrations: catherines.com, charming.com, charmingshoppes.com, fashionbug.com, fashionbugcard.com, fashionbugplus.com, figuremagazine.com, lanebryant.com, lanebryantcatalog.com, petitesophisticate.com, shoetrader.com, figis.com and others of lesser importance.

EXECUTIVE OFFICES

Charming Shoppes, Inc. was incorporated in Pennsylvania in 1969. Our principal offices are located at 3750 State Road, Bensalem, Pennsylvania 19020. Our telephone number is (215) 245-9100.

AVAILABLE INFORMATION

Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on or through our website at www.charmingshoppes.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”). Our historical filings can also be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549 or can be accessed directly from the SEC’s website at www.sec.gov. Information on the operation of the Public Reference Room can be obtained by calling the SEC at (800) 732-0330. See “PART III; Item 10. Directors, Executive Officers, and Corporate Governance” below for additional information that is available on our Internet website.

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Item 1A. Risk Factors

You should carefully consider and evaluate all of the information in this annual report on Form 10-K and the documents incorporated by reference into this report, including the risk factors listed below. Any of these risks could materially and adversely affect our business, financial condition, and operating results, and could cause our actual results to differ materially from our plans, projections, or other forward-looking statements included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" below and elsewhere in this Report on Form 10-K, and in our other public filings. The occurrence of one or more of these risks could also materially and adversely affect the price of our common stock.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

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

Consumer spending habits, including spending for our products, are affected by, among other things, prevailing economic conditions, levels of employment, salary levels, wage rates, availability of consumer credit, consumer confidence, fluctuating fuel and energy costs, and consumer perception of economic conditions. Consumer discretionary spending, including purchases of women's apparel, tends to decline during recessionary periods. The continuing general slowdown in the United States economy, the global credit crisis, and an uncertain economic outlook have adversely affected consumer spending habits and customer traffic, which have contributed to a reduction in our net sales. We cannot reliably predict the extent to which the current economic conditions will affect our business. A prolonged economic downturn could have a material adverse effect on our business, financial condition, and results of operations.

Our business is dependent upon our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors.

Customer tastes and fashion trends are volatile and tend to change rapidly, particularly for women's apparel. Our success depends in part on our ability to effectively predict and respond to quickly changing fashion tastes and consumer demands, and to translate market trends into appropriate, saleable product offerings. These risks may increase as we shift a higher proportion of our product from third-party vendors to internally-designed merchandise. If we are unable to successfully implement our plans for the transformation of our brands to a vertical store model or successfully predict or respond to changing styles or trends and misjudge the market for our products or any new product lines, our sales will be lower and we may be faced with a substantial amount of unsold inventory or missed sales opportunities. In response, we may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory, which could have a material adverse effect on our business, financial condition, and results of operations. This could also impact our reputation with our customers, which could diminish brand loyalty.

Existing and increased competition in the women's retail apparel and direct-to-consumer markets may reduce our net revenues, profits, and market share.

The women's specialty retail apparel and direct-to-consumer markets are highly competitive. Our competitors include individual and chain fashion specialty stores, department stores, discount stores, catalog retailers, and Internet-based retailers. As a result of this competition we are required to effectively market and competitively price our products to consumers in diverse markets, and we may experience pricing pressures, increased marketing expenditures, and loss of market share. This could have a material adverse effect on our business, financial condition, and results of

operations, including reduced sales and margins.

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We believe that the principal bases upon which we compete are merchandise style, size, selection, fit, quality, display, price, attractive website layout, efficient fulfillment of website mail orders, and personalized service to our customers, as well as store location, design, advertising, and promotion. Other women's apparel and direct-to-consumer companies with greater financial resources, marketing capabilities, or brand recognition may enter the plus-size business. We cannot give assurance that we will be able to compete successfully against existing or future competitors.

Maintaining and improving our operating margins are dependent on our ability to successfully control our operating costs.

In order to maintain or improve our operating margins we need to successfully manage our operating costs. Our inability to successfully manage labor costs, occupancy costs, or other operating costs, or our inability to take advantage of opportunities to reduce operating costs, could adversely affect our operating margins and our results of operations. We are subject to the Fair Labor Standards Act and various state and Federal laws and regulations governing such matters as minimum wages, exempt status classification, overtime, and employee benefits. Changes in Federal or state laws or regulations regarding minimum wages, unionization, or other employee benefits could cause us to incur additional wage and benefit costs, which could adversely affect our results of operations. The finance charges on most of our proprietary credit card accounts are billed using a floating rate index, subject to a floor and limited by legal maximums. Changes in legislation limiting interest rates and other credit card charges that can be billed on credit card accounts could negatively impact the operating margins of our credit operation. In addition, we may be unable to obtain adequate insurance coverage for our operations at a reasonable cost.

We may be unable to attain the expected results of our cost-cutting initiatives.

In Fiscal 2009 we announced initiatives and actions designed to: streamline our business operations and further sharpen our focus on our core businesses, including the discontinuation of our LANE BRYANT WOMAN catalog and our figure magazine, and reduction of operating expenses and capital expenditures; improve cash flow; and enhance shareholder value. The benefits of our initiatives are based on forecasts which could vary substantially from our actual results. We cannot assure the successful implementation of our planned cost reduction and capital budget reduction plans, and we cannot assure the realization of our anticipated annualized expense savings from cost reduction initiatives and restructuring programs announced in Fiscal 2009.

We may not be able to obtain sufficient working capital financing.

Our business requires substantial investment in our inventory for a long period before sales of that inventory occur. Consequently, we require significant amounts of working capital financing. We depend on the availability of credit to fund our working capital, including credit we receive from our suppliers and their agents, on our credit card securitization program, and on our revolving credit facility. In addition, the current global financial crisis could adversely affect our ability or the ability of our vendors to secure adequate credit financing. If we or our vendors are unable to obtain sufficient financing at an affordable cost, our ability to merchandise our retail stores or e-commerce businesses could be adversely affected.

We plan to refinance our maturing credit card term securitization series with our credit conduit facilities, which are renewed annually, or through the issuance of a new term series. To the extent that our conduit facilities are not renewed they would begin to amortize and we would finance this amortization using our committed revolving credit facilities to the extent available. There is no assurance that we can refinance or renew our conduit facilities on terms comparable to our existing facilities or that there would be sufficient availability under our revolving credit facilities for such financing. These concerns are heightened by the current global economic credit crisis. Without adequate liquidity, our ability to offer our credit program to our customers, and consequently our financial condition and results

of operations, would be adversely affected.

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On February 19, 2009, Moody's Investors Service, a nationally recognized statistical rating organization ("NRSRO") that has rated our term series securitizations in the past, announced that it had downgraded the ratings of our term series asset-backed securities. No other NRSRO took a similar action. The Moody's action could negatively impact our ability to complete future term series securitization transactions on acceptable terms and cause our asset securitization program to rely on other potentially more expensive funding sources to the extent available. The Moody's action does not affect our current conduit and term series transactions, which we currently expect will provide sufficient funding for our securitization program for Fiscal 2010.

Our operating results fluctuate from season to season.

Our retail store and direct-to-consumer operations experience seasonal fluctuations in net sales and consequently in operating income, with peak sales typically occurring during the Easter, Labor Day, and December holiday seasons. In addition, extreme or unseasonable weather can affect our sales. Any decrease in net sales or margins during our peak selling periods similar to what we experienced during our December 2008 holiday season, or in the availability of working capital needed in the months before these periods, could have a material adverse effect on our business, financial condition, and results of operations.

We usually order merchandise in advance of peak selling periods and sometimes before new fashion trends are confirmed by customer purchases. We must carry a significant amount of inventory, including perishable products for our FIGI'S food and gift catalog, before the peak selling periods. If we are not successful in selling our inventory, especially during our peak selling periods, we may be forced to rely on markdowns or promotional sales to dispose of the inventory or we may not be able to sell the inventory at all, which could have a material adverse effect on our business, financial condition, and results of operations.

We face challenges in managing our business.

Our operating challenges and management responsibilities are increasing as we re-focus on the development of our core brands, divestiture of our non-core assets, and the implementation of our plans for the transformation of our brands to a vertical store model. Successful long-term growth will require that we continue to expand and improve our internal systems and our operations, including our internal sourcing operations.

Our long-term growth plan for our Retail Stores segment depends on our ability to open and operate new retail stores and to convert, where applicable, the formats of existing stores on a profitable basis. In addition, we will need to identify, hire, and retain a sufficient number of qualified personnel to work in our stores.

These objectives have created, and may continue to create, additional demands on our staff and on our operating systems. We cannot assure the successful implementation of our business plan to re-focus on our core brands, divest non-core assets (including the sale of our FIGI'S catalog), and transform our operations to a vertical store model, or that we will achieve our objectives as quickly or as effectively as we have planned. Any delays in achieving our objectives could substantially increase the costs associated with such initiatives.

Recent changes in our management as part of an effort to improve our competitive position and operating results may not achieve the desired results.

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

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

Our business plan is largely dependent upon continued growth in the plus-size women's apparel market.

Our business is primarily focused on sales of plus-size women's apparel, which represents a majority of our total net sales. Our operating results could be adversely affected by a lack of continued growth in the plus-size women's apparel market.

We could be materially and adversely affected if any of our distribution or fulfillment centers are shut down.

We operate distribution and fulfillment centers in Greencastle, Indiana; White Marsh, Maryland; Marshfield, Wisconsin; and Stevens Point, Wisconsin and use a third-party fulfillment center in Indianapolis, Indiana that services our e-commerce operations. In addition, we use third-party freight consolidators and service providers in Los Angeles, California and North Bergen, New Jersey. Most of the merchandise we purchase is shipped directly to our distribution and fulfillment centers or freight consolidators where it is prepared for shipment to the appropriate stores or to the customer. If any of our distribution centers, fulfillment centers, or freight consolidators were to shut down or lose significant capacity for any reason, the other locations may not be able to adequately support the resulting additional distribution demands, in part because of capacity constraints and in part because each location services a particular brand or brands. As a result, we could incur significantly higher costs and longer lead times associated with distributing our products to our stores or customers during the time it takes for us to reopen or replace the affected distribution center, fulfillment center, or freight consolidator.

The occurrence of, or threat of, a natural disaster, war, acts of terrorism, or other armed conflict on the United States or international economies may negatively impact the availability of merchandise and otherwise adversely impact our business.

The occurrence of, or threat of, a natural disaster, war, acts of terrorism, or other armed conflict could negatively affect our ability to obtain merchandise for sale in our stores or through our direct-to-consumer business. A significant portion of our merchandise is imported from other countries. If imported goods become difficult or impossible to bring into the United States and we cannot obtain such merchandise from other sources at similar costs, our net sales and profit margins may be adversely impacted. If commercial transportation is curtailed or substantially delayed our business may be adversely impacted, as we may have difficulty shipping merchandise to our distribution centers, fulfillment centers, freight consolidators, stores, or our direct-to-consumer customers. As a result of the occurrence of, or threat of, a natural disaster or acts of terrorism in the United States we may be required to suspend operations in some or all of our stores, which could have a material adverse impact on our business, financial condition, and results of operations.

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Our inability to successfully manage customer service or fulfillment for our e-commerce websites could adversely impact our operating results.

Successful management of our e-commerce operations is dependent on our ability to maintain efficient and uninterrupted customer service and order fulfillment. Inadequate systems capacity, a disruption or slowdown in telecommunications services, changes in technology, changes in government regulations, systems issues, security breaches, a failure to integrate order management systems, or customer privacy issues could result in reduced sales or increases in operating expenses as a result of our efforts or our inability to remedy such issues. In addition, we may not be able to hire sufficient qualified associates to support our e-commerce operations during peak periods, especially during the December holiday season. The occurrence of one or more of these events could adversely affect our e-commerce business.

During Fiscal 2009 we began to implement a new and upgraded e-commerce platform through an outsourcing arrangement and the consolidation of our e-commerce business at our Bensalem, Pennsylvania headquarters. If we are unsuccessful in effectively implementing the new platform and consolidation our e-commerce business could be adversely affected.

We rely on foreign sources of production.

We purchase a significant portion of our apparel directly in foreign markets and indirectly through domestic vendors with foreign sources. We face a variety of risks generally associated with doing business in foreign markets and importing merchandise from abroad. Such risks include (but are not necessarily limited to):

- political instability;
- increased security requirements applicable to imported goods;
- trade restrictions;
- imposition of or changes in duties, quotas, taxes, and other charges on imports;
- currency and exchange risks;
- issues relating to compliance with domestic or international labor standards;
- concerns over anti-dumping;
- delays in shipping; or
- increased costs of transportation.

New requirements could be proposed that would have an impact on the trading status of certain countries and could include retaliatory duties or other trade sanctions that, if enacted, could increase the cost of products purchased from suppliers in such countries or restrict the importation of products from such countries.

Our purchasing patterns are dictated by our seasonal inventory requirements. We typically enter into purchase commitments with our vendors for seasonal inventories up to six months ahead of when we take delivery of those products. All of our purchase commitments with foreign vendors are denominated in U.S. dollars and are settled in U.S. dollars. These arrangements provide a natural hedge to the impacts of changes in the value of the U.S. dollar

relative to the foreign currencies during the period from when we enter into purchase commitments with our vendors to when we take delivery of the products in the countries from which we source our products. However, changes in the value of the U.S. dollar relative to other currencies can impact the negotiated pricing for products when comparing one seasonal buying period to another. We have a network of countries and vendors from which we can source, but additional weakening of the U.S. dollar in relation to those foreign currencies could negatively impact the cost of our foreign-sourced products. The future performance of our business depends on our foreign suppliers and may be adversely affected by the factors listed above, which are beyond our control.

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Issues of global workplace conditions may adversely affect our business.

If any one of our manufacturers or vendors fails to operate in compliance with applicable laws and regulations, is perceived by the public as failing to meet certain labor standards in the United States, or employs unfair labor practices, our business could be adversely affected. Current global workplace concerns of the public include perceived low wages, poor working conditions, age of employees, and various other employment standards. These globalization issues may affect the available supply of certain manufacturers' products, which may result in increased costs to us. Furthermore, a negative customer perception of any of our key vendors or their products may result in a lower customer demand for our apparel.

We depend on strip shopping center and mall traffic and our ability to identify suitable store locations for our Retail Stores segment.

Our sales are dependent in part on a high volume of strip shopping center and mall traffic. Strip shopping center and mall traffic may be adversely affected by, among other things, economic downturns, the closing of anchor stores, or changes in customer shopping preferences. A decline in the popularity of strip shopping center or mall shopping among our target customers could have a material adverse effect on our business. To take advantage of customer traffic and the shopping preferences of our customers we need to maintain or acquire stores in desirable locations. We cannot assure that desirable store locations will continue to be available. Acquisition of additional store locations is also dependent on our ability to successfully negotiate lease terms for such locations. In addition, the timely opening of new store locations could be adversely affected by delays in obtaining necessary permits and approvals, lack of availability of construction materials and labor, or work stoppages. Our ability to acquire or maintain desirable store locations could be adversely affected by financial difficulties encountered by strip shopping center or mall landlords.

We may be unable to protect our trademarks and other intellectual property rights.

We believe that our trademarks and servicemarks are important to our success and our competitive position due to their name recognition with our customers. We devote substantial resources to the establishment and protection of our trademarks and servicemarks on a worldwide basis. Nevertheless, there can be no assurance that the actions we have taken to establish and protect our trademarks and servicemarks will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of their trademarks, servicemarks, or proprietary rights. Also, others may assert rights in, or ownership of, our trademarks and other proprietary rights and we may not be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States.

We may acquire or divest businesses or enter into joint ventures or strategic alliances, which may materially affect our business, financial condition, and operating results.

We continually evaluate our portfolio of businesses and may decide to buy or sell businesses or enter into joint ventures or other strategic alliances. Significant acquisitions and alliances may increase demands on management, financial resources, and information and internal control systems. Our success with respect to acquisitions and alliances will depend, in part, on our ability to manage and integrate acquired businesses and alliances with our existing businesses and to successfully implement, improve, and expand our systems, procedures, and controls. In addition, we may divest existing businesses, which would cause a decline in revenues and may make our financial results more volatile. If we fail to integrate and manage acquired businesses successfully or to manage the risks associated with divestitures, joint ventures, or other alliances, our business, financial condition, and operating results could be materially and adversely affected.

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OTHER RISKS

Anti-takeover provisions in our governing documents and Pennsylvania law may discourage other companies from attempting to acquire us.

Some provisions of our articles of incorporation and bylaws and of Pennsylvania law may discourage some transactions where we would otherwise experience a change in control, such as provisions that:

- do not permit cumulative voting;
- permit our board to issue "blank check" preferred stock without shareholder approval;
- require certain advance notice procedures with regard to the nomination of candidates for election as directors, other than nominations by or at the direction of our board;
- prevent our directors from being removed without cause except upon super-majority shareholder approval; and
- prevent a holder of 20% or more of our common stock from taking certain actions without certain approvals.

We also have adopted a Shareholder Rights Plan that expires in April 2009. This plan may make it more difficult and more expensive to acquire us, and may discourage open market purchases of our common stock or a non-negotiated tender or exchange offer for such stock and, accordingly, may limit a shareholder's ability to realize a premium over the market price of our common stock in connection with any such transaction.

Failure to comply with the provisions of the Sarbanes-Oxley Act of 2002 could adversely affect our business.

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

We could be required to repurchase our 1.125% Senior Convertible Notes due May 1, 2014 for cash prior to maturity of the notes.

The holders of our 1.125% Senior Convertible Notes due May 1, 2014 (the “1.125% Notes”) could require us to repurchase the principal amount of the notes for cash before maturity of the notes upon the occurrence of a “fundamental change” as defined in the prospectus filed in connection with the 1.125% Notes. Such a repurchase would require significant amounts of cash, would be subject to important limitations on our ability to repurchase, such as the risk of our inability to obtain funds for such repurchase, and could adversely affect our financial condition. See “If we are unable to maintain the standards necessary for continued listing on the NASDAQ Global Select Market our common stock could be de-listed. Such de-listing could have an adverse effect on the market liquidity of our common stock and could harm our business.” below for additional information.

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

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

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

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

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

New accounting rules or regulations or changes in existing rules or regulations could adversely impact our reported results of operations.

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

In September 2008, the Financial Accounting Standards Board ("FASB") issued exposure drafts proposing amendments to Statement of Financial Accounting Standards ("SFAS") 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities." Currently, transfers of our credit card receivables in securitization transactions qualify for sale accounting treatment. We do not consolidate the trust used in our securitizations for financial reporting purposes because the trust is a qualifying special purpose entity ("QSPE"). Because the transfers qualify as sales and the trust is not subject to consolidation under current generally accepted accounting principles, we do not include the assets and liabilities of the trust in our consolidated balance sheets.

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Under the proposed amendments, the concept of a QSPE would be eliminated, the consolidation model for variable interest entities would be modified, and a continual reassessment of consolidation conclusions would be required. If adopted, we would be required to adopt the amendments as of the beginning of Fiscal 2011. As a result of adoption, we could be required to consolidate the assets and liabilities of our securitization trust, which could have a material impact on our financial condition and results of operations.

Changes in estimates related to our evaluation of property, plant, equipment, goodwill, or intangible assets for impairment could adversely affect our reported results of operations.

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We lease all our stores with the exception of three stores that we own. Typically, our store leases have initial terms of 5 to 10 years and generally contain provisions for co-tenancies, renewal options, additional rents based on a percentage of sales, and payment of real estate taxes and common area charges. In addition, we lease certain of our corporate office, distribution center, warehouse, and other administrative facilities. Additional information with respect to our real estate leases is included in “Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements; NOTE 18. LEASES” below.

With respect to leased stores open as of January 31, 2009 the following table shows the number of store leases expiring during the calendar periods indicated, assuming the exercise of our renewal options:

Period	Number of Leases Expiring
2009	126(1)
2010 – 2014	652
2015 – 2019	512
2020 – 2024	650
2025 – 2029	304
2030 – 2034	42
Thereafter	12

(1)Includes 70 stores on month-to-month leases.

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Additional information with respect to facilities that we own or lease is as follows:

Size in Sq. Feet	Location	Leased/ Owned	Description
1,040,000	Greencastle, IN	Owned	FASHION BUG, LANE BRYANT OUTLET, and PETITE SOPHISTICATE OUTLET distribution center
513,000	White Marsh, MD	Owned	LANE BRYANT and CATHERINES distribution center
288,000	Tucson, AZ	Leased	Crosstown Traders transitional distribution center(1)
240,000	Wilmington, NC	Leased	Crosstown Traders transitional distribution center(1)
145,000	Bensalem, PA	Owned	Corporate headquarters, technology center, and administrative offices
142,000	Bensalem, PA	Leased	FASHION BUG, CATHERINES,(2) LANE BRYANT OUTLET, and PETITE SOPHISTICATE OUTLET home offices and corporate administrative offices
135,000	Columbus, OH	Leased	LANE BRYANT home office
125,000	Marshfield, WI	Owned	FIGI'S distribution center
122,000	Stevens Point, WI	Leased	FIGI'S distribution and call centers
108,000	Tucson, AZ	Leased	Crosstown Traders transitional distribution center(1)
71,000	Marshfield, WI	Owned	FIGI'S warehouse
64,000	Marshfield, WI	Owned	FIGI'S administrative offices and call center
63,000	Memphis, TN	Owned	Currently idle(2)
52,000	Tucson, AZ	Leased	Crosstown Traders transitional offices(1)
46,000	Neillsville, WI	Owned	FIGI'S catalog distribution center
40,000	Marshfield, WI	Owned	FIGI'S warehouse
36,000	Tucson, AZ	Leased	Crosstown Traders transitional offices(1)
30,000	Miami Township, OH	Leased	Spirit of America National Bank (our wholly-owned credit card bank subsidiary) and credit operations
23,000	Hong Kong, PRC	Owned	International sourcing offices
17,000	New York, NY	Leased	e-commerce operations (through March 2009)
16,000	Marshfield, WI	Owned	FIGI'S manufacturing facility
15,000	Tucson, AZ	Leased	Crosstown Traders transitional offices(1)
11,000	Hangzhou, PRC	Leased	International sourcing offices
7,000	New Delhi, India	Leased	International sourcing offices

(1) In September 2008 we sold our Crosstown Traders non-core misses apparel catalogs to an affiliate of Orchard Brands. In connection with the sale we retained certain components of their infrastructure and entered into transitional service agreements with an affiliate of Orchard Brands. See "Item 1. Business; DIRECT-TO-CONSUMER SEGMENT" above for additional information.

(2) During Fiscal 2009 we relocated our CATHERINES operations from Memphis, Tennessee to Bensalem, Pennsylvania in connection with the consolidation of a number of our operating functions.

Item 3. Legal Proceedings

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

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

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

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Additional Part I Information –Executive Officers of the Registrant

The following list contains certain information relative to our executive officers. There are no family relationships among any of our executive officers.

Alan Rosskamm, 59, has served as Chairman of the Board of Directors since June 2008 and as a member of the Board of Directors since 1992. He has also served as Interim Chief Executive Officer since July 2008. Before that, he served as Chief Executive Officer of Jo-Ann Stores, Inc. ("Jo-Ann") from October 1985 to August 2006 and Chairman of the Board of Directors for Jo-Ann from July 1992 to August 2006, and continues to serve as a member of Jo-Ann's Board of Directors. Mr. Rosskamm's term as a Director expires in June 2009.

Joseph M. Baron, 61, has served as Executive Vice President and Chief Operating Officer since 2002.

James G. Bloise, 65, has served as Executive Vice President – Supply Chain Management, Information Technology, and Shared Business Services since December 2005 and as Senior Vice President – Supply Chain Management from 2002 to December 2005.

Anthony M. Romano, 46, has served as Executive Vice President – Business Transformation, since February 2009. Before that he served as Executive Vice President, Chief Supply Chain Officer for Ann Taylor, Inc. from May 2005 through July 2008, as Executive Vice President, Corporate Operations for Ann Taylor from March 2004 through May 2005, and as Senior Vice President, Logistics and Purchasing for Ann Taylor from June 1997 to March 2004.

Eric M. Specter, 51, has served as Executive Vice President – Chief Financial Officer since January 1997, and he has been employed by us since 1983.

Colin D. Stern, 60, has served as Executive Vice President and General Counsel since 1990, and he has been employed by us since 1989. He has also served as Secretary since February 1998.

Gale H. Varma, 58, has served as Executive Vice President – Human Resources since July 2003.

Jay H. Levitt, 51, has served as President – Fashion Bug since September 2008. Before that, he held two consulting positions with international footwear retailers from April 2006 to September 2008 and was a managing partner at Gentsch Capital partners, a private equity firm, from December 2005 to September 2008. From April 2001 to September 2005 he was Chief Executive Officer for the May Merchandising division of May Department Stores Company.

Brian Woolf, 60, has served as President – Lane Bryant since July 2008. Before that, he served as Chairman of the Board and Chief Executive Officer for Cache, a women's specialty retailer, from October 2000 to January 2008.

John J. Sullivan, 62, has served as Senior Vice President – Corporate Controller since April 2007 and as Vice President – Corporate Controller since October 1998.

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PART II

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

Our common stock is traded on the over-the-counter market and quoted on the NASDAQ Global Select Market (“NASDAQ”) and, as of March 26, 2009 on the Chicago Stock Exchange (“CHX”) under the symbol “CHRS.” The following table sets forth the high and low sale prices for our common stock during the indicated periods, as reported by NASDAQ.

	Fiscal 2009		Fiscal 2008	
	High	Low	High	Low
1st Quarter	$ 6.83	$ 4.26	$ 13.38	$ 11.33
2nd Quarter	6.20	4.14	12.92	9.16
3rd Quarter	6.35	1.01	9.72	6.79
4th Quarter	2.88	0.57	7.34	4.01

The approximate number of holders of record of our common stock as of March 23, 2009 was 1,615. This number excludes individual stockholders holding stock under nominee security position listings.

We have not paid any dividends since 1995 and we do not expect to declare or pay any dividends on our common stock in the near future. 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 existing 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 30 days before and immediately after the payment of such dividends. (See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; FINANCIAL CONDITION; Financing; Long-term Debt” and “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 8. LONG-TERM DEBT” below).

Information regarding our equity compensation plans appears in “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” below.

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs(2)
November 2, 2008 through November 29, 2008	6,926(1)	$ 1.29	–	
November 30, 2008 through January 3, 2009	39(1)	1.60	–	
January 4, 2009 through January 31, 2009	2,214(1)	1.28	–	
Total	9,179	$ 1.29	–	(2)

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

(2) On November 8, 2007 we publicly announced that our Board of Directors granted authority to repurchase shares of our common stock up to an aggregate value of $200 million. Shares may be purchased in the open market or through privately-negotiated transactions, as market conditions allow. As of February 2, 2008 no shares had been purchased under this plan. During the period from February 3, 2008 through May 3, 2008 we repurchased a total of 505,406 shares of stock ($5.21 average price paid per share) in the open market under this program. During the period from May 4, 2008 through January 31, 2009 no shares were purchased under this plan. As of January 31, 2009, $197,364,592 was available for future repurchases under this program. This repurchase program has no expiration date.

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The following graph shows a five-year comparison of cumulative total returns on our common stock, the Russell 2000 Composite Index, and the Dow Jones U.S. Retailers – Apparel Index:

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
Among Charming Shoppes, Inc., The Russell 2000 Index
And The Dow Jones U.S. Retailers – Apparel Index

* Assumes $100 invested on January 31, 2004 in Charming Shoppes, Inc. common stock, the Russell 2000 Index, or the Dow Jones U.S. Retailers – Apparel Index, including reinvestment of dividends.

The above chart was plotted using the following data:

	1/31/04	1/29/05	1/28/06	2/3/07	2/2/08	1/31/09
Charming Shoppes, Inc.	$ 100	$ 137	$ 214	$ 225	$ 117	$ 18
Russell 2000 Composite Index	100	107	129	144	132	81
Dow Jones U.S. Retailers – Apparel Index	100	121	138	167	132	69

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Item 6. Selected Financial Data

The following table presents selected financial data taken from our audited financial statements for our five fiscal years ended as of January 29, 2005 through January 31, 2009 and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

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

			Year Ended		
(Dollars in thousands, except per share amounts)	Jan. 31, 2009	Feb. 2, 2008	Feb. 3, 2007(1)	Jan. 28, 2006	Jan. 29, 2005
Operating Statement Data:					
Net sales	$ 2,474,898	$ 2,722,462	$ 2,751,845	$ 2,553,645	$ 2,334,736
Cost of goods sold, buying, catalog, and occupancy expenses	1,846,954	1,954,495	1,890,565	1,763,693	1,642,650
Selling, general, and administrative expenses	692,110	719,107	699,009	638,403	577,301
Impairment of store assets, goodwill, and trademarks	81,498(2)	27,197(2)	0	0	0
Restructuring and other charges	33,145(3)	5,332(3)	0	0	605(4)
Total operating expenses	2,653,707	2,706,131	2,589,574	2,402,096	2,220,556
Income/(loss) from operations	(178,809)	16,331	162,271	151,549	114,180
Other income	4,430	8,793	8,273	7,474	3,098
Interest expense	(8,795)	(10,552)	(14,746)	(17,885)	(15,610)
Income/(loss) from continuing operations before income taxes and extraordinary item	(183,174)	14,572	155,798	141,138	101,668
Income tax provision/(benefit)	(13,885)	13,858	53,839	48,718	37,142
Income/(loss) from continuing operations before extraordinary item	(169,289)	714	101,959	92,420	64,526
Income/(loss) from discontinued operations, net of income taxes(5)	(74,922)	(85,039)	6,964	6,971	0
Extraordinary item, net of income taxes	0	912	0	0	0
Net income/(loss)	$ (244,211)	$ (83,413)	$ 108,923	$ 99,391	$ 64,526
Basic income/(loss) per share:					
Continuing operations before extraordinary item	$ (1.48)	$ .01	$ .83	$ .77	$ .56
Discontinued operations, net of income taxes(5)	(.65)	(.70)	.06	.06	.00
Net income/(loss)(6)	$ (2.13)	$ (.69)	$ .89	$ .83	$ .56
Basic weighted average common shares outstanding	114,690	121,160	122,388	119,831	116,196
Diluted income/(loss) per share:					

Continuing operations before extraordinary item	$	(1.48)	$	.01	$	.76	$	.71	$	.52
Discontinued operations, net of income taxes(5)		(.65)		(.69)		.05		.05		.00
Net income/(loss)(6)	$	(2.13)	$	(.68)	$	.81	$	.76	$	.52
Diluted weighted average common shares and equivalents outstanding		114,690		122,426		139,763		137,064		133,174

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(1) Fiscal 2007 consisted of 53 weeks.

(2) See “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 13. IMPAIRMENT OF STORE ASSETS, GOODWILL, AND TRADEMARKS” below.

(3) See “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; “NOTE 14. RESTRUCTURING AND OTHER CHARGES” below.

(4) Additional lease termination costs related to a cost reduction plan implemented and substantially completed during Fiscal 2004.

(5) See “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 2. DISCONTINUED OPERATIONS” below.

(6) Results may not add due to rounding.

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

	Year Ended				
(Dollars in thousands, except per share amounts)	Jan. 31, 2009	Feb. 2, 2008	Feb. 3, 2007(2)	Jan. 28, 2006	Jan. 29, 2005
Performance Data(1):					
Net return on average stockholders’ equity	(28.3)%	0.1%	11.6%	12.3%	10.1%
Net return on average total assets	(12.2)	0.0	6.2	6.5	5.2

	As Of				
(Dollars in thousands)	Jan. 31, 2009	Feb. 2, 2008(3)	Feb. 3, 2007(3)	Jan. 28, 2006(3)	Jan. 29, 2005
Balance Sheet Data:					
Total assets	$ 1,279,692	$ 1,613,304	$ 1,705,723	$ 1,572,583	$ 1,303,771
Current portion – long-term debt	6,746	8,827	10,887	14,765	16,419
Long-term debt	305,635	306,169	181,124	191,979	208,645
Working capital	382,651	495,096	460,620	344,229	413,989
Stockholders’ equity	465,866	730,444	947,538	814,348	694,464

(1) Based on net income/(loss) from continuing operations.

(2) Fiscal 2007 consisted of 53 weeks.

(3) Includes discontinued operations (see “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 2. DISCONTINUED OPERATIONS” below).

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read in conjunction with the financial statements and accompanying notes included in “Item 8. Financial Statements and Supplementary Data” below. As used in this report the terms “Fiscal 2009,” “Fiscal 2008,” and “Fiscal 2007” refer to our fiscal years ended January 31, 2009, February 2, 2008, and February 3, 2007, respectively. Fiscal 2009 and Fiscal 2008 each consisted of 52 weeks, while Fiscal 2007 consisted of 53 weeks. The term “Fiscal 2010” refers to our fiscal year which will end on January 30, 2010. The terms “the Company,” “we,” “us,” and “our” refer to Charming Shoppes, Inc

and, where applicable, our consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

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

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

Factors that could cause our actual results of operations or financial condition to differ from those described in this report include, but are not necessarily limited to, the following, which are discussed in more detail in "Item 1A. Risk Factors," above:

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

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

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

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

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

We are subject to the Fair Labor Standards Act and various state and Federal laws and regulations governing such matters as minimum wages, exempt status classification, overtime, and employee benefits. Changes in Federal or state laws or regulations regarding minimum wages, unionization, or other employee benefits could cause us to incur additional wage and benefit costs, which could adversely affect our results of operations. Changes in legislation limiting interest rates and other credit card charges that can be billed on credit card accounts could negatively impact the operating margins of our credit operation.

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

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We plan to refinance our maturing credit card term securitization series with our credit conduit facilities, which are renewed annually, or through the issuance of a new term series. To the extent that our conduit facilities are not renewed they would begin to amortize and we would finance this amortization using our committed revolving credit facilities to the extent available. There is no assurance that we can refinance or renew our conduit facilities on terms comparable to our existing facilities or that there would be sufficient availability under our revolving credit facilities for such financing. Without adequate liquidity, our ability to offer our credit program to our customers and consequently our financial condition and results of operations, would be adversely affected.

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

We cannot assure the successful implementation of our business plan for the development of our core brands and transformation to a vertical store model, that we will realize increased profitability through operating under a vertical store model, or that we will achieve our objectives as quickly or as effectively as we hope. We cannot assure the successful sale of our FIGI'S catalog.

We depend on the efforts and abilities of our executive officers and their management teams and we may not be able to retain or replace these employees or recruit additional qualified personnel. The inability to find a suitable permanent replacement for our Interim Chief Executive Officer within a reasonable time period could have a material adverse affect on our business.

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

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

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

Successful operation of our e-commerce websites and our catalog business is dependent on our ability to maintain efficient and uninterrupted customer service and fulfillment operations. We cannot assure the successful implementation of our new and upgraded e-commerce platform and the consolidation of our e-commerce business at our Bensalem, Pennsylvania headquarters.

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

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

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

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

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

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

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

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

repurchase, and could adversely affect our financial condition.

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If the minimum closing bid price of our common stock fails to meet NASDAQ's minimum closing bid price requirement of $1.00 per share for a consecutive 30-day period, NASDAQ may take steps to de-list our common stock. On March 23, 2009, NASDAQ suspended the $1.00 per share minimum closing bid price requirement through at least July 20, 2009. We can provide no assurance, however, that NASDAQ will extend this rule suspension period beyond July 20, 2009. Such a de-listing would likely have an adverse impact on our common stock. We may seek to avoid this by requesting shareholder approval for a reverse stock split. However, we can give no assurance that such action would stabilize the market price, improve the liquidity of our common stock, or would prevent our common stock from dropping below the NASDAQ minimum bid price requirement in the future. Such consequences may however be mitigated by our dual-listing on the Chicago Stock Exchange.

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

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

We make certain significant assumptions, estimates, and projections related to the useful lives and valuation of our property, plant, and equipment and the valuation of goodwill and other intangible assets related to acquisitions. The carrying amount and/or useful life of these assets are subject to periodic and/or annual valuation tests for impairment. Impairment results when the carrying value of an asset exceeds the undiscounted (or for goodwill and indefinite-lived intangible assets the discounted) future cash flows associated with the asset. If actual experience were to differ materially from the assumptions, estimates, and projections used to determine useful lives or the valuation of property, plant, equipment, or intangible assets, a write-down for impairment of the carrying value of the assets, or acceleration of depreciation or amortization of the assets, could result. Such a write-down or acceleration of depreciation or amortization could have an adverse impact on our reported results of operations. See "CRITICAL ACCOUNTING POLICIES; Impairment of Property, Plant, and Equipment, Intangible Assets, and Goodwill" and "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 13. IMPAIRMENT OF STORE ASSETS, GOODWILL, AND TRADEMARKS" below.

CRITICAL ACCOUNTING POLICIES

We have prepared the financial statements and accompanying notes included elsewhere in 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 the notes accompanying the financial statements included elsewhere in this report. However, we consider the following accounting policies and related assumptions to be more critical to the preparation of our financial statements and accompanying notes and involve the most significant management judgments and estimates.

Revenue Recognition

We recognize revenue in accordance with SEC Codification of Staff Accounting Bulletins Topic 13, "Revenue Recognition." Our revenues from merchandise sales are net of sales discounts, returns, and allowances and exclude sales tax. We record a reserve for estimated future sales returns based on an analysis of actual returns and we defer recognition of layaway sales to the date of delivery. A change in our actual rates of sales returns and layaway sales experience would affect the level of revenue recognized.

Catalog and e-commerce revenues include shipping and handling fees billed to customers. These revenues are recognized after all of the following have occurred: execution of the customer's order, authorization of the customer's credit card has been received, and the product has been shipped to and received by the customer. We defer recognition of revenue for product shipped but not yet received by the customer based on an estimate of the number of days the shipments are in-transit. A change in our actual rates of sales returns and/or the time it takes for customers to receive our products would affect the level of revenue recognized.

We sell gift cards to our Retail Stores segment customers through our stores, store-related websites, and through third parties. We recognize revenue from gift cards when the gift card is redeemed by the customer. Our gift cards do not currently contain expiration dates or inactivity fees. We recognize gift card breakage (unused gift card balances for which we believe the likelihood of redemption is remote) as net sales based on an analysis of historical redemption patterns. A change in the historical pattern of gift card redemptions would affect the level of revenue recognized.

Loyalty Card Programs

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers join some of these programs by paying an annual membership fee. For these programs we recognize revenue as a component of net sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. Certain loyalty card customers earn points for purchases which may be redeemed for merchandise coupons upon the accumulation of a specified number of points. No membership fees are charged in connection with these programs. Costs we incur in connection with administering these programs are recognized in cost of goods sold as incurred.

Accounts Receivable

Our FIGI'S catalog offers credit to its customers using interest-free three-payment credit terms over three months, with the first payment due on a defined date 30 to 60 days after a stated holiday. A substantial portion of the FIGI'S catalog business is conducted during the December holiday season. We evaluate the collectibility of our accounts receivable based on a combination of factors, including analysis of historical trends, aging of accounts receivable, write-off experience, past history of recoveries, and expectations of future performance. Significant changes in future performance relative to our historical experience could have an impact on the levels of our accounts receivable valuation reserves.

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Inventories

We value our merchandise inventories at the lower of cost or market using the retail inventory method (average cost basis). We adjust the valuation of inventories at cost and the resulting gross margins in proportion to markdowns and shrinkage on our retail inventories. The retail inventory method results in the valuation of inventories at the lower of cost or market when markdowns are currently taken as a reduction of the retail value of inventories. The majority of these "permanent markdowns," and the resulting adjustments to the carrying cost of our inventories, are recorded in our inventory costing system when the actual ticketed selling price of an item is reduced and are therefore not subject to significant estimates on the part of management. However, at the end of each quarter we perform a review of merchandise that is currently on promotional markdowns (which is considered a "temporary markdown") and identify at an SKU-number level the merchandise that will not be sold again above its current promotional price. As such promotional markdowns have not yet been recorded in the perpetual inventory system as permanent markdowns, we record a markdown reserve to properly record the inventory at the lower of cost or market using the retail inventory method. Our estimation of markdown reserves involves certain management judgments and estimates that can significantly affect the ending inventory valuation at cost, as well as the resulting gross margins. The markdown reserve will fluctuate depending on the level of seasonal merchandise on-hand, the level of promotional activity, and management's estimate of our ability to liquidate such promotional inventory above its current promotional price in the future. Our failure to properly estimate markdowns currently could result in an overstatement or understatement of inventory cost under the lower of cost or market principle. Our total reserves for these types of markdowns were $12.0 million as of January 31, 2009 and $10.6 million as of February 2, 2008. Historically, we have not had significant variances between our estimates of these markdown reserves and the actual markdown experience for which these reserves were established.

We perform physical inventory observations at least once annually at each of our stores. For stores with higher-than-average inventory loss rates, we may perform physical inventory observations more frequently. Actual inventory losses are recorded in our financial statements at the time these physical inventory observations are performed. During the periods between our physical inventory observations and our period-end reporting dates, we record a reserve for estimated inventory losses (shrinkage). Our estimates for shrinkage are based on actual inventory losses identified from the results of physical inventory counts at our stores and distribution centers. Historically, our physical inventory losses have averaged between 1.5% and 2.5% of our net sales. Our reserves for estimated inventory shrinkage were $2.0 million as of January 31, 2009 and $3.5 million as of February 2, 2008.

FASB Emerging Issues Task Force ("EITF") Issue 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor," addresses the accounting for cash consideration received from a vendor, including both a reseller of the vendor's products and an entity that purchases the vendor's products from a reseller. In accordance with the provisions of EITF Issue 02-16 we defer into inventory cash received from vendors and recognize these amounts as a reduction of cost of goods sold as the inventory is sold. We defer the recognition of cash received from vendors during interim periods in order to better match the recognition of the cash consideration to the period the inventory is sold.

Impairment of Property, Plant, and Equipment, Intangible Assets, and Goodwill

We evaluate the recoverability of our property, plant, and equipment and amortizable intangible assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under SFAS No. 144 we are required to assess our long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amounts of long-lived assets may not be recoverable. We consider historical performance and estimated future results in our evaluation of potential impairment and compare the carrying amount of the asset to the estimated future undiscounted cash flows expected to result from the use of the asset. If the estimated future undiscounted cash flows are less than the carrying amount of the asset, we write down the asset to its estimated fair value and recognize

an impairment loss. Our estimate of fair value is generally based on either appraised value or the present value of future cash flows, based on a number of assumptions and estimates.

We test our goodwill and our indefinite-lived intangible assets in accordance with the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets.” We re-evaluate goodwill and other intangible assets for impairment at least annually or more frequently if there is an indication of possible impairment. We perform our annual impairment analysis during the fourth quarter of our fiscal year because our fourth quarter operating results are significant to us and are an integral part of our analyses. In addition, we prepare our financial plan for the following fiscal year, which is an important part of our impairment analyses, during the fourth quarter of our fiscal year. If our re-evaluation determines that our goodwill or other intangible assets have become impaired, a write-down of the carrying value of the assets would result.

The process of evaluating goodwill for impairment involves the determination of the fair value of our reporting units. Inherent in such fair value determinations are certain judgments and estimates relating to future cash flows, including our interpretation of current economic indicators and market valuations, and assumptions about our strategic plans with regard to our operations. To the extent that additional information arises, market conditions change or our strategies change, it is possible that our conclusion regarding whether existing goodwill is impaired could change and result in a material effect on our consolidated financial position or results of operations.

We rely principally on a discounted cash flow method of the income approach in estimating the fair value of our reporting units. We have consistently applied this methodology in previous goodwill impairment tests because we have concluded that the methodology is the best measure of fair value and is a methodology that market participants would use in valuing these reporting units. The income approach values a business enterprise by discounting future debt-free net cash flows available to the providers of the invested capital to their present worth at a discount rate that reflects both the current return requirements of the market and the risks inherent in the specific investment. The discounted cash flow method estimates annual future cash flows, and then discounts the cash flows to present value. The discounted cash flow methodology uses our projections of financial performance. The most significant assumptions used in the discounted cash flow methodology are the discount rate, the terminal value, and expected future revenues, gross margins, and operating margins, which vary among our reporting units.

For purposes of our annual impairment test of goodwill performed as of January 31, 2009 we utilized a discount rate of 14.4%. Our estimates of future cash flows are based on our current budgets and are reflective of our current expectations as to sales growth rates and profitability. We believe that our estimates are appropriate under the circumstances. If economic conditions continue to deteriorate and negatively affect or results of operations, we may recognize additional goodwill impairments.

Our identifiable intangible assets consist primarily of trademarks. These intangible assets arise primarily from the allocation of the purchase price of businesses acquired to identifiable intangible assets based on their respective fair market values at the date of acquisition. Amounts assigned to identifiable intangible assets, and their related useful lives, are derived from established valuation techniques and management estimates.

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Consistent with prior periods and with the methodology used to initially establish and record the fair value of the trademarks noted above, we have applied the "relief-from-royalty" method of the income approach in measuring the fair value of our tradenames in the current-year impairment test. Under this method it is assumed that a company, without the rights to the trade names, would license the right to utilize them for business purposes. The fair value is estimated by discounting the hypothetical royalty payments to their present value over the estimated economic life of the asset. These estimates can be affected by a number of factors including, but not limited to, general economic conditions and availability of market information, as well as our profitability. The most significant assumptions used by management in evaluating the fair value of our tradenames are the discount rate, the royalty rate, and estimated future revenues associated with the use of the tradename.

For purposes of our annual impairment test of our tradenames performed as of January 31, 2009 we utilized a discount rate of 14.4% and a royalty rate in the range of 3% – 5%. Our estimates of future revenues associated with our tradenames are based on our current budgets and are reflective of our current expectations as to sales growth rates. We believe that our estimates are appropriate in the circumstances. Given the significant excess of fair value over the book values of our tradenames as derived from our discounted cash flow analysis we have determined, based on the performance of various sensitivity analyses, that our conclusion would not be affected by other outcomes that are reasonably likely to occur.

Although we believe we have sufficient current and historical information available to us to test for impairment, it is possible that actual cash flows could differ from the estimated cash flows used in our impairment tests.

As a result of the significant decrease in the market value of our common stock during Fiscal 2009 and the impact of the current economic environment on our operating results, we evaluated our property, plant, and equipment, intangible assets, and goodwill for impairment during the Fiscal 2009 Third Quarter and Fiscal 2009 Fourth Quarter. During Fiscal 2009 we recognized non-cash impairment losses in connection with approximately 272 stores with asset carrying values in excess of their forecasted undiscounted cash flows. In addition, during Fiscal 2009 we recognized non-cash impairment losses in connection with our CATHERINES goodwill and certain acquired trademarks and tradenames. During Fiscal 2008 we recognized non-cash impairment losses in connection with our Crosstown Traders goodwill and intangible assets. See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES; Goodwill and Other Intangible Assets," "NOTE 5. PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS," "NOTE 6. INTANGIBLE ASSETS AND GOODWILL," and "NOTE 13. IMPAIRMENT OF STORE ASSETS, GOODWILL, AND TRADEMARKS" below for additional information regarding our property, plant, and equipment, goodwill, and intangible assets and the impairment losses recognized during Fiscal 2009 and Fiscal 2008.

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Asset Securitization

Our asset securitization program primarily involves the sale of proprietary credit card receivables to a special-purpose entity which in turn transfers the receivables to a separate and distinct qualified special-purpose entity ("QSPE"). The QSPE's assets and liabilities are not consolidated in our balance sheet and the receivables transferred to the QSPEs are isolated for purposes of the securitization program. We use asset securitization to fund the credit card receivables generated by our proprietary credit card programs. See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 17. ASSET SECURITIZATION" below for additional discussion of our asset securitization facility.

We account for our asset securitizations in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and SFAS No. 156, "Accounting and Servicing of Financial Assets – an amendment of FASB Statement No. 140." We record a beneficial interest, referred to as the interest-only strip ("I/O strip"), which represents the estimated present value of cash flows we expect to receive over the period the receivables are outstanding. In addition to the I/O strip, we recognize a servicing liability since the servicing fees we expect to receive from the securitizations do not provide adequate compensation for servicing the receivables. The servicing liability represents the present value of the excess of the costs of servicing over the servicing fees we expect to receive and is recorded at estimated fair value. We use the same discount rate and estimated life assumptions in valuing the I/O strip and the servicing liability. We amortize the I/O strip and the servicing liability on a straight-line basis over the expected life of the credit card receivables.

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

The following table presents the decrease in our I/O strip receivable that would result from hypothetical adverse changes of 10% and 20% in the assumptions used to determine the fair value of the I/O strip:

(In millions)	10% Change	20% Change
Assumption:		
Payment rate	$ 1.6	$ 2.8
Residual cash flows discount rate	0.1	0.1
Credit loss percentage	1.6	3.2

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Costs Associated With Exit or Disposal Activities

In accordance with the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," we recognize liabilities for costs associated with an exit or disposal activity when the liabilities are incurred. Commitment to a plan by itself does not create an obligation that meets the definition of a liability. We recognize one-time benefit payments over time rather than "up front" if the benefit arrangement requires employees to render future service beyond a "minimum retention period." The liability for one-time benefits is recognized as employees render service over the future service period, even if the benefit formula used to calculate an employee's termination benefit is based on length of service. We use fair value for the initial measurement of liabilities associated with exit or disposal activities. The provisions of SFAS No. 146 result in the deferral of recognition of certain costs for restructuring plans from the date of commitment to such a plan to the date that costs are incurred under the plan. Severance payments that are offered in accordance with an on-going benefit arrangement are accounted for in accordance with SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Under SFAS No. 112 costs associated with such ongoing benefit arrangements are recorded no later than the period when it becomes probable that the costs will be incurred and the costs are reasonably estimable.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"), a revision of SFAS No. 123. Under SFAS No. 123(R) we recognize the fair value of stock-based payments as compensation expense in our financial statements. We use the Black-Scholes valuation model to estimate the fair value of stock options and stock appreciation rights ("SARs") and straight-line amortization of stock-based compensation. Our initial estimates of compensation cost are based on the number of options, SARs, or awards for which we expect the requisite service period to be completed. These initial estimates are revised if subsequent information indicates that the number of options, SARs, or awards expected to vest differs from our initial estimates. We recognize the cumulative effect of such a change in estimated compensation expense in the period of the change. We elected to calculate the initial pool of excess tax benefits related to stock-based compensation as of the adoption of SFAS No. 123(R) and the related presentation of excess tax benefits in our consolidated statements of cash flows in accordance with the provisions of paragraph 81 of SFAS No. 123(R).

The Black-Scholes model requires estimates or assumptions as to the dividend yield and price volatility of the underlying stock, the expected life of the option, and a relevant risk-free interest rate. Periodic amortization of compensation expense requires estimates as to the number of options expected to be forfeited prior to completion of the requisite service period. The use of different option-pricing models and different estimates or assumptions could result in different estimates of compensation expense.

See "Item 8. Financial Statements and Supplementary Data; NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES; Stock-based Compensation" below for further information on our stock-based compensation expense.

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Insurance Liabilities

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

Operating Leases

We lease substantially all of our store properties as well as certain of our other facilities and account for our store leases in accordance with SFAS No. 13 (as amended), "Accounting for Leases." A majority of our store leases contain lease options that we can unilaterally exercise. The lease term we use for such operating leases includes lease option renewal periods only in instances in which the failure to exercise such options would result in an economic penalty for us and exercise of the renewal option is therefore reasonably assured at the lease inception date. Store leasehold improvement assets are depreciated over the shorter of their useful life or the lease term.

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

Senior Convertible Notes

We accounted for the issuance of our 1.125% Senior Convertible Notes due May 2014 (the "1.125% Notes") in accordance with the guidance in EITF Issue 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion" and EITF Issue 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." Paragraph 11(a) of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," provides that contracts issued or held by an entity that are both (1) indexed to the entity's own common stock and (2) classified in stockholders' equity in its statement of financial position are not considered to be derivative instruments under SFAS No. 133 if the provisions of EITF Issue 00-19 are met. Accordingly, we have recorded the 1.125% Notes as long-term debt in our consolidated balance sheets.

Concurrent with the issuance of the 1.125% Notes we entered into privately negotiated common stock call options and warrants with affiliates of the initial purchasers. We accounted for the call options and warrants in accordance with the guidance in EITF Issue 00-19. The call options and warrants meet the requirements of EITF Issue 00-19 to be accounted for as equity instruments. Accordingly, the cost of the call options and the proceeds from the sale of the warrants are included in additional paid-in capital in our consolidated balance sheets.

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In accordance with SFAS No. 128, "Earnings Per Share," the 1.125% Notes will have no impact on our diluted net income per share until the price of our common stock exceeds the conversion price. Prior to conversion we will include any dilutive effect of the 1.125% notes or the warrants in the calculation of diluted net income per share using the treasury stock method. The call options are excluded from the calculation of diluted net income per share because their effect would be anti-dilutive.

We monitor the 1.125% Notes, call options, and warrants for compliance with the provisions of EITF Issue 00-19 and paragraph 11(a) of SFAS No. 133 on a quarterly basis. Should the issuance of the 1.125% Notes, the purchase of the call options, or the sale of the warrants fail to continue to qualify under the provisions of EITF Issue 00-19 or paragraph 11(a) of SFAS No. 133, we would be required to recognize derivative instruments in connection with the transaction, include the effects of the transaction in assets or liabilities instead of equity, and recognize changes in the fair values of the assets or liabilities in consolidated net income as they occur until the provisions of EITF Issue 00-19 and paragraph 11(a) of SFAS No. 133 are met.

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

FSP APB 14-1 is to be applied retrospectively to all past periods presented and will apply to our 1.125% Notes. We will be required to adopt the provisions of FSP APB 14-1 as of the beginning of Fiscal 2010. As compared to our current accounting for the 1.125% Notes, adoption of the proposal will initially reduce long-term debt and increase stockholders' equity by approximately $90 – $100 million. The non-cash accretion of the discount component will increase interest expense and long-term debt annually. The estimated pre-tax accretion to interest expense and increase to long-term debt is approximately $7.0 – $9.0 million for Fiscal 2008, $10.0 – $12.0 million for Fiscal 2009 and $11 – $13 million for Fiscal 2010. Adoption of the FSP will not affect our cash flows.

See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 8. LONG-TERM DEBT" below for further information regarding our 1.125% Notes and related call options and warrants.

Income Taxes

We adopted the provisions of FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," effective as of the beginning of Fiscal 2008. FIN No. 48 prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, expanded disclosures regarding tax uncertainties, and transition. FIN No. 48 applies to all tax positions related to income taxes subject to SFAS No. 109, "Accounting for Income Taxes."

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Under FIN No. 48 we recognize a tax benefit when a tax position is more-likely-than-not to be sustained upon examination, based solely on its technical merits. We measure the recognized benefit as the largest amount of benefit which is more-likely-than-not to be realized on ultimate settlement, based on a cumulative probability basis. We recognize a tax position failing to qualify for initial recognition in the first interim period in which it meets the FIN No. 48 recognition standard, or is resolved through negotiation, litigation, or upon expiration of the statute of limitations. We de-recognize a previously recognized tax position if we subsequently determine that the tax position no longer meets the more-likely-than-not threshold of being sustained. As of the beginning of Fiscal 2008 we recognized a cumulative-effect adjustment of $5.0 million, increasing our liability for unrecognized tax benefits, interest, and penalties and reducing retained earnings for differences between amounts recognized in our balance sheets prior to the adoption of FIN No. 48 and amounts reported after adoption. See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 7. INCOME TAXES" below for further details of our adoption of FIN No. 48.

We adopted the provisions of FSP FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48," effective with our adoption of FIN No. 48. Accordingly, we consider a tax position to be "effectively settled" upon completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled we recognize the full amount of the tax benefit, even if (1) the tax position is not considered more-likely-than-not to be sustained solely on the basis of its technical merits, and (2) the statute of limitations remains open. The adoption of FSP FIN 48-1 did not have a material effect on our financial position or results of operations.

In accordance with SFAS No. 109, "Accounting for Income Taxes," we recognize deferred tax assets for temporary differences that will result in deductible amounts in future years and for net operating loss and credit carryforwards. SFAS No. 109 requires recognition of a valuation allowance to reduce deferred tax assets if, based on existing facts and circumstances, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. During Fiscal 2009 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. Pursuant to SFAS No. 109, 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.

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-K. 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-K and should not be separately relied upon.

Net sales for Fiscal 2009 were $2.47 billion, a decrease of 9.1% from Fiscal 2008. The challenging retail and macroeconomic environment contributed to a 12% decrease in comparable store sales, which was the primary driver of the decrease in net sales in our Retail Stores segment. The closing of 156 stores during Fiscal 2009, which included the closing of under-performing stores, also contributed to the decrease in net sales for our Retail Stores segment. Net sales for our Direct-to-Consumer segment, which excludes discontinued businesses, increased $46.9 million primarily from our LANE BRYANT WOMAN catalog business, which began operations in the latter half of last year. We have decided to discontinue our LANE BRYANT WOMAN catalog (see "Divest Non-core Assets and Reduce Costs" below).

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The ongoing impact of a challenging retail and macroeconomic environment resulted in decreased net sales and gross margins in Fiscal 2009. However, our proactive management of inventory in response to the reduced consumer demand allowed us to reduce the levels of promotional markdown activity compared to the prior year. We also continued to focus on reducing operating expenses. Although our expenses de-leveraged as a percentage of sales due to the negative comparable store sales, our strong expense management initiatives resulted in reductions in expense dollars, particularly in our selling and occupancy expenses.

In Fiscal 2009 we recorded restructuring and impairment charges of $114.6 million, of which $90.1 million were non-cash. In Fiscal 2008 we recorded restructuring and impairment charges of $32.5 million, of which $29.5 were non-cash. The Fiscal 2009 restructuring and impairment charges relate primarily to severance for our former chief executive officer and other eliminated positions and the impairment of retail store assets and CATHERINES goodwill.

We began to execute on a multi-year strategy in Fiscal 2009, with the assistance of third-party retail consultants, to enhance our competitive position and to improve our financial results over time. The new strategy focuses on the following:

- Refocus on our core retail brands.
- Divest non-core assets.
- Substantially reduce operating expenses and streamline operations.
- Maintain and protect our strong balance sheet and liquidity position.

The following summarizes our initiatives.

Organization

We have begun the process of transforming into a vertical specialty store model that will increase our percentage of internally designed, developed, and sourced fashion product. We plan to develop and source more of our own proprietary fashion merchandise, become more focused on fashion and less driven by commodity product, and ultimately create an enhanced brand experience for our customers through an improved assortment across each of our core brands. Increasing the percentage of merchandise we source directly should lead to gross margin enhancement opportunities and better value for our customers.

In Fiscal 2009 we began the process of transforming each of our core brands into independent, distinct brands by recruiting seasoned brand presidents with extensive retail and executive leadership experience. The appointments of these experienced brand presidents as well as the addition of new product design and development executives signal our commitment to this transformation.

We also began the process of developing an entirely new and upgraded e-commerce platform through an outsourcing arrangement and the consolidation of our Charming Direct business at our Bensalem, Pennsylvania headquarters by closing our New York and Tucson, Arizona e-commerce offices. By the fall of 2009 we expect all of our core brands to share a common e-commerce infrastructure, and we will begin to launch new websites one at a time, providing an improved online experience for our customers. Our objective is to improve customer conversion rates and to significantly increase our core brands' e-commerce penetration during the second half of Fiscal 2010.

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Divest Non-core Assets and Reduce Costs

In accordance with our focus on our core brands, we began the divestiture of our non-core assets. During the third quarter of Fiscal 2009 we completed the sale of our misses apparel catalogs and our related misses apparel catalog credit card receivables, which generated approximately $46.9 million in cash. Additionally, we decided to discontinue our LANE BRYANT WOMAN catalog, which services a different core customer, in order to focus on our core LANE BRYANT customer. We are also exploring the sale of our FIGI'S Gifts in Good Taste catalog business as well as reviewing financing options for owned real estate. We also announced the discontinuation of our figure magazine, effective immediately, and the closing of our shoetrader.com website during the second half of Fiscal 2010. These actions are in line with our strategy to return our focus and energies to our core brands – LANE BRYANT, FASHION BUG, and CATHERINES.

We continue to focus on reducing operating expenses to optimize our cash flow through improvements to, and streamlining of, our operations. In Fiscal 2009 we began to implement a two-year cost reduction program that we originally estimated would result in expense savings of $100 – $125 million over the two-year period, with $75 million expected to be realized in Fiscal 2010. Results to date have been favorable, with savings being realized ahead of schedule. Our current expectation is for cost savings of approximately $125 million during Fiscal 2010. These initiatives will address the following five major cost areas:

- Corporate and Brand overhead;
- Non-merchandise expense;
- Occupancy expense;
- Supply chain; and
- Store operations.

In Fiscal 2009 we completed the relocation of our CATHERINES operations, the elimination of 150 corporate and field management positions, and substantially all of our program to close 150 under-performing stores. In November 2008 we announced an additional store closing program of as many as 100 additional stores in Fiscal 2010. Through negotiations with landlords we have been able to achieve significant rent reductions on some of our store locations and we expect to negotiate additional meaningful savings in Fiscal 2010. These initiatives have resulted in reductions to occupancy expense dollars in Fiscal 2009 and we expect to further reduce our occupancy costs in Fiscal 2010.

In January 2009 we announced further reductions in our workforce of approximately 225 positions at our corporate support and brand headquarters offices. These positions primarily represented a combination of approximately 125 associate separations and the elimination of approximately 100 open positions.

Manage Inventory

We continue to focus on reducing our inventory levels through timely markdowns and reduction of planned receipts in order to maximize gross margin dollars. Our inventories as of the end of Fiscal 2009 have decreased approximately 16% from the end of Fiscal 2008 on a comparable-store basis. We are also reducing our planned receipts of Spring 2009 merchandise in response to the current retail trends. By taking these actions our inventory is properly positioned at the end of Fiscal 2009 to limit markdown exposure and positively impact our gross margins during Fiscal 2010.

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Maintain our Strong Balance Sheet

Our balance sheet remains strong, with ample liquidity through our $100.2 million of cash and available-for-sale securities as of the end of Fiscal 2009, compared to $74.3 million as of the end of Fiscal 2008. We ended Fiscal 2009 with no borrowings against our committed $375.0 million revolving credit facility. As of the end of Fiscal 2009 our available borrowing capacity on the facility was $205.8 million.

In addition to our focus on reducing inventory levels and divesting non-core assets, we have significantly reduced our capital expenditures for new store development and store relocations, and have eliminated non-essential capital expenditures. Our capital expenditures in Fiscal 2009 were half of our original plan for the year and we expect our Fiscal 2010 capital expenditures to be approximately half of our Fiscal 2009 expenditures. We are also continuing to explore additional opportunities to strengthen our financial position, such as a re-financing of certain company-owned real estate.

Subsequent to the end of Fiscal 2009 we renewed our $50.0 million Series 1999-2 conduit credit card securitization facility through March 30, 2010. Combined with our other existing conduit and term credit card secutitization facilities, our current receivables funding structure provides an availability of $655.0 million. In April 2009 our $180.0 million Series 2004-1 term facility is scheduled to begin amortizing at a rate of approximately $14.4 million per month. We expect to meet this amortization requirement through our $155.0 million of available conduit facilities. We believe that the availability of our combined securitization facilities will continue to exceed our funding requirements during Fiscal 2010.

While we are committed to executing our long-term growth strategy as a multi-brand retailer, we continue to take a conservative operating approach given the current uncertain economic climate and our expectations for continuing weak traffic trends. In response, we will continue to maintain lean inventories and proactively control and reduce operating expenses in order to generate positive free cash flow, preserve cash, and maintain a strong balance sheet.

The following discussion of our results of operations, liquidity, and capital resources is based on our continuing operations, and excludes the impact of our discontinued operations (see “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 2. DISCONTINUED OPERATIONS” below).

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RESULTS OF OPERATIONS

Financial Summary

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

	Percentage of Net Sales(1)			Percentage Increase (Decrease) From Prior Year	
	Fiscal 2009	Fiscal 2008	Fiscal 2007(2)	Fiscal 2009-2008	Fiscal 2008-2007(2)
Net sales	100.0%	100.0%	100.0%	(9.1)%	(1.1)%
Cost of goods sold, buying, catalog, and occupancy expenses	74.6	71.8	68.7	(5.5)	3.4
Selling, general, and administrative expenses	28.0	26.4	25.4	(3.8)	2.9
Impairment of store assets, goodwill, and trademarks	3.3	1.0	–	199.7	–
Restructuring and other charges	1.3	0.2	–	521.6	–
Income/(loss) from operations	(7.2)	0.6	5.9	**	(89.9)
Other income	0.2	0.3	0.3	(49.6)	6.3
Interest expense	0.4	0.4	0.5	(16.7)	(28.4)
Income tax (benefit)/provision	(0.6)	0.5	2.0	(200.2)	(74.3)
Income/(loss) from continuing operations	(6.8)	0.0	3.7	**	(99.3)
Income/(loss) from discontinued operations, net of taxes	(3.0)	(3.1)	0.3	(11.9)	**
Net income/(loss)	(9.9)	(3.1)	4.0	(192.8)	(176.6)

(1) Results may not add due to rounding.

(2) Fiscal 2007 consisted of 53 weeks.

** Results not meaningful.

The following table shows details of our consolidated total net sales:

(In millions)	Year Ended January 31, 2009 Fiscal Year	Year Ended January 31, 2009 Fourth Quarter	Year Ended February 2, 2008 Fiscal Year	Year Ended February 2, 2008 Fourth Quarter	Year Ended February 3, 2007(1) Fiscal Year	Year Ended February 3, 2007(1) Fourth Quarter
LANE BRYANT(2)	$ 1,111.9	$ 273.0	$ 1,237.6	$ 323.6	$ 1,202.3	$ 357.1
FASHION BUG	843.8	183.8	984.1	225.8	1,058.3	269.1
CATHERINES	312.1	68.1	353.2	76.8	367.7	91.5
	24.3	5.5	15.8	5.7	8.1	6.2

Other retail stores(3)						
Total Retail Stores segment	2,292.1	530.4	2,590.7	631.9	2,636.4	723.9
Total Direct-to-Consumer segment	167.5	96.7	120.6	95.9	112.1	94.9
Corporate and other(4)	15.3	4.8	11.2	4.0	3.3	1.9
Total net sales	$ 2,474.9	$ 631.9	$ 2,722.5	$ 731.8	$ 2,751.8	$ 820.7

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(1) Fiscal Year 2007 and Fourth Quarter 2007 consisted of 53 weeks and 14 weeks, respectively.

(2) Includes LANE BRYANT OUTLET stores.

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

(4) Primarily revenue related to loyalty card fees.

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

	Year Ended January 31, 2009		Year Ended February 2, 2008(1)	
	Fiscal Year	Fourth Quarter	Fiscal Year	Fourth Quarter
Retail Stores segment				
Increase/(decrease) in comparable store sales:(2)				
Consolidated retail stores	(12)%	(15)%	(5)%	(9)%
LANE BRYANT(4) &				