

CHARMING SHOPPES INC

Form 10-Q

December 01, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 29, 2011

Or

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

For the transition period from _____ to _____

Commission File No. 000-07258

CHARMING SHOPPES, INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of incorporation or
organization)

3750 STATE ROAD, BENSLEM, PA 19020

(Address of principal executive offices) (Zip Code)

23-1721355

(I.R.S. Employer Identification No.)

(215) 245-9100

(Registrant's telephone number, including Area Code)

NOT APPLICABLE

(Former name, former address, and former fiscal year, if changed since last report)

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

Yes No

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

Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

Yes No

The number of shares outstanding of the issuer's Common Stock (par value \$.10 per share) as of November 25, 2011 was 116,533,167 shares.

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

| | Page |
|---|-----------|
| PART I. <u>FINANCIAL INFORMATION</u> | <u>2</u> |
| Item 1. <u>Financial Statements</u> | <u>2</u> |
| Condensed Consolidated Balance Sheets <u>October 29, 2011 (Unaudited) and January 29, 2011</u> | <u>2</u> |
| Condensed Consolidated Statements of Operations (Unaudited) <u>Thirteen weeks ended October 29, 2011 and October 30, 2010</u> | <u>3</u> |
| <u>Thirty-nine weeks ended October 29, 2011 and October 30, 2010</u> | <u>4</u> |
| Condensed Consolidated Statements of Cash Flows (Unaudited) <u>Thirty-nine weeks ended October 29, 2011 and October 30, 2010</u> | <u>5</u> |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | <u>6</u> |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>19</u> |
| <u>Forward-looking Statements</u> | <u>19</u> |
| <u>Critical Accounting Policies</u> | <u>20</u> |
| <u>Recent Developments</u> | <u>21</u> |
| <u>Overview</u> | <u>21</u> |
| <u>Results of Operations</u> | <u>24</u> |
| <u>Liquidity and Capital Resources</u> | <u>37</u> |
| <u>Financing</u> | <u>39</u> |
| <u>Market Risk</u> | <u>40</u> |
| <u>Impact of Recent Accounting Pronouncements</u> | <u>40</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>40</u> |
| Item 4. <u>Controls and Procedures</u> | <u>40</u> |
| PART II. <u>OTHER INFORMATION</u> | <u>42</u> |
| Item 1. <u>Legal Proceedings</u> | <u>42</u> |
| Item 1A. <u>Risk Factors</u> | <u>42</u> |

| | | |
|---------|--|-----------|
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>42</u> |
| Item 6. | <u>Exhibits</u> | <u>42</u> |
| | <u>SIGNATURES</u> | <u>45</u> |
| | <u>Exhibit Index</u> | <u>46</u> |

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| (In thousands, except share amounts) | October 29, 2011 (Unaudited) | January 29, 2011 |
|---|------------------------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$157,754 | \$117,482 |
| Accounts receivable, net of allowances of \$2,045 and \$5,667 | 6,630 | 36,568 |
| Merchandise inventories | 355,614 | 282,248 |
| Deferred taxes | 3,153 | 3,153 |
| Prepayments and other | 106,390 | 98,458 |
| Total current assets | 629,541 | 537,909 |
| Property, equipment, and leasehold improvements – at cost | 1,008,898 | 1,028,843 |
| Less accumulated depreciation and amortization | 777,895 | 772,895 |
| Net property, equipment, and leasehold improvements | 231,003 | 255,948 |
| Trademarks, tradenames, and internet domain names | 187,132 | 187,132 |
| Goodwill | 23,436 | 23,436 |
| Other assets | 17,720 | 18,233 |
| Total assets | \$1,088,832 | \$1,022,658 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$168,335 | \$107,882 |
| Accrued expenses | 144,870 | 142,002 |
| Current portion – long-term debt | 10,453 | 11,449 |
| Total current liabilities | 323,658 | 261,333 |
| Deferred taxes | 54,122 | 51,466 |
| Other non-current liabilities | 149,773 | 167,089 |
| Long-term debt, net of debt discount of \$19,484 and \$24,679 | 132,631 | 128,350 |
| Stockholders' equity | | |
| Common Stock \$.10 par value: | | |
| Authorized – 300,000,000 shares | | |
| Issued – 155,148,754 shares and 154,185,373 shares | 15,515 | 15,419 |
| Additional paid-in capital | 511,659 | 508,664 |
| Treasury stock at cost – 38,617,180 shares | (348,400 |) (348,400) |
| Retained earnings | 249,874 | 238,737 |
| Total stockholders' equity | 428,648 | 414,420 |
| Total liabilities and stockholders' equity | \$1,088,832 | \$1,022,658 |

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

| (In thousands, except per share amounts) | Thirteen Weeks Ended | | |
|---|----------------------|---------------------|---|
| | October 29, 2011 | October 30, 2010 | |
| Net sales | \$429,711 | \$463,619 | |
| Cost of goods sold | 196,897 | 221,918 | |
| Gross profit | 232,814 | 241,701 | |
| Occupancy and buying expenses | 84,128 | 92,687 | |
| Selling, general, and administrative expenses | 140,691 | 145,016 | |
| Depreciation and amortization | 13,564 | 16,367 | |
| Restructuring and other charges | 3,450 | 3,234 | |
| Total operating expenses | 241,833 | 257,304 | |
| Loss from operations | (9,019 |) (15,603 |) |
| Other income | 75 | 442 | |
| Interest expense | (3,232 |) (3,790 |) |
| Loss before income taxes | (12,176 |) (18,951 |) |
| Income tax provision/(benefit) | 814 | (141 |) |
| Net loss | \$(12,990 |) \$(18,810 |) |
| Basic net loss per share | \$(0.11 |) \$(0.16 |) |
| Diluted net loss per share | \$(0.11 |) \$(0.16 |) |

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

| (In thousands, except per share amounts) | Thirty-nine Weeks Ended | |
|--|-------------------------|---------------------|
| | October 29, 2011 | October 30, 2010 |
| Net sales | \$1,433,266 | \$1,485,988 |
| Cost of goods sold | 669,225 | 718,575 |
| Gross profit | 764,041 | 767,413 |
| Occupancy and buying expenses | 260,140 | 276,791 |
| Selling, general, and administrative expenses | 435,212 | 451,168 |
| Depreciation and amortization | 42,454 | 50,115 |
| Gain from sale of office premises | (5,185 |) — |
| Restructuring and other charges | 4,884 | 4,742 |
| Total operating expenses | 737,505 | 782,816 |
| Income/(loss) from operations | 26,536 | (15,403) |
| Other income | 312 | 976 |
| Gain on repurchases of 1.125% Senior Convertible Notes | — | 1,907 |
| Interest expense | (10,906 |) (12,360) |
| Income/(loss) before income taxes | 15,942 | (24,880) |
| Income tax provision/(benefit) | 4,805 | (1,323) |
| Net income/(loss) | \$11,137 | \$(23,557) |
| Basic net income/(loss) per share | \$0.10 | \$(0.20) |
| Diluted net income/(loss) per share | \$0.09 | \$(0.20) |

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

| (In thousands) | Thirty-nine Weeks Ended | |
|--|-------------------------|---------------------|
| | October 29, 2011 | October 30, 2010 |
| Operating activities | | |
| Net income/(loss) | \$11,137 | \$(23,557) |
| Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities | | |
| Depreciation and amortization | 43,854 | 51,593 |
| Stock-based compensation | 3,796 | 3,666 |
| Accretion of discount on 1.125% Senior Convertible Notes | 5,195 | 5,615 |
| Deferred income taxes | 2,656 | (321) |
| Gain on repurchases of 1.125% Senior Convertible Notes | — | (1,907) |
| Write-down of capital assets due to restructuring | 950 | — |
| Impairment of store assets | 654 | — |
| Net (gain)/loss from disposition of capital assets | (4,841 |) 723 |
| Changes in operating assets and liabilities | | |
| Accounts receivable, net | 29,938 | 28,206 |
| Merchandise inventories | (73,366 |) (126,983) |
| Accounts payable | 60,453 | 50,055 |
| Prepayments and other | (7,932 |) 20,064 |
| Accrued expenses and other | (9,526 |) (21,071) |
| Net cash provided/(used) by operating activities | 62,968 | (13,917) |
| Investing activities | | |
| Investment in capital assets | (22,749 |) (29,217) |
| Proceeds from sales of capital assets | 7,537 | 318 |
| Proceeds from sales of securities | — | 200 |
| (Increase)/decrease in other assets | (101 |) 2,900 |
| Net cash used by investing activities | (15,313 |) (25,799) |
| Financing activities | | |
| Repayments of long-term borrowings | (4,793 |) (4,674) |
| Repurchases of 1.125% Senior Convertible Notes | — | (38,260) |
| Payment of deferred financing costs | (1,885 |) — |
| Issuance of common stock under employee stock plans, net of amounts withheld for payroll taxes | (705 |) 227 |
| Net cash used by financing activities | (7,383 |) (42,707) |
| Increase/(decrease) in cash and cash equivalents | 40,272 | (82,423) |
| Cash and cash equivalents, beginning of period | 117,482 | 186,580 |
| Cash and cash equivalents, end of period | \$157,754 | \$104,157 |
| Non-cash financing and investing activities | | |
| Assets acquired through capital leases | \$2,883 | \$— |

See Notes to Condensed Consolidated Financial Statements

5

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Condensed Consolidated Financial Statements

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC"). In our opinion, we have made all adjustments (which, except as otherwise disclosed in these notes, include only normal recurring adjustments) necessary to present fairly our financial position, results of operations, and cash flows. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles. These financial statements and related notes should be read in conjunction with our financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2011. The results of operations for the thirteen weeks and thirty-nine weeks ended October 29, 2011 and October 30, 2010 are not necessarily indicative of operating results for the full fiscal year. As used in these notes, the terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, our consolidated subsidiaries.

Note 2. Accounts Receivable

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

| (In thousands) | October 29, 2011 | January 29, 2011 |
|---------------------------------|---------------------|---------------------|
| Due from customers | \$8,675 | \$42,235 |
| Allowance for doubtful accounts | (2,045 |) (5,667 |
| Net accounts receivable | \$6,630 | \$36,568 |

Note 3. Long-term Debt

| (In thousands) | October 29, 2011 | January 29, 2011 |
|--|---------------------|---------------------|
| 1.125% Senior Convertible Notes, due May 1, 2014 | \$140,451 | \$140,451 |
| 6.07% mortgage note, due October 11, 2014 | 8,449 | 9,035 |
| 6.53% mortgage note, due November 1, 2012 | 1,400 | 2,450 |
| 7.77% mortgage note, due December 1, 2011 | 5,187 | 5,793 |
| Capital lease obligations | 7,081 | 6,749 |
| Total long-term debt principal | 162,568 | 164,478 |
| Less unamortized discount on 1.125% Senior Convertible Notes | (19,484 |) (24,679 |
| Long-term debt – carrying value | 143,084 | 139,799 |
| Current portion | (10,453 |) (11,449 |
| Net long-term debt | \$132,631 | \$128,350 |

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

The Amended Agreement provides for borrowings under either “Base Rate” loans or “Eurodollar Rate” loans. Borrowings under Base Rate loans are variable and will generally accrue interest at a margin ranging from 1.0% to 1.5% over the Base Rate (as defined in the Agreement). Eurodollar Rate loans will generally accrue interest at a margin ranging from 2.0% to 2.5% over the London Interbank Offered Rate (“LIBOR”) as adjusted for reserves. The applicable margin will be adjusted each fiscal month based on our Monthly Average Liquidity (as defined in the Amended Agreement) for the preceding month. We are also required to pay a monthly unused line fee ranging from 0.375% to 0.5% of the amount by which the maximum credit available under the Amended Facility exceeds the average daily principal balance of any outstanding revolving loans and letters of credit. As of October 29, 2011 the applicable rates under the facility were 4.5% (Base Rate plus 1.25%) for Base Rate Loans and 2.50% (LIBOR plus 2.25%) for Eurodollar Rate Loans.

The Amended Agreement provides for customary representations and warranties and affirmative covenants. The Amended Agreement also contains customary negative covenants providing limitations, subject to negotiated exceptions, for sales of assets; encumbrances; indebtedness; loans, advances and investments; acquisitions; guarantees; new subsidiaries; dividends and redemptions; transactions with affiliates; changes in business; certain actions affecting subsidiaries; credit card agreements; private-label credit cards; and changes in control of certain of our subsidiaries. At all times we are required to maintain Excess Availability (as defined in the Amended Agreement) of at least the greater of 10% of the Borrowing Base or \$15,000,000. The Amended Agreement also provides for certain rights and remedies if there is an occurrence of one or more events of default under the terms of the Amended Agreement. Under certain conditions the maximum amount available under the Amended Agreement may be reduced or terminated by the lenders and the obligation to repay amounts outstanding under the Amended Agreement may be accelerated.

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

As of October 29, 2011 we had an aggregate total of \$4,129,000 of unamortized deferred debt acquisition costs related to the facility that will be amortized on a straight-line basis over the life of the Amended Facility as interest expense. There were no borrowings outstanding under the facility as of October 29, 2011.

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 4. Stockholders' Equity

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

| (Dollars in thousands) | Thirty-nine Weeks Ended October 29, 2011 |
|---|---|
| Total stockholders' equity, beginning of period | \$414,420 |
| Net income | 11,137 |
| Issuance of common stock under employee stock plans (963,381 shares), net of amounts withheld for payroll taxes | (705) |
| Stock-based compensation | 3,796 |
| Total stockholders' equity, end of period | \$428,648 |

Note 5. Stock-based Compensation Plans

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

SARS and stock option activity under our various stock-based compensation plans for the thirty-nine weeks ended October 29, 2011 was as follows:

| | Option/ SARs Shares | Weighted Average Exercise Price | Range of Exercise Prices per Share | | | Aggregate Intrinsic Value ⁽¹⁾ (000's) |
|--|---------------------------|--|---------------------------------------|---|---------|---|
| Outstanding at January 29, 2011 ⁽²⁾ | 6,098,153 | \$3.10 | \$1.00 | — | \$13.84 | \$— |
| Granted – exercise price equal to market price | 2,492,133 | 3.97 | 2.71 | — | 4.37 | |
| Canceled/forfeited | (827,041) | 5.02 | 1.00 | — | 13.84 | |
| Exercised ⁽³⁾ | (1,622,562) | 1.80 | 1.00 | — | 2.93 | 2,184 |
| Outstanding at October 29, 2011 ⁽⁵⁾ | 6,140,683 | \$3.53 | \$1.00 | — | \$11.28 | 156 |
| Exercisable at October 29, 2011 ⁽⁵⁾ | 1,469,717 | \$3.26 | \$1.00 | — | \$11.28 | 447 |

(1) Aggregate market value less aggregate exercise price.

(2) Includes 1,416,496 shares related to "inducement grants" of SARs in accordance with Nasdaq Marketplace Rule 5635(c)(4).

(3) Includes 825,000 shares exercised related to "inducement grants" (see note (2) above).

(4) As of date of exercise.

(5) Includes 591,496 shares outstanding related to "inducement grants" (see note (2) above), of which 207,164 shares were exercisable.

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of October 29, 2011 the following shares were available for future grants under our stock-based compensation plans:

| | Shares Available |
|-------------------------------------|---------------------|
| 2010 Stock Award and Incentive Plan | 5,078,476 |
| 1994 Employee Stock Purchase Plan | 301,699 |

Total stock-based compensation expense was as follows:

| (In thousands) | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|--|----------------------|---------------------|-------------------------|---------------------|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Stock-based compensation expense, excluding cash-settled RSUs | \$ 1,409 | \$ 1,656 | \$ 3,796 | \$ 3,666 |
| Stock-based compensation expense, cash-settled RSUs ⁽¹⁾ | — | — | — | 4 |
| Total stock-based compensation expense | \$ 1,409 | \$ 1,656 | \$ 3,796 | \$ 3,670 |

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

We use the Black-Scholes valuation model to estimate the fair value of SARs. We amortize stock-based compensation on a straight-line basis over the requisite service period of an award. Estimates and assumptions we use under the Black-Scholes model are more fully described in “Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies; Stock-based Compensation” and “Note 9. Stock-Based Compensation Plans” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

Total stock-based compensation expense not yet recognized, related to the non-vested portion of SARs and awards outstanding, was \$11,988,000 as of October 29, 2011. The weighted-average period over which we expect to recognize this compensation expense is approximately 3 years.

Note 6. Customer Loyalty Card Programs

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts on purchases, during the membership period. Customers join some of these programs by paying an annual membership fee. For these programs, we recognize revenue as a component of net sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. We recognize costs we incur in connection with administering these programs as selling, general, and administrative expenses when incurred. Our loyalty card programs are more fully described in “Item 8. Financial Statements and Supplementary Data; Note 10. Customer Loyalty Card Programs” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

| (In thousands) | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|----------------------------------|----------------------|---------------------|-------------------------|---------------------|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Loyalty card revenues recognized | \$4,474 | \$4,644 | \$13,641 | \$13,860 |

| (In thousands) | Accrued as of | |
|---|---------------------|---------------------|
| | October 29, 2011 | January 29, 2011 |
| Discounts earned but not yet issued and discounts issued but not yet redeemed | \$2,203 | \$2,277 |

Note 7. Net Income/(Loss) per Share

| (In thousands, except per share amounts) | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|---|----------------------|---------------------|-------------------------|---------------------|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Basic weighted average common shares outstanding | 116,890 | 115,794 | 116,603 | 115,832 |
| Dilutive effect of SARs, stock options, and awards | — | (1) — | (1) 1,167 | — |
| Diluted weighted average common shares and equivalents outstanding | 116,890 | 115,794 | 117,770 | 115,832 |
| Net income/(loss) used to determine basic and diluted net income/(loss) per share | \$(12,990) | \$(18,810) | \$11,137 | \$(23,557) |
| SARs and stock options with weighted average exercise price greater than market price, excluded from computation of diluted net income per share: | | | | |
| Number of shares | — | (1) — | (1) 3,667 | — |
| Weighted average exercise price per share | | | \$4.62 | |

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

Our 1.125% Notes will not impact our diluted net income per share until the price of our common stock exceeds the conversion price of \$15.379 per share because we expect to settle the principal amount of the 1.125% Notes in cash upon conversion. Our call options are not included in the diluted net income per share calculation as their effect would be anti-dilutive. Should the price of our common stock exceed \$21.607 per share we would also include the dilutive effect of the additional potential shares that may be issued related to the warrants, using the treasury stock method. See "Item 8. Financial Statements and Supplementary Data; Note 7. Long-term Debt" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 for further information regarding our 1.125% Notes, call options, and warrants.

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 8. Income Taxes

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

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

We recognize deferred tax assets for temporary differences that will result in deductible amounts in future years and for net operating loss ("NOL") and credit carryforwards. We recognize a valuation allowance to reduce deferred tax assets if, based on existing facts and circumstances, it is more-likely-than-not that some portion or all of our deferred tax assets will not be realized. During Fiscal 2008 we evaluated our assumptions regarding the recoverability of our deferred tax assets. Based on all available evidence we determined that the recoverability of our deferred tax assets is more-likely-than-not limited to our available tax loss carrybacks. Accordingly, we established a valuation allowance against our net deferred tax assets. During Fiscal 2009 we increased the valuation allowance and recognized an additional non-cash provision, net of a tax benefit resulting from the carryback of remaining Fiscal 2008 NOLs pursuant to H.R. 3548, the "Worker, Homeownership, and Business Assistance Act of 2009," which was signed into law on November 6, 2009. During Fiscal 2010 we further increased our valuation allowance and recognized an additional non-cash provision. In future periods we will continue to recognize a valuation allowance until such time as the certainty of future tax benefits can be reasonably assured. When our results of operations demonstrate a pattern of future profitability the valuation allowance may be adjusted, which would result in the reinstatement of all or a part of the net deferred tax assets.

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

| (In thousands) | October 29, 2011 | January 29, 2011 |
|------------------------------|---------------------|---------------------|
| Income taxes receivable, net | \$9,281 | \$10,733 |

The reduction in income taxes receivable during the thirty-nine weeks ended October 29, 2011 was principally a result of the receipt of \$1,620,000 of net Federal tax refunds that related primarily to our NOL carryback for Fiscal 2009.

As of October 29, 2011 our gross unrecognized tax benefits associated with uncertain tax positions were \$28,383,000. If recognized, the portion of the liabilities for gross unrecognized tax benefits that would decrease our provision for income taxes and increase our net income was \$18,590,000. The accrued interest and penalties as of October 29, 2011 were \$14,738,000.

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

During the thirty-nine weeks ended October 29, 2011 the gross unrecognized tax benefits decreased by \$410,000 and the portion of the liabilities for gross unrecognized tax benefits that, if recognized, would decrease our provision for income taxes and increase our net income decreased by \$465,000. Accrued interest and penalties decreased by \$16,000 during the thirty-nine weeks ended October 29, 2011. These decreases are primarily the result of payments relating to audits of state tax positions, partially offset by additional accruals for uncertain tax positions.

As of October 29, 2011 it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next twelve months by as much as \$10,273,000 as a result of resolutions of audits related to U.S. Federal and state tax positions.

Our U.S. Federal income tax returns for Fiscal 2004 and beyond remain subject to examination by the U.S. Internal Revenue Service ("IRS") due to statute of limitations and the filing of amended returns and NOL carryback claims. We file returns in numerous state jurisdictions, with varying statutes of limitations. Our state tax returns for Fiscal 2006 and subsequent years, depending upon the jurisdiction, generally remain subject to examination. The statute of limitations on a limited number of returns for years prior to Fiscal 2006 has been extended by agreement between us and the particular state jurisdiction. The earliest year still subject to examination by state tax authorities is Fiscal 2003.

Note 9. Segment Reporting

We determine our operating segments based on the way our chief operating decision-makers review our results of operations. We consider our retail stores and store-related e-commerce as operating segments that are similar in terms of economic characteristics, production processes, and operations. Accordingly, we have aggregated our retail stores and store-related e-commerce into the "Retail Stores" segment. Our catalog and catalog-related e-commerce operations are separately reported under the Direct-to-Consumer segment. Further information regarding our operating segments is included in "Item 8. Financial Statements and Supplementary Data; Note 18. Segment Reporting" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

| (In thousands) | Retail Stores | Direct-to- Consumer | Corporate and Other | Consolidated |
|---------------------------------------|------------------|------------------------|------------------------|-------------------------|
| Thirteen Weeks Ended October 29, 2011 | | | | |
| Net sales | \$417,721 | \$11,990 | \$— | \$429,711 |
| Depreciation and amortization | 10,334 | 265 | 2,965 | 13,564 |
| Loss from operations | 20,254 | (3,317) | (25,956) | (9,019) ⁽¹⁾ |
| Net interest expense and other income | | | (3,157) | (3,157) |
| Income tax provision | | | 814 | 814 |
| Net loss | 20,254 | (3,317) | (29,927) | (12,990) |
| Capital expenditures | 3,583 | 384 | 4,187 | 8,154 |
| Thirteen Weeks Ended October 30, 2010 | | | | |
| Net sales | \$453,901 | \$9,718 | \$— | \$463,619 |
| Depreciation and amortization | 13,214 | 216 | 2,937 | 16,367 |
| Loss from operations | 15,214 | (2,944) | (27,873) | (15,603) ⁽²⁾ |
| Net interest expense and other income | | | (3,348) | (3,348) |
| Income tax benefit | | | (141) | (141) |
| Net loss | 15,214 | (2,944) | (31,080) | (18,810) |
| Capital expenditures | 7,434 | 274 | 4,925 | 12,633 |

(1)Includes \$3,450 of restructuring and other charges (see “Note 10. Restructuring and Other Charges” below).

(2)Includes \$3,234 of restructuring and other charges (see “Note 10. Restructuring and Other Charges” below).

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

| (In thousands) | Retail Stores | Direct-to- Consumer | Corporate and Other | Consolidated |
|---|------------------|------------------------|------------------------|-------------------------|
| Thirty-nine Weeks Ended October 29, 2011 | | | | |
| Net sales | \$1,401,080 | \$32,186 | \$— | \$1,433,266 |
| Depreciation and amortization | 32,418 | 781 | 9,255 | 42,454 |
| Income from operations | 109,170 | (9,101) | (73,533) | 26,536 ⁽¹⁾ |
| Net interest expense and other income | | | (10,594) | (10,594) |
| Income tax provision | | | 4,805 | 4,805 |
| Net income | 109,170 | (9,101) | (88,932) | 11,137 |
| Capital expenditures | 9,072 | 1,574 | 12,103 | 22,749 |
| Thirty-nine Weeks Ended October 30, 2010 | | | | |
| Net sales | \$1,458,194 | \$27,794 | \$— | \$1,485,988 |
| Depreciation and amortization | 39,970 | 811 | 9,334 | 50,115 |
| Loss from operations | 57,282 | (7,853) | (64,832) | (15,403) ⁽²⁾ |
| Gain on repurchases of 1.125% Senior Convertible Notes | | | 1,907 | 1,907 |
| Net interest expense and other income | | | (11,384) | (11,384) |
| Income tax benefit | | | (1,323) | (1,323) |
| Net loss | 57,282 | (7,853) | (72,986) | (23,557) |
| Capital expenditures | 15,591 | 354 | 13,272 | 29,217 |

(1) Includes \$4,884 of restructuring and other charges (see “Note 10. Restructuring and Other Charges” below) and a \$5,185 gain from the sale of office premises.

(2) Includes \$4,742 of restructuring and other charges (see “Note 10. Restructuring and Other Charges” below).

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10. Restructuring and Other Charges

The following table summarizes our restructuring and other charges:

| (In thousands) | Costs Incurred as of | Costs Incurred for Thirty-nine Weeks Ended | Estimated Remaining Costs | Total Estimated/ Actual Costs as of |
|--|----------------------------|--|---------------------------------|--|
| | January 29, 2011 | October 29, 2011 | To be Incurred | October 29, 2011 |
| Fiscal 2011 Announcements | | | | |
| Transformational initiatives | \$— | \$3,576 | \$815 | (1) \$4,391 |
| Store impairment charges | — | 654 | — | 654 |
| Store lease termination charges | — | 484 | 2,000 | 2,484 |
| Fiscal 2010 Announcements | | | | |
| Closing of under-performing stores: | | | | |
| Non-cash impairment charge for CATHERINES® stores in outlet locations | 3,210 | — | — | 3,210 |
| Store lease termination and other charges | — | (873 |) 6,000 | 5,127 |
| Severance for departure of former CEO | 2,898 | — | — | 2,898 |
| Fiscal 2009 Announcements | | | | |
| Closing of PETITE SOPHISTICATE OUTLET® stores: | | | | |
| Non-cash accelerated depreciation | 612 | — | — | 612 |
| Store lease termination charges | 1,070 | — | — | 1,070 |
| Other non-cash costs | 195 | — | — | 195 |
| Closing of under-performing stores: | | | | |
| Store lease termination charges | 2,691 | 1,116 | 3,000 | 6,807 |
| Fiscal 2007 and Fiscal 2008 Announcements | | | | |
| Lease termination and accretion charges | 11,575 | (87 |) 1,715 | (2) 13,203 |
| Severance, retention, and other costs | 5,123 | 14 | — | 5,137 |
| Closing of under-performing stores: | | | | |
| Store lease termination charges | 8,305 | — | — | 8,305 |
| Total | \$35,679 | \$4,884 | \$13,530 | \$54,093 |

We cannot estimate all remaining costs related to our plans to divest FASHION BUG and to undertake a (1) comprehensive strategic review (see "Note 14. Subsequent Event" below) at this time as we cannot assure the implementation of the divestiture or any additional courses of action that may result from the review.

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

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes our accrued restructuring and other charges:

| (In thousands) | Accrued as of January 29, 2011 ⁽¹⁾ | Thirty-nine Weeks Ended October 29, 2011 | | Accrued as of October 29, 2011 ⁽¹⁾ |
|---|--|---|--------------------------|--|
| | | Costs Incurred | Payments/ Settlements | |
| Fiscal 2011 Announcements | | | | |
| Transformational initiatives | — | 3,576 | (2,612 |) 964 |
| Store lease termination charges | — | 575 | (575 |) — |
| Fiscal 2010 Announcements | | | | |
| Severance for departure of former CEO | 1,910 | — | (828 |) 1,082 |
| Closing of under-performing stores: | | | | |
| Store lease termination charges | 619 | 413 | (311 |) 721 |
| Fiscal 2009 Announcements | | | | |
| Closing of PETITE SOPHISTICATE OUTLET stores: | | | | |
| Store lease termination charges | 599 | — | (292 |) 307 |
| Closing of under-performing stores: | | | | |
| Store lease termination charges | 485 | 1,433 | (1,187 |) 731 |
| Fiscal 2007 and Fiscal 2008 Announcements | | | | |
| Non-core misses apparel assets: | | | | |
| Lease termination charges | 7,074 | (87 |) (2,183 |) 4,804 |
| Other costs | 153 | — | — | 153 |
| Transformational initiatives: | | | | |
| Severance and retention costs | 117 | 14 | (131 |) — |
| Closing of under-performing stores: | | | | |
| Store lease termination charges | 798 | — | (258 |) 540 |
| Total | \$11,755 | \$5,924 | \$(8,377 |) \$9,302 |

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

Restructuring and other charges for the thirty-nine weeks ended October 29, 2011 consisted primarily of professional fees and retention costs related to our announced plans to divest our FASHION BUG[®] business and to undertake a comprehensive strategic review (see "Note 14. Subsequent Event" below), non-cash store impairment charges, and lease termination costs net of store-related deferred allowances in connection with our under-performing store closing programs.

We performed an impairment review of long-lived assets for FASHION BUG and identified 18 stores with asset carrying values in excess of such stores' respective forecasted undiscounted cash flows. Accordingly, during the thirty-nine weeks ended October 29, 2011 we recognized non-cash impairment charges of \$654,000 to write down the long-lived assets (primarily leasehold improvements) at these stores to their respective fair values. Due to the nature of the assets being written down and our past history of abandoning such assets, we have determined the fair value of

the assets to be minimal.

16

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

During the Fiscal 2011 Third Quarter we approved the planned closing of 18 additional under-performing FASHION BUG stores. We expect to close all of these under-performing stores in Fiscal 2011 and we expect to incur approximately \$2,500,000 of lease termination and other costs to close these stores.

Restructuring and other charges for the thirty-nine weeks ended October 30, 2010 consisted primarily of cash severance and non-cash equity compensation costs in connection with the resignation of our former CEO and lease termination costs related to our store closing program and accretion charges on lease termination costs for our store closing program announced March 30, 2010.

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

Note 11. Fair Value of Financial Instruments

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

| (In thousands) | October 29, 2011 | | January 29, 2011 | |
|--|------------------|-------------|------------------|-------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | \$ 157,754 | \$ 157,754 | \$ 117,482 | \$ 117,482 |
| Liabilities: | | | | |
| 1.125% Senior Convertible Notes, due May 1, 2014 | 120,967 | (1) 120,788 | 115,772 | (1) 118,681 |
| 6.07% mortgage note, due October 11, 2014 | 8,449 | 8,316 | 9,035 | 8,887 |
| 6.53% mortgage note, due November 1, 2012 | 1,400 | 1,400 | 2,450 | 2,451 |
| 7.77% mortgage note, due December 1, 2011 | 5,187 | 5,267 | 5,793 | 5,921 |

(1) Net of unamortized discount of \$19,484 at October 29, 2011 and \$24,679 at January 29, 2011 (see “Note 3. Long-term Debt” above).

The fair value of cash and cash equivalents approximates their carrying amount because of the short maturities of such instruments. The fair value of the 1.125% Senior Convertible Notes is based on quoted market prices for the securities. The fair values of the mortgage notes and other long-term debt are based on estimated current interest rates that we could obtain on similar borrowings.

Note 12. Gain from Sale of Office Premises

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

Table of Contents

CHARMING SHOPPES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 13. Impact of Recent Accounting Pronouncements

In September 2011 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-08, "Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment." Topic 350 currently requires entities to test goodwill on an annual basis by comparing the fair value of a reporting unit to its carrying value including goodwill (step one). Step two of the test must be performed to measure the amount of impairment. Under ASU 2011-08 entities are not required to calculate the fair value of a reporting unit unless they conclude that it is more likely than not (i.e. there is a greater than 50% likelihood) that the unit's carrying value is greater than its fair value based on an assessment of events and circumstances. ASU 2011-08 includes examples of events and circumstances that entities should consider to determine whether they have to perform step one of the goodwill impairment test. ASU 2011-08 is effective for our fiscal year which begins on January 29, 2012. Early adoption is permitted for interim or annual reports that have not been issued. We do not expect that adoption of ASU 2011-08 will have a material impact on our financial position or results of operations.

Note 14. Subsequent Event

Subsequent to the end of the Fiscal 2011 Third Quarter we announced that we are undertaking a comprehensive strategic review of our operations to determine how best to enhance shareholder value. As part of these efforts, we announced plans to divest our FASHION BUG business and focus on the growth of our LANE BRYANT® brand. This review is expected to focus on optimizing the use of our cash position to drive the potential of the LANE BRYANT brand, as well as evaluating other alternatives to further enhance shareholder value. A time frame for the divestiture of FASHION BUG or the completion of the strategic review has not yet been determined. The results of operations of our FASHION BUG business are not reported as discontinued operations as the requirements for treating the business as held-for-sale were not met as of October 29, 2011.

Table of Contents

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

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes included in Item 1 of this report. It should also be read in conjunction with the management's discussion and analysis of financial condition and results of operations, financial statements, and accompanying notes appearing in our Annual Report on Form 10-K for the fiscal year ended January 29, 2011. As used in this management's discussion and analysis, the terms "Charming Shoppes," "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and its consolidated subsidiaries except where the context otherwise requires or as otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

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

Factors that could cause our actual results of operations or financial condition to differ from those described in this report include, but are not necessarily limited to, the following, and the other factors discussed in more detail in "PART I; Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 and in our other filings with the Securities and Exchange Commission:

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

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

Table of Contents

- the availability and price volatility of key raw materials in our products, such as cotton, wool, and synthetic fabrics;
- our continued access to sufficient financing at an affordable cost;
- recent significant changes in our private-label credit card programs and the impact of Federal and state laws on the availability and cost of providing credit to our cardholders;
- seasonal fluctuations in net sales and extreme or unseasonable weather conditions;
- our reliance on technology outsourced to third parties and such third parties' failure to observe proper internal control practices and procedures;
- our ability to maintain efficient and uninterrupted customer service and fulfillment operations through our distribution and fulfillment centers and our third-party freight consolidators and service providers;
- natural disasters, acts of terrorism or other armed conflict, or the threat of any such event;
- our ability to successfully operate our e-commerce websites and our catalog business and the failure to manage and remedy disruptions in technology, including security breaches;
- our dependence on foreign sources of production;
- litigation and regulatory actions relating to our business;
- our ability to develop and profitably operate new retail stores, and to maintain good relationships with all of our landlords;
- our ability to effectively implement our plan for closing under-performing stores;
- the failure to successfully implement, or to manage the risks associated with, our plans to divest our FASHION BUG business and focus on the growth of our LANE BRYANT business, or additional courses of action, if any, that may result from our planned comprehensive strategic review;
- the failure to maintain effective internal control over financial reporting; and
- changes to existing accounting rules or the adoption of new rules.

CRITICAL ACCOUNTING POLICIES

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

Table of Contents

We periodically reevaluate our accounting policies, assumptions, and estimates and make adjustments when facts and circumstances warrant. Our significant accounting policies are described in “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 1. Summary of Significant Accounting Policies” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011. The accounting policies and related assumptions that we consider to be more critical to the preparation of our financial statements and accompanying notes and involve the most significant management judgments and estimates are described in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; Critical Accounting Policies” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011. There were no material changes in, or additions to, our critical accounting policies or in the assumptions or estimates we used to prepare the financial information appearing in this report.

RECENT DEVELOPMENTS

Subsequent to the end of the Fiscal 2011 Third Quarter we announced that we are undertaking a comprehensive strategic and financial review of our operations to determine how best to enhance shareholder value. As part of these efforts, we announced plans to divest our FASHION BUG business and focus on the growth of our LANE BRYANT brand. This review is expected to focus on optimizing the use of our strong cash position to drive the potential of the LANE BRYANT brand, as well as evaluating other alternatives to further enhance shareholder value. The results of operations of our FASHION BUG business are not reported as discontinued operations as the requirements for treating the business as held-for-sale were not met as of October 29, 2011.

Our Board of Directors and management will explore a full range of strategic alternatives for the Company, and have engaged Barclays Capital as a financial advisor to assist in the process. We cannot assure that this process will result in any specific course of action beyond the planned divestiture of FASHION BUG. A time frame for the divestiture of FASHION BUG or the completion of the strategic review has not yet been determined. Additional discussion of our management initiatives is included in "OVERVIEW; Management Initiatives" below.

OVERVIEW

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

Results of Operations

Our Fiscal 2011 Third Quarter operating results reflect our continuing progress on our initiatives to increase inventory productivity and to improve overall profitability. Consolidated Adjusted EBITDA for the Fiscal 2011 Third Quarter increased by \$4.0 million to \$8.0 million as compared to the prior-year period (see “RESULTS OF OPERATIONS; EBITDA and Adjusted EBITDA” below). This increase was driven by decreases in operating expenses as a result of the closing of under-performing stores and increased gross margins across all of our brands as a result of our disciplined inventory management. Our disciplined inventory management resulted in an 8% decrease in inventory at cost on a comparable store basis at the end of the quarter as compared to the end of the prior-year period.

Table of Contents

Consolidated net sales for the Fiscal 2011 Third Quarter reflected the impact of 168 net store closings during the preceding 12-month period in connection with our store closing programs and a decrease of 4% in consolidated comparable store sales, partially offset by sales from new stores and a 10% increase in e-commerce net sales as compared to the Fiscal 2010 Third Quarter. Our Fall seasonal fashion inventory assortments were well received by our customers, resulting in improved average unit retails and average dollar sales during the Fiscal 2011 Third Quarter as compared to the prior-year period. However, Fiscal 2011 Third Quarter sales were negatively impacted by planned reductions in levels of clearance inventory as compared to the prior-year period as we continued to execute against our plan for tightly controlled inventories to drive higher gross margins.

Although the planned reductions in clearance inventory negatively impacted net sales, they contributed to an increase in gross margin for the Fiscal 2011 Third Quarter as compared to the Fiscal 2010 Third Quarter. This increase was driven by improvements across all of our brands, and benefited from improved seasonal assortments and disciplined inventory management, which resulted in fewer markdowns as compared to the prior-year period and faster sell-throughs of seasonal merchandise. We continue to seek the proper balance of full-price, promotional, and clearance inventories in order to maximize gross profit dollars. The decline in gross profit dollars was primarily driven by the net closure of 168 stores over the preceding 12 months in connection with our store closing program.

Our operating expenses (excluding restructuring and other charges of \$3.5 million) decreased by \$15.7 million, driven primarily by the impact of 168 net store closures and expense reductions across all of our brands. Our occupancy and buying expenses decreased both in dollar amount and as a percentage of net sales for the Fiscal 2011 Third Quarter as compared to the prior-year period, primarily related to lower rent expense as a result of the operation of fewer stores and the negotiation of store lease terms. Selling, general, and administrative expenses decreased in dollar amount for the Fiscal 2011 Third Quarter as compared to the prior-year period, primarily as a result of a combination of lower store payroll attributable to operating fewer stores and lower advertising expenses, but increased as a percentage of net sales, primarily as a result of negative leverage from the decrease in comparable store sales at our FASHION BUG brand.

Depreciation and amortization expenses decreased by \$2.8 million for the Fiscal 2011 Third Quarter as compared to the prior-year period primarily as a result of the operation of fewer stores and the write-down of store assets during the Fiscal 2010 Fourth Quarter.

Restructuring and other charges for the Fiscal 2011 Third Quarter were primarily for professional fees and retention costs related to our announced plans to divest our FASHION BUG business and to undertake a comprehensive strategic and financial review (see "RECENT DEVELOPMENTS" above), non-cash store impairment charges, and lease termination costs net of store-related deferred allowances in connection with our under-performing store closing programs. Fiscal 2010 Third Quarter charges were primarily for cash severance and non-cash equity compensation costs in connection with the resignation of our former Chief Executive Officer.

As discussed in prior quarters of Fiscal 2011, our product pricing was affected by inflation in cotton costs that mostly impacted our Fall season. Our Fiscal 2011 Third Quarter average unit retail increased approximately 12%, which did not completely cover the increased product cost. However, our improved assortments and tighter inventory management resulted in a gross margin rate increase of 210 basis points. A decrease in the number of units sold indicated that many of the price increases were not sustainable in the current consumer spending environment. Looking ahead to the December Holiday and Spring seasons, we expect year-over-year price increases to subside into the mid to high single digits.

We continue to make progress on our initiatives to drive sustainable productivity and profitability. Although we are pleased with our progress, our results remain below our expectations. However, we are continuing to achieve better

results through core fundamentals, including more fashionable, trend-right assortments coupled with disciplined inventory management, gross margin expansion, and decreases in operating expenses.

Table of Contents

Financial Position and Liquidity

We ended the Fiscal 2011 Third Quarter with \$158 million of cash as compared to \$117 million as of the end of Fiscal 2010 and ended the quarter with a net cash position as compared to a net debt position as of the end of Fiscal 2010. Our cash position increased primarily as a result of improved operating results during the first three quarters of Fiscal 2011, disciplined inventory management, improved sell-through of our seasonal merchandise at each of our brands, collections of accounts receivable generated from December 2010 holiday season sales by our Direct-to-Consumer segment, and proceeds of \$7.5 million from the sale of office premises.

As we continue to rationalize our store base, we expect to close approximately 230-240 unprofitable stores in 2011. The majority of these stores have natural lease expirations in 2011. Lease termination costs for Fiscal 2011 are projected to be approximately \$4 million. During the first three quarters of Fiscal 2011, we have closed 144 stores, including 80 FASHION BUG stores, and the majority of the remaining store closings will occur near the end of the fourth quarter.

On July 14, 2011 we entered into an amended and restated loan and security agreement for a \$200 million senior secured revolving credit facility, which replaced our \$225 million senior secured revolving credit facility and provides for committed revolving credit availability through July 14, 2016. See "FINANCING; Revolving Credit Facility" below for further discussion of the amended agreement. We ended the quarter with no borrowings against the revolving credit facility and a total liquidity position of \$305 million.

Management Initiatives

We are currently engaged in a number of initiatives that we believe will further improve our business and enhance shareholder value (see "RECENT DEVELOPMENTS" above). The first substantive step is the divestiture of our FASHION BUG business. Although we have made progress in improving FASHION BUG's profitability, we believe that it does not fit within our future strategic plan. Concurrent with this process, we are assessing the appropriate expense structure for the Company that incorporates the planned divestiture of FASHION BUG.

We believe that our financial and operational resources are better spent on focusing on our more profitable LANE BRYANT brand. We expect to invest in and focus on that business, using its strong consumer franchise and leading market position to drive our sales and profits. We expect to achieve our vision for the LANE BRYANT brand as the premier brand for women's fashion plus apparel through a number of initiatives, including:

- offering fashionable, on-trend, lifestyle merchandise collections;
- enhanced CACIQUE intimate apparel brand awareness and merchandise offerings;
- expansion to approximately 900 stores over several years, resulting in approximately 750 full-line LANE BRYANT stores and 150 LANE BRYANT OUTLET® locations; and
- innovative digital sales initiatives like our recently launched "Fashion Genius" online outfitting technology.

Our plans for the next few years include approximately 125 new locations and 125 relocations from malls into power-strip and lifestyle centers with stronger operating metrics, while closing approximately 50 stores through natural lease expirations. Our current mix of LANE BRYANT stores in strip centers to malls is 55% to 45%, and we plan to improve this mix to 80% to 20% over the next few years. The operating metrics for LANE BRYANT stores in power-strip and lifestyle centers support increased profitability, with projected increases in sales and decreases in

occupancy expenses as compared to malls, resulting in a projected improvement in sales productivity and Adjusted EBITDA.

Table of Contents

Additionally, we are currently developing a new store design for the LANE BRYANT brand, reflective of our vision for LANE BRYANT as the premier brand for women's fashion plus apparel. The new store design will include visual packages that promote lifestyle storytelling experiences, and will be simplified for easy navigation to enhance our customers' shopping experience. We expect to launch our first new store under this design in Fall 2012. Following the execution of our broader plans for new and relocated stores, nearly one-third of our LANE BRYANT stores will be repositioned and represented by our fresh new store design.

Our CACIQUE intimate apparel brand, which offers key intimates categories and complementary products, has grown to approximately one-third of sales at our full-line LANE BRYANT chain. We are seeking to further grow CACIQUE revenue through enhanced product assortments. Further into the future we expect to explore additional sales distribution channels, such as potential mall-based stand-alone stores, sister brands, and international growth.

As a leading retailer in the women's plus-size apparel market in the United States, we are making the distinction that we are not a plus-size retailer selling fashion, but rather a fashion retailer serving the plus-size apparel market. We must continue our progress in identifying and relating to our target customers, creating fashion-right assortment offerings, and focusing on our LANE BRYANT brand.

We are poised for growth and improved profitability. Our performance will be driven principally by revenue enhancements at LANE BRYANT, through improved merchandise assortments and by transitioning real estate to higher-performing strip-center locations. We believe that our initiatives will create shareholder value.

RESULTS OF OPERATIONS

EBITDA and Adjusted EBITDA

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

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

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

Table of Contents

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

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

| (In millions) | LANE BRYANT ⁽¹⁾ | FASHION BUG | CATHERINES | Total Retail Stores | |
|--|-------------------------------|----------------|------------|------------------------|---|
| Thirteen Weeks Ended October 29, 2011 | | | | | |
| Net sales | \$221.3 | \$126.8 | \$69.6 | \$417.7 | |
| Net loss | 21.7 | (3.4 |) 1.9 | 20.2 | |
| Income tax provision | — | — | — | — | |
| Net interest expense and other income | — | — | — | — | |
| Depreciation and amortization | 7.3 | 1.7 | 1.3 | 10.3 | |
| EBITDA | 29.0 | (1.7 |) 3.2 | 30.5 | |
| Restructuring and other charges | — | — | — | — | |
| Adjusted EBITDA | \$29.0 | \$(1.7 |) \$3.2 | \$30.5 | |
| Adjusted EBITDA as a % of net sales | 13.1 | % (1.3 |)% 4.6 | % 7.3 | % |

(1)Includes LANE BRYANT OUTLET stores, with net sales of \$30.0 and Adjusted EBITDA of \$3.8.

| (In millions) | Direct-to- Consumer ⁽²⁾ | Corporate And Other | Consolidated ⁽⁴⁾ | |
|---------------------------------------|---------------------------------------|------------------------|-----------------------------|---|
| Thirteen Weeks Ended October 29, 2011 | | | | |
| Net sales | \$12.0 | \$— | \$429.7 | |
| Net loss | (3.3 |) (29.9 |) (13.0 |) |
| Income tax provision | — | 0.8 | 0.8 | |
| Net interest expense and other income | — | 3.2 | 3.2 | |
| Depreciation and amortization | 0.3 | 3.0 | 13.6 | |
| EBITDA | (3.0 |) (22.9 |) 4.6 | |
| Restructuring and other charges | — | 3.5 | 3.5 | |
| Adjusted EBITDA | \$(3.0 |) \$(19.4 |) \$8.0 | |
| Adjusted EBITDA as a % of net sales | (25.0 |)% — | ⁽³⁾ 1.9 | % |

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

(3)Not meaningful.

(4)Results may not add due to rounding

Table of Contents

| (In millions) | LANE BRYANT ⁽¹⁾ | FASHION BUG | CATHERINES | Total Retail Stores |
|---|-------------------------------|----------------|------------|------------------------|
| Thirteen Weeks Ended October 30, 2010 | | | | |
| Net sales | \$227.5 | \$156.4 | \$70.0 | \$453.9 |
| Net loss | 19.9 | (1.8 |) (2.9 |) 15.2 |
| Income tax benefit | — | — | — | — |
| Net interest expense and other income | — | — | — | — |
| Depreciation and amortization | 8.4 | 2.9 | 1.9 | 13.2 |
| EBITDA | 28.3 | 1.1 | (1.0 |) 28.4 |
| Gain on repurchases of 1.125% Senior Convertible Notes | — | — | — | — |
| Restructuring and other charges | — | — | — | — |
| Adjusted EBITDA | \$28.3 | \$1.1 | \$(1.0 |) \$28.4 |
| Adjusted EBITDA as a % of net sales | 12.4 | % 0.7 | % (1.4 |)% 6.3 % |

(1)Includes LANE BRYANT OUTLET stores, with net sales of \$28.3 and Adjusted EBITDA of \$3.7.

| (In millions) | Direct-to- Consumer ⁽²⁾ | Corporate And Other | Consolidated | |
|---|---------------------------------------|------------------------|----------------------|---|
| Thirteen Weeks Ended October 30, 2010 | | | | |
| Net sales | \$9.7 | \$— | \$463.6 | |
| Net loss | (2.9 |) (31.1 |) (18.8 |) |
| Income tax benefit | — | (0.1 |) (0.1 |) |
| Net interest expense and other income | — | 3.3 | 3.3 | |
| Depreciation and amortization | 0.2 | 3.0 | 16.4 | |
| EBITDA | (2.7 |) (24.9 |) 0.8 | |
| Gain on repurchases of 1.125% Senior Convertible Notes | — | — | — | |
| Restructuring and other charges | — | 3.2 | 3.2 | |
| Adjusted EBITDA | \$(2.7 |) \$(21.7 |) \$4.0 | |
| Adjusted EBITDA as a % of net sales | (27.8 |)% — | ⁽³⁾ 0.9 % | |

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

(3)Not meaningful.

Table of Contents

| (In millions) | LANE BRYANT ⁽¹⁾ | FASHION BUG | CATHERINES | Total Retail Stores ⁽²⁾ | |
|--|-------------------------------|----------------|------------|---------------------------------------|---|
| Thirty-nine Weeks Ended October 29, 2011 | | | | | |
| Net sales | \$735.6 | \$438.2 | \$227.3 | \$1,401.1 | |
| Net income | 78.0 | 17.6 | 13.5 | 109.2 | |
| Income tax provision | — | — | — | — | |
| Net interest expense and other income | — | — | — | — | |
| Depreciation and amortization | 22.4 | 5.6 | 4.4 | 32.4 | |
| EBITDA | 100.4 | 23.2 | 17.9 | 141.6 | |
| Gain from sale of office premises | — | — | — | — | |
| Restructuring and other credits | — | — | — | — | |
| Adjusted EBITDA | \$100.4 | \$23.2 | \$17.9 | \$141.6 | |
| Adjusted EBITDA as a % of net sales | 13.6 | % 5.3 | % 7.9 | % 10.1 | % |

(1) Includes LANE BRYANT OUTLET[®] stores, with net sales of \$93.9 and Adjusted EBITDA of \$15.3.

(2) Results may not add due to rounding

| (In millions) | Direct-to- Consumer ⁽³⁾ | Corporate And Other | Consolidated ⁽²⁾ | |
|--|---------------------------------------|------------------------|-----------------------------|---|
| Thirty-nine Weeks Ended October 29, 2011 | | | | |
| Net sales | \$32.2 | \$— | \$1,433.3 | |
| Net income | (9.1 |) (88.9 |) 11.1 | |
| Income tax provision | — | 4.8 | 4.8 | |
| Net interest expense and other income | — | 10.6 | 10.6 | |
| Depreciation and amortization | 0.8 | 9.3 | 42.5 | |
| EBITDA | (8.3 |) (64.2 |) 69.0 | |
| Gain from sale of office premises | — | (5.2 |) (5.2 |) |
| Restructuring and other credits | — | 4.9 | 4.9 | |
| Adjusted EBITDA | \$(8.3 |) \$(64.5 |) \$68.7 | |
| Adjusted EBITDA as a % of net sales | (25.8 |)% — | (4) 4.8 | % |

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

(4) Not meaningful.

Table of Contents

| (In millions) | LANE BRYANT ⁽¹⁾ | FASHION BUG | CATHERINES | Total Retail Stores |
|---|-------------------------------|----------------|------------|------------------------|
| Thirty-nine Weeks Ended October 30, 2010 | | | | |
| Net sales | \$722.8 | \$505.1 | \$230.3 | \$1,458.2 |
| Net loss | 49.3 | 3.7 | 4.3 | 57.3 |
| Income tax benefit | — | — | — | — |
| Net interest expense and other income | — | — | — | — |
| Depreciation and amortization | 25.8 | 8.3 | 5.9 | 40.0 |
| EBITDA | 75.1 | 12.0 | 10.2 | 97.3 |
| Gain on repurchases of 1.125% Senior Convertible Notes | — | — | — | — |
| Restructuring and other charges | — | — | — | — |
| Adjusted EBITDA | \$75.1 | \$12.0 | \$10.2 | \$97.3 |
| Adjusted EBITDA as a % of net sales | 10.4 | % 2.4 | % 4.4 | % 6.7 |

(1)Includes LANE BRYANT OUTLET stores, with net sales of \$87.0 and Adjusted EBITDA of \$13.4.

| (In millions) | Direct-to- Consumer ⁽²⁾ | Corporate And Other | Consolidated |
|--|---------------------------------------|------------------------|--------------------|
| Thirty-nine Weeks Ended October 30, 2010 | | | |
| Net sales | \$27.8 | \$— | \$1,486.0 |
| Net loss | (7.8 |) (73.0 |) (23.5 |
| Income tax benefit | — | (1.3 |) (1.3 |
| Net interest expense and other income | — | 11.4 | 11.4 |
| Depreciation and amortization | 0.8 | 9.3 | 50.1 |
| EBITDA | (7.0 |) (53.6 |) 36.7 |
| Gain on repurchases of 1.125% Senior Convertible Notes | — | (1.9 |) (1.9 |
| Restructuring and other charges | — | 4.7 | 4.7 |
| Adjusted EBITDA | \$(7.0 |) \$(50.8 |) \$39.5 |
| Adjusted EBITDA as a % of net sales | (25.2 |)% — | ⁽³⁾ 2.7 |

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

(3)Not meaningful.

Table of Contents

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

| | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | | |
|--|----------------------|---------------------|-------------------------|---------------------|---|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 | |
| Increase/(decrease) in comparable store sales ⁽¹⁾ : | | | | | |
| Consolidated retail stores | (4 |)% 3 | % — | % 1 | % |
| LANE BRYANT ⁽²⁾ | — | 4 | 3 | — | |
| FASHION BUG | (11 |) 7 | (5 |) 2 | |
| CATHERINES | 3 | (6 |) — | (3 |) |
| Sales from new stores as a percentage of prior-period consolidated net sales ⁽³⁾ : | | | | | |
| LANE BRYANT ⁽²⁾ | 1 | 2 | 1 | 2 | |
| FASHION BUG | — | — | — | — | |
| CATHERINES ⁽⁴⁾ | — | 1 | — | 1 | |
| Prior-period sales from closed stores as a percentage of prior-period consolidated net sales: | | | | | |
| LANE BRYANT ⁽²⁾ | (2 |) (1 |) (2 |) (1 |) |
| FASHION BUG | (3 |) (2 |) (3 |) (3 |) |
| CATHERINES | (1 |) — | (1 |) — | |
| Other retail stores ⁽⁵⁾ | — | (1 |) — | (1 |) |
| Increase/(decrease) in Retail Stores segment net sales | (8 |) 1 | (4 |) (2 |) |

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

(1) Includes LANE BRYANT OUTLET stores.

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

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

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

Table of Contents

Retail Store Activity for Fiscal 2011

| | LANE BRYANT ⁽¹⁾ | FASHION BUG | CATHERINES | Total |
|--------------------------------|-------------------------------|----------------|------------|---------|
| Fiscal 2011 Year-to-Date: | | | | |
| Stores at January 29, 2011 | 846 | 743 | 475 | 2,064 |
| Stores opened | 8 | 1 | — | 9 |
| Stores closed ⁽²⁾ | (33 |) (80 |) (31 |) (144 |
| Net change in stores | (25 |) (79 |) (31 |) (135 |
| Stores at October 29, 2011 | 821 | 664 | 444 | 1,929 |
| Stores relocated during period | 6 | — | — | 6 |
| Fiscal 2011 Plan: | | | | |
| Store openings | 8 | 1 | — | 9 |
| Store closings ⁽³⁾ | 55-57 | 135-138 | 40-45 | 230-240 |
| Store relocations | 6 | — | — | 6 |

(1)Includes LANE BRYANT OUTLET stores.

(2)Primarily includes stores closed as part of our previously announced store closing initiatives.

Includes approximately 210 under-performing stores and 15 CATHERINES stores in outlet locations (see “Item 8.

Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 13.

(3)“RESTRUCTURING AND OTHER CHARGES” of our annual report on Form 10-K for the fiscal year ended January 29, 2011).

Comparison of Thirteen Weeks Ended October 29, 2011 and October 30, 2010

Net Sales

| (Dollars in millions) | Thirteen Weeks Ended | | Thirteen Weeks Ended | | Change From Prior Period | | |
|----------------------------|-------------------------|-------------------|-------------------------|-------------------|-----------------------------|---------|----|
| | October 29, 2011 | % of Net Sales | October 30, 2010 | % of Net Sales | Dollars | Percent | |
| LANE BRYANT ⁽¹⁾ | \$221.3 | 51.5 | % \$227.5 | 49.1 | % \$(6.2 |) (2.7 |)% |
| FASHION BUG | 126.8 | 29.5 | 156.4 | 33.7 | (29.6 |) (18.9 |) |
| CATHERINES | 69.6 | 16.2 | 70.0 | 15.1 | (0.4 |) (0.6 |) |
| Total Retail Stores | 417.7 | 97.2 | 453.9 | 97.9 | (36.2 |) (8.0 |) |
| Direct-to-Consumer | 12.0 | 2.8 | 9.7 | 2.1 | 2.3 | 23.7 | |
| Consolidated net sales | \$429.7 | 100.0 | % \$463.6 | 100.0 | % \$(33.9 |) (7.3 |)% |

(1)Includes LANE BRYANT OUTLET stores.

Table of Contents

The decrease in Retail Stores segment net sales for the Fiscal 2011 Third Quarter as compared to the Fiscal 2010 Third Quarter reflects the impact of 168 net store closings during the preceding 12-month period and a 4% decrease in comparable store sales, partially offset by sales from new stores and a 10% increase in store-related e-commerce net sales. Although our seasonal assortments were well-received by our customers, resulting in higher conversion rates, sales were negatively impacted by planned reductions in levels of clearance inventory as compared to the prior-year period as we continued to execute against our plan for tightly controlled inventories to drive higher gross margins.

LANE BRYANT sales decreased as compared to the prior-year period primarily as a result of 37 net store closings during the preceding 12-month period, partially offset by sales from new stores and a 10% increase in store-related e-commerce net sales. Comparable store sales were flat as compared to the prior-year period primarily as a result of a planned reduction in clearance inventories. An improvement in average dollar sale was offset by a decrease in traffic levels as compared to the prior-year period.

FASHION BUG sales decreased primarily as a result of 96 net store closings during the preceding 12-month period primarily related to our under-performing store closing programs and an 11% decrease in comparable store sales. The decrease in comparable store sales primarily reflects the impact of increased levels of clearance sales in the prior-year period as a result of our efforts to liquidate slow-moving seasonal merchandise and the impact of higher initial ticket prices in the current-year period. Decreases in traffic levels and units per transaction as compared to the prior-year period were partially offset by an improvement in average dollar sale.

CATHERINES sales decreased slightly as compared to the prior-year period as a 3% increase in comparable store sales and a 25% increase in store-related e-commerce net sales were offset by the impact of 35 net store closings during the preceding 12-month period. An improvement in average dollar sale was offset by decreases in traffic levels and units per transaction as compared to the prior-year period.

Retail Stores segment e-commerce net sales for the Fiscal 2011 Third Quarter represented 8% of Retail Stores segment net sales for the current-year period as compared to 7% of Retail Stores segment net sales for the prior-year period. The improvement in e-commerce net sales reflects our continuing efforts to enhance our customers' on-line shopping experience, which include an expanding selection of new brands through our SONSI® website and the September 2011 launch of new online outfitting technology that makes personalized style and fit recommendations. Customers can use these recommendations within the outfitting tool to facilitate viewing and buying of complete outfits. During October 2011 we also announced the launch of an international shipping program that enables customers in over 80 countries and territories worldwide to shop our brands online.

During the Fiscal 2011 Third Quarter we recognized revenues of \$4.5 million in connection with our loyalty card programs as compared to revenues of \$4.6 million during the Fiscal 2010 Third Quarter.

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

Gross Profit

| (Dollars in millions) | Thirteen Weeks Ended | | Thirteen Weeks Ended | | Change as a | |
|---------------------------|----------------------|----------------|----------------------|----------------|-------------------------|---|
| | October 29, 2011 | % of Net Sales | October 30, 2010 | % of Net Sales | Percentage of Net Sales | % |
| Consolidated gross profit | \$232.8 | 54.2 | \$241.7 | 52.1 | 2.1 | % |

Table of Contents

Although planned reductions in clearance inventory negatively impacted sales, they contributed to an increase in gross margin for the Fiscal 2011 Third Quarter as compared to the Fiscal 2010 Third Quarter. The increase in gross margin was driven by improvements across all of our brands, and benefited from improved seasonal assortments and disciplined inventory management, which resulted in fewer markdowns as compared to the prior-year period and faster sell-throughs of seasonal merchandise. We were more promotional in the Fiscal 2010 Third Quarter to sell through slow-moving seasonal inventory, which negatively impacted gross margins in the prior-year period. The decline in gross profit dollars was primarily driven by the net closure of 168 stores over the preceding 12 months in connection with our store closing program and negative comparable store sales. The Fiscal 2011 Third Quarter gross margin was moderately affected by cost increases associated with cotton, wool, and synthetic fabrics, as discussed in the overview above.

For our Retail Stores segment, gross profit as a percentage of Retail Stores net sales increased 210 basis points as compared to the prior-year period. Gross profit as a percentage of net sales increased 360 basis points for FASHION BUG, 150 basis points for CATHERINES, and 60 basis points for LANE BRYANT as compared to the prior-year period. The increase in Retail Stores segment gross margin was primarily the result of improved assortments and disciplined inventory management, which resulted in faster inventory turnover of seasonal merchandise and fewer markdowns during the current-year period. Additionally, all of our brands were less promotional in the current-year period as compared to the prior-year period as a result of improved sell-through of our seasonal inventory.

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

Occupancy and Buying

| | Thirteen Weeks Ended | % of Net | Thirteen Weeks Ended | % of Net | Change as a |
|-----------------------------------|-------------------------|----------|-------------------------|----------|----------------------------|
| (Dollars in millions) | October 29, 2011 | Sales | October 30, 2010 | Sales | Percentage of Net Sales |
| Consolidated occupancy and buying | \$84.1 | 19.6 | % \$92.7 | 20.0 | % (0.4)% |

Consolidated occupancy and buying expenses decreased both in dollar amount and as a percentage of net sales primarily as a result of 168 net store closings during the preceding twelve-month period as part of our initiative to close under-performing stores, as well as from rent reductions secured from landlords as a result of lease negotiations.

Occupancy and buying expenses for our Retail Stores segment as a percentage of Retail Stores net sales decreased 30 basis points. Occupancy and buying expenses as a percentage of net sales decreased 120 basis points for LANE BRYANT and decreased 110 basis points for CATHERINES. For FASHION BUG, buying and occupancy expenses decreased in dollar amount but increased 120 basis points as a percentage of net sales as a result of negative leverage from the decrease in comparable store sales.

Occupancy and buying expenses for our Direct-to-Consumer segment increased slightly in dollar amount but decreased 70 basis points as compared to the prior-year period as a result of the increase in net sales.

Selling, General, and Administrative

| | Thirteen Weeks Ended | % of Net | Thirteen Weeks Ended | % of Net | Change as a |
|-----------------------|-------------------------|----------|-------------------------|----------|----------------------------|
| (Dollars in millions) | October 29, 2011 | Sales | October 30, 2010 | Sales | Percentage of Net Sales |
| | | | | | |

Edgar Filing: CHARMING SHOPPES INC - Form 10-Q

| | | | | | | | | |
|---|----------|------|---|----------|------|---|-----|---|
| Consolidated selling, general, and administrative | \$ 140.7 | 32.7 | % | \$ 145.0 | 31.3 | % | 1.4 | % |
|---|----------|------|---|----------|------|---|-----|---|

32

Table of Contents

Consolidated selling, general, and administrative expenses decreased in dollar amount primarily as a result of a combination of lower store payroll and related expenses as a result of operating fewer stores and lower advertising expenses, but increased as a percentage of net sales as a result of negative leverage primarily from the decrease in comparable store sales.

Retail Stores segment selling, general, and administrative expenses increased 140 basis points as a percentage of Retail Stores net sales as compared to the prior-year period. Selling, general, and administrative expenses as a percentage of net sales increased 130 basis points for LANE BRYANT, primarily as a result of the lack of leverage from flat comparative store sales, and increased 430 basis points for FASHION BUG, primarily as a result of negative leverage from the decrease in comparable store sales, but decreased 340 basis points for CATHERINES, primarily as a result of positive leverage from the increase in comparable store sales.

Selling, general, and administrative expenses for our Direct-to-Consumer segment decreased 190 basis points as compared to the prior-year period primarily as a result of leverage from the increase in Direct-to-Consumer segment net sales.

Depreciation and Amortization

| (Dollars in millions) | Thirteen Weeks Ended | | Thirteen Weeks Ended | | Change as a Percentage of Net Sales |
|-------------------------------|-------------------------|-------------------|-------------------------|-------------------|---|
| | October 29, 2011 | % of Net Sales | October 30, 2010 | % of Net Sales | |
| Depreciation and amortization | \$ 13.6 | 3.2 | % \$ 16.4 | 3.5 | % (0.3)% |

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

Restructuring and Other Charges

Restructuring and other charges for the Fiscal 2011 Third Quarter were primarily for professional fees and retention costs related to our announced plans to divest our FASHION BUG business and to undertake a comprehensive strategic review (see "RECENT DEVELOPMENTS" above), non-cash store impairment charges, and lease termination costs net of store-related deferred allowances in connection with our under-performing store closing programs.

Restructuring and other charges for the Fiscal 2010 Third Quarter consisted primarily of cash severance and non-cash equity compensation costs in connection with the resignation of our former CEO, as well as lease termination costs for the closing of under-performing stores.

Income Tax Provision/(Benefit)

The income tax provision/(benefit) continues to reflect the impact of a valuation allowance recorded against our net deferred tax assets. Accordingly, the income tax provision for the Fiscal 2011 Third Quarter resulted primarily from (1) certain state and foreign income taxes payable as well as required deferred taxes; and (2) an increase in our liability for unrecognized tax benefits, interest, and penalties associated with uncertain tax positions. These items were partially offset by a reduction in our valuation allowance as a result of our ability to use additional income tax credits in the tax years that are currently under examination.

Table of Contents

The income tax benefit for the Fiscal 2010 Third Quarter was primarily a result of (1) a reduction in our valuation allowance due to our ability to carry back certain income tax credits in connection with our Fiscal 2009 net operating loss carryback and utilization of income tax credits in an amended income tax return; and (2) a net decrease in our liability for unrecognized tax benefits, interest, and penalties associated with uncertain tax positions. These items were offset by certain state and foreign income taxes payable as well as required deferred taxes.

Comparison of Thirty-nine Weeks Ended October 29, 2011 and October 30, 2010

Net Sales

| (Dollars in millions) | Thirty-nine Weeks Ended | | Thirty-nine Weeks Ended | | Change From Prior Period | | |
|----------------------------|-------------------------|----------------|-------------------------|----------------|--------------------------|---------|----|
| | October 29, 2011 | % of Net Sales | October 30, 2010 | % of Net Sales | Dollars | Percent | |
| LANE BRYANT ⁽¹⁾ | \$735.6 | 51.3 | % \$722.8 | 48.6 | % \$12.8 | 1.8 | % |
| FASHION BUG | 438.2 | 30.6 | 505.1 | 34.0 | (66.9) | (13.2) |) |
| CATHERINES | 227.3 | 15.9 | 230.3 | 15.5 | (3.0) | (1.3) |) |
| Total Retail Stores | 1,401.1 | 97.8 | 1,458.2 | 98.1 | (57.1) | (3.9) |) |
| Direct-to-Consumer | 32.2 | 2.2 | 27.8 | 1.9 | 4.4 | 15.8 |) |
| Consolidated net sales | \$1,433.3 | 100.0 | % \$1,486.0 | 100.0 | % \$(52.7) | (3.5) |)% |

(1)Includes LANE BRYANT OUTLET stores.

Total Retail Stores segment consolidated net sales decreased primarily as a result of the impact of 168 net store closings during the preceding 12-month period, which was partially offset by a 15% increase in store-related e-commerce net sales for the first three quarters of Fiscal 2011 as compared to the first three quarters of Fiscal 2010. Comparable store sales were flat for the first three quarters of Fiscal 2011.

LANE BRYANT sales increased as compared to the prior-year period primarily as a result of a 3% increase in comparable store sales and a 15% increase in store-related e-commerce net sales, partially offset by 37 net store closings during the preceding 12-month period. Improvements in average dollar sale, units per transaction, and conversion rate were partially offset by declines in traffic levels as compared to the prior-year period.

FASHION BUG sales decreased primarily as a result of 96 net store closings during the preceding 12-month period and a 5% decrease in comparable store sales, partially offset by a 6% increase in store-related e-commerce net sales. A decrease in traffic levels as compared to the prior-year period was partially offset by improvements in average dollar sale and conversion rate.

CATHERINES sales decreased as compared to the prior-year period as a 24% increase in store-related e-commerce net sales was more than offset by the impact of 35 net store closings during the preceding 12-month period. Improvements in average dollar sale and units per transaction were more than offset by a decrease in traffic levels as compared to the prior-year period.

Retail Stores segment e-commerce net sales for the first three quarters of Fiscal 2011 represented 8% of Retail Stores segment net sales for the current-year period as compared to 6% of Retail Stores segment net sales for the prior-year period. The improvement in e-commerce net sales reflects our continuing efforts to enhance our customers' on-line shopping experience, which include an expanding selection of new brands through our SONSI website and the

September 2011 launch of new online outfitting technology that makes personalized style and fit recommendations. Customers can use these recommendations within the outfitting tool to facilitate viewing and buying of complete outfits. During October 2011 we also announced the launch of an international shipping program that enables customers in over 80 countries and territories worldwide to shop our brands online.

Table of Contents

During the first three quarters of Fiscal 2011 we recognized revenues of \$13.6 million in connection with our loyalty card programs as compared to revenues of \$13.9 million during the first three quarters of Fiscal 2010.

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

Gross Profit

| (Dollars in millions) | Thirty-nine Weeks Ended | | Thirty-nine Weeks Ended | | Change as a | |
|---------------------------|----------------------------|-------------------|----------------------------|-------------------|----------------------------|---|
| | October 29, 2011 | % of Net Sales | October 30, 2010 | % of Net Sales | Percentage of Net Sales | |
| Consolidated gross profit | \$764.0 | 53.3 | % \$767.4 | 51.6 | % 1.7 | % |

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

For our Retail Stores segment, gross profit as a percentage of Retail Stores net sales increased 230 basis points as compared to the prior-year period. Gross profit as a percentage of net sales increased 450 basis points for FASHION BUG, 180 basis points for CATHERINES, and 40 basis points for LANE BRYANT as compared to the prior-year period. As noted in the overview above, the increase in Retail Stores segment gross margin was primarily the result of improved assortments and disciplined inventory management, which resulted in faster inventory turnover of seasonal merchandise and fewer markdowns during the current-year period. Additionally, FASHION BUG and CATHERINES were less promotional in the current-year period as compared to the prior-year period as a result of improved sell-through of our seasonal inventory.

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

Occupancy and Buying

| (Dollars in millions) | Thirty-nine Weeks Ended | | Thirty-nine Weeks Ended | | Change as a | |
|-----------------------------------|----------------------------|-------------------|----------------------------|-------------------|----------------------------|----|
| | October 29, 2011 | % of Net Sales | October 30, 2010 | % of Net Sales | Percentage of Net Sales | |
| Consolidated occupancy and buying | \$260.1 | 18.2 | % \$276.8 | 18.6 | % (0.4 |)% |

Consolidated occupancy and buying expenses decreased both in dollar amount and as a percentage of net sales primarily as a result of 168 net store closings during the preceding twelve-month period as part of our initiative to close under-performing stores, as well as from rent reductions secured from landlords as a result of lease negotiations.

Occupancy and buying expenses for our Retail Stores segment as a percentage of Retail Stores net sales decreased 70 basis points. Occupancy and buying expenses as a percentage of net sales decreased 160 basis points for LANE

BRYANT, primarily as a result of leverage from the increase in comparable store sales, and 80 basis points for CATHERINES. For FASHION BUG, buying and occupancy expenses decreased in dollar amount but increased 50 basis points as a percentage of net sales as a result of negative leverage from the decrease in comparable store sales.

Table of Contents

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

Selling, General, and Administrative

| (Dollars in millions) | Thirty-nine Weeks Ended | | Thirty-nine Weeks Ended | | Change as a | |
|---|----------------------------|-------------------|----------------------------|-------------------|----------------------------|---|
| | October 29, 2011 | % of Net Sales | October 30, 2010 | % of Net Sales | Percentage of Net Sales | |
| Consolidated selling, general, and administrative | \$435.2 | 30.4 | % \$451.2 | 30.4 | % — | % |

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

Retail Stores segment selling, general, and administrative expenses decreased 50 basis points as a percentage of Retail Stores net sales as compared to the prior-year period. Selling, general, and administrative expenses as a percentage of net sales decreased 130 basis points for LANE BRYANT, primarily as a result of leverage from the increase in comparable store sales, and decreased 90 basis points for CATHERINES, primarily as a result of the increase in store-related e-commerce net sales. Selling, general, and administrative expenses as a percentage of net sales increased 110 basis points for FASHION BUG, primarily as a result of store closings and negative leverage from the decrease in comparable store sales.

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

Depreciation and Amortization

| (Dollars in millions) | Thirty-nine Weeks Ended | | Thirty-nine Weeks Ended | | Change as a | |
|-------------------------------|----------------------------|-------------------|----------------------------|-------------------|----------------------------|----|
| | October 29, 2011 | % of Net Sales | October 30, 2010 | % of Net Sales | Percentage of Net Sales | |
| Depreciation and amortization | \$42.5 | 3.0 | % \$50.1 | 3.4 | % (0.4 |)% |

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

Gain from Sale of Office Premises

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

Table of Contents

Restructuring and Other Charges

Restructuring and other charges for the first three quarters of Fiscal 2011 were primarily for professional fees and retention costs related to our announced plans to divest our FASHION BUG business and to undertake a comprehensive strategic review (see "RECENT DEVELOPMENTS" above), non-cash store impairment charges, and lease termination costs net of store-related deferred allowances in connection with our under-performing store closing programs.

Restructuring and other charges for the first three quarters of Fiscal 2010 consisted primarily of cash severance and non-cash equity compensation costs in connection with the resignation of our former CEO and lease termination costs related to our store closing program and accretion charges on lease termination costs for our store closing program announced March 30, 2010.

Gain on Repurchases of 1.125% Senior Convertible Notes

During the first three quarters of Fiscal 2010 we repurchased 1.125% Notes with an aggregate principal amount of \$49.2 million and recognized a gain on the repurchases of \$1.9 million, net of unamortized issue costs.

Income Tax Provision/(Benefit)

The income tax provision/(benefit) continues to reflect the impact of a valuation allowance recorded against our net deferred tax assets, as well as the availability of net operating loss carryforwards. Accordingly, the income tax provision for the first three quarters of Fiscal 2011 resulted primarily from (1) certain state and foreign income taxes payable as well as required deferred taxes; and (2) an increase in our liability for unrecognized tax benefits, interest, and penalties associated with uncertain tax positions. These items were partially offset by a reduction in our valuation allowance as a result of our ability to use additional income tax credits in the tax years that are currently under examination.

The income tax benefit for the first three quarters of Fiscal 2010 resulted primarily from (1) a reduction in our valuation allowance associated with our net operating loss carrybacks and the utilization of income tax credits in an amended income tax return; and (2) a net decrease in our liability for unrecognized tax benefits, interest, and penalties associated with uncertain tax positions. These items were partially offset by certain state and foreign income taxes payable as well as required deferred taxes.

LIQUIDITY AND CAPITAL RESOURCES

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

| (Dollars in millions) | October 29, 2011 | January 29, 2011 | |
|--|---------------------|---------------------|---|
| Cash and cash equivalents | \$157.8 | \$117.5 | |
| Available borrowing capacity under revolving credit facility | \$147.4 | \$153.8 | |
| Working capital | \$305.9 | \$276.6 | |
| Current ratio | 1.9 | 2.1 | |
| Long-term debt to equity ratio | 37.9 | % 39.7 | % |

Table of Contents

Cash Provided by Operating Activities

Our net cash provided by operating activities was \$63.0 million for the first three quarters of Fiscal 2011 as compared to cash used by operating activities of \$13.9 million for the first three quarters of Fiscal 2010. The increase in cash provided by operating activities as compared to the prior-year period was primarily the result of improved operating results and a reduction in our investment in inventories net of accounts payable in the current-year period, partially offset by the impact of the timing of payments of prepaid and accrued expenses. Cash provided by operating activities for the first three quarters of Fiscal 2011 included \$1.6 million of Federal income tax refunds, while cash used by operations for the first three quarters of Fiscal 2010 included \$45.0 million of Federal income tax refunds related to a NOL carryback for Fiscal 2008 and an amended return. Overall, inventories decreased 8% on a comparable store cost basis.

Cash Used by Investing Activities

Gross capital expenditures, excluding construction allowances received from landlords, were \$22.7 million for the first three quarters of Fiscal 2011 as compared to \$29.2 million for the first three quarters of Fiscal 2010. Capital expenditures net of construction allowances received from landlords were \$21.5 million for the first three quarters of Fiscal 2011 as compared to \$26.5 million for the first three quarters of Fiscal 2010. During the Fiscal 2011 Second Quarter we also acquired \$2.9 million of equipment through a capital lease. During the Fiscal 2011 First Quarter we received proceeds of \$7.5 million from the sale of office premises in Hong Kong.

We anticipate that our projected gross capital expenditures for Fiscal 2011 will be approximately \$38-\$40 million before construction allowances received from landlords as compared to gross capital expenditures of \$35.8 million for Fiscal 2010. We anticipate that our Fiscal 2011 capital expenditures, net of construction allowances received from landlords, will be approximately \$36-\$38 million as compared to net capital expenditures of \$32.8 million for Fiscal 2010. We expect to make these expenditures according to disciplined return on investment criteria for 9 new store openings, store remodels, and store refurbishments; for fixturing for new merchandise assortments; to test brand combinations and conversions; and for the implementation of information technology tools to assist in improving our business results. We expect to finance these capital expenditures primarily through internally-generated funds.

Cash Used by Financing Activities

During the first three quarters of Fiscal 2011 we used \$4.8 million of cash and during the first three quarters of Fiscal 2010 we used \$4.7 million of cash for scheduled repayments of long-term borrowings. In addition, during the first three quarters of Fiscal 2011 we used \$1.9 million of cash for payments of deferred financing fees related to our amended revolving credit facility (see "FINANCING; Revolving Credit Facility" below). During the Fiscal 2010 Second Quarter we repurchased \$49.2 million aggregate principal amount of 1.125% Senior Convertible Notes due May 1, 2014 for an aggregate purchase price of \$38.3 million.

Repurchases of Common Stock

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

Table of Contents

Our amended revolving credit facility allows the repurchase of our common stock subject to maintaining a minimum level of “Excess Availability” (as defined in the facility agreement) for the six months preceding the date of such repurchase, as of the date of such repurchase, and on a projected pro forma basis for the 12 consecutive fiscal months thereafter. The agreement allows common stock repurchases at lower levels of “Excess Availability” subject to maintaining a minimum “Fixed Charge Coverage Ratio” (as defined in the facility agreement) on a pro forma basis for the 12 months immediately preceding such repurchase. See “PART II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds” below for additional information regarding the share-repurchase program announced in November 2007.

Dividends

We have not paid any dividends since 1995, and we do not expect to declare or pay any dividends on our common stock in the foreseeable future. The payment of future dividends is within the discretion of our Board of Directors and will depend upon our future earnings, if any; our capital requirements; our financial condition; and other relevant factors. Our amended revolving credit facility allows the payment of dividends on our common stock subject to maintaining a minimum level of “Excess Availability” (as defined in the facility agreement) for the six months preceding the payment of such dividends, as of the date of payment of such dividends, and on a projected pro forma basis for the 12 consecutive fiscal months thereafter. The agreement allows the payment of dividends at lower levels of “Excess Availability” subject to maintaining a minimum “Fixed Charge Coverage Ratio” (as defined in the facility agreement) on a pro forma basis for the 12 months immediately preceding such payment.

FINANCING

Operating Leases

We lease substantially all of our operating stores and certain administrative facilities under non-cancelable operating lease agreements. Additional details on these leases, including minimum lease commitments, are included in “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 17. Leases” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

Revolving Credit Facility

On July 14, 2011 we entered into an amended and restated loan and security agreement (the “Amended Agreement”) for a \$200 million senior secured revolving credit facility (the “Amended Facility”). The Amended Facility replaces our \$225 million senior secured revolving credit facility and provides for committed revolving credit availability through July 14, 2016. In addition, the Amended Agreement includes an option allowing us to increase our credit facility to an amount not in excess of \$300 million, based on certain terms and conditions. The Amended Facility may be used for working capital and other general corporate purposes, and provides that up to \$100 million of the \$200 million may be used for letters of credit. See “Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 3. Long-term Debt” above for further details regarding the amended credit facility. There were no borrowings outstanding under the credit facility as of October 29, 2011.

The Amended Agreement provides for customary representations and warranties and affirmative covenants, and contains customary negative covenants. The Amended Agreement also provides for certain rights and remedies if there is an occurrence of one or more events of default under the terms of the agreement. Under certain conditions the maximum amount available under the agreement may be reduced or terminated by the lenders and the obligation to repay amounts outstanding under the agreement may be accelerated. At all times we are required to maintain Excess

Availability (as defined in the Amended Agreement) of at least the greater of 10% of the Borrowing Base (as defined in the Amended Agreement) or \$15,000,000. As of October 29, 2011, the Excess Availability under the credit facility was \$171.5 million and we were in compliance with all of the covenants included in the facility.

Table of Contents

Long-term Debt

See “PART I; Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 for a discussion of the potential impact to our liquidity as a result of the occurrence of a “fundamental change” as defined in the prospectus filed in connection with our 1.125% Senior Convertible Notes due May 1, 2014.

Additional information regarding our long-term borrowings is included in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; Financing; Long-term Debt” and “Part II, Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 7. Long-term Debt” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

In Fiscal 2011 we plan to continue to utilize our combined financial resources to fund our inventory and inventory-related purchases, advertising and marketing initiatives, and our store development and infrastructure strategies. We believe our cash and cash equivalents, our operating agreements with Alliance Data related to our private-label credit cards, and our revolving credit facility will provide adequate liquidity for our business operations and growth opportunities during Fiscal 2011. However, our liquidity is affected by many factors, including some that are based on normal operations and some that are related to our industry and the economy.

We may seek, as we believe appropriate, additional debt or equity financing to provide capital for corporate purposes or to fund strategic business opportunities. We may also elect to redeem debt financing prior to maturity or to purchase additional 1.125% Senior Convertible Notes under circumstances that we believe to be favorable to us. At this time we cannot determine the timing or amount of such potential capital requirements, which will depend on a number of factors, including demand for our merchandise, industry conditions, competitive factors, the market value of our outstanding debt, the condition of financial markets, and the nature and size of strategic business opportunities that we may elect to pursue.

MARKET RISK

As of October 29, 2011 there were no borrowings outstanding under our revolving credit facility. Future borrowings made under the facility, if any, could be exposed to variable interest rates.

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

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

See “Item 1. Financial Statements; Notes to Condensed Consolidated Financial Statements; Note 13. Impact of Recent Accounting Pronouncements” above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Table of Contents

Item 4. Controls and Procedures

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

As of the end of the period covered by this report on Form 10-Q (the "Evaluation Date"), our Disclosure Committee, under the supervision and with the participation of management, including our CEO and CFO, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our management, including our CEO and CFO, has concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective. Furthermore, there has been no change in our internal control over financial reporting that occurred during the period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

On July 15, 2011 the Court entered an order granting preliminary approval to a settlement reached by the parties and on July 27, 2011 the parties signed a formal Settlement Agreement and Release. The Settlement Agreement received final court approval on November 21, 2011. The terms of the settlement will not have a material impact on our financial condition or results of operations.

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

Item 1A. Risk Factors

As a result of the information discussed in "Part I; Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; RECENT DEVELOPMENTS" above, we have included the following risk factor in "Part I; Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; FORWARD-LOOKING STATEMENTS" above.

The failure to successfully implement, or to manage the risks associated with, our plans to divest our FASHION BUG business and focus on the growth of our LANE BRYANT business, or additional courses of action, if any, that may result from our planned comprehensive strategic review.

With the exception of the above risk factor, we have not become aware of any material changes in the risk factors previously disclosed in “Part I; Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

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

On November 8, 2007 we publicly announced that our Board of Directors granted authority to repurchase shares of our common stock up to an aggregate value of \$200,000,000. Shares may be purchased in the open market or through privately-negotiated transactions, as market conditions allow. During Fiscal 2008 we repurchased a total of 505,406 shares of stock (\$5.21 average price paid per share) in the open market under this program. We have not repurchased any shares of our common stock under this program subsequent to Fiscal 2008. As of October 29, 2011, \$197,365,000 was available for future repurchases under this program. This repurchase program has no expiration date.

Table of Contents

Item 6. Exhibits

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

- 3.1 Restated Articles of Incorporation, incorporated by reference to Form 10-Q of the Registrant for the quarter ended August 2, 2008 (File No. 000-07258, Exhibit 3.1).
- 3.2 Bylaws, as Amended and Restated, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2009 (File No. 000-07258, Exhibit 3.2).
- 4.1 Fourth Amended and Restated Loan and Security Agreement, dated July 14, 2011, by and among Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., FB Apparel, Inc., Catherines Stores Corporation, and Lane Bryant, Inc. as borrowers; a syndicate of banks and other financial institutions as lenders, including Wells Fargo Bank, National Association, as agent for the lenders; and certain of the Company's subsidiaries as guarantors.*
- 10.1 Stock Appreciation Rights Agreement for grant of 400,000 SARs to Anthony M. Romano dated as of March 29, 2011, incorporated by reference to Form 8-K of the Registrant dated March 23, 2011, filed on March 29, 2011 (File No. 000-07258, Exhibit 10.1).
- 10.2 Second Amendment to Severance Agreement dated as of March 28, 2011 between Charming Shoppes, Inc. and Anthony M. Romano, incorporated by reference to Form 8-K of the Registrant dated March 23, 2011, filed on March 29, 2011 (File No. 000-07258, Exhibit 10.4).
- 10.3 Form of Stock Appreciation Rights Agreement for executive officers dated as of March 29, 2011, incorporated by reference to Form 8-K of the Registrant dated March 23, 2011, filed on March 29, 2011 (File No. 000-07258, Exhibit 10.5).
- 10.4 Charming Shoppes, Inc. 2003 Non-Employee Directors Compensation Plan (A Subplan under the 2010 Stock Award and Incentive Plan), Amended and Restated Effective June 24, 2010, incorporated by reference to Form 10-Q of the Registrant for the quarter ended April 30, 2011 (File No. 000-07258, Exhibit 10.4).
- 10.5 Charming Shoppes, Inc. 2003 Non-Employee Directors Compensation Plan (A Subplan under the 2010 Stock Award and Incentive Plan) Restricted Share Units Agreement – Share Settled, incorporated by reference to Form 10-Q of the Registrant for the quarter ended April 30, 2011 (File No. 000-07258, Exhibit 10.5).
- 10.6 Fourth Amended and Restated Guarantee, dated July 14, 2011, by Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., FB Apparel, Inc., Catherines Stores Corporation, Lane Bryant, Inc., and certain of the Company's subsidiaries for the benefit of the lenders party to the Fourth Amended and Restated Loan and Security Agreement, dated July 14, 2011, incorporated by reference to Form 8-K of the Registrant dated July 14, 2011, filed on July 19, 2011 (File No. 000-07258, Exhibit 10.1).
- 31.1

Edgar Filing: CHARMING SHOPPES INC - Form 10-Q

Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document.**

43

Table of Contents

| | |
|---------|--|
| 101.SCH | XBRL Taxonomy Extension Schema.** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase.** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase.** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase.** |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase.** |

* Exhibit 4.1 is filed with this Quarterly Report on Form 10-Q in order to include all exhibits and schedules to such previously filed documents. Confidential treatment has been requested for certain portions of this exhibit.

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

Table of Contents

SIGNATURES

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

CHARMING SHOPPES, INC.
(Registrant)

Date: December 1, 2011

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

Date: December 1, 2011

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

Table of Contents

EXHIBIT INDEX

| Exhibit No. | Item |
|-------------|--|
| 3.1 | Restated Articles of Incorporation, incorporated by reference to Form 10-Q of the Registrant for the quarter ended August 2, 2008 (File No. 000-07258, Exhibit 3.1). |
| 3.2 | Bylaws, as Amended and Restated, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2009 (File No. 000-07258, Exhibit 3.2). |
| 4.1 | Fourth Amended and Restated Loan and Security Agreement, dated July 14, 2011, by and among Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., FB Apparel, Inc., Catherines Stores Corporation, and Lane Bryant, Inc. as borrowers; a syndicate of banks and other financial institutions as lenders, including Wells Fargo Bank, National Association, as agent for the lenders; and certain of the Company's subsidiaries as guarantors.* |
| 10.1 | Stock Appreciation Rights Agreement for grant of 400,000 SARs to Anthony M. Romano dated as of March 29, 2011, incorporated by reference to Form 8-K of the Registrant dated March 23, 2011, filed on March 29, 2011 (File No. 000-07258, Exhibit 10.1). |
| 10.2 | Second Amendment to Severance Agreement dated as of March 28, 2011 between Charming Shoppes, Inc. and Anthony M. Romano, incorporated by reference to Form 8-K of the Registrant dated March 23, 2011, filed on March 29, 2011 (File No. 000-07258, Exhibit 10.4). |
| 10.3 | Form of Stock Appreciation Rights Agreement for executive officers dated as of March 29, 2011, incorporated by reference to Form 8-K of the Registrant dated March 23, 2011, filed on March 29, 2011 (File No. 000-07258, Exhibit 10.5). |
| 10.4 | Charming Shoppes, Inc. 2003 Non-Employee Directors Compensation Plan (A Subplan under the 2010 Stock Award and Incentive Plan), Amended and Restated Effective June 24, 2010, incorporated by reference to Form 10-Q of the Registrant for the quarter ended April 30, 2011 (File No. 000-07258, Exhibit 10.4). |
| 10.5 | Charming Shoppes, Inc. 2003 Non-Employee Directors Compensation Plan (A Subplan under the 2010 Stock Award and Incentive Plan) Restricted Share Units Agreement – Share Settled, incorporated by reference to Form 10-Q of the Registrant for the quarter ended April 30, 2011 (File No. 000-07258, Exhibit 10.5). |
| 10.6 | Fourth Amended and Restated Guarantee, dated July 14, 2011, by Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., FB Apparel, Inc., Catherines Stores Corporation, Lane Bryant, Inc., and certain of the Company's subsidiaries for the benefit of the lenders party to the Fourth Amended and Restated Loan and Security Agreement, dated July 14, 2011, incorporated by reference to Form 8-K of the Registrant dated July 14, 2011, filed on July 19, 2011 (File No. 000-07258, Exhibit 10.1). |
| 31.1 | Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |

Edgar Filing: CHARMING SHOPPES INC - Form 10-Q

| | |
|---------|---|
| 31.2 | Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document.** |
| 101.SCH | XBRL Taxonomy Extension Schema.** |

46

Table of Contents

101.CAL XBRL Taxonomy Extension Calculation Linkbase.**

101.LAB XBRL Taxonomy Extension Label Linkbase.**

101.PRE XBRL Taxonomy Extension Presentation Linkbase.**

101.DEF XBRL Taxonomy Extension Definition Linkbase.**

* Exhibit 4.1 is filed with this Quarterly Report on Form 10-Q in order to include all exhibits and schedules to such previously filed documents. Confidential treatment has been requested for certain portions of this exhibit.

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