

CHARMING SHOPPES INC
Form 10-Q
December 04, 2006

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

FORM 10-Q

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

For the quarterly period ended October 28, 2006

Or

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

For the transition period from _____ to _____

Commission File No. 000-07258

CHARMING SHOPPES, INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of incorporation or
organization)

23-1721355

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

450 WINKS LANE, BENSALEM, PA 19020

(Address of principal executive offices) (Zip
Code)

(215) 245-9100

(Registrant's telephone number,
including Area Code)

NOT APPLICABLE

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

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

Yes x No o

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

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 24, 2006, was 123,303,995 shares.

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CONDENSED CONSOLIDATED BALANCE SHEETS**

| <i>(In thousands, except share amounts)</i> | October 28, 2006 (Unaudited) | January 28, 2006 |
|---|------------------------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 138,238 | \$ 130,132 |
| Available-for-sale securities | 3,323 | 20,150 |
| Accounts receivable, net of allowances of \$1,265 and \$6,588 | 2,020 | 38,603 |
| Investment in asset-backed securities | 65,355 | 66,828 |
| Merchandise inventories | 481,449 | 376,409 |
| Deferred advertising | 26,208 | 20,591 |
| Deferred taxes | 18,542 | 13,848 |
| Prepayments and other | 107,177 | 89,245 |
| Total current assets | 842,312 | 755,806 |
| Property, equipment, and leasehold improvements - at cost | 947,275 | 888,481 |
| Less accumulated depreciation and amortization | 554,568 | 525,882 |
| Net property, equipment, and leasehold improvements | 392,707 | 362,599 |
| Trademarks and other intangible assets | 248,759 | 250,074 |
| Goodwill | 154,020 | 154,553 |
| Other assets | 47,831 | 43,963 |
| Total assets | \$ 1,685,629 | \$ 1,566,995 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Short-term borrowings | \$ 0 | \$ 50,000 |
| Accounts payable | 207,566 | 133,236 |
| Accrued expenses | 202,666 | 217,421 |
| Income taxes payable | 10,106 | 1,743 |
| Current portion - long-term debt | 11,600 | 14,765 |
| Total current liabilities | 431,938 | 417,165 |
| Deferred taxes | 40,136 | 45,046 |
| Other non-current liabilities | 114,330 | 98,457 |
| Long-term debt | 183,653 | 191,979 |
| Stockholders' equity | | |

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Common Stock \$.10 par value:

| | | | | |
|--|-----------|------------------|-----------|-----------|
| Authorized - 300,000,000 shares | | | | |
| Issued - 135,452,909 shares and 133,954,852 shares | | 13,545 | | 13,395 |
| Additional paid-in capital | | 278,166 | | 261,077 |
| Treasury stock at cost - 12,265,993 shares | | (84,136) | | (84,136) |
| Accumulated other comprehensive income/(loss) | | 1 | | (3) |
| Retained earnings | | 707,996 | | 624,015 |
| Total stockholders' equity | | 915,572 | | 814,348 |
| Total liabilities and stockholders' equity | \$ | 1,685,629 | \$ | 1,566,995 |

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

See Notes to Condensed Consolidated Financial Statements

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

| <i>(In thousands, except per share amounts)</i> | Thirteen Weeks Ended | |
|--|-----------------------------|-----------------------------|
| | October 28, 2006 | October 29, 2005 |
| Net sales | \$ 695,278 | \$ 663,677 |
| Cost of goods sold, buying, catalog, and occupancy expenses | 478,247 | 461,806 |
| Selling, general, and administrative expenses | 186,006 | 181,275 |
| Total operating expenses | 664,253 | 643,081 |
| Income from operations | 31,025 | 20,596 |
| Other income | 2,074 | 1,754 |
| Interest expense | (3,540) | (4,797) |
| Income before income taxes | 29,559 | 17,553 |
| Income tax provision | 10,202 | 6,791 |
| Net income | 19,357 | 10,762 |
| Other comprehensive loss, net of tax | | |
| Unrealized loss on available-for-sale securities, net of income tax benefit of \$1 in 2005 | 0 | (2) |
| Comprehensive income | \$ 19,357 | \$ 10,760 |
| Basic net income per share | \$.16 | \$.09 |
| Diluted net income per share | \$.15 | \$.09 |

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

See Notes to Condensed Consolidated Financial Statements

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

| <i>(In thousands, except per share amounts)</i> | Thirty-nine Weeks Ended | |
|---|--------------------------------|-----------------------------|
| | October 28, 2006 | October 29, 2005 |
| Net sales | \$ 2,193,553 | \$ 1,956,105 |
| Cost of goods sold, buying, catalog, and occupancy expenses | 1,509,779 | 1,331,523 |
| Selling, general, and administrative expenses | 548,179 | 489,280 |
| Total operating expenses | 2,057,958 | 1,820,803 |
| Income from operations | 135,595 | 135,302 |
| Other income | 6,488 | 5,335 |
| Interest expense | (11,475) | (13,434) |
| Income before income taxes | 130,608 | 127,203 |
| Income tax provision | 46,627 | 47,000 |
| Net income | 83,981 | 80,203 |
| Other comprehensive income/(loss), net of tax | | |
| Unrealized gain/(loss) on available-for-sale securities, net of income tax (provision)/benefit of (\$3) in 2006 and \$1 in 2005 | 4 | (2) |
| Comprehensive income | \$ 83,985 | \$ 80,201 |
| Basic net income per share | \$.69 | \$.67 |
| Diluted net income per share | \$.63 | \$.61 |

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

See Notes to Condensed Consolidated Financial Statements

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

| <i>(In thousands)</i> | Thirty-nine Weeks Ended | |
|--|-------------------------|---------------------|
| | October 28, 2006 | October 29, 2005 |
| Operating activities | | |
| Net income | \$ 83,981 | \$ 80,203 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 66,431 | 60,369 |
| Deferred income taxes | (9,713) | (4,420) |
| Stock-based compensation | 7,603 | 4,667 |
| Excess tax benefits related to stock-based compensation | (2,635) | 2,365 |
| Net (gain)/loss from disposition of capital assets | 849 | (785) |
| Net gain from securitization activities | (761) | (2,806) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 36,583 | 0 |
| Merchandise inventories | (105,040) | (118,126) |
| Accounts payable | 74,330 | 48,691 |
| Deferred advertising | (5,617) | (17,249) |
| Prepayments and other | (17,932) | 8,902 |
| Income taxes payable | 10,998 | 8,963 |
| Accrued expenses and other | 1,757 | 28,183 |
| Net cash provided by operating activities | 140,834 | 98,957 |
| Investing activities | | |
| Investment in capital assets | (92,524) | (68,177) |
| Proceeds from sales of capital assets | 0 | 2,432 |
| Gross purchases of securities | (33,472) | (49,278) |
| Proceeds from sales of securities | 52,540 | 17,714 |
| Acquisition of Crosstown Traders, Inc., net of cash acquired | 0 | (256,702) |
| Purchase of Catherines receivables portfolio | 0 | (56,582) |
| Securitization of Catherines receivables portfolio | 0 | 56,582 |
| Securitization of Crosstown apparel-related receivables | 0 | 50,000 |
| Increase in other assets | (7,417) | (2,455) |
| Net cash used by investing activities | (80,873) | (306,466) |
| Financing activities | | |
| Proceeds from short-term borrowings | 142,212 | 261,311 |
| Repayments of short-term borrowings | (192,212) | (211,311) |
| Proceeds from long-term borrowings | 0 | 50,000 |
| Repayments of long-term borrowings | (11,491) | (18,480) |
| Payments of deferred financing costs | 0 | (1,371) |

| | | |
|---|-------------------|-------------------|
| Excess tax benefits related to stock-based compensation | 2,635 | 0 |
| Proceeds from issuance of common stock | 7,001 | 5,987 |
| Net cash (used)/provided by financing activities | (51,855) | 86,136 |
| Increase (decrease) in cash and cash equivalents | 8,106 | (121,373) |
| Cash and cash equivalents, beginning of period | 130,132 | 273,049 |
| Cash and cash equivalents, end of period | \$ 138,238 | \$ 151,676 |
| Non-cash financing and investing activities | | |
| Equipment acquired through capital leases | \$ 0 | \$ 3,892 |

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

See Notes to Condensed Consolidated Financial Statements

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

Note 1. Condensed Consolidated Financial Statements

We have prepared our condensed consolidated balance sheet as of October 28, 2006, our condensed consolidated statements of operations and comprehensive income for the thirteen weeks and thirty-nine weeks ended October 28, 2006 and October 29, 2005, and our condensed consolidated statements of cash flows for the thirty-nine weeks ended October 28, 2006 and October 29, 2005 without audit. In our opinion, we have made all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position, results of operations and comprehensive income, and cash flows. Certain prior-year amounts in the condensed consolidated balance sheets, condensed consolidated statements of operations and comprehensive income, and condensed consolidated statements of cash flows have been reclassified to conform to the current-year presentation. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles. These financial statements and related notes should be read in conjunction with our financial statements and related notes included in our January 28, 2006 Annual Report on Form 10-K. The results of operations for the thirteen weeks and thirty-nine weeks ended October 28, 2006 and October 29, 2005 are not necessarily indicative of operating results for the full fiscal year.

As used in these notes, the terms “Fiscal 2007” and “Fiscal 2006” refer to our fiscal year ending February 3, 2007 and our fiscal year ended January 28, 2006, respectively. The term “Fiscal 2008” refers to our fiscal year ending February 2, 2008. The terms “the Company,” “we,” “us,” and “our” refer to Charming Shoppes, Inc. and, where applicable, our consolidated subsidiaries.

Segment Reporting

Effective with our acquisition of Crosstown Traders, Inc. (“Crosstown Traders”) on June 2, 2005, we operate and report in two segments, Retail Stores and Direct-to-Consumer, which are consistent with the way our chief operating decision-makers review our results of operations. The Retail Stores segment derives its revenues from sales through retail stores, including store-related E-commerce sales, under our LANE BRYANT® (including LANE BRYANT OUTLET™), FASHION BUG CATHERINES PLUS SIZES®, and PETITE SOPHISTICATE OUTLET™ brands. The Direct-to-Consumer segment derives its revenues from catalog sales and catalog-related E-commerce sales under our Crosstown Traders catalogs. See “**Note 11. Segment Reporting**” below for further information regarding our segment reporting.

Stock-based Compensation

As of October 28, 2006, we had various stock-based compensation plans under which we are currently granting awards, which are more fully described in “**Item 8. Financial Statements and Supplementary Data; Note 10. Stock Option and Stock Incentive Plans**” and “**Note 11. Employee Stock Purchase Plan**” in our January 28, 2006 Annual Report on Form 10-K.

Our 2003 Non-Employee Directors Compensation Plan provides for the grant of stock options, stock appreciation rights (“SARs”), restricted stock awards, restricted stock units (“RSUs”), or deferred shares of up to an aggregate total of 600,000 shares of our common stock to members of our Board of Directors that are not employed by the Company, provided that in no event may more than 50% of such shares be delivered in connection with “full-value awards.” The exercise price of options or SARs granted under the plan may not be less than the fair market value of our common

stock on the date of grant. Non-employee directors may also elect to receive deferred shares of common stock of an equivalent market value instead of cash director's fees. The plan provides for a one-time restricted stock award of 10,000 shares of common stock that vest in equal amounts over three years to a newly elected or appointed non-employee director. The plan also provides for annual grants of options for 7,500 shares of common stock that vest in one year and annual grants of 7,500 RSUs that vest in one year to each non-employee director serving at the date of our Annual Meeting of Shareholders. As of October 28, 2006, 191,787 shares were available for future grants under this plan.

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

Note 1. Condensed Consolidated Financial Statements (Continued)

Our 2004 Stock Award and Incentive Plan (the “2004 Plan”) provides for the grant of options (including both incentive and non-qualified stock options), restricted stock, stock appreciation rights (“SARS”), restricted stock units, and a variety of other types of awards of up to an aggregate of 6,500,000 shares of our common stock plus shares remaining available under certain of our previous plans. Of the aggregate shares available, up to 2,000,000 shares may be issued in connection with “full-value” awards. Additional shares may be used for full-value awards by reducing the number of shares that remain available for options, SARs, and other non-full-value awards at a three-to-one ratio. The aggregate number of shares subject to awards granted under the 2004 Plan in any fiscal year will not exceed 2% of our common stock on a fully diluted basis as of the last day of the preceding fiscal year. As of October 28, 2006, 7,305,339 shares were available for future grants under this plan.

Our 1988 Key Employee Stock Option Plan provides for the grant of options to our key employees to purchase up to an aggregate total of 3,000,000 shares of our common stock. The exercise price of options granted under this plan is \$1.00 per share. As of October 28, 2006, 116,171 shares were available for future grants under this plan.

The table below summarizes stock option activity for the thirty-nine weeks ended October 28, 2006:

| | Option Shares | Average Option Price | Option Prices Per Share | | |
|---|------------------|----------------------------|----------------------------|---|----------|
| Outstanding at January 28, 2006 | 3,672,108 | \$ 5.82 | \$ 1.00 | - | \$ 12.48 |
| Granted - option price equal to market price | 61,233 | 11.33 | 11.28 | - | 13.84 |
| Granted - option price less than market price | 31,600 | 1.00 | 1.00 | - | 1.00 |
| Canceled/forfeited | (8,436) | 3.38 | 1.00 | - | 6.65 |
| Exercised | (1,252,839) | 6.06 | 1.00 | - | 9.10 |
| Outstanding at October 28, 2006 | 2,503,666 | \$ 5.78 | \$ 1.00 | - | \$ 13.84 |
| Exercisable at October 28, 2006 | 2,282,667 | \$ 5.77 | \$ 1.00 | - | \$ 13.84 |

The aggregate intrinsic value of options outstanding at October 28, 2006 (aggregate market value on October 28, 2006 less aggregate exercise price) was \$22,651,000.

Our 1994 Employee Stock Purchase Plan permits employees to purchase shares of our common stock during quarterly offering periods at a price equal to 85% of the lower of the stock’s market price on the first day of, or the fifth business day after the end of, the offering period. Employees purchase shares through accumulation of payroll deductions of up to 10% of the employee’s compensation during each offering period. An aggregate total of 2,000,000 shares are reserved for grant under this plan. As of October 28, 2006, 1,176,158 shares were available for future purchases under this plan.

Through Fiscal 2006, we accounted for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board (“APB”) Opinion No. 25, “*Accounting for Stock Issued to Employees,*” as permitted by Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 123, “*Accounting for Stock-Based Compensation.*” We recorded compensation expense for restricted stock and restricted

stock unit awards and for stock options with an exercise price less than the market price of our common stock at the date of grant, based on the difference between the market price and the exercise price of the option at the date of grant. The compensation expense was recognized on a straight-line basis over the vesting period of each award or option. We did not recognize compensation expense for options having an exercise price equal to the market price on the date of grant or for shares purchased under our Employee Stock Purchase Plan.

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

Note 1. Condensed Consolidated Financial Statements (Continued)

We disclosed, as pro forma information, compensation expense for all stock options, restricted stock awards, and restricted stock unit awards based on an estimated fair value of the option or award. In accordance with SFAS No. 123, we used the Black-Scholes pricing model to estimate the fair value of stock options. The Black-Scholes model required estimates or assumptions as to the dividend yield and price volatility of the underlying stock, the expected life of the option, and a relevant risk-free interest rate, which are more fully described in “**Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies; Common Stock Plans**” in our January 28, 2006 Annual Report on Form 10-K.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), “*Share-Based Payment*” (“SFAS No. 123R”), a revision of SFAS No. 123. Under SFAS No. 123R, we are required to recognize the fair value of stock-based payments as compensation expense in our financial statements beginning in Fiscal 2007. Pro forma disclosures are no longer permitted.

We elected to adopt SFAS No. 123R on the modified prospective method and, accordingly, prior periods have not been restated. Stock-based compensation cost recognized in the thirteen weeks and thirty-nine weeks ended October 28, 2006 includes (i) compensation cost for all stock-based awards granted prior to the beginning of Fiscal 2007 but not fully vested as of the beginning of Fiscal 2007, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123, and (ii) compensation cost for all stock-based awards granted subsequent to the beginning of Fiscal 2007, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. The impact of the change from using actual forfeitures to determine compensation expense under the intrinsic value method to using estimated forfeitures in accordance with the provisions of SFAS No. 123R was immaterial. Current grants of stock-based compensation consist primarily of restricted stock and restricted stock unit awards. Under SFAS No. 123R, we will continue to use the Black-Scholes valuation model to estimate the fair value of stock options, using assumptions consistent with our pro forma disclosures under SFAS No. 123, and straight-line amortization of stock-based compensation.

Adoption of SFAS No. 123R will generally result in the recognition of additional stock-based compensation in the financial statements as compared to use of the intrinsic value method. However, beginning in Fiscal 2005, we changed the composition of our stock-based compensation awards to include mainly restricted stock and restricted stock unit awards, which generally yield the same compensation expense under both the intrinsic value method and SFAS No. 123R. In addition, we did not have significant unvested stock options as of the beginning of Fiscal 2007. Accordingly, the adoption of SFAS No. 123R did not have a material incremental impact on our income before taxes and net income, or on our basic and diluted net income per share. Total stock-based compensation recognized in our results of operations for the thirteen weeks ended October 28, 2006 and October 29, 2005 was \$2,588,000 and \$1,754,000, respectively. Total stock-based compensation for the thirty-nine weeks ended October 28, 2006 and October 29, 2005 was \$7,603,000 and \$4,667,000, respectively. Total stock-based compensation not yet recognized, related to the non-vested portion of stock options and awards outstanding, was \$17,284,000 as of October 28, 2006. The weighted-average period over which we expect to recognize this compensation is approximately 2.7 years.

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

Note 1. Condensed Consolidated Financial Statements (Continued)

The following table reconciles net income and net income per share as reported for the thirteen weeks and thirty-nine weeks ended October 29, 2005 using the intrinsic value method under APB No. 25, to pro forma net income and net income per share using the fair value method under SFAS No. 123:

| <i>(In thousands, except per share amounts)</i> | Thirteen Weeks Ended October 29, 2005 | Thirty-nine Weeks Ended October 29, 2005 |
|---|--|---|
| Net income as reported | \$ 10,762 | \$ 80,203 |
| Add stock-based employee compensation using intrinsic value method, net of income taxes | 1,140 | 3,033 |
| Less stock-based employee compensation using fair value method, net of income taxes | (1,159) | (3,323) |
| Pro forma net income | \$ 10,743 | \$ 79,913 |
| Basic net income per share: | | |
| As reported | \$.09 | \$.67 |
| Pro forma | .09 | .67 |
| Diluted net income per share: | | |
| As reported | .09 | .61 |
| Pro forma | .09 | .61 |

Under the provisions of SFAS No. 123R, we are required to present gross excess tax benefits related to stock-based compensation as cash flows from financing activities in our statements of cash flows instead of as cash flows from operating activities as previously required. Write-offs of deferred tax assets related to an excess of stock-based compensation recognized in the financial statements over amounts deductible for tax purposes will continue to be reflected as cash flows used by operating activities. Net cash used by financing activities for the thirty-nine weeks ended October 28, 2006 includes \$2,635,000 of excess tax benefits related to stock-based compensation that would have been classified as a cash inflow in net cash provided by operating activities if we had not adopted the provisions of SFAS No. 123R.

Note 2. Acquisition of Crosstown Traders, Inc.

On June 2, 2005, we acquired 100% of the outstanding stock of Crosstown Traders, a direct marketer of women's apparel, footwear, accessories, and specialty gifts, from JPMorgan Partners, the private equity arm of J.P. Morgan Chase & Co. We accounted for the acquisition under the purchase method of accounting, and included the results of operations of Crosstown Traders in our results of operations from the date of acquisition. Prior-period results have not been restated for the acquisition. Assets acquired and liabilities assumed were recorded at their estimated fair values. During the thirty-nine weeks ended October 28, 2006, we increased the fair value of liabilities assumed by \$1,100,000 for customer refunds related to the pre-acquisition period. In accordance with the provisions of SFAS No. 141,

“Business Combinations,” we recognized certain acquired intangible assets, primarily trademarks, tradenames, internet domain names, and customer relationships, separately from goodwill. The fair values of acquired intangible assets, property, and equipment were based on an independent appraisal. Other assets acquired and liabilities assumed were recorded at their estimated fair values.

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

Note 2. Acquisition of Crosstown Traders, Inc. (Continued)

Concurrent with the acquisition of Crosstown Traders, we began preparing a formal integration plan for Crosstown Traders' operations, which included exiting and consolidating certain activities of Crosstown Traders, lease terminations, unfavorable contract costs, severance, and certain other exit costs. As of January 28, 2006, we finalized the plan and recorded a liability for the costs of the plan, which we recorded as a component of the purchase price of the acquisition in accordance with FASB Emerging Issues Task Force ("EITF") Issue 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination."

Liabilities recorded in connection with the integration plan (which we recorded as adjustments to goodwill and deferred income taxes), adjustments, payments, or settlements of these liabilities for the thirty-nine weeks ended October 28, 2006, and the remaining accrual as of October 28, 2006 were as follows:

| <i>(In thousands)</i> | Balance at January 28, 2006 | Thirty-nine Weeks Ended October 28, 2006 | | Balance at October 28, 2006 |
|-------------------------------------|--|---|----------------------------------|--|
| | | Adjustments | Payments/ Settlements | |
| Severance and related costs | \$ 4,380 | \$ (982) | \$ (2,898) | \$ 500 |
| Lease termination and related costs | 2,180 | 564 | (787) | 1,957 |
| Unfavorable contract costs | 900 | (900) | | 0 |
| Other costs | 1,154 | (62) | (666) | 426 |
| Total | \$ 8,614 | \$ (1,380) | \$ (4,351) | \$ 2,883 |

Severance and related costs represent involuntary termination benefits for approximately 275 employees as a result of the decision to close Crosstown Traders' manufacturing facility and two of its offices, and to consolidate certain back-office operations into our shared-services operations. Lease termination and related costs primarily represent the estimated lease termination obligations related to the closing of Crosstown Traders' leased manufacturing facility. The unfavorable contract costs represent the estimated costs related to an unfavorable service contract Crosstown Traders entered into prior to the acquisition. Other costs are principally employee relocation costs to relocate certain key Crosstown Traders employees from the closed facilities to Crosstown Traders' headquarters in Tucson, Arizona. We expect to complete our integration plan by the end of Fiscal 2007.

During the thirty-nine weeks ended October 28, 2006, we finalized the lease termination and related costs and entered into a sublease agreement for the manufacturing facility for a term ending in December 2009, which represents a portion of the remaining lease term. Additionally, severance and related costs were adjusted for employees voluntarily leaving the Company and opting to forego their severance. As a result of our decision to utilize the remaining term of the acquired unfavorable contract, the unfavorable contract costs accrual was reduced. Accordingly, we have adjusted the severance and related costs, lease termination and related costs, unfavorable contract costs, and other costs accruals; deferred income taxes; and goodwill.

The following unaudited pro forma information is based on historical data, and gives effect to our acquisition of Crosstown Traders as if the acquisition had occurred on January 29, 2005. The pro forma information includes adjustments having a continuing impact on our consolidated results of operations as a result of using the purchase

method of accounting for the acquisition. These adjustments consist of: additional depreciation of fair value adjustments for property, equipment, and leasehold improvements; amortization of the fair value of customer relationships acquired; additional interest expense from borrowings incurred to finance the acquisition and amortization of deferred financing costs related to amending our credit facility; reduced interest expense from the repayment of Crosstown Traders' debt; and a reduction in interest income from the use of cash and cash equivalents to fund a portion of the acquisition cost.

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

Note 2. Acquisition of Crosstown Traders, Inc. (Continued)

The unaudited pro forma information has been prepared based on our purchase price allocations, using assumptions that our management believes are reasonable. It is not necessarily indicative of the actual results of operations that would have occurred if the acquisition had occurred as of January 29, 2005, and is not necessarily indicative of the results that may be achieved in the future. The unaudited pro forma information does not reflect adjustments for the effect of non-recurring items or for operating synergies that we may realize as a result of the acquisition.

Unaudited pro forma results of operations:

| <i>(In thousands, except per share amounts)</i> | Thirty-nine Weeks Ended October 29, 2005 |
|---|---|
| Net sales | \$ 2,105,120 |
| Net income | 77,150 |
| Net income per share: | |
| Basic | \$.65 |
| Diluted | .59 |

Note 3. Accounts Receivable

Accounts receivable consist of trade receivables from sales through our FIGI[®] catalog, acquired on June 2, 2005 as part of our acquisition of Crosstown Traders. Details of our accounts receivable are as follows:

| <i>(In thousands)</i> | October 28, 2006 | January 28, 2006 |
|---------------------------------|-----------------------------|-----------------------------|
| Due from customers | \$ 3,285 | \$ 45,191 |
| Allowance for doubtful accounts | (1,265) | (6,588) |
| Net accounts receivable | \$ 2,020 | \$ 38,603 |

Note 4. Trademarks and Other Intangible Assets

| <i>(In thousands)</i> | October 28, 2006 | January 28, 2006 |
|---|-----------------------------|-----------------------------|
| Trademarks, tradenames, and internet domain names | \$ 240,300 | \$ 238,800 |
| Customer lists, customer relationships, and covenant not to compete | 16,400 | 16,400 |
| Total at cost | 256,700 | 255,200 |

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| | | | | |
|--|----|---------|----|---------|
| Less accumulated amortization of customer lists, customer relationships, and covenant not to compete | | 7,941 | | 5,126 |
| Net trademarks and other intangible assets | \$ | 248,759 | \$ | 250,074 |

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

Note 5. Short-term Borrowings and Long-term Debt

| <i>(In thousands)</i> | October 28, 2006 | January 28, 2006 |
|---|-----------------------------|-----------------------------|
| Short-term borrowings | | |
| Revolving credit facility | \$ 0 | \$ 50,000 |
| Long-term debt | | |
| 4.75% Senior Convertible Notes, due June 2012 | \$ 150,000 | \$ 150,000 |
| Capital lease obligations | 15,395 | 24,825 |
| 6.07% mortgage note, due October 2014 | 11,843 | 12,261 |
| 6.53% mortgage note, due November 2012 | 8,400 | 9,450 |
| 7.77% mortgage note, due December 2011 | 8,639 | 9,050 |
| Other long-term debt | 976 | 1,158 |
| Total long-term debt | 195,253 | 206,744 |
| Less current portion | 11,600 | 14,765 |
| Long-term debt | \$ 183,653 | \$ 191,979 |

Note 6. Stockholders' Equity

| <i>(Dollars in thousands)</i> | Thirty-nine Weeks Ended October 28, 2006 |
|---|---|
| Total stockholders' equity, beginning of period | \$ 814,348 |
| Net income | 83,981 |
| Issuance of common stock (1,498,057 shares) | 7,001 |
| Stock-based compensation expense | 7,603 |
| Excess tax benefits related to stock-based compensation | 2,635 |
| Unrealized gains on available-for-sale securities, net of tax | 4 |
| Total stockholders' equity, end of period | \$ 915,572 |

Note 7. Customer Loyalty Card Programs

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers generally join these programs by paying an annual membership fee. We recognize revenue from these loyalty programs as sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. We recognize costs in connection with administering these programs as cost of goods sold when incurred. During the thirteen weeks ended October 28, 2006 and October 29, 2005, we recognized revenues of \$4,871,000 and \$3,878,000,

respectively, in connection with our loyalty card programs. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, we recognized revenues of \$14,042,000 and \$11,309,000, respectively, in connection with our loyalty card programs.

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

Note 8. Net Income Per Share

| <i>(In thousands, except per share amounts)</i> | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|---|----------------------|---------------------|-------------------------|---------------------|
| | October 28, 2006 | October 29, 2005 | October 28, 2006 | October 29, 2005 |
| Basic weighted average common shares | | | | |
| outstanding | 122,586 | 120,102 | 122,174 | 119,513 |
| Dilutive effect of assumed conversion of | | | | |
| convertible notes | 15,182 | 15,182 | 15,182 | 15,182 |
| Dilutive effect of stock options and awards | 2,164 | 2,268 | 2,215 | 1,939 |
| Diluted weighted average common shares and | | | | |
| equivalents outstanding | 139,932 | 137,552 | 139,571 | 136,634 |
| Net income | \$ 19,357 | \$ 10,762 | \$ 83,981 | \$ 80,203 |
| Decrease in interest expense from assumed | | | | |
| conversion of notes, net of income taxes | 1,128 | 1,128 | 3,385 | 3,385 |
| Net income used to determine diluted net income | | | | |
| per share | \$ 20,485 | \$ 11,890 | \$ 87,366 | \$ 83,588 |
| Options with weighted average exercise price | | | | |
| greater than market price, excluded from | | | | |
| computation of net income per share: | | | | |
| Number of shares | 1 | 0 | 1 | 0 |
| Weighted average exercise price per share | \$ 13.84 | \$ 0.00 | \$ 13.84 | \$ 0.00 |

Note 9. Income Taxes

The effective income tax rate was 35.7% for the thirty-nine weeks ended October 28, 2006, as compared to 36.9% for the thirty-nine weeks ended October 29, 2005. The tax rate for the thirty-nine weeks ended October 28, 2006 was favorably affected by non-taxable insurance proceeds which were included in pre-tax income for the period and by adjustments related to the final reconciliation of our Federal tax return for Fiscal 2006. The tax rate for the thirty-nine

weeks ended October 28, 2006 was also unfavorably affected by an additional provision for state income taxes. The tax rate for the thirty-nine weeks ended October 29, 2005 was unfavorably affected by \$1,390,000 of taxes, net of foreign tax credits, on the planned repatriation of profits from international operations on which incremental United States income taxes had not been previously accrued. The American Jobs Creation Act of 2004 permitted the repatriation of profits from international operations at a favorable tax rate for a one-year period. The tax rate for the thirty-nine weeks ended October 29, 2005 was also favorably affected by charitable contributions of inventories to hurricane relief efforts.

Note 10. Asset Securitization

Our FASHION BUG and CATHERINES proprietary credit card receivables are originated by Spirit of America National Bank (our wholly-owned credit card bank), which transfers its interest in the receivables to the Charming Shoppes Master Trust (the "Trust") through a special-purpose entity. The Trust is an unconsolidated qualified special-purpose entity ("QSPE"). Our Crosstown Traders apparel-related catalog proprietary credit card receivables are originated in a non-bank program by Crosstown Traders, which transfers its interest in the receivables to Catalog Receivables LLC, a separate and distinct unconsolidated QSPE, through a special-purpose entity. The QSPEs can sell interests in these receivables on a revolving basis for a specified term. At the end of the revolving period, an amortization period begins during which the QSPEs make principal payments to the parties that have entered into the securitization agreement with the QSPEs.

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

Note 10. Asset Securitization (Continued)

In March 2005, Spirit of America National Bank purchased the CATHERINES credit card portfolio. Prior to purchasing the portfolio, we had a non-recourse agreement, scheduled to expire in March 2005, under which a third party provided a proprietary credit card sales accounts receivable funding facility for the CATHERINES proprietary credit cards. The purchase of the portfolio at par value and the subsequent securitization of the purchased portfolio resulted in the recognition of a gain during the thirty-nine weeks ended October 29, 2005 of approximately \$2,000,000, which is included in selling, general, and administrative expenses.

Note 11. Segment Reporting

Effective with the acquisition of Crosstown Traders on June 2, 2005, we operate and report in two segments, Retail Stores and Direct-to-Consumer, which are consistent with the way our chief operating decision-makers review our results of operations. The Retail Stores segment derives its revenues from sales through retail stores and store-related E-commerce sales under our LANE BRYANT (including LANE BRYANT OUTLET), FASHION BUG, CATHERINES PLUS SIZES, and PETITE SOPHISTICATE OUTLET brands. The Direct-to-Consumer segment derives its revenues from catalog sales and catalog-related E-commerce sales under our Crosstown Traders catalogs.

The accounting policies of the segments are generally the same as those described in “**Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies**” in our January 28, 2006 Annual Report on Form 10-K. Our chief operating decision-makers evaluate the performance of our operating segments based on a measure of their contribution to operations, which consists of net sales less the cost of merchandise sold and certain directly identifiable and allocable operating costs. Beginning in Fiscal 2007, we discontinued the allocation of certain corporate costs, such as shared service costs, information systems support costs, and insurance costs to our Retail Stores segment (historically, we have not allocated such costs to our Direct-to-Consumer segment). Accordingly, the comparative selected financial information by reportable segment shown below has been adjusted to exclude these costs from the Retail Stores segment. For the Retail Stores segment, operating costs consist primarily of store selling and occupancy costs. For our Direct-to-Consumer segment, operating costs consist primarily of catalog development, production, and circulation costs, E-commerce advertising costs, and order processing costs. Other costs that are currently allocated to the segments include warehousing costs.

Corporate and Other includes unallocated general and administrative costs, shared service center costs, information systems support costs, corporate depreciation and amortization, corporate occupancy costs, the results of our proprietary credit card operations, and other non-routine charges. Operating contribution for the Retail Stores and Direct-to-Consumer segments less Corporate and Other net expenses equals income before interest and taxes.

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

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

Note 11. Segment Reporting (Continued)

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

| <i>(In thousands)</i> | Retail Stores⁽¹⁾ | Direct-to- Consumer⁽²⁾ | Corporate and Other | Consolidated |
|---|--|--|--------------------------------|---------------------|
| Thirteen weeks ended October 28, 2006 | | | | |
| Net sales | \$ 615,321 | \$ 79,826 | \$ 131 | \$ 695,278 |
| Depreciation and amortization | 10,216 | 718 | 10,368 | 21,302 |
| Income before interest and taxes | 58,974 | (2,138) | (23,737) | 33,099 |
| Interest expense | | | (3,540) | (3,540) |
| Income tax provision | | | (10,202) | (10,202) |
| Net income | 58,974 | (2,138) | (37,479) | 19,357 |
| Capital expenditures | 25,953 | 2,033 | 9,567 | 37,553 |
| Thirty-nine weeks ended October 28, 2006 | | | | |
| Net sales | \$ 1,912,533 | \$ 279,579 | \$ 1,441 | \$ 2,193,553 |
| Depreciation and amortization | 36,693 | 2,018 | 27,720 | 66,431 |
| Income before interest and taxes | 174,447 | 1,258 | (33,622) | 142,083 |
| Interest expense | | | (11,475) | (11,475) |
| Income tax provision | | | (46,627) | (46,627) |
| Net income | 174,447 | 1,258 | (91,724) | 83,981 |
| Capital expenditures | 64,064 | 5,023 | 23,437 | 92,524 |
| Thirteen weeks ended October 29, 2005 | | | | |
| Net sales | \$ 569,150 | \$ 93,613 | \$ 914 | \$ 663,677 |
| Depreciation and amortization | 10,598 | 440 | 10,349 | 21,387 |
| Income before interest and taxes | 43,340 | 839 | (21,829) | 22,350 |
| Interest expense | | | (4,797) | (4,797) |
| Income tax provision | | | (6,791) | (6,791) |
| Net income | 43,340 | 839 | (33,417) | 10,762 |
| Capital expenditures | 23,398 | 1,048 | 6,338 | 30,784 |
| Thirty-nine weeks ended October 29, 2005 | | | | |
| Net sales | \$ 1,811,230 | \$ 143,052 | \$ 1,823 | \$ 1,956,105 |

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| | | | | |
|----------------------------------|---------|-------|----------|----------|
| Depreciation and amortization | 30,880 | 717 | 28,772 | 60,369 |
| Income before interest and taxes | 172,059 | 245 | (31,667) | 140,637 |
| Interest expense | | | (13,434) | (13,434) |
| Income tax provision | | | (47,000) | (47,000) |
| Net income | 172,059 | 245 | (92,101) | 80,203 |
| Capital expenditures | 51,249 | 1,345 | 15,583 | 68,177 |

(1) Includes 76 LANE BRYANT OUTLET stores opened in July 2006 and 44 PETITE SOPHISTICATE OUTLET stores opened in September 2006 (see “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; RECENT DEVELOPMENTS” below).

(2) From date of acquisition of Crosstown Traders, Inc. on June 2, 2005.

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

Note 12. Impact of Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, *“Inventory Costs - an Amendment of Accounting Research Bulletin No. 43, Chapter 4.”* SFAS No. 151 clarifies, among other things, that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials costs should be recognized as current-period expenses rather than being capitalized into inventory. SFAS No. 151 became effective as of the beginning of Fiscal 2007. The adoption of SFAS No. 151 did not have a material effect on our financial condition or results of operations.

In May 2005, the FASB issued SFAS No. 154, *“Accounting Changes and Error Corrections.”* SFAS No. 154 replaces APB Opinion No. 20, *“Accounting Changes,”* and supersedes SFAS No. 3, *“Reporting Accounting Changes in Interim Financial Statements - an amendment of APB Opinion No. 28.”* SFAS No. 154 generally requires retrospective application to prior-period financial statements of a change in accounting principle unless it is impracticable to determine either the period-specific effects or cumulative effects of the change. SFAS No. 154 became effective as of the beginning of Fiscal 2007. The adoption of SFAS No. 154 did not have a material effect on our financial position or results of operations.

In October 2005, the FASB issued FASB Staff Position (“FSP”) FAS 13-1, *“Accounting for Rental Costs Incurred during a Construction Period.”* FSP FAS 13-1 concludes that rental costs incurred during and after a construction period are for the right to control the use of a leased asset during and after construction of a lessee asset. There is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense and included in income from continuing operations. FSP FAS 13-1 became effective as of the beginning of Fiscal 2007. The adoption of FSP FAS 13-1 did not have a material effect on our financial position or results of operations.

In June 2006, the FASB ratified the consensus of EITF Issue No. 06-3, *“How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation).”* EITF Issue No. 06-3 provides that gross or net presentation is an accounting policy decision that is dependent on the type of tax, and that similar taxes are to be presented in a consistent manner. The provisions of EITF Issue No. 06-3 will be effective as of the beginning of Fiscal 2008, with early application permitted. Our current accounting policy is to present taxes within the scope of EITF Issue No. 06-3 on a net basis. Our adoption of EITF Issue No. 06-3 will not result in a change in our accounting policy and, accordingly, will have no effect on our results of operations.

In July 2006, the FASB issued FASB Interpretation (“FIN”) No. 48, *“Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109.”* FIN No. 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, expanded disclosures regarding tax uncertainties, and transition.

FIN No. 48 applies to all tax positions related to income taxes subject to SFAS No. 109, *“Accounting for Income Taxes.”* Under FIN No. 48, recognition of a tax benefit occurs when a tax position is more-likely-than-not to be sustained upon examination, based solely on its technical merits. The recognized benefit is measured as the largest amount of benefit which is more-likely-than-not to be realized on ultimate settlement, based on a cumulative

probability basis. A tax position failing to qualify for initial recognition is recognized in the first interim period in which it meets the FIN No. 48 recognition standard, or is resolved through negotiation, litigation, or upon expiration of the statute of limitations. De-recognition of a previously recognized tax position would occur if it is subsequently determined that the tax position no longer meets the more-likely-than-not threshold of being sustained. Differences between amounts recognized in balance sheets prior to the adoption of FIN No. 48 and amounts reported after adoption (except for items not recognized in earnings) will be accounted for as a cumulative effect adjustment to retained earnings as of the date of adoption of FIN No. 48, if material.

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

Note 12. Impact of Recent Accounting Pronouncements (Continued)

We will be required to adopt the provisions of FIN No. 48 effective as of the beginning of Fiscal 2008. We are currently analyzing the impact of adoption of FIN No. 48, and have not yet determined the impact of adoption on our consolidated financial position or results of operations.

In September 2006, the FASB ratified the consensus of EITF Issue No. 06-4, *“Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Agreements.”* EITF Issue No. 06-4 addresses accounting for separate agreements that split life insurance policy benefits between an employer and an employee. EITF Issue No. 06-4 requires employers to recognize a liability for future benefits payable to the employee under such agreements. The effect of applying the provisions of Issue No. 06-4 should be recognized either through a change in accounting principle by a cumulative-effect adjustment to equity or through the retrospective application to all prior periods. The provisions of EITF Issue No. 06-4 will be effective for fiscal years beginning after December 15, 2007, with earlier application permitted. We are currently analyzing the impact of adoption of EITF Issue No. 06-4, and have not yet determined the impact, if any, of adoption on our consolidated financial position or results of operations.

In September 2006, the FASB ratified the consensus of EITF Issue No. 06-5, *“Accounting for Purchases of Life Insurance - Determining the Amount That Could be Realized in Accordance with FASB Technical Bulletin 85-4.”* EITF Issue No. 06-5 addresses the determination of the amount that could be realized under a life insurance contract in accordance with Technical Bulletin 85-4. EITF Issue No. 06-5 requires a policyholder to consider any additional amounts included in the contractual terms of the policy other than the cash surrender value in determining the amount that could be realized under the insurance contract. Policyholders should determine the amount that could be realized under the life insurance contract assuming the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). Any amount that is ultimately realized by the policyholder upon the assumed surrender of the final policy (or final certificate in a group policy) shall be included in the amount that could be realized under the insurance contract. The provisions of EITF Issue No. 06-5 will be effective for fiscal years beginning after December 15, 2006. The effect of applying the provisions of Issue No. 06-5 should be recognized either through a change in accounting principle by a cumulative-effect adjustment to equity or through the retrospective application to all prior periods. We are currently analyzing the impact of adoption of EITF Issue No. 06-5, and have not yet determined the impact, if any, of adoption on our consolidated financial position or results of operations.

In September 2006, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (“SAB 108”), *“Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.”* SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the financial statements are materially misstated. Under SAB 108, companies should take into account the effect of a misstatement on both the current year balance sheet and the current year income statement in assessing the materiality of a current year misstatement. Once a current year misstatement has been quantified, the guidance in SAB 99, *“Financial Statements - Materiality”* should be applied to determine whether the misstatement is material. The provisions of SAB 108 are effective for annual financial statements for fiscal years ending after November 15, 2006.

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

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes included in Item 1 of this report. It should also be read in conjunction with the management's discussion and analysis of financial condition and results of operations, financial statements, and accompanying notes appearing in our Annual Report on Form 10-K for the fiscal year ended January 28, 2006. As used in this management's discussion and analysis, the terms "Fiscal 2007" and "Fiscal 2006" refer to our fiscal year ending February 3, 2007 and our fiscal year ended January 28, 2006, respectively. The terms "Fiscal 2007 Third Quarter" and "Fiscal 2006 Third Quarter" refer to the thirteen weeks ended October 28, 2006 and October 29, 2005, respectively. The terms "Fiscal 2007 Second Quarter" and "Fiscal 2007 Fourth Quarter" refer to the thirteen weeks ended July 29, 2006 and the fourteen weeks ending February 3, 2007, respectively. The term "Fiscal 2008" refers to our fiscal year ending February 2, 2008. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and where applicable, our consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

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

- Our business is dependent upon our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors, which we may not be able to successfully accomplish in the future.
- A slowdown in the United States economy, an uncertain economic outlook, and escalating energy costs could lead to reduced consumer demand for our products in the future.
- The women's specialty retail apparel and direct-to-consumer markets are highly competitive and we may be unable to compete successfully against existing or future competitors.
- We may be unable to successfully integrate the operations of Crosstown Traders, Inc. ("Crosstown Traders") with the operations of Charming Shoppes, Inc. In addition, we cannot assure the successful implementation of our business plan for Crosstown Traders.
- We cannot assure the successful implementation of our business plans for entry into the outlet store distribution channel and expansion of our CACIQUE® product line through new store formats.
-

We cannot assure the successful implementation of our business plan for increased profitability and growth in our Retail Stores or Direct-to-Consumer segments.

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- Our business plan is largely dependent upon continued growth in the plus-size women's apparel market, which may not occur.
- We depend on key personnel, particularly our Chief Executive Officer, Dorrit J. Bern, and we may not be able to retain or replace these employees or recruit additional qualified personnel.
- We depend on our distribution and fulfillment centers, and could incur significantly higher costs and longer lead times associated with distributing our products to our stores and shipping our products to our E-commerce and catalog customers if operations at any of these distribution and fulfillment centers were to be disrupted for any reason.
- We depend on the availability of credit for our working capital needs, including credit we receive from our suppliers and their agents, and on our credit card securitization facilities. If we were unable to obtain sufficient financing at an affordable cost, our ability to merchandise our stores, E-commerce, or catalog businesses would be adversely affected.
- Natural disasters, as well as war, acts of terrorism, or the threat of either may negatively impact availability of merchandise and customer traffic to our stores, or otherwise adversely affect our business.
- We rely significantly on foreign sources of production and face a variety of risks generally associated with doing business in foreign markets and importing merchandise from abroad. Such risks include (but are not necessarily limited to) political instability; imposition of, or changes in, duties or quotas; trade restrictions; increased security requirements applicable to imports; delays in shipping; increased costs of transportation; and issues relating to compliance with domestic or international labor standards.
- Our Retail Stores and Direct-to-Consumer segments experience seasonal fluctuations in net sales and operating income. Any decrease in sales or margins during our peak sales periods, or in the availability of working capital during the months preceding such periods, could have a material adverse effect on our business. In addition, extreme or unseasonable weather conditions may have a negative impact on our sales.
 - We may be unable to obtain adequate insurance for our operations at a reasonable cost.
- We may be unable to protect our trademarks and other intellectual property rights, which are important to our success and our competitive position.
- We may be unable to hire and retain a sufficient number of suitable sales associates at our stores. In addition, we are subject to the Fair Labor Standards Act and various state and Federal laws and regulations governing such matters as minimum wages, exempt status classification, overtime, and employee benefits. Changes in Federal or state laws or regulations regarding minimum wages or other employee benefits could cause us to incur additional wage and benefit costs, which could adversely affect our results of operations.
- Our manufacturers may be unable to manufacture and deliver merchandise to us in a timely manner or to meet our quality standards.
- Our Retail Stores segment sales are dependent upon a high volume of traffic in the strip centers and malls in which our stores are located, and our future retail store growth is dependent upon the availability of suitable locations for new stores.

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

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- We may be unable to manage significant increases in certain costs vital to catalog operations, including postage, paper, and acquisition of prospects, which could adversely affect our results of operations.
- Response rates to our catalogs and access to new customers could decline, which would adversely affect our net sales and results of operations.
- We may be unable to successfully implement our plan to improve merchandise assortments in our Retail Stores or Direct-to-Consumer segments.
- We make certain significant assumptions, estimates, and projections related to the useful lives of our property, plant, and equipment and the valuation of intangible assets related to acquisitions. The carrying amount and/or useful life of these assets are subject to periodic valuation tests for impairment. Impairment results when the carrying value of an asset exceeds the undiscounted (or for goodwill and indefinite-lived intangible assets the discounted) future cash flows associated with the asset. If actual experience were to differ materially from the assumptions, estimates, and projections used to determine useful lives or the valuation of property, plant, equipment, or intangible assets, a write-down for impairment of the carrying value of the assets, or acceleration of depreciation or amortization of the assets, could result. Such a write-down or acceleration of depreciation or amortization would have an adverse impact on our reported results of operations.
- Changes to existing accounting rules or the adoption of new rules could have an adverse impact on our reported results of operations.
- Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports. Our independent registered public accounting firm is also required to attest to whether or not our assessment is fairly stated in all material respects and to separately report on whether or not they believe that we maintained, in all material respects, effective internal control over financial reporting. If we are unable to maintain effective internal control over financial reporting, or if our independent registered public accounting firm is unable to timely attest to our assessment, we could be subject to regulatory sanctions and a possible loss of public confidence in the reliability of our financial reporting. Such a failure could result in our inability to provide timely and/or reliable financial information and could adversely affect our business.

CRITICAL ACCOUNTING POLICIES

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

We periodically reevaluate our accounting policies, assumptions, and estimates and make adjustments when facts and circumstances warrant. Historically, actual results have not differed materially from those determined using required estimates. Our critical accounting policies are discussed in the management's discussion and analysis of financial condition and results of operations and notes accompanying the consolidated financial statements that appear in our Annual Report on Form 10-K for the fiscal year ended January 28, 2006. Except as disclosed below and in the financial statements and accompanying notes included in Item 1 of this report, there were no material changes in, or additions to, our critical accounting policies or in the assumptions or estimates we used to prepare the financial

information appearing in this report.

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Stock-based Compensation

Through Fiscal 2006, we accounted for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board (“APB”) Opinion No. 25, “*Accounting for Stock Issued to Employees*,” as permitted by SFAS No. 123, “*Accounting for Stock-Based Compensation*.” We recorded compensation expense for restricted stock and restricted stock unit awards and for stock options with an exercise price less than the market price of our common stock at the date of grant, based on the difference between the market price and the exercise price of the option at the date of grant. The compensation expense was recognized on a straight-line basis over the vesting period of each award or option. We did not recognize compensation expense for options having an exercise price equal to the market price on the date of grant or for shares purchased under our Employee Stock Purchase Plan.

We disclosed, as pro forma information, compensation expense for all stock options, restricted stock awards, and restricted stock unit awards based on an estimated fair value of the option or award. In accordance with SFAS No. 123, we used the Black-Scholes pricing model to estimate the fair value of stock options. The Black-Scholes model required estimates or assumptions as to the dividend yield and price volatility of the underlying stock, the expected life of the option, and a relevant risk-free interest rate. Our use of different option-pricing models and different estimates or assumptions could have resulted in materially different estimates of compensation expense under the fair value method.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), “*Share-Based Payment*” (“SFAS No. 123R”), a revision of SFAS No. 123. Under SFAS No. 123R, we are required to recognize the fair value of stock-based payments as compensation expense in our financial statements beginning in Fiscal 2007. Pro forma disclosures are no longer permitted.

We elected to adopt SFAS No. 123R on the modified prospective method and, accordingly, prior periods have not been restated. We have provided pro forma disclosure of stock-based compensation determined in accordance with SFAS No. 123, as previously disclosed, for the comparable prior-year periods. The impact of the change from using actual forfeitures to determine compensation expense under the intrinsic value method to using estimated forfeitures in accordance with the provisions of SFAS No. 123R was immaterial. Current grants of stock-based compensation consist primarily of restricted stock and restricted stock unit awards. Under SFAS No. 123R, we will continue to use the Black-Scholes valuation model to estimate the fair value of stock options, using assumptions consistent with our pro forma disclosures under SFAS No. 123, and straight-line amortization of stock-based compensation.

Adoption of SFAS No. 123R will generally result in the recognition of additional stock-based compensation in the financial statements as compared to use of the intrinsic value method. However, beginning in Fiscal 2005, we changed the composition of our stock-based compensation awards to include primarily restricted stock and restricted stock unit awards, which generally yield the same compensation expense under both the intrinsic value method and SFAS No. 123R. In addition, we did not have significant unvested stock options as of the beginning of Fiscal 2007. Accordingly, the adoption of SFAS No. 123R did not have a material incremental impact on our income before taxes and net income, or on our basic and diluted net income per share.

Under the provisions of SFAS No. 123R, we are required to present gross excess tax benefits related to stock-based compensation as cash flows from financing activities in our statements of cash flows instead of as cash flows from operating activities as previously required. Write-offs of deferred tax assets related to an excess of stock-based compensation recognized in the financial statements over amounts deductible for tax purposes will continue to be reflected as cash flows used by operating activities. Net cash used by financing activities for the thirty-nine weeks ended October 28, 2006 includes \$2.6 million of excess tax benefits related to stock-based compensation that would have been classified as a cash inflow in net cash provided by operating activities if we had not adopted the provisions

of SFAS No. 123R.

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See “**Item 1. Financial Statements (Unaudited); Notes to Condensed Consolidated Financial Statements; Note 1. Condensed Consolidated Financial Statements; Stock-based Compensation**” above for further information on our stock-based compensation expense for the thirteen weeks and thirty-nine weeks ended October 28, 2006 and for pro forma disclosures for the comparable prior-year periods. See “**Part II, Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 1. Summary of Significant Accounting Policies; Common Stock Plans**” of our Annual Report on Form 10-K for the fiscal year ended January 28, 2006 for further information on the estimates and assumptions we used to determine stock-based compensation expense for our pro forma disclosures in accordance with SFAS No. 123. Total stock-based compensation not yet recognized, related to the non-vested portion of stock options and awards outstanding, was \$17.3 million as of October 28, 2006. The weighted-average period over which we expect to recognize this compensation is approximately 2.7 years.

RECENT DEVELOPMENTS

In December 2005, we announced plans to enter the outlet channel through the assumption of outlet store leases from Retail Brand Alliance, and to operate those locations under the name LANE BRYANT OUTLET. A majority of these locations had been operated as side-by-side locations selling more than one brand. Subsequently, in January 2006, we acquired the trademark and internet domain rights to the PETITE SOPHISTICATE® name. During the Fiscal 2007 Second Quarter, we opened 73 LANE BRYANT OUTLET stores in locations that we assumed from Retail Brand Alliance and converted 3 existing LANE BRYANT stores to LANE BRYANT OUTLET stores. During the Fiscal 2007 Third Quarter, we opened 4 additional LANE BRYANT OUTLET stores, including 3 stores in locations that we assumed from Retail Brand Alliance. During the Fiscal 2007 Third Quarter, we also opened 44 PETITE SOPHISTICATE OUTLET stores that are operating with a LANE BRYANT OUTLET store in side-by-side locations assumed from Retail Brand Alliance. We opened 2 additional LANE BRYANT OUTLET stores and 1 additional PETITE SOPHISTICATE OUTLET store during the Fiscal 2007 Fourth Quarter.

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

| | Thirteen Weeks Ended ⁽¹⁾ | | Percentage | Thirty-nine Weeks Ended ⁽¹⁾ | | Percentage |
|---|-------------------------------------|------------------|--------------------------|--|---------------------------------|--------------------------|
| | October 28, 2006 | October 29, 2005 | Change From Prior Period | October 28, 2006 | October 29, 2005 ⁽²⁾ | Change From Prior Period |
| Net sales | 100.0% | 100.0% | 4.8% | 100.0% | 100.0% | 12.1% |
| Cost of goods sold, buying, catalog, and occupancy expenses | 68.8 | 69.6 | 3.6 | 68.8 | 68.1 | 13.4 |
| Selling, general, and administrative expenses | 26.8 | 27.3 | 2.6 | 25.0 | 25.0 | 12.0 |
| Income from operations | 4.5 | 3.1 | 50.6 | 6.2 | 6.9 | 0.2 |
| Other income | 0.3 | 0.3 | 18.2 | 0.3 | 0.3 | 21.6 |
| Interest expense | 0.5 | 0.7 | (26.2) | 0.5 | 0.7 | (14.6) |
| Income tax provision | 1.5 | 1.0 | 50.2 | 2.1 | 2.4 | (0.8) |
| Net income | 2.8 | 1.6 | 79.9 | 3.8 | 4.1 | 4.7 |

(1) Results may not add due to rounding.

(2) Includes the results of operations of Crosstown Traders, Inc. from the date of acquisition on June 2, 2005.

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

| <i>(In millions)</i> | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|---|----------------------|------------------|-------------------------|------------------|
| | October 28, 2006 | October 29, 2005 | October 28, 2006 | October 29, 2005 |
| FASHION BUG | \$ 240.7 | \$ 241.0 | \$ 789.2 | \$ 790.4 |
| LANE BRYANT ⁽¹⁾ | 287.0 | 247.3 | 845.2 | 757.6 |
| CATHERINES | 85.7 | 80.9 | 276.2 | 263.2 |
| Other retail stores ⁽²⁾ | 1.9 | 0.0 | 1.9 | 0.0 |
| Total Retail Stores segment sales | 615.3 | 569.2 | 1,912.5 | 1,811.2 |
| Total Direct-to-Consumer segment sales ⁽³⁾ | 79.8 | 93.6 | 279.6 | 143.1 |
| Corporate and other ⁽⁴⁾ | 0.2 | 0.9 | 1.5 | 1.8 |
| Total net sales | \$ 695.3 | \$ 663.7 | \$ 2,193.6 | \$ 1,956.1 |

(1) Includes LANE BRYANT OUTLET stores (see “**RECENT DEVELOPMENTS**” above).

(2) Includes PETITE SOPHISTICATE OUTLET stores (see “**RECENT DEVELOPMENTS**” above).

(3) Includes the results of operations of Crosstown Traders, Inc. from the date of acquisition on June 2, 2005.

(4) Revenue related to loyalty card fees.

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

| | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|---|-----------------------------|-----------------------------|--------------------------------|-----------------------------|
| | October 28, 2006 | October 29, 2005 | October 28, 2006 | October 29, 2005 |
| Retail Stores segment | | | | |
| Increase (decrease) in comparable store sales ⁽¹⁾ : | | | | |
| Consolidated retail stores | 1% | 3% | 1% | 2% |
| FASHION BUG | 0 | 1 | (1) | 0 |
| LANE BRYANT | 0 | 4 | 2 | 2 |
| CATHERINES | 4 | 9 | 4 | 8 |
| Sales from new stores as a percentage of total consolidated prior-period sales ⁽²⁾ : | | | | |
| FASHION BUG | 1 | 1 | 1 | 1 |
| LANE BRYANT ⁽³⁾ | 9 | 3 | 5 | 3 |
| CATHERINES | 1 | 1 | 1 | 1 |
| Other retail stores ⁽⁴⁾ | 0 | — | 0 | — |
| Prior-period sales from closed stores as a percentage of total consolidated prior-period sales: | | | | |
| FASHION BUG | (1) | (1) | (1) | (1) |
| LANE BRYANT | (3) | (1) | (2) | (1) |
| CATHERINES | (0) | (1) | (1) | (1) |
| Increase in Retail Stores segment sales | 8 | 5 | 6 | 4 |
| Direct-to-Consumer segment | | | | |
| Increase (decrease) in Direct-to-Consumer segment sales | | | | |
| | (15) | — | (5) | — |
| Increase in consolidated total net sales | 5 | 22 | 12 | 12 |

(1) "Comparable store sales" is not a measure that has been defined under generally accepted accounting principles. The method of calculating comparable store sales varies across the retail industry and, therefore, our calculation of comparable store sales is not necessarily comparable to similarly-titled measures reported by other companies. We define comparable store sales as sales from stores operating in both the current and prior-year periods. New stores are added to the comparable store sales base 13 months after their open date. Sales from stores that are relocated within the same mall or strip-center, remodeled, or have a legal square footage change of less than 20% are included

in the calculation of comparable store sales. Sales from stores that are relocated outside the existing mall or strip-center, or have a legal square footage change of 20% or more, are excluded from the calculation of comparable store sales until 13 months after the relocated store is opened. Stores that are temporarily closed for a period of 4 weeks or more are excluded from the calculation of comparable store sales for the applicable periods in the year of closure and the subsequent year. Non-store sales, such as catalog and internet sales, are excluded from the calculation of comparable store sales.

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

*(3) Includes LANE BRYANT OUTLET stores (see “**RECENT DEVELOPMENTS**” above).*

*(4) Includes PETITE SOPHISTICATE OUTLET stores (see “**RECENT DEVELOPMENTS**” above).*

(5) Comparison is not meaningful, as prior-year period includes sales from Crosstown Traders, Inc. from the date of acquisition on June 2, 2005 (approximately 21 weeks).

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The following table sets forth information with respect to our year-to-date retail store activity for Fiscal 2007 and planned store activity for all of Fiscal 2007:

| | FASHION BUG | LANE BRYANT | CATHERINES | Other⁽²⁾ | Total |
|--|------------------------|------------------------|-------------------|----------------------------|--------------|
| Fiscal 2007 Year-to-Date⁽¹⁾: | | | | | |
| Stores at January 28, 2006 | 1,025 | 748 | 463 | 0 | 2,236 |
| Stores opened | 9 | 121 ⁽³⁾ | 7 | 44 | 181 |
| Stores closed | (13) | (14) | (4) | (0) | (31) |
| Net change in stores | (4) | 107 | 3 | 44 | 150 |
| Stores at October 28, 2006 | 1,021 | 855 | 466 | 44 | 2,386 |
| Stores relocated during period | 23 | 20 | 7 | 0 | 50 |
| Fiscal 2007: | | | | | |
| Planned store openings | 10 | 134 ⁽⁴⁾ | 8 | 45 | 197 |
| Planned store closings | 26 | 16 | 6 | 0 | 48 |
| Planned store relocations | 27 | 35 | 10 | 0 | 72 |

(1) Excludes 2 Crosstown Traders outlet stores.

(2) Includes PETITE SOPHISTICATE OUTLET stores.

(3) Includes 80 LANE BRYANT OUTLET stores (see "RECENT DEVELOPMENTS" above).

(4) Includes 83 LANE BRYANT OUTLET stores (see "RECENT DEVELOPMENTS" above).

Comparison of Thirteen Weeks Ended October 28, 2006 and October 29, 2005**Net Sales**

The increase in consolidated net sales in the Fiscal 2007 Third Quarter as compared to the Fiscal 2006 Third Quarter was a result of an increase in net sales from our Retail Stores segment, partially offset by a decrease in net sales from our Direct-to-Consumer segment. The increase in the Retail Stores segment's net sales was primarily a result of sales from new LANE BRYANT, LANE BRYANT OUTLET and PETITE SOPHISTICATE OUTLET stores opened during Fiscal 2007, an increase in comparable retail store sales at our CATHERINES brand, and increases in E-commerce sales at all of our Retail Stores brands. The increase in the Retail Stores segment's net sales met our plan for a low single-digit comparable store sales increase for the quarter. The decrease in net sales from our Direct-to-Consumer segment was primarily a result of our decision to decrease circulation for prospecting in order to control costs as a result of reduced prospecting response rates. We operated 2,386 stores in our Retail Stores segment as of October 28, 2006, as compared to 2,246 stores as of October 29, 2005. Additionally, Crosstown Traders operated two outlet stores as of October 28, 2006 as compared to three outlet stores as of October 29, 2005. The Crosstown Traders outlet stores are included in our Direct-to-Consumer segment.

Total net sales for the LANE BRYANT brand increased as a result of sales from new stores and an increase in E-commerce sales. LANE BRYANT experienced an increase in the number of transactions per store, which was partially offset by a decrease in the average dollar sale per transaction in the current-year quarter as compared to the prior-year quarter. The decrease in the average dollar sale per transaction was a result of reduced sales of denim products in response to changing fashion trends. Traffic levels decreased as compared to the prior-year quarter.

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Total net sales for the FASHION BUG brand were flat as compared to the prior-year quarter. A decrease in retail store sales as a result of store closures was partially offset by an increase in store-related E-commerce sales. Store traffic levels were consistent with the prior-year quarter, while the average dollar sale per transaction decreased slightly as compared to the prior-year quarter.

Total net sales for the CATHERINES brand increased as a result of increases in comparable retail store sales and store-related E-commerce sales. Traffic levels increased as compared to the prior-year quarter, while the average dollar sale per transaction decreased slightly as compared to the prior-year quarter.

Total net sales for the Direct-to-Consumer segment decreased as compared to the prior-year quarter as a result of our decision to decrease circulation for prospecting in order to control costs and as a result of reduced response rates from mailings to our core customer list. The average order value for the current-year quarter was above plan, while actual circulation and customer response rates were below plan.

We offer various loyalty card programs to our Retail Stores segment customers. Customers who join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers generally join these programs by paying an annual membership fee. We recognize revenue on these loyalty programs as sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. Costs we incur in connection with administering these programs are recognized in cost of goods sold as incurred. During the Fiscal 2007 Third Quarter and Fiscal 2006 Third Quarter, we recognized revenues of \$4.9 million and \$3.9 million, respectively, in connection with our loyalty card programs.

Cost of Goods Sold, Buying, Catalog, and Occupancy

The decrease in consolidated cost of goods sold, buying, and occupancy expenses as a percentage of consolidated net sales from the Fiscal 2006 Third Quarter to the Fiscal 2007 Third Quarter was primarily as a result of improved merchandise margins for our Retail Stores segment. Consolidated cost of goods sold decreased 1.5% as a percentage of consolidated net sales, while consolidated buying and occupancy expenses increased 0.7% as a percentage of consolidated net sales.

For our Retail Stores segment, cost of goods sold, buying, and occupancy expenses as a percentage of net sales were 0.8% lower in the Fiscal 2007 Third Quarter as compared to the Fiscal 2006 Third Quarter. We entered the Fiscal 2007 Third Quarter with improved inventory levels, which resulted in lower sales of marked-down carryover seasonal merchandise and an improved merchandise margin. The Fiscal 2007 Third Quarter was also the first full quarter of operations for our outlet business. Buying and occupancy expenses for the Retail Stores segment, as a percentage of net sales, were 0.3% lower in the Fiscal 2007 Third Quarter as compared to the Fiscal 2006 Third Quarter.

For our Direct-to-Consumer segment, cost of goods sold, buying, and occupancy expenses as a percentage of sales were 1.0% higher in the Fiscal 2007 Third Quarter as compared to the Fiscal 2006 Third Quarter. The increase was primarily a result of the impact of reduced net sales on fixed buying and occupancy costs. Cost of goods sold for our Direct-to-Consumer segment includes catalog advertising and fulfillment costs, which are significant expenses for catalog operations, and are therefore generally higher as a percentage of net sales than cost of goods sold for our Retail Stores segment. The Direct-to-Consumer segment incurs lower levels of buying and occupancy costs as compared to the Retail Stores segment.

Cost of goods sold includes merchandise costs net of discounts and allowances; freight; inventory shrinkage; shipping and handling costs associated with our Direct-to-Consumer and E-commerce businesses; and amortization of direct-response advertising costs for our Direct-to-Consumer business. Net merchandise costs and freight are

capitalized as inventory costs.

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Buying expenses include payroll, payroll-related costs, and operating expenses for our buying departments, warehouses, and fulfillment centers. Occupancy expenses include rent; real estate taxes; insurance; common area maintenance; utilities; maintenance; and depreciation for our stores, warehouse and fulfillment center facilities, and equipment. Buying, catalog, and occupancy costs are treated as period costs and are not capitalized as part of inventory.

Selling, General, and Administrative

The decrease in consolidated selling, general, and administrative expenses as a percentage of consolidated net sales was primarily a result of our continued focus on controlling operating expenses and an improvement in the contribution from our credit operations, as well as leverage on the increase in consolidated net sales. General and administrative expenses for the Fiscal 2007 Third Quarter were negatively impacted by a \$0.9 million increase in stock-based compensation as compared to the prior-year period (see “**CRITICAL ACCOUNTING POLICIES**” above). General and administrative expenses for the Fiscal 2006 Third Quarter include a gain of \$1.3 million recognized in connection with our expected share of the VISA/MasterCard antitrust settlement.

Income Tax Provision

The effective income tax rate was 34.5% for the Fiscal 2007 Third Quarter as compared to 38.7% for the Fiscal 2006 Third Quarter. The tax rate for the Fiscal 2007 Third Quarter was favorably affected primarily by adjustments related to the final reconciliation of our Federal tax return for Fiscal 2006, which customarily occurs during our third fiscal quarter. The tax rate for the Fiscal 2007 Third Quarter was also unfavorably affected by an additional provision for state income taxes. The tax rate for the Fiscal 2006 Third Quarter was unfavorably affected by \$1.4 million of taxes, net of foreign tax credits, on the planned repatriation of profits from international operations (see **Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 9. Income Taxes**” above) and was favorably affected by charitable contributions of inventories to hurricane relief efforts.

Comparison of Thirty-nine Weeks Ended October 28, 2006 and October 29, 2005

Net Sales

Consolidated net sales increased in the first three quarters of Fiscal 2007 as compared to the first three quarters of Fiscal 2006, primarily as a result of the inclusion of Crosstown Traders for the entire Fiscal 2007 period, as well as increased net sales from our Retail Stores segment. Consolidated net sales for the first three quarters of Fiscal 2006 include net sales from Crosstown Traders from the date of acquisition on June 2, 2005. The increase in the Retail Stores segment’s net sales was a result of sales from new LANE BRYANT, LANE BRYANT OUTLET, AND PETITE SOPHISTICATE OUTLET stores opened in Fiscal 2007, an increase in comparable retail store sales at our LANE BRYANT and CATHERINES brands, and increases in E-commerce sales at all of our Retail Stores brands. The increases in the Retail Stores segment’s net sales and consolidated net sales met our plan for a low single-digit comparable store sales increase for the period.

Total net sales for the LANE BRYANT brand increased as a result of sales from new stores, an increase in comparable retail store sales, and an increase in E-commerce sales. As compared to the prior-year period, a slight decrease in the average dollar sale per transaction was offset by an increase in the number of transactions per store, while traffic levels were relatively flat.

Total net sales for the FASHION BUG brand decreased as a result of slight decreases in both comparable retail store sales and the number of open stores. The decrease in retail store sales was partially offset by an increase in store-related E-commerce sales. The number of transactions per store decreased during the current-year period while the average dollar sale per transaction increased slightly as compared to the prior-year period.

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Total net sales for the CATHERINES brand increased as a result of increases in comparable retail store sales and store-related E-commerce sales. Significant increases in traffic levels and the number of transactions per store during the first three quarters of Fiscal 2007 were partially offset by a lower average dollar sale per transaction as a result of increased promotional activity as compared to the prior-year period.

Total net sales for the Direct-to-Consumer segment for the first three quarters of Fiscal 2007 were below our sales plan for the period as a result of our decision to decrease circulation for prospecting in order to control costs and as a result of reduced response rates from mailings to our core customer list. The average order value for the current-year period was above plan, while actual circulation and customer response rates were below plan.

During the first three quarters of Fiscal 2007 and Fiscal 2006, we recognized revenues of \$14.0 million and \$11.3 million, respectively, in connection with our loyalty card programs.

Cost of Goods Sold, Buying, Catalog, and Occupancy

The increase in consolidated cost of goods sold, buying, catalog, and occupancy expenses as a percentage of consolidated net sales from the first three quarters of Fiscal 2006 to the first three quarters of Fiscal 2007 was primarily a result of the inclusion of catalog costs for our Direct-to-Consumer segment for the entire Fiscal 2007 period as compared to the inclusion of catalog costs for five months for the Fiscal 2006 period as a result of the acquisition of Crosstown Traders in June 2005. The increase also resulted from reduced merchandise margins related to higher levels of promotional activity for our Retail Stores segment in the current-year period. Consolidated cost of goods sold increased 1.3% as a percentage of consolidated net sales, while consolidated buying and occupancy expenses decreased 0.6% as a percentage of consolidated net sales.

For our Retail Stores segment, cost of goods sold, buying, and occupancy expenses as a percentage of net sales were 0.2% higher in the first three quarters of Fiscal 2007 as compared to the first three quarters of Fiscal 2006 primarily as a result of pre-opening expenses related to the LANE BRYANT OUTLET stores that began operations in July 2006. Buying and occupancy expenses for the Retail Stores segment, as a percentage of net sales, were 0.2 higher in the first three quarters of Fiscal 2007 as compared to the first three quarters of Fiscal 2006. Occupancy expenses for the Retail Stores segment for the first half of Fiscal 2007 included approximately \$4.5 million of pre-opening expenses related to the LANE BRYANT OUTLET stores that began operations in July 2006.

Cost of goods sold for our Direct-to-Consumer segment includes catalog advertising and fulfillment costs, which are significant expenses for catalog operations, and are therefore generally higher as a percentage of net sales than cost of goods sold for our Retail Stores segment. The Direct-to-Consumer segment incurs lower levels of buying and occupancy costs, which resulted in a favorable impact on consolidated buying and occupancy expenses as a percentage of consolidated net sales in the current-year period.

Cost of goods sold includes merchandise costs net of discounts and allowances; freight; inventory shrinkage; shipping and handling costs associated with our Direct-to-Consumer and E-commerce businesses; and amortization of direct-response advertising costs for our Direct-to-Consumer business for periods subsequent to the Crosstown acquisition. Net merchandise costs and freight are capitalized as inventory costs.

Buying expenses include payroll, payroll-related costs, and operating expenses for our buying departments, warehouses, and fulfillment centers. Occupancy expenses include rent; real estate taxes; insurance; common area maintenance; utilities; maintenance; and depreciation for our stores, warehouse and fulfillment center facilities, and equipment. Buying, catalog, and occupancy costs are treated as period costs and are not capitalized as part of inventory.

Table of Contents***Selling, General, and Administrative***

Consolidated selling, general, and administrative expenses for the first three quarters of Fiscal 2007, as a percentage of consolidated net sales, were comparable to the prior-year period, reflecting the benefit of our continued focus on controlling expenses and an improvement in the contribution from our credit operations. Selling, general, and administrative expenses for the first half of Fiscal 2007 included approximately \$3.3 million of pre-opening operating expenses related to the LANE BRYANT OUTLET stores that began operations in July 2006. The current-year period was also negatively impacted by a \$3.0 million increase in stock-based compensation as compared to the prior-year period (see “**CRITICAL ACCOUNTING POLICIES**” above), and by inclusion of the Direct-to-Consumer segment for the full Fiscal 2007 period as compared to inclusion of the Direct-to-Consumer segment for five months for the Fiscal 2006 period as a result of the acquisition of Crosstown Traders in June 2005. Consolidated selling, general, and administrative expenses for the prior-year period included a gain of \$2.0 million from the purchase and subsequent securitization of our CATHERINES credit card portfolio and a gain of \$1.3 million recognized in connection with our expected share of the VISA/MasterCard antitrust settlement.

Income Tax Provision

The effective income tax rate was 35.7% for the first three quarters of Fiscal 2007 as compared to 36.9% for the first three quarters of Fiscal 2006. The tax rate for the Fiscal 2007 period was favorably affected by non-taxable insurance proceeds that were included in pre-tax income for the period and by adjustments related to the final reconciliation of our Federal tax return for Fiscal 2006. The tax rate for the first three quarters of Fiscal 2007 was also unfavorably affected by an additional provision for state income taxes. The tax rate for the prior-year period was unfavorably affected by \$1.4 million of taxes, net of foreign tax credits, on the planned repatriation of profits from international operations (see **Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 9. Income Taxes**” above) and was favorably affected by charitable contributions of inventories to hurricane relief efforts.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of working capital are cash flow from operations, our proprietary credit card receivables securitization agreements, our investment portfolio, and our revolving credit facility. The following table highlights certain information related to our liquidity and capital resources:

| <i>(Dollars in millions)</i> | October 28, 2006 | January 28, 2006 |
|--------------------------------|-----------------------------|-----------------------------|
| Cash and cash equivalents | \$ 138.2 | \$ 130.1 |
| Available-for-sale securities | 3.3 | 20.2 |
| Working capital | \$ 410.4 | \$ 338.6 |
| Current ratio | 2.0 | 1.8 |
| Long-term debt to equity ratio | 20.1% | 23.6% |

Our net cash provided by operating activities increased to \$140.8 million for the first three quarters of Fiscal 2007 from \$99.0 million for the first three quarters of Fiscal 2006. The \$41.8 million increase was primarily attributable to a \$36.6 million decrease in accounts receivable, which resulted from collections on holiday-season sales of food and gifts from our FIGI’S Direct-to-Consumer catalog. Our net investment in inventories decreased \$38.7 million in the first three quarters of Fiscal 2007 as compared to the first three quarters of Fiscal 2006, primarily as a result of our ability to obtain more favorable payment terms from certain vendors and our continued management of inventory

levels. Higher levels of promotional activity in the current-year period also contributed to the reduced levels of inventory as compared to the prior-year period. The timing of payments of deferred, prepaid, and accrued expenses resulted in a \$39.6 million decrease in cash provided by operating activities in the first three quarters of Fiscal 2007 as compared to the first three quarters of Fiscal 2006.

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As a result of the adoption of SFAS No. 123R in Fiscal 2007 (see “**CRITICAL ACCOUNTING POLICIES**” above), we are reporting certain tax benefits related to stock-based compensation as cash provided by financing activities in Fiscal 2007 instead of as cash provided by operating activities as permitted in the prior-year period. This change in reporting classification had a \$2.6 million negative impact on cash provided by operating activities for the first three quarters of Fiscal 2007, which was offset by a corresponding positive impact on cash used by financing activities.

Capital Expenditures

Our gross capital expenditures, excluding construction allowances received from landlords, were \$92.5 million during the first three quarters of Fiscal 2007. Construction allowances received from landlords for the first three quarters of Fiscal 2007 were \$15.2 million. During Fiscal 2007, we accelerated our new store opening plan, primarily in our LANE BRYANT brand, which includes a new LANE BRYANT/CACIQUE side-by-side retail store concept and the opening of our new outlet store channel. We also plan to continue to build our infrastructure for the launch of new catalog offerings, as well as further expansion of our E-commerce operations.

For all of Fiscal 2007, we anticipate incurring capital expenditures of approximately \$135 - \$145 million before construction allowances received from landlords. We expect that a majority of these capital expenditures will support store development, including openings, relocations, and store improvements. The remainder of the expenditures will primarily be for improvements to our information technology and corporate infrastructure. We expect to finance these additional capital expenditures primarily through internally-generated funds.

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 existing revolving credit facility allows the payment of dividends on our common stock subject to maintaining a minimum level of Excess Availability (as defined in the facility agreement) for 30 days before and immediately after the payment of such dividends.

Off-Balance-Sheet Financing

Our FASHION BUG and CATHERINES proprietary credit card receivables are originated by Spirit of America National Bank (our wholly-owned credit card bank), which transfers its interest in the receivables to the Charming Shoppes Master Trust (the “Trust”) through a special-purpose entity. The Trust is an unconsolidated qualified special-purpose entity (“QSPE”). Our Crosstown Traders catalog proprietary credit card receivables, which we securitized subsequent to our acquisition of Crosstown Traders, are originated in a non-bank program by Crosstown Traders, which transfers its interest in the receivables to Catalog Receivables LLC, a separate and distinct unconsolidated QSPE, through a special-purpose entity. The QSPEs can sell interests in these receivables on a revolving basis for a specified term. At the end of the revolving period, an amortization period begins during which the QSPEs make principal payments to the parties that have entered into the securitization agreement with the QSPEs.

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As of October 28, 2006, we had the following securitization facilities outstanding:

| <i>(Dollars in millions)</i> | Series 1999-2 | Series 2002-1 | Series 2004 | Series 2004-1 | 2005-RPA⁽¹⁾ |
|-----------------------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|
| Date of facility | May 1999 | November 2002 | January 2004 | August 2004 | May 2005 |
| Type of facility | Conduit | Term | Conduit | Term | Conduit |
| Maximum funding | \$50.0 | \$100.0 | \$50.0 | \$180.0 | \$55.0 |
| Funding as of October 28, 2006 | \$31.7 | \$100.0 | \$00.0 | \$180.0 | \$48.5 |
| First scheduled principal Payment | Not applicable | August 2007 | Not applicable | April 2009 | Not applicable |
| Expected final principal Payment | Not applicable ⁽²⁾ | May 2008 | Not applicable ⁽²⁾ | March 2010 | Not applicable ⁽²⁾ |
| Renewal | Annual | Not applicable | Annual | Not applicable | Annual |

(1) Receivables Purchase Agreement (for the Crosstown Traders catalog proprietary credit card receivables program).

(2) Series 1999-2 and Series 2004 have scheduled final payment dates that occur in the twelfth month following the month in which the series begins amortizing. These series and 2005-RPA generally begin amortizing 364 days after start of the purchase commitment by the series purchaser currently in effect.

As these credit card receivables securitizations reach maturity, we plan to obtain funding for the proprietary credit card programs through additional securitizations, including annual renewal of our conduit facilities. However, we can give no assurance that we will be successful in securing financing through either replacement securitizations or other sources of replacement financing.

We securitized \$454.1 million of private label credit card receivables in the first three quarters of Fiscal 2007 and had \$367.2 million of securitized credit card receivables outstanding as of October 28, 2006. We held certificates and retained interests in our securitizations of \$65.4 million as of October 28, 2006, which are generally subordinated in right of payment to certificates issued by the QSPEs to third-party investors. Our obligation to repurchase receivables sold to the QSPEs is limited to those receivables that, at the time of their transfer, fail to meet the QSPE's eligibility standards under normal representations and warranties. To date, our repurchases of receivables pursuant to this obligation have been insignificant.

Charming Shoppes Receivables Corp. ("CSRC"), Charming Shoppes Seller, Inc., and Catalog Seller LLC, our consolidated wholly-owned indirect subsidiaries, are separate special-purpose entities ("SPEs") created for the securitization program. As of October 28, 2006, our investment in asset-backed securities included \$11.0 million of QSPE certificates, an I/O strip of \$15.8 million, and other retained interests of \$38.6 million. These assets are first and foremost available to satisfy the claims of the respective creditors of these separate corporate entities, including certain claims of investors in the QSPEs. Additionally, with respect to certain Trust Certificates, if either the Trust or Charming Shoppes, Inc. fails to meet certain financial performance standards, the Trust would be obligated to reallocate to third-party investors holding certain certificates issued by the Trust, collections in an amount up to \$9.5 million that otherwise would be available to CSRC. The result of this reallocation would be to increase CSRC's retained interest in the Trust by the same amount. Subsequent to such a transfer occurring, and upon certain conditions being met, these same investors would be required to repurchase these interests. As of October 28, 2006, we were in compliance with these performance standards and, as a result, there were no reallocated collections.

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In addition to the above, we could be affected by certain other events that would cause the QSPEs to hold proceeds of receivables, which would otherwise be available to be paid to us with respect to our subordinated interests, within the QSPEs as additional enhancement. For example, if we fail or the QSPEs fail to meet certain financial performance standards, a credit enhancement condition would occur, and the QSPEs would be required to retain amounts otherwise payable to us. In addition, the failure to satisfy certain financial performance standards could further cause the QSPEs to stop using collections on QSPE assets to purchase new receivables, and would require such collections to be used to repay investors on a prescribed basis, as provided in the securitization agreements. If this were to occur, it could result in our having insufficient liquidity; however, we believe we would have sufficient notice to seek alternative forms of financing through other third-party providers. As of October 28, 2006, the QSPEs were in compliance with all applicable financial performance standards. Amounts placed into enhancement accounts, if any, that are not required for payment to other certificate holders will be available to us at the termination of the securitization series. We have no obligation to directly fund the enhancement account of the QSPEs, other than for breaches of customary representations, warranties, and covenants and for customary indemnities. These representations, warranties, covenants, and indemnities do not protect the QSPEs or investors in the QSPEs against credit-related losses on the receivables. The providers of the credit enhancements and QSPE investors have no other recourse to us.

These securitization agreements are intended to improve our overall liquidity by providing sources of funding for our proprietary credit card receivables. The agreements provide that we will continue to service the credit card receivables and control credit policies. This control allows us, absent certain adverse events, to fund continued credit card receivable growth and to provide the appropriate customer service and collection activities. Accordingly, our relationship with our credit card customers is not affected by these agreements.

We have a non-recourse agreement under which a third party provides a proprietary credit card sales accounts receivable funding facility for our LANE BRYANT retail and outlet stores. The facility expires in October 2007. Under this agreement, the third party reimburses us daily for sales generated by LANE BRYANT's proprietary credit card accounts. Upon termination of this agreement, we have the right to purchase the receivables allocated to the LANE BRYANT stores under such agreement at book value from the third party.

Additional information regarding our asset securitization facility and our LANE BRYANT agreement is included in **“Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”** and **“Part II, Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 17. Asset Securitization”** of our Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

We lease substantially all of our operating stores under non-cancelable operating lease agreements. Additional details on these leases, including minimum lease commitments, are included in **“Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 18. Leases”** of our Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

FINANCING

Revolving Credit Facility

Our revolving credit facility agreement provides for a revolving credit facility with a maximum availability of \$375 million, subject to certain limitations as defined in the facility agreement, and provides that up to \$300 million of the facility may be used for letters of credit. In addition, we may request, subject to compliance with certain conditions, additional revolving credit commitments up to an aggregate maximum availability of \$500 million. The agreement expires on July 28, 2010. As of October 28, 2006, we had an aggregate total of \$3.2 million of unamortized deferred debt acquisition costs related to the facility, which we are amortizing on a straight-line basis over the life of the

facility as interest expense.

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The facility includes provisions for customary representations and warranties and affirmative covenants, and includes customary negative covenants providing for certain limitations on, among other things, sales of assets; indebtedness; loans, advances and investments; acquisitions; guarantees; and dividends and redemptions. Under certain circumstances involving a decrease in “Excess Availability” (as defined in the facility agreement), we may be required to maintain a minimum “Fixed Charge Coverage Ratio” (as defined in the facility agreement). The facility is secured by our general assets, except for (i) assets related to our credit card securitization facilities, (ii) real property, (iii) equipment, (iv) the assets of our non-U.S. subsidiaries, and (v) certain other assets. As of October 28, 2006, we were not in violation of any of the covenants included in the facility.

The interest rate on borrowings under the facility is Prime for Prime Rate Loans, and LIBOR as adjusted for the Reserve Percentage (as defined in the facility agreement) plus 1.0% to 1.5% per annum for Eurodollar Rate Loans. The applicable rate is determined monthly, based on our average excess availability, as defined in the facility agreement. As of October 28, 2006, the applicable rates under the facility were 8.25% for Prime Rate Loans and 6.32% (LIBOR plus 1%) for Eurodollar Rate Loans. There were no borrowings outstanding under the facility as of October 28, 2006.

Additional information regarding our long-term borrowings is included in “**Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**” and “**Part II, Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 8. Short-term Borrowings and Long-term Debt**” of our Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

We believe that our capital resources and liquidity position are sufficient to support our current operations. Our requirements for working capital, capital expenditures, and repayment of debt and other obligations are expected to be funded from operations, supplemented as needed by short-term or long-term borrowings available under our credit facility, our proprietary credit card receivables securitization agreements, leases, and other available financing sources.

MARKET RISK

We manage our FASHION BUG, CATHERINES, and catalog proprietary credit card programs through various operating entities that we own. The primary activity of these entities is to service the balances of our proprietary credit card receivables portfolio that we sell under credit card securitization facilities. Under the securitization facilities, we can be exposed to fluctuations in interest rates to the extent that the interest rates charged to our customers vary from the rates paid on certificates issued by the QSPEs.

The finance charges on most of our FASHION BUG and CATHERINES proprietary credit card accounts are billed using a floating rate index (the Prime Rate), subject to a floor and limited by legal maximums. Prior to the Fiscal 2007 Third Quarter, the finance charges on most of our CATHERINES credit card accounts had been billed at a fixed rate of interest. With respect to our catalog proprietary credit card program, the finance charges on most of our accounts are billed at a fixed rate of interest. The certificates issued under the securitization facilities include both floating- and fixed-interest-rate certificates. The floating-rate certificates are based on an index of either one-month LIBOR or the commercial paper rate, depending on the issuance. Consequently, we have basis risk exposure with respect to credit cards billed using a floating-rate index to the extent that the movement of the floating-rate index on the certificates varies from the movement of the Prime Rate. Additionally, as of October 28, 2006, the floating finance charge rate on the floating-rate indexed credit cards was below the contractual floor rate, thus exposing us to interest-rate risk with respect to these credit cards as well as the fixed-rate credit cards for the portion of certificates that are funded at floating rates. However, as a result of the Trust entering into a series of fixed-rate interest rate swap agreements with respect to \$161.1 million of Series 2004-1 certificates, and \$89.5 million of Series 2002-1 being issued at fixed rates,

we have significantly reduced the exposure of floating-rate certificates outstanding to interest-rate risk. To the extent that short-term interest rates were to increase by one percentage point by the end of Fiscal 2007, an increase of approximately \$0.2 million in selling, general, and administrative expenses would result.

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As of October 28, 2006, 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. Notes To Condensed Consolidated Financial Statements (Unaudited); Note 12. Impact of Recent Accounting Pronouncements**” above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate and in such a manner as to allow timely decisions regarding required disclosure. We have a Disclosure Committee, which is made up of several key management employees and which reports directly to the CEO and CFO, to centralize and enhance these controls and procedures and assist 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.

As we continue with the various integration activities of our June 2, 2005 acquisition of Crosstown Traders, Inc. (“Crosstown Traders”), including the migration of certain of the Crosstown Traders transaction-based processes to our existing financial processes and systems, we are modifying the Crosstown Traders internal control over financial reporting. Additionally, during the period covered by this report on Form 10-Q, we converted our existing retail store brand E-commerce operating platform to the Crosstown Traders platform and order management system, thereby consolidating capabilities, support, and maintenance of E-commerce onto a common system. Integration activities as a result of our acquisition of Crosstown Traders are expected to continue through our current fiscal year. Other than changes arising out of the Crosstown Traders acquisition and the conversion of our E-commerce operating platforms and systems, there has been no change in our internal control over financial reporting that occurred during the period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

As discussed in “**Part I; Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; RECENT DEVELOPMENTS**” above, in December 2005, we announced plans to enter the outlet channel through the assumption of outlet store leases from Retail Brand Alliance, and to operate those locations under the name LANE BRYANT OUTLET™. A majority of these locations had been operated as side-by-side locations selling more than one brand. Subsequently, in January 2006, we acquired the trademark and internet domain rights to the PETITE SOPHISTICATE name. As of October 28, 2006 we have opened 80 LANE BRYANT OUTLET stores, including 76 stores in locations that we assumed from Retail Brand Alliance. We have also opened 44 PETITE SOPHISTICATE OUTLET stores that are operating with a LANE BRYANT OUTLET store in side-by-side locations assumed from Retail Brand Alliance.

As indicated 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 28, 2006, we face challenges in managing our recent growth. Our operating challenges and management responsibilities are increasing as we continue to grow and expand into additional distribution channels. We cannot assure the successful implementation of our business plan for entry into the outlet store distribution channel, or that we will achieve our objectives as quickly or as effectively as we hope.

Other than the above, we have not become aware of any material changes since January 28, 2006 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 28, 2006. See also “**Part I; Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; FORWARD-LOOKING STATEMENTS**” above.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Purchases of Equity Securities by the Issuer and Affiliated Purchasers:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs⁽²⁾ | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs⁽²⁾ |
|---|---|---|---|---|
| July 30, 2006 through August 26, 2006 | 1,046 ⁽¹⁾ | \$ 10.32 | — | — |
| August 27, 2006 through September 30, 2006 | — | — | — | — |
| October 1, 2006 through October 28, 2006 | 200 ⁽¹⁾ | 14.78 | — | — |
| Total | 1,246 | \$ 11.03 | — | — |

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

(2) In Fiscal 1998, we publicly announced that our Board of Directors granted authority to repurchase up to 10,000,000 shares of our common stock. In Fiscal 2000, we publicly announced that our Board of Directors granted authority to repurchase up to an additional 10,000,000 shares of our common stock. In Fiscal 2003, the Board of Directors granted an additional authorization to repurchase 6,350,662 shares of common stock issued to Limited Brands in connection with our acquisition of LANE BRYANT. From Fiscal 1998 through Fiscal 2003, we repurchased a total of 21,370,993 shares of common stock, which included shares purchased on the open market as well as shares repurchased from Limited Brands. As of October 28, 2006, 4,979,669 shares of our common stock remain available for repurchase under these programs. Our 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) immediately before and after such repurchase. As conditions may allow, we may from time to time acquire additional shares of our common stock under these programs. Such shares, if purchased, would be held as treasury shares. No shares were acquired under these programs during the thirteen weeks ended October 28, 2006. The repurchase programs have no expiration date.

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Item 6. Exhibits

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

- 2.1 Stock Purchase Agreement dated May 19, 2005 by and among Chestnut Acquisition Sub, Inc., Crosstown Traders, Inc., the Securityholders of Crosstown Traders, Inc. whose names are set forth on the signature pages thereto, and J.P. Morgan Partners (BHCA), L.P., as the Sellers' Representative, incorporated by reference to Form 8-K of the Registrant dated June 2, 2005, filed on June 8, 2005. (Exhibit 2.1).
- 3.1 Restated Articles of Incorporation, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 1994 (File No. 000-07258, Exhibit 3.1).
- 3.2 Bylaws, as Amended and Restated, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999 (File No. 000-07258, Exhibit 3.2).
- 31.1 Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Amendment No. 1, dated as of May 17, 2006, to Second Amended and Restated Loan and Security Agreement, dated July 28, 2005, by and among Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., FB Apparel, Inc., Catherines Stores Corporation, Lane Bryant, Inc., and Crosstown Traders, Inc. as borrowers; a syndicate of banks and other financial institutions as lenders, including Wachovia Bank, National Association as agent for the lenders; and certain of the Company's subsidiaries as guarantors, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 29, 2006 (File No. 000-07258, Exhibit 99.1).

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SIGNATURES

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

CHARMING SHOPPES, INC.

(Registrant)

Date: December 1, 2006

/S/ DORRIT J. BERN

Dorrit J. Bern

Chairman of the Board

President and Chief Executive Officer

Date: December 1, 2006

/S/ ERIC M. SPECTER

Eric M. Specter

Executive Vice President

Chief Financial Officer

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Exhibit Index

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