CHARMING SHOPPES INC
Form 10-Q
May 27, 2005

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 April 30, 2005

or

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

For the transition period from ______________ to _______________

Commission File No. 000-07258

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

PENNSYLVANIA	23-1721355
(State or other jurisdiction of incorporation or organization)	(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 [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [X] No [ ]

The number of shares outstanding of the issuer's Common Stock (par value $.10 per share), as of May 23, 2005, was 119,824,275 shares.

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CHARMING SHOPPES, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)	April 30, 2005 (Unaudited)	January 29, 2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 254,801	$ 273,049
Available-for-sale securities	84,639	52,857
Merchandise inventories	347,794	285,120
Deferred taxes	15,500	15,500
Prepayments and other	91,671	86,382
Total current assets	794,405	712,908
Property, equipment, and leasehold improvements - at cost	797,687	786,028
Less accumulated depreciation and amortization	479,179	465,365
Net property, equipment, and leasehold improvements	318,508	320,663
Trademarks and other intangible assets	169,653	169,818
Goodwill	66,666	66,666
Available-for-sale securities	240	240
Other assets	35,987	33,476
Total assets	$ 1,385,459	$ 1,303,771
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		

Accounts payable	$ 171,781	$ 127,819
Accrued expenses	156,571	154,681
Income taxes payable	3,942	0
Current portion - long-term debt	20,822	16,419
Total current liabilities	353,116	298,919
Deferred taxes and other non-current liabilities	106,040	101,743
Long-term debt	199,862	208,645
Stockholders' equity		
Common Stock $.10 par value:		
Authorized - 300,000,000 shares		
Issued - 132,077,353 shares and 132,063,290 shares, respectively	13,208	13,206
Additional paid-in capital	258,367	249,485
Treasury stock at cost - 12,265,993 shares	(84,136)	(84,136)
Deferred employee compensation	(15,639)	(8,715)
Retained earnings	554,641	524,624
Total stockholders' equity	726,441	694,464
Total liabilities and stockholders' equity	$ 1,385,459	$ 1,303,771

2

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

	Thirteen Weeks Ended	
(In thousands, except per share amounts)	April 30, 2005	May 1, 2004 (Restated)
Net sales	$ 603,255	$ 592,738
Cost of goods sold, buying, and occupancy expenses	403,824	401,774
Selling, general, and administrative expenses	150,938	148,539
Total operating expenses	554,762	550,313
Income from operations	48,493	42,425

Other income	2,815	394
Interest expense	(3,925)	(3,883)
Income before income taxes	47,383	38,936
Income tax provision	17,366	12,687
Net income	30,017	26,249
Other comprehensive income, net of tax		
Unrealized gains on available-for-sale securities, net of of income tax provision of $21 in 2004	0	11
Reclassification of amortization of deferred loss on termination of derivative, net of income tax benefit of $40 in 2004	0	74
Total other comprehensive income, net of tax	0	85
Comprehensive income	$ 30,017	$ 26,334
Basic net income per share	$ .25	$ .23
Diluted net income per share	$ .23	$ .21

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

	Thirteen Weeks Ended	
(In thousands)	April 30, 2005	May 1, 2004 (Restated)
Operating activities		
Net income	$ 30,017	$ 26,249
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,954	19,092
Deferred income taxes	151	(1,007)
Tax benefit related to stock plans	546	0
Net (gain)/loss from disposition of capital assets	(873)	373

Gain from securitization of Catherines portfolio	(759)	0
Changes in operating assets and liabilities:		
Merchandise inventories	(62,674)	(46,446)
Accounts payable	43,962	37,552
Prepayments and other	(4,530)	(18,199)
Accrued expenses and other	6,036	8,085
Income taxes payable	3,942	12,001
Net cash provided by operating activities	35,772	37,700
Investing activities		
Investment in capital assets	(17,697)	(11,899)
Proceeds from sales of capital assets	1,923	0
Proceeds from sales of available-for-sale securities	0	10,231
Gross purchases of available-for-sale securities	(31,782)	(14,684)
Purchase of Catherines receivables portfolio	(56,582)	0
Securitization of Catherines receivables portfolio	56,582	0
Increase in other assets	(2,272)	(2,021)
Net cash used by investing activities	(49,828)	(18,373)
Financing activities		
Proceeds from short-term borrowings	67,262	57,052
Repayments of short-term borrowings	(67,262)	(57,052)
Repayments of long-term borrowings	(4,380)	(4,126)
Proceeds from issuance of common stock	188	6,342
Net cash provided/(used) by financing activities	(4,192)	2,216
Increase (decrease) in cash and cash equivalents	(18,248)	21,543
Cash and cash equivalents, beginning of period	273,049	123,781
Cash and cash equivalents, end of period	$ 254,801	$ 145,324
Non-cash financing and investing activities		
Equipment acquired through capital leases	$ 0	$ 3,899

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 April 30, 2005, and our condensed consolidated statements of operations and comprehensive income and cash flows for the thirteen weeks ended April 30, 2005 and May 1, 2004, without audit. In our opinion, we have made all adjustments (which, except for the restatement discussed in Note 2, below, include only normal recurring adjustments) necessary to present fairly our financial position, results of operations, and cash flows. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. These financial statements and related notes should be read in conjunction with our financial statements and related notes included in our January 29, 2005 Annual Report on Form 10-K. The results of operations for the thirteen weeks ended April 30, 2005 and May 1, 2004 are not necessarily indicative of operating results for the full fiscal year.

As used in these notes, the terms "Fiscal 2006" and "Fiscal 2005" refer to our fiscal year ending January 28, 2006 and our fiscal year ended January 29, 2005, respectively. The term "Fiscal 2007" refers to our fiscal year ending February 3, 2007. The terms "Fiscal 2006 First Quarter" and "Fiscal 2005 First Quarter" refer to the thirteen weeks ended April 30, 2005 and May 1, 2004, respectively. The term "Fiscal 2006 Second Quarter" refers to the thirteen weeks ending July 30, 2005. The term "Fiscal 2005 Fourth Quarter" refers to the thirteen weeks ended January 29, 2005. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, its consolidated subsidiaries.

We account for cash consideration received from vendors in accordance with the provisions of Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") Issue 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor." For interim reporting, we generally defer markdown allowances and recognize them in the period in which markdown expenses are recognized. Inasmuch as the markdown allowances at the date of purchase are intended to compensate us for future markdowns taken at the time of sale, we defer the recognition of markdown allowances during the interim periods in order to better match the recognition of markdown allowances to the period that the related markdown expenses are recorded.

We account 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," and its related interpretations. We amortize deferred compensation expense attributable to stock awards and stock options having an exercise price less than the market price on the date of grant on a straight-line basis over the vesting period of the award or option. We do 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.

Note 1. Condensed Consolidated Financial Statements (Continued)

The following table reconciles net income and net income per share as reported, 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 FASB Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation":

(In thousands, except per share amounts)	Thirteen Weeks Ended April 30 2005	Thirteen Weeks Ended May 1, 2004 (Restated)
Net income as reported	$ 30,017	$ 26,249
Add stock-based employee compensation using intrinsic value method, net of income taxes	797	387
Less stock-based employee compensation using fair value method, net of income taxes	(1,057)	(841)
Pro forma net income	$ 29,757	$ 25,795
Basic net income per share:		
As reported	$ .25	$ .23
Pro forma	.25	.23
Diluted net income per share:		
As reported	.23	.21
Pro forma	.23	.21

Note 2. Restatement of Financial Statements

In the Fiscal 2005 Fourth Quarter, we restated our financial statements for the prior quarters of Fiscal 2005 to correct our accounting for landlord allowances, calculation of straight-line rent expense, recognition of rent holiday periods, and depreciation of leasehold improvements for our retail stores. See "Item 8. Financial Statements and Supplementary Data; Note 2. Restatement of Financial Statements" of our Report on Form 10-K for the fiscal year ended January 29, 2005 for additional information.

Prior to the restatement, we classified construction allowances received from landlords in connection with our store leases as a reduction of property, equipment, and leasehold improvements on our consolidated balance sheets and as a reduction of capital expenditures on our consolidated statements of cash flows. In addition, when accounting for leases with renewal options, we historically recorded rent expense on a straight-line basis over the initial non-cancelable lease term, beginning with the lease commencement date. However, we depreciated leasehold improvements over their estimated useful life of ten years, which, in many cases, may have included both the initial non-cancelable lease term and option renewal periods provided for in the lease. Also, we historically recognized rent holiday periods on a straight-line basis over the lease term commencing with the initial occupancy date instead of the date we took possession of the leased space for construction purposes, which is generally two months prior to a store opening date.

Note 2. Restatement of Financial Statements (Continued)

As a result of the restatement, we record construction allowances as a deferred rent liability on our consolidated balance sheets rather than as a reduction of the cost of leasehold improvements, and recognize construction allowances as an operating activity in our consolidated statements of cash flows rather than as a reduction of our investment in capital assets. In addition, we amortize construction allowances over the related lease term as a reduction of rent expense rather than as a reduction of depreciation expense, commencing on the date we take possession of the leased space for construction purposes. The lease term we use to record straight-line rent expense and depreciation of leasehold improvements includes lease option renewal periods only in instances in which the exercise of the option period is reasonably assured and the failure to exercise such an option would result in an economic penalty. We depreciate leasehold improvements over the shorter of the lease term or the assets' estimated useful lives. The lease terms we use to determine straight-line rent expense include pre-opening store build-out periods (commonly referred to as "rent holidays"), where applicable. These corrections resulted in the accelerated recognition of certain annual rent expense and depreciation expense on leasehold improvements, which are included in "cost of goods sold, buying, and occupancy expenses" on the consolidated statements of operations and comprehensive income.

The effects of the restatement, as previously reported in our Fiscal 2005 Form 10-K, on our condensed consolidated financial statements for the thirteen weeks ended May 1, 2004 are summarized as follows:

(In thousands, except per share amounts)	As Previously Reported(1)	Adjustments	As Restated
Condensed Consolidated Statement of Operations:			
Cost of goods sold, buying, and occupancy expenses.....	$400,698	$ 1,076	$401,774
Income tax provision................................	13,084	(397)	12,687
Net income	26,928	(679)	26,249
Basic net income per share..........................	$ .24	$(.01)	$ .23
Diluted net income per share........................	$ .22	$(.01)	$ .21
Condensed Consolidated Statement of Cash Flows:			
Operating activities:			
Net income..	$ 26,928	$ (679)	$ 26,249
Additions to reconcile net income to net cash provided by operations:			
Depreciation and amortization....................	17,007	2,085	19,092
Deferred income taxes............................	(610)	(397)	(1,007)
Changes in operating assets and liabilities:			
Accrued expenses and other...................	7,020	1,065	8,085
Net cash provided by operating activities...........	$ 35,626	$ 2,074	$ 37,700
Investing activities:			
Investment in capital assets........................	$ (9,825)	$(2,074)	$(11,899)
Net cash used in investing activities...............	$(16,299)	$(2,074)	$(18,373)

7

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

Note 3. Trademarks and Other Intangible Assets

(In thousands)	April 30, 2005	January 29, 2005
Trademarks, tradenames, and internet domain names	$ 168,800	$ 168,800
Customer lists and covenant not to compete	3,300	3,300
Total at cost	172,100	172,100
Less accumulated amortization of customer lists and covenant not to compete	2,447	2,282
Net trademarks and other intangible assets	$ 169,653	$ 169,818

Note 4. Long-term Debt

(In thousands)	April 30, 2005	January 29, 2005
4.75% Senior Convertible Notes, due June 2012	$ 150,000	$ 150,000
Capital lease obligations	31,199	34,825
6.07% mortgage note, due October 2014	12,684	12,821
6.53% mortgage note, due November 2012	10,500	10,850
7.77% mortgage note, due December 2011	9,439	9,564
Variable rate mortgage note, due March 2006	5,522	5,605
Other long-term debt	1,340	1,399
Total long-term debt	220,684	225,064
Less current portion	20,822	16,419
Long-term debt	$ 199,862	$ 208,645

Note 5. Stockholders' Equity

(Dollars in thousands)	Thirteen Weeks Ended April 30, 2005
Total stockholders' equity, beginning of period	$ 694,464
Net income	30,017
Issuance of common stock (14,063 shares)	188
Tax benefit related to stock plans	546
Amortization of deferred compensation expense	1,226
Total stockholders' equity, end of period	$ 726,441

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

Note 6. Customer Loyalty Card Programs

We offer our customers various loyalty card programs. Customers who join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers 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 we incur in connection with administering these programs as cost of goods sold when incurred. During the thirteen weeks ended April 30, 2005 and May 1, 2004, we recognized revenues of $3,162,000 and $3,264,000, respectively, in connection with our loyalty card programs.

Note 7. Net Income Per Share

(In thousands, except weighted average exercise price per share)	Thirteen Weeks Ended April 30, 2005	Thirteen Weeks Ended May 1, 2004 (Restated)
Basic weighted average common shares outstanding	118,984	113,297
Dilutive effect of assumed conversion of convertible notes	15,182	15,182
Dilutive effect of stock options and awards	1,577	1,903

Diluted weighted average common shares and equivalents outstanding	135,743	130,382
	=======	=======
Net income	$30,017	$26,249
Decrease in interest expense from assumed conversion of notes, net of income taxes	1,128	1,135
	-------	-------
Net income used to determine diluted net income per share	$31,145	$27,384
	=======	=======
Options with weighted average exercise price greater than market price, excluded from computation of net income per share:		
Number of shares................................	111	433
Weighted average exercise price per share.........	$8.28	$8.25

Note 8. Income Taxes

The effective income tax rate was 36.7% for the Fiscal 2006 First Quarter, as compared to 32.6% for the Fiscal 2005 First Quarter. The lower effective tax rate for the Fiscal 2005 First Quarter was primarily the result of finalizing certain prior-year tax audits.

On October 22, 2004, the President of the United States of America signed into law H.R. 4250, "The American Jobs Creation Act of 2004" (the "Act"), which includes among its provisions certain tax benefits related to the repatriation to the United States of profits from a company's international operations. The Act permits the repatriation of profits from international operations at a tax rate not to exceed 5.25% for approximately a one-year period. These tax benefits are subject to various limitations and, as of April 30, 2005, the U.S. Treasury Department has not issued final guidelines for applying the repatriation provisions of the Act. We are currently evaluating the effects of the Act, and have not determined the effect, if any, that it will have on our results of operations, but we do not expect the Act to have a significant impact on our financial condition. As of April 30, 2005, our consolidated cash balance included approximately $43,234,000 of cash held by our international operations. We will finalize our analysis before the end of Fiscal 2006.

Note 9. Asset Securitization

As of January 29, 2005, we had a non-recourse agreement, which was scheduled to expire in March 2005, under which a third party provided an accounts receivable proprietary credit card sales accounts receivable funding facility for our CATHERINES brand. In accordance with the terms of the Merchant Services Agreement pursuant to which the CATHERINES proprietary credit cards were issued, we gave the requisite notice of our intent to exercise our option to purchase the CATHERINES portfolio upon the expiration of the agreement. In March 2005, Spirit of America National Bank (our wholly-owned credit card bank) purchased the CATHERINES credit card portfolio for approximately $56,600,000 (subject to adjustment). The purchase was funded through our securitization facilities, including a portion of the proceeds from the sale of certificates under our Series 2004-1 securitization facility. The Merchant Services Agreement provided to us the ability to purchase the CATHERINES portfolio at par value. The purchase of the portfolio at par and the subsequent securitization of the purchased portfolio resulted in the recognition of a benefit of approximately $2 million, which is included in selling, general, and administrative expenses for the Fiscal 2006 First Quarter.

Note 10. Impact of Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R" or the "Statement"), a revision of SFAS No. 123. SFAS No. 123R supersedes APB Opinion No. 25, and amends SFAS No. 95, "Statement of Cash Flows." The accounting for share-based payments under SFAS No. 123R is similar to the fair value method in SFAS No. 123, except that we will be required to recognize the fair value of share-based payments as compensation expense in our financial statements (pro forma disclosure will no longer be allowed).

Note 10. Impact of Recent Accounting Pronouncements (Continued)

Under SFAS No. 123R, we will be required to determine the fair value of employee stock options using an option pricing model, and the value of non-vested stock awards will be based on the fair market value of our stock on the date we grant the award, without regard to service or performance conditions (as defined in the Statement). In addition to recognizing compensation cost for stock options and awards, we will be required to recognize compensation cost related to our employee stock purchase plan. We will not be required to recognize compensation cost for options or awards that do not vest as a result of a failure to satisfy service or performance conditions. The determination of the fair value of options or awards under SFAS No. 123R may also be affected by "market conditions" or "other conditions" (as defined in the Statement). However, recognition of compensation expense will not be affected by the failure to satisfy a market or other condition.

The period over which we will be required to recognize compensation expense related to an option or award will be determined based on all the terms of the option or award. For options or awards with graded vesting based on a service condition (portions of the option or award vest ratably over the service period), we will be required to elect either a straight-line recognition method or the accelerated method specified in FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans."

Under SFAS No. 123R, we will be required to present cash flows for excess tax benefits related to share-based payments as financing cash flows in our consolidated statements of cash flows, instead of as operating cash flows, as currently permitted under EITF Issue No. 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option."

Under the provisions of SFAS No. 123R, we would have been required to adopt SFAS No. 123R as of the beginning of the third quarter of Fiscal 2006 for options and awards granted after the date of adoption. On April 15, 2005, the Securities and Exchange Commission ("SEC") issued a rule entitled "Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Financial Accounting Standards No. 123 (revised 2004), Share-based Payment." This rule amended the date we are required to adopt SFAS No. 123R to the beginning of Fiscal 2007.

We will be required to adopt one of two alternative transition methods as of the date of adoption of SFAS No. 123R. Under the modified-prospective-transition method, for unvested options and awards granted prior to the date of adoption, we will be required to recognize compensation expense in our financial statements in accordance with the provisions of SFAS No. 123, adjusted to reflect estimated forfeitures in accordance with the provisions of SFAS No. 123R. We will also recognize a cumulative effect of a change in accounting principle as of the date of adoption to reflect the reversal of any compensation expense for periods prior to the date of adoption for such estimated forfeitures, if material. Under the modified-retrospective-transition method, we will also have the option to restate our financial statements for periods prior to adoption presented for comparative purposes, to recognize compensation cost previously reported in our pro forma footnote disclosures in accordance with SFAS No. 123. We will be required to apply the provisions of SFAS No. 123R related to cash flow reporting prospectively from the date of adoption under the modified-prospective-transition method, and retrospectively for the same periods for which the modified-retrospective-transition method is applied.

Note 10. Impact of Recent Accounting Pronouncements (Continued)

Our adoption of SFAS No. 123R will result in the recognition of additional compensation expense for stock-based compensation in periods subsequent to January 28, 2006. Because we are not able to reliably estimate the nature and amounts of stock-based awards to be issued in future periods, the future impact of adoption cannot be quantified. See "Note 1. Condensed Consolidated Financial Statements" above for pro forma disclosure of stock-based compensation expense determined in accordance with the provisions of SFAS No. 123 for the Fiscal 2006 First Quarter and the Fiscal 2005 First Quarter. We have not yet determined whether we will adopt the modified-prospective-transition method or the modified-retrospective-transition method.

Note 11. Subsequent Event

On May 19, 2005, we announced that we had entered into a definitive agreement to acquire Crosstown Traders, Inc. ("Crosstown"), 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. The acquisition was approved by our Board of Directors and, subject to regulatory approval and certain closing conditions, we expect to complete the transaction during the Fiscal 2006 Second Quarter. On May 24, 2005, we received notice that the waiting period under the Hart-Scott-Rodino Act was terminated.

Under terms of the agreement, we will pay approximately $218 million in cash for Crosstown, plus the assumption of Crosstown's debt. In conjunction with the closing of the transaction, we plan to securitize a substantial portion of Crosstown's accounts receivable under a new conduit funding facility established specifically for funding the Crosstown receivables. We expect the proceeds from the securitization to approximate the amount of Crosstown's indebtedness, which will be retired at closing.

We will finance the transaction with existing cash and borrowings under our existing revolving credit facility. Concurrent with this transaction, we are negotiating with our lenders for an amended committed credit facility in the amount of $375 million for a period of five years. We expect the new facility to provide additional liquidity on significantly improved terms compared to our current $300 million revolving credit facility, which is scheduled to expire in August 2008. We expect the amended facility to be in place by the end of the Fiscal 2006 Second Quarter.

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

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes included in Item 1 of this report. It should also be read in conjunction with the management's discussion and analysis of financial condition and results of operations, financial statements, and accompanying notes appearing in our Annual Report on Form 10-K for the fiscal year ended January 29, 2005. As used in this management's discussion and analysis, the terms "Fiscal 2006" and "Fiscal 2005" refer to our fiscal year ending January 28, 2006 and our fiscal year ended January 29, 2005, respectively. The terms "Fiscal 2006 First Quarter" and "Fiscal 2005 First Quarter" refer to the thirteen weeks ended April 30, 2005 and May 1, 2004, respectively. The term "Fiscal 2006 Second Quarter" refers to the thirteen weeks ending July 30, 2005. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, its 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, proposed acquisitions, 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 are 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 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 being able 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 apparel and accessories in the future.

- Our business could be negatively affected by a deflationary pricing environment in the apparel industry.

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

- We may be unable to successfully complete the acquisition of Crosstown Traders, Inc. or the related financing arrangements, or to successfully integrate the operations of Crosstown Traders, Inc. with the operations of Charming Shoppes, Inc. In addition, we cannot assure the successful implementation of our business plan for Crosstown Traders, Inc.

- We cannot assure the successful implementation of our business plan for increased profitability and growth in our plus-size women's apparel business.

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

- We depend on 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 centers and could incur significantly higher costs and longer lead times associated with distributing our products to our stores if operations at any of these distribution 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 facility. If we were unable to obtain sufficient financing at an affordable cost, our ability to merchandise our stores would be adversely affected.

- 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 stores 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.

- 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 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.

- Our manufacturers may be unable to manufacture and deliver merchandise to us in a timely manner or to meet our quality standards.

- Our sales are dependent upon a high volume of traffic in the strip centers and malls in which our stores are located, and our future growth is dependent upon the availability of suitable locations for new stores.

- We may be unable to successfully implement our plan to improve merchandise assortments in our brands.

- The carrying amount and/or useful life of intangible assets related to acquisitions are subject to periodic valuation tests. An adverse change in interest rates or other factors could have a significant impact on the results of the valuation tests, resulting in a write-down of the carrying value or acceleration of amortization of acquired intangible assets.

- 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.

RESTATEMENT OF FINANCIAL STATEMENTS

In the Fiscal 2005 Fourth Quarter, we restated our financial statements for the prior quarters of Fiscal 2005 to correct our accounting for landlord allowances, calculation of straight-line rent expense, recognition of rent holiday periods, and depreciation of leasehold improvements for our retail stores. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; RESTATEMENT OF FINANCIAL STATEMENTS" of our Report on Form 10-K for the fiscal year ended January 29, 2005 for additional details regarding the restatement.

Prior to the restatement, we classified construction allowances received from landlords in connection with our store leases as a reduction of property, equipment, and leasehold improvements on our consolidated balance sheets and as a reduction of capital expenditures on our consolidated statements of cash flows. In addition, when accounting for leases with renewal options, we historically recorded rent expense on a straight-line basis over the initial non-cancelable lease term, beginning with the lease commencement date. However, we depreciated leasehold improvements over their estimated useful life of ten years, which, in many cases, may have included both the initial non-cancelable lease term and option renewal periods provided for in the lease. Also, we historically recognized rent holiday periods on a straight-line basis over the lease term commencing with the initial occupancy date instead of the date we took possession of the leased space for construction purposes, which is generally two months prior to a store opening date.

As a result of the restatement, we record construction allowances as a deferred rent liability on our consolidated balance sheets rather than as a reduction of the cost of leasehold improvements, and recognize construction allowances as an operating activity in our consolidated statements of cash flows rather than as a reduction of our investment in capital assets. In addition, we amortize construction allowances over the related lease term as a reduction of rent expense rather than as a reduction of depreciation expense, commencing on the date we take possession of the leased space for construction purposes. The lease term we use to record straight-line rent expense and depreciation of leasehold improvements includes lease option renewal periods only in instances in which the exercise of the option period is reasonably assured and the failure to exercise such an option would result in an economic penalty. We depreciate leasehold improvements over the shorter of the lease term or the assets' estimated useful lives. The lease terms we use to determine straight-line rent expense include pre-opening store build-out periods (commonly referred to as "rent holidays"), where applicable. These corrections resulted in the accelerated recognition of certain annual rent expense and depreciation expense on leasehold improvements, which are included in "cost of goods sold, buying, and occupancy expenses" on the consolidated statements of operations and comprehensive income.

See "Item 1. Financial Statements; NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 2. Restatement of Financial Statements" above for the effect of the restatement on our results of operations and cash flows for the Fiscal 2005 First Quarter.

CRITICAL ACCOUNTING POLICIES

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 29, 2005. Except as otherwise disclosed in the financial statements and accompanying notes included in this report, there were no material changes in our critical accounting policies or in the assumptions or estimates we used to prepare the financial information appearing in this report.

RECENT DEVELOPMENTS

On May 19, 2005, we announced that we had entered into a definitive agreement to acquire Crosstown Traders, Inc. ("Crosstown"), 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. The acquisition was approved by our Board of Directors and, subject to regulatory approval and certain closing conditions, we expect to complete the transaction during the Fiscal 2006 Second Quarter. On May 24, 2005, we received notice that the waiting period under the Hart-Scott-Rodino Act was terminated. This acquisition is a major step in our long-term growth strategy of becoming a multi-channel retailer, and we expect it to be accretive to our earnings per share beginning in Fiscal 2006. The acquisition is also a key step in our preparation for the launch of our own catalog for the Lane Bryant brand in October 2007, when the Lane Bryant catalog trademark reverts to us.

Under terms of the agreement, we will pay approximately $218 million in cash for Crosstown, plus the assumption of Crosstown's' debt. In conjunction with the closing of the transaction, we plan to securitize a substantial portion of Crosstown's accounts receivable under a new conduit funding facility established specifically for funding the Crosstown receivables. We expect the proceeds from the securitization to approximate the amount of Crosstown's indebtedness, which will be retired at closing.

We will finance the transaction with existing cash and borrowings under our existing revolving credit facility. Concurrent with this transaction, we are negotiating with our lenders for an amended committed credit facility in the amount of $375 million for a period of five years. We expect the new facility to provide additional liquidity on significantly improved terms compared to our current $300 million revolving credit facility, which is scheduled to expire in August 2008. We expect the amended facility to be in place by the end of the Fiscal 2006 Second Quarter.

Crosstown Traders, Inc. operates eleven catalog titles, with 2004 revenues of approximately $460 million. The majority of Crosstown's revenues are derived from the catalog sales of women's apparel, of which plus-sizes is an important component, as well as footwear and accessories. We plan to continue operating Crosstown as a separate operation, which will remain at its Tucson, Arizona headquarters.

RESULTS OF OPERATIONS

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

	Thirteen Weeks Ended		Percentage Change From Prior Period
	April 30, 2005	May 1, 2004 (Restated)	
Net sales	100.0%	100.0%	1.8%
Cost of goods sold, buying, and occupancy expenses	66.9	67.8	0.5
Selling, general, and administrative expenses	25.0	25.1	1.6
Income from operations	8.0	7.2	14.3
Other income, principally interest	0.5	0.1	614.5
Interest expense	0.7	0.7	1.1
Income tax provision	2.9	2.1	36.9
Net income	5.0	4.4	14.4

The following table shows our net sales by store brand:

(In millions)	Thirteen Weeks Ended	
	April 30, 2005	May 1, 2004
FASHION BUG(R)	$ 256.8	$ 262.3
LANE BRYANT(R)	257.3	246.6
CATHERINES(R)	89.2	83.8
Total net sales	$ 603.3	$ 592.7

17

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

	Thirteen Weeks Ended April 30, 2005	Thirteen Weeks Ended May 1, 2004
Increase (decrease) in comparable store sales(1):		
Consolidated Company	0%	5%
FASHION BUG	(2)	7
LANE BRYANT	0	5
CATHERINES	4	(3)
Sales from new stores and E-commerce as a percentage of total consolidated prior-period sales:		
FASHION BUG	1	1
LANE BRYANT	4	3
CATHERINES	1	1
Prior-period sales from closed stores as a percentage of total consolidated prior-period sales:		
FASHION BUG	(2)	(2)
LANE BRYANT	(2)	(1)
CATHERINES	0	(1)
Increase (decrease) in total sales	2	5

The following table sets forth information with respect to our store activity for the first quarter of Fiscal 2006 and planned store activity for all of Fiscal 2006 (including the first quarter of Fiscal 2006):

	FASHION BUG	LANE BRYANT	CATHERINES	Total
Fiscal 2006 Year-to-Date:				
Stores at January 29, 2005	1,028	722	471	2,221
Stores opened	4	8	4	16
Stores closed	(5)	(0)	(2)	(7)
Net change in stores	(1)	8	2	9
Stores at April 30, 2005	1,027	730	473	2,230
Stores relocated during period	4	8	4	16
Fiscal 2006:				
Planned store openings	15	45-50	5	65-70
Planned store closings	20	15	15	50
Planned store relocations	25	40	15	80

Comparison of Thirteen Weeks Ended April 30, 2005 and May 1, 2004

Net Sales

The increase in net sales from the Fiscal 2005 First Quarter to the Fiscal 2006 First Quarter was primarily the result of sales from new LANE BRYANT stores, increased E-commerce sales, and an increase in comparable store sales at our CATHERINES brand. Sales for all of our brands, particularly in the Northeast and Mid-Atlantic regions, were affected by an unseasonably cool spring, which negatively impacted sales of our spring assortments. We operated 2,230 retail stores at the end of the Fiscal 2006 First Quarter, as compared to 2,233 stores at the end of the Fiscal 2005 First Quarter.

Although LANE BRYANT's comparable store sales were flat for the quarter, total net sales for the brand increased as the result of sales from new stores and an increase in E-commerce sales. An increase in the average dollar sale per transaction was offset by a slight decrease in traffic levels during the current-year quarter. The average dollar sale per transaction increased as a result of an improved average retail value per unit sold that was partially offset by a decrease in the average number of units sold per customer ("UPC").

FASHION BUG's negative comparable store sales performance was a result of weaker store traffic levels during the current-year quarter, partially offset by a higher average dollar sale per transaction. The average dollar sale per transaction reflected an increase in the average retail value per unit sold and a slight increase in the average UPC. FASHION BUG's net sales for the Fiscal 2006 First Quarter benefited from an increase in E-commerce sales. FASHION BUG commenced E-commerce operations in July 2004.

CATHERINES' comparable store sales benefited from an improved customer response to the brand's Spring merchandise offerings as compared to the Fiscal 2005 First Quarter. CATHERINES stores experienced increased traffic levels during the current-year period, which were partially offset by a slight decrease in the average dollar sale per transaction. The average dollar sale per transaction for the quarter reflected a slight decrease in the average retail value per unit sold and a flat UPC.

We offer our customers various loyalty card programs. Customers who join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers 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 2006 First Quarter and Fiscal 2005 First Quarter, we recognized revenues of $3.2 million and $3.3 million, respectively, in connection with our loyalty card programs.

Cost of Goods Sold, Buying, and Occupancy

Cost of goods sold, buying, and occupancy expenses decreased 0.9% as a percentage of sales from the Fiscal 2005 First Quarter to the Fiscal 2006 First

Quarter, reflecting improved merchandise margins at our LANE BRYANT and CATHERINES brands and leverage on relatively fixed occupancy costs. Cost of goods sold as a percentage of net sales was 0.7% lower in the Fiscal 2006 First Quarter as compared to the Fiscal 2005 First Quarter as a result of reduced markdowns and lower inventory levels in the current-year period. Cost of goods sold includes merchandise costs net of discounts and allowances, freight, inventory shrinkage, and shipping and handling costs associated with our e-commerce business. Net merchandise costs and freight are capitalized as inventory costs.

Buying and occupancy expenses as a percentage of net sales were 0.2% lower in the Fiscal 2006 First Quarter as compared to the Fiscal 2005 First Quarter, primarily as a result of leverage from increased net sales on relatively fixed occupancy costs. Buying expenses include payroll, payroll-related costs, and operating expenses for our buying departments and warehouses. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities, maintenance, and depreciation for our stores and warehouse facilities and equipment. Buying and occupancy costs are treated as period costs and are not capitalized as part of inventory.

Selling, General, and Administrative

Selling, general, and administrative expenses were higher in the Fiscal 2006 First Quarter as compared to the Fiscal 2005 First Quarter, but were 0.1% lower as a percentage of net sales. The increase was primarily a result of higher expenses related to incentive-based employee compensation and employee benefit programs. Selling expenses were positively affected by improved performance of our proprietary credit card operations, which benefited from the acquisition of the CATHERINES credit card portfolio as well as continued favorable experience in delinquencies during the Fiscal 2006 First Quarter. Our previous Merchant Services Agreement provided to us the ability to purchase the CATHERINES portfolio at par value. The purchase of the portfolio at par and the subsequent securitization of the purchased portfolio resulted in the recognition of a benefit of approximately $2 million, which is included in the Fiscal 2006 First Quarter selling expenses. Selling expenses for the Fiscal 2006 First Quarter were 0.5% lower as a percentage of sales, while general and administrative expenses were 0.4% higher as a percentage of net sales.

Other Income

Interest income increased $1.2 million from the Fiscal 2005 First Quarter to the Fiscal 2006 first quarter as a result of both higher interest rates and higher levels of invested cash and cash equivalents in the Fiscal 2006 First Quarter. Other income for the Fiscal 2006 First Quarter also included a pre-tax gain of $1.2 million from the sale of certain facilities owned by our Hong Kong sourcing operations.

Income Tax Provision

The effective income tax rate was 36.7% in the Fiscal 2006 First Quarter, as compared to 32.6% in the Fiscal 2005 First Quarter. The lower effective tax rate for the Fiscal 2005 First Quarter was primarily a result of finalizing certain prior-year tax audits.

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:

(Dollars in millions)	April 30, 2005	January 29, 2005
Cash and cash equivalents	$ 254.8	$ 273.0
Working capital	$ 441.3	$ 414.0
Current ratio	2.3	2.4
Long-term debt to equity ratio	27.5%	30.0%

20

Our net cash provided by operating activities was $35.8 million for the Fiscal 2006 First Quarter, as compared to $37.7 million for the Fiscal 2005 First Quarter. A $3.8 million increase in net income before non-cash charges and a $0.5 million tax benefit related to compensation expense under our stock plans in the Fiscal 2006 First Quarter were offset by an increase in net cash used for operating assets and liabilities. Our net investment in inventories increased by $9.8 million in the Fiscal 2006 First Quarter as compared to the Fiscal 2005 First Quarter, primarily a result of a normal seasonal build-up of Spring inventories, while net cash used by other operating assets and liabilities decreased by $3.6 million.

Acquisitions

Subsequent to the end of the Fiscal 2006 First Quarter, we announced that we had entered into a definitive agreement to acquire Crosstown Traders, Inc. (see "RECENT DEVELOPMENTS" above for further details of this agreement).

Capital Expenditures

Our capital expenditures were $17.7 million during the Fiscal 2006 First Quarter. During the remainder of Fiscal 2006, we anticipate incurring additional capital expenditures of approximately $75 - $85 million, primarily for the construction and fixturing of new stores, remodeling and fixturing of existing stores, and improvements in information technology. 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. Additionally, our existing credit facility prohibits the payment of dividends on our common stock.

Off-Balance-Sheet Financing

Spirit of America National Bank (our wholly-owned credit card bank) transfers its interest in credit card receivables created under our FASHION BUG and CATHERINES proprietary credit card programs to the Charming Shoppes Master Trust (the "Trust") through a special-purpose entity. The Trust is an unconsolidated qualified special purpose entity. The Trust 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 Trust makes principal payments to the parties that have entered into the securitization agreement with the Trust.

As of April 30, 2005, the Trust had the following securitization facilities outstanding:

(Dollars in millions)	Series 1999-2	Series 2002-1	Series 2004	Seri
Date of facility..................	May 1999	November 2002	January 2004	Aug
Type of facility..................	Conduit	Term	Conduit	
Maximum funding...................	$50.0	$100.0	$100.0(2)	
Funding as of April 30, 2005......	$12.7	$100.0	$0.0	
First scheduled principal payment.	Not applicable	August 2007	Not applicable	Ap
Expected final principal payment..	Not applicable(1)	May 2008	Not applicable(1)	Ma
Renewal...........................	Annual	Not applicable	Annual	Not

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The remaining $15.8 million of principal on our Series 1999-1 securitization was amortized in the Fiscal 2006 First Quarter. We funded this remaining amortization with a portion of the proceeds available from Series 2004-1. In addition, we used $56.6 million of funds from our securitization facilities, including a portion of the proceeds available from Series 2004-1, to fund the acquisition of the CATHERINES proprietary credit card portfolio in March 2005 (see below).

As these credit card receivables securitizations reach maturity, we plan to obtain funding for the FASHION BUG and CATHERINES proprietary credit card programs through additional securitizations. 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 $151.5 million of private label credit card receivables in the Fiscal 2006 First Quarter and had $303.9 million of securitized credit card receivables outstanding as of April 30, 2005. We held certificates and retained interests in our securitizations of $63.0 million as of April 30, 2005, which were generally subordinated in right of payment to certificates issued by the Trust to third-party investors. Our obligation to repurchase receivables sold to the Trust is limited to those receivables that, at the time of their transfer, fail to meet the Trust'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") and Charming Shoppes Seller, Inc., our consolidated wholly-owned indirect subsidiaries, are separate special-purpose entities created for the securitization program. As of April 30, 2005, CSRC held $10.1 million of Charming Shoppes Master Trust certificates and retained interests and Charming Shoppes Seller, Inc. held retained interests of $12.8 million (which are included in the $84.6 million of short-term available-for-sale securities we held at April 30, 2005). 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 Charming Shoppes Master Trust. Additionally, 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 April 30, 2005, there were no reallocated collections as the result of a failure to meet these financial performance standards.

In addition to the above, we could be affected by certain other events that would cause the Trust to hold proceeds of receivables, which would otherwise be available to be paid to us with respect to our subordinated interests, within the Trust as additional enhancement. For example, if we fail or the Trust fails to meet certain financial performance standards, a credit enhancement condition would occur and the Trust would be required to retain amounts otherwise payable to us. In addition, the failure to satisfy certain financial performance standards could further cause the Trust to stop using collections on Trust assets to purchase new receivables, and would require such collections to be used to repay investors on a prescribed basis, as provided in the Trust 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 April 30, 2005, the Trust was 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 Trust, other than for breaches of customary representations, warranties, and covenants and for customary indemnities. These representations, warranties, covenants, and indemnities do not protect the Trust or investors in the Trust against credit-related losses on the receivables. The providers of the credit enhancements and Trust investors have no other recourse to us.

These securitization agreements are intended to improve our overall liquidity by providing short-term sources of funding. 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. Additional information regarding our asset securitization facility 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 16. Asset Securitization" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2005.

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 brand. 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 repurchase the receivables portfolio from the third party and operate the facility.

As of January 29, 2005, we also had a similar non-recourse agreement, which was scheduled to expire in March 2005, for our CATHERINES brand. In accordance with the terms of the Merchant Services Agreement pursuant to which the CATHERINES proprietary credit cards were issued, we gave the requisite notice of our intent to exercise our option to purchase the CATHERINES portfolio upon the expiration of the agreement. In March 2005, Spirit of America National Bank purchased the CATHERINES credit card portfolio for approximately $56.6 million (subject to adjustment). The purchase was funded through our securitization facilities, including a portion of the proceeds from the sale of certificates under our Series 2004-1 securitization facility.

Additional information regarding the LANE BRYANT and CATHERINES agreements 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 16. Asset Securitization" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2005.

23

In conjunction with the agreement to acquire Crosstown Traders, Inc. (see "RECENT DEVELOPMENTS" above), we plan to securitize a substantial portion of Crosstown's accounts receivable. The securitization funding will be provided by a new conduit funding facility that we put in place subsequent to April 30, 2005, which provides up to $55.0 million in funding. This new facility has been established with an initial term of one year specifically for funding the Crosstown accounts receivable and is separate and distinct from the Trust. We expect the proceeds from the securitization to approximate the amount of Crosstown's indebtedness, which will be retired at the closing of the acquisition.

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 17. Leases" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2005.

FINANCING

Revolving Credit Facility

We have a $300.0 million revolving credit facility (the "Facility") that provides for cash borrowings and enables us to issue up to $150.0 million of letters of credit for purchases of merchandise and for standby letters of credit. As of April 30, 2005, there were no borrowings outstanding under the Facility. The availability of borrowings under the Facility is subject to limitations based on eligible inventory and, under certain circumstances, credit card receivables and in-transit cash. The Facility is secured by our general assets, except for (i) all assets related to our credit card securitization facility, (ii) all real property, (iii) certain equipment subject to other mortgages or capital leases, (iv) the assets of our non-U.S. subsidiaries, and (v) certain other assets. The Facility expires on August 15, 2008. As of April 30, 2005, we had $3.0 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. As a result of the acquisition of Crosstown Traders subsequent to April 30, 2005 (see "RECENT DEVELOPMENTS" above), eligible inventory and the corresponding availability of borrowings under the Facility will increase.

The interest rate on borrowings under the Facility ranges from Prime to Prime plus .50% per annum for Prime Rate Loans, and LIBOR plus 1.50% to LIBOR plus 2.00% per annum for Eurodollar Rate Loans. The applicable rate is determined quarterly, based on our average excess and suppressed availability, as defined in the Facility. As of April 30, 2005, the interest rate on borrowings under the Facility was 5.75% for Prime Rate Loans and 4.56% for Eurodollar Rate Loans.

The Facility includes limitations on sales and leasebacks, the incurrence of additional liens and debt, capital lease financing, and other limitations. The Facility also requires, among other things, that we not pay dividends on our common stock and, if our excess and suppressed availability (as defined in the Facility) is less than $50.0 million at any time within a fiscal quarter, that we maintain a minimum level of consolidated 12-month earnings before interest, taxes, depreciation, and amortization ("EBITDA") (excluding non-recurring, non-cash charges as defined in the Facility). During the Fiscal 2006 First Quarter, our excess and suppressed availability was above $50.0 million at all times. As of April 30, 2005, we were not in violation of any of the covenants included in the Facility.

We expect to finance the acquisition of Crosstown Traders, Inc. (see "RECENT DEVELOPMENTS" above) with existing cash and borrowings under our existing revolving credit facility. Concurrent with the acquisition, we are negotiating with our lenders for an amended committed credit facility in the amount of $375 million for a period of five years. We expect the new facility to provide additional liquidity on significantly improved terms compared to our current $300 million revolving credit facility. We expect the amended facility to be in place by the end of the Fiscal 2006 Second Quarter.

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 7. Debt" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2005.

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 and CATHERINES 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 Trust. The finance charges on most of our FASHION BUG proprietary credit card accounts are billed using a floating-rate index (the Prime rate), subject to a floor and limited by legal maximums. The finance charges on most of our CATHERINES proprietary credit card 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 April 30, 2005, 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 hedge agreements with respect to $161.1 million of Series 2004-1certificates and $89.5 million of Series 2002-1 fixed-rate certificates, 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 2006, an increase of approximately $136 thousand in selling, general, and administrative expenses would result.

As of April 30, 2005, there were no borrowings outstanding under our revolving credit facility. To the extent that there are borrowings outstanding under our revolving credit facility, such borrowings would be exposed to variable interest rates. An increase in market interest rates would increase our interest expense and decrease our cash flows. Conversely, a decrease in market interest rates would decrease our interest expense and increase our cash flows.

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 10. 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 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. Furthermore, there has been no change in our internal control over financial reporting that occurred during the period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) 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)

January 30, 2005 through February 26, 2005......	20,746(1)	$8.04	-	-
February 27, 2005 through April 2, 2005..........	1,360(1)	8.95	-	-
April 3, 2005 through April 30, 2005.........	-	-	-	-
Total.....................	22,106	$8.09	-	-

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 parenthesis.

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.

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: May 26, 2005

/S/ DORRIT J. BERN
Dorrit J. Bern
Chairman of the Board
President and Chief Executive Officer

Date: May 26, 2005

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

Exhibit Index

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