CHARMING SHOPPES INC
Form 10-Q
May 28, 2004

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 May 1, 2004

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 25, 2004, was 115,037,969 shares.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)	May 1, 2004 (Unaudited)	January 31 2004
ASSETS		
Current assets		
Cash and cash equivalents	$ 145,324	$ 123,781
Available-for-sale securities	59,214	55,688
Merchandise inventories	356,441	309,995
Deferred taxes	19,861	19,902
Prepayments and other	75,693	57,494
Total current assets	656,533	566,860
Property, equipment, and leasehold improvements - at cost	713,413	705,257
Less accumulated depreciation and amortization	396,207	386,633
Net property, equipment, and leasehold improvements	317,206	318,624
Trademarks and other intangible assets	170,313	170,478
Goodwill	66,956	66,956
Available-for-sale securities	15,480	14,521
Other assets	28,096	27,440
Total assets	$ 1,254,584	$ 1,164,879
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 173,329	$ 135,777
Accrued expenses	146,523	138,166
Income taxes payable	13,129	1,128
Current portion - long-term debt	23,035	17,278
Accrued expenses related to cost reduction plan	2,531	2,596
Total current liabilities	358,547	294,945
Deferred taxes and other non-current liabilities	60,168	62,030
Long-term debt	196,835	202,819
Stockholders' equity		
Common Stock $.10 par value:		
Authorized - 300,000,000 shares		
Issued - 127,057,083 shares and 125,526,573 shares, respectively	12,706	12,553
Additional paid-in capital	213,077	201,798

Treasury stock at cost - 12,265,993 shares	(84,136)	(84,136
Deferred employee compensation	(7,035)	(2,539
Accumulated other comprehensive loss	(280)	(365
Retained earnings	504,702	477,774
Total stockholders' equity	639,034	605,085
Total liabilities and stockholders' equity	$ 1,254,584	$ 1,164,879

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

(In thousands, except per share amounts)	Thirteen Weeks Ende	
	May 1, 2004	May 3 2003
Net sales	$ 592,738	$ 564,2
Cost of goods sold, buying, and occupancy expenses	400,387	395,4
Selling, general, and administrative expenses	148,850	145,2
Expenses related to cost reduction plan	0	4,4
Total operating expenses	549,237	545,1
Income from operations	43,501	19,1
Other income, principally interest	394	4
Interest expense	(3,883)	(3,8
Income before income taxes and minority interest	40,012	15,7
Income tax provision	13,084	6,1
Income before minority interest	26,928	9,6
Minority interest in net loss of consolidated subsidiary	0	
Net income	26,928	9,6
Other comprehensive income, net of tax:		
Unrealized gains (losses) on available-for-sale securities, net of income tax (provision) benefit of $(21) and $24, respectively	11	(
Reclassification of amortization of deferred loss on termination of derivative, net of income taxes of $(40) and $(46), respectively	74	

Total other comprehensive income, net of taxes	85	
Comprehensive income	$ 27,013	$ 9,7
Basic net income per share	$ .24	$.
Diluted net income per share	$ .22	$.

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

(In thousands)	Thirteen Weeks Ended May 1, 2004	Thirteen Weeks Ended May 3, 2003
Operating activities		
Net income	$ 26,928	$ 9,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,007	19,270
Deferred income taxes	(1,536)	(1,025)
Other, net	373	694
Changes in operating assets and liabilities:		
Merchandise inventories	(46,446)	(55,976)
Accounts payable	37,552	58,449
Prepayments and other	(18,199)	(3,874)
Accrued expenses and other	8,011	(15,143)
Income taxes payable	12,001	6,903
Accrued expenses related to cost reduction plan	(65)	1,581
Net cash provided by operating activities	35,626	20,568
Investing activities		
Investment in capital assets	(9,825)	(13,325)
Proceeds from sales of available-for-sale securities	10,231	8,888
Gross purchases of available-for-sale securities	(14,684)	(14,669)
Increase in other assets	(2,021)	(2,562)
Net cash used in investing activities	(16,299)	(21,668)
Financing activities		
Proceeds from short-term borrowings	57,052	81,172
Repayments of short-term borrowings	(57,052)	(81,172)
Repayments of long-term borrowings	(4,126)	(3,382)

Proceeds from issuance of common stock	6,342	85
Net cash provided by (used in) financing activities ..	2,216	(3,297)
Increase (decrease) in cash and cash equivalents	21,543	(4,397)
Cash and cash equivalents, beginning of period	123,781	102,026
Cash and cash equivalents, end of period	$ 145,324	$ 97,629
Non-cash financing and investing activities		
Equipment acquired through capital leases	$ 3,899	$ 4,836

See Notes to Condensed Consolidated Financial Statements

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 May 1, 2004, and our condensed consolidated statements of operations and comprehensive income and cash flows for the thirteen weeks ended May 1, 2004 and May 3, 2003, without audit. In our opinion, we have made all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position at May 1, 2004, and the results of our operations and cash flows for the thirteen weeks ended May 1, 2004 and May 3, 2003. 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 should be read in conjunction with our financial statements and related notes included in our January 31, 2004 Annual Report on Form 10-K. The results of operations for the thirteen weeks ended May 1, 2004 and May 3, 2003 are not necessarily indicative of operating results for the full fiscal year.

As used in these notes, the terms "Fiscal 2005" and "Fiscal 2004" refer to our fiscal year ending January 29, 2005 and our fiscal year ended January 31, 2004, respectively. The terms "Fiscal 2005 First Quarter" and "Fiscal 2004 First Quarter" refer to the thirteen weeks ended May 1, 2004 and May 3, 2003, respectively. 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 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 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.

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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, 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 Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation":

	Thirteen Weeks Ended	
(In thousands, except per share amounts)	May 1, 2004	May 3, 2003
Net income as reported	$ 26,928	$ 9,689
Add stock-based employee compensation using intrinsic value method, net of income taxes	387	270
Less stock-based employee compensation using fair value method, net of income taxes	(841)	(989)
Pro forma net income	$ 26,474	$ 8,970
Basic net income per share:		
As reported..	$. 24	$ .09
Pro forma..	. 23	.08
Diluted net income per share:		
As reported..	. 22	.08
Pro forma..	. 21	.08

Note 2. Trademarks and Other Intangible Assets

(In thousands)	May 1, 2004	January 31, 2004
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	1,787	1,622
Net trademarks and other intangible assets	$170,313	$170,478

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

Note 3. Long-term Debt

(In thousands)	May 1, 2004	January 31, 2004
4.75% Senior Convertible Notes due 2012	$150,000	$150,000
Capital lease obligations	38,520	37,934
6.53% mortgage note	11,900	12,250
7.77% mortgage note	9,923	10,039
7.5% mortgage note	5,783	5,840
8.15% note	2,164	2,494
Other long-term debt	1,580	1,540
Total long-term debt	219,870	220,097
Less current portion	23,035	17,278
Long-term debt	$196,835	$202,819

Note 4. Stockholders' Equity

(In thousands)	Thirteen Weeks Ended May 1, 2004
Total stockholders' equity, beginning of period	$605,085
Net income	26,928
Issuance of common stock	6,342
Amortization of deferred compensation expense	594
Amortization of deferred loss on termination of derivative, net of tax	74
Unrealized gains on available-for-sale securities, net of tax	11
Total stockholders' equity, end of period	$639,034

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Note 5. 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 we incur in connection with administering these programs as cost of goods sold when incurred.

Note 5. Customer Loyalty Card Programs (Continued)

During the Fiscal 2004 First Quarter, we introduced a new FASHION BUG(R) customer loyalty card program that we operate under our FASHION BUG proprietary credit card program. Like our other loyalty programs, this program entitles customers to various rebates, discounts, and other benefits upon payment of an annual membership fee. This program also provides customers with the option to cancel their membership within 90 days, entitling them to a full refund of their annual fee. Additionally, after 90 days, customers that cancel their membership are entitled to a pro rata fee refund based on the number of months remaining on the annual membership. Accordingly, we recognize 25% of the annual membership fee as revenue after 90 days, with the remaining fee recognized on a pro rata basis over nine months. During the Fiscal 2005 First Quarter, we recognized revenues of $1,415,000 in connection with this program. No revenues were recognized during the Fiscal 2004 First Quarter. As of May 1, 2004 and January 31, 2004, we accrued $803,000 and $1,200,000, respectively, for the estimated costs of discounts earned and coupons issued and not redeemed.

Under a previous FASHION BUG store loyalty card program, we recognized revenues from annual membership fees as sales over the life of the membership based on discounts earned by the customer. For customers who did not earn discounts during the membership period that exceeded the card fee, the difference between the membership fee and discounts earned was recognized as revenue upon the expiration of the annual membership period. Upon early cancellation of the loyalty card, refunds of membership fees were reduced by the amount of any discounts granted to the member under the program. During the Fiscal 2004 First Quarter, we recognized revenues of $4,173,000 in connection with this program. We discontinued the issuance of new cards under this program in December 2002, and we terminated the program during the second quarter of Fiscal 2004. Our CATHERINES(R) brand currently offers a similar loyalty program. During the Fiscal 2005 First Quarter and Fiscal 2004 First Quarter, we recognized revenues of $1,849,000 and $1,903,000, respectively, in connection with this program.

Note 6. Expenses Related to Cost Reduction Plan

On March 18, 2003, we announced a cost reduction plan, designed to take

advantage of the centralization of all corporate administrative services throughout the Company and to realize certain efficiencies, in order to improve profitability. We accounted for the plan in accordance with the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The total costs recognized during Fiscal 2004 related to this plan were $11,534,000, with $4,431,000 of the costs recognized during the Fiscal 2004 First Quarter.

Costs incurred during the Fiscal 2004 First Quarter consisted of the following (in thousands):

Workforce reduction costs	$2,409
Lease termination and related costs	301
Acceleration of depreciation of property, equipment, and leasehold improvements	1,363
Other facility closure costs	358
Total costs	$4,431

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

Note 6. Expenses Related to Cost Reduction Plan (Continued)

Workforce reduction costs represent involuntary termination benefits and retention bonuses. Employees affected by the plan were notified during the Fiscal 2004 First Quarter. During the Fiscal 2004 First Quarter, we terminated 118 employees at our corporate and divisional home offices. We accrued the severance benefit in accordance with SFAS No. 146 and recognized retention bonuses ratably over the employees' remaining service period. Lease termination and related costs mainly represent the estimated fair value of the remaining lease obligations at our Hollywood, Florida credit facility, reduced by estimated sublease income. We recognized the present value of the remaining lease obligations, less sublease income, related to the Hollywood facility in June 2003 when we closed the facility.

Accelerated depreciation costs mainly represent the acceleration of depreciation of the net book value of the assets at our Memphis, Tennessee distribution center and our Hollywood, Florida credit facility, which we closed in June 2003, to their estimated fair values. During the Fiscal 2004 First Quarter, we made the decision to sell our Memphis, Tennessee distribution center, and began accelerating the depreciation of the asset to its estimated net realizable value as of its expected cease-use date of June 2003. During the Fiscal 2004 Third Quarter, we began to evaluate alternative uses for the facility, and began to depreciate the then-current carrying amount of the asset over its estimated useful life.

As of May 1, 2004 and January 31, 2004, there were $2,531,000 and $2,596,000, respectively, of accrued lease termination costs related to the closing of the Hollywood facility.

Note 7. Net Income Per Share

(In thousands)	Thirteen Weeks Ended May 1, 2004	Thirteen Weeks Ended May 3, 2003
Basic weighted average common shares outstanding	113,297	112,361
Dilutive effect of assumed conversion of convertible notes	15,182	15,182
Dilutive effect of stock options and awards	1,903	185
Diluted weighted average common shares and equivalents outstanding	130,382	127,728
Net income	$26,928	$ 9,689
Decrease in interest expense from assumed conversion of notes, net of income taxes	1,135	1,099
Net income used to determine diluted net income per share	$28,063	$10,788
Options with weighted average exercise price greater than market price, excluded from computation of net income per share:		
Number of shares (in thousands)	433	11,626
Weighted average exercise price per share	$8.25	$6.07

Note 8. Income Taxes

The effective income tax rate was 32.7% in the Fiscal 2005 First Quarter as compared to 38.9% in the Fiscal 2004 First Quarter. The lower effective tax rate in the Fiscal 2005 First Quarter is primarily the result of finalizing certain prior year tax audits. The higher effective tax rate in the Fiscal 2004 First Quarter was due primarily to a provision for taxes related to one of our insurance programs, which we settled with the Internal Revenue Service during the second half of Fiscal 2004.

Note 9. Impact of Recent Accounting Pronouncements

In January 2003, the FASB issued Financial Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements." A variable interest entity ("VIE") is a corporation, trust, partnership, or other legal entity used for business purposes that either does not have equity investors with substantive voting rights or has equity investors that do not provide sufficient financial resources for the entity to finance its activities without additional subordinated financial support from other parties. Consolidation of a VIE by a variable interest holder is required if the variable

interest holder is subject to a majority of the VIE's risk of loss, is entitled to receive a majority of the VIE's residual returns, or both. The variable interest holder that consolidates the VIE is the primary beneficiary. FIN No. 46 also requires that the primary beneficiary and all other enterprises with a significant variable interest in a VIE provide certain additional disclosures. FIN No. 46 provides certain exceptions to these rules, including qualifying special purpose entities ("QSPEs") subject to the requirements of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

FIN No. 46 is effective for all VIEs created after January 31, 2003. The disclosure provisions of FIN No. 46 apply to financial statements issued after January 31, 2003, regardless of when the VIE was established. For VIEs created before February 1, 2003, the consolidation provisions of FIN No. 46, as originally issued, were to be applied in the first interim or annual reporting period beginning after June 15, 2003. In October 2003, the FASB postponed the implementation date for VIEs created before February 1, 2003 to the first interim or annual period ending after December 15, 2003, provided that the reporting entity has not issued financial statements reporting the VIE in accordance with FIN No. 46. In December 2003, the FASB revised FIN No. 46 to delay the required implementation date for entities that are not special purpose entities ("SPEs"), such as equity method investments in operating companies. Adoption of FIN No. 46 did not have a material impact on our financial position or results of operations.

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 31, 2004. As used in this management's discussion and analysis, the terms "Fiscal 2005," "Fiscal 2004," and Fiscal 2003" refer to our fiscal year ending January 29, 2005 and our fiscal years ended January 31, 2004 and February 1, 2003, respectively. The terms "Fiscal 2005 First Quarter" and "Fiscal 2004 First Quarter" refer to the thirteen weeks ended May 1, 2004 and May 3, 2003, respectively. The terms "Fiscal 2005 Second Quarter," "Fiscal 2005 Third Quarter," and "Fiscal 2005 Fourth Quarter" refer to the thirteen weeks ending July 31, 2004, October 30, 2004, and January 29, 2005, respectively. The term "Fiscal 2006 First Quarter" refers to the thirteen weeks ending April 30, 2005. The term "Fiscal 2004 Third Quarter" refers to the thirteen weeks ended November 1, 2003. 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, 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 gasoline prices could lead to reduced consumer demand for our apparel and accessories in the future.

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

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

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

- 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 any of these distribution centers were to shut down 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 program. If we were unable to obtain sufficient financing at 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, 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.

- 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.

- We may be unable to successfully implement our cost reduction plan described elsewhere in this report.

- 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.

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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 31, 2004. 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.

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
	May 1, 2004	May 3, 2003	
Net sales	100.0%	100.0%	5.0%
Cost of goods sold, buying, and occupancy expenses	67.5	70.1	1.2
Selling, general, and administrative expenses	25.1	25.7	2.5
Expenses related to cost reduction plan	-	0.8	(100.0)
Income from operations	7.3	3.4	127.7
Other income, principally interest	0.1	0.1	(7.1)
Interest expense	0.7	0.7	2.0
Income tax provision	2.2	1.1	113.9
Net income	4.5	1.7	177.9

The following table shows our net sales by store brand:

(In millions)	Thirteen Weeks Ended	
	May 1, 2004	May 3, 2003
FASHION BUG(R)	$262.3	$252.9
LANE BRYANT(R)	246.6	224.9
CATHERINES(R)	83.8	85.7
Monsoon(R)/Accessorize(R)	- (1)	0.8
Total net sales	$592.7	$564.3

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

	Thirteen Weeks Ended	
	May 1, 2004	May 3, 2003
Increase (decrease) in comparable store sales(1):		
Consolidated Company	5%	(6)%
FASHION BUG	7	(3)
CATHERINES	(3)	(2)
LANE BRYANT	5	(11)

Sales from new stores as a percentage of total consolidated prior-period sales:		
FASHION BUG	1	1
CATHERINES	1	1
LANE BRYANT	3	3
Prior-period sales from closed stores as a percentage of total consolidated prior-period sales:		
FASHION BUG	(2)	(5)
CATHERINES	(1)	(3)
LANE BRYANT	(1)	(1)
Increase (decrease) in total sales	5	(11)

The following table sets forth information with respect to our store activity for the Fiscal 2005 First Quarter and planned store activity for all of Fiscal 2005 (including the Fiscal 2005 First Quarter):

	FASHION BUG	LANE BRYANT	CATHERINES	Total
Fiscal 2005 First Quarter:				
Stores at January 31, 2004	1,051	710	466	2,227
Stores opened	1	6	5	12
Stores closed	(1)	(3)	(2)	(6)
Net change in stores	0	3	3	6
Stores at May 1, 2004	1,051	713	469	2,233
Stores relocated during period	7	4	2	13
Stores remodeled during period	1	3		4
Fiscal 2005:				
Planned store openings	5	35	15	55
Planned store closings	25	10	15	50
Planned store relocations	20	20	15	55

Comparison of Thirteen Weeks Ended May 1, 2004 and May 3, 2003

Net Sales

The increase in net sales from the Fiscal 2004 First Quarter to the Fiscal 2005 First Quarter resulted primarily from positive comparable store sales results at our FASHION BUG and LANE BRYANT brands, which were partially offset

by negative comparable store sales results at our CATHERINES brand. We operated 2,233 retail stores at the end of the Fiscal 2005 First Quarter, as compared to 2,245 stores at the end of the Fiscal 2004 First Quarter.

The increase in FASHION BUG comparable store sales exceeded our sales plan for the quarter. FASHION BUG stores experienced stronger traffic levels during the current-year quarter, with the average number of transactions and average number of units sold per customer ("UPC") increasing 9% and 4%, respectively. The stronger traffic levels were partially offset by decreases of 2% in the average dollar sale and 5% in the average retail value per unit sold. FASHION BUG stores experienced increases in sales of misses and plus sportswear, accessories, and intimate apparel, which were partially offset by decreases in sales of junior sportswear and dresses. FASHION BUG store sales also benefited from sales of maternity and girls, two new categories added to the FASHION BUG brand during the fourth quarter of Fiscal 2004.

The increase in LANE BRYANT comparable store sales also exceeded our sales plan for the quarter. LANE BRYANT stores experienced stronger traffic levels during the current-year quarter, with the average number of transactions increasing 6%. The stronger traffic levels were partially offset by decreases of 1% in the average dollar sale and 4% in the average UPC. The average retail value per unit sold increased 3%, reflecting reduced levels of promotional pricing for the brand as compared to the prior-year period. LANE BRYANT experienced comparable store sales increases for the quarter in all merchandise categories, particularly in wear-to-work and accessories. During the second half of Fiscal 2003, the LANE BRYANT brand experienced poor customer acceptance of, and fit and quality issues with, certain of its products. As a result, we had to maintain higher levels of promotional pricing during the Fiscal 2004 First Quarter. Improvements in the merchandise assortments offered at LANE BRYANT resulted in the improved sales performance for the brand during the Fiscal 2005 First Quarter.

CATHERINES stores experienced mixed results in comparable store sales during the Fiscal 2004 First Quarter, and were below our sales plan for the quarter. Traffic levels were down slightly from the prior-year period, with the average number of transactions decreasing 4%. The average dollar sale was flat as compared to the prior-year quarter, with a 2% increase in the average UPC offset by a 2% decrease in the average retail value per unit sold. Increased sales of denim, jewelry, casual wovens, and intimate apparel were offset primarily by decreases in sales of dresses and wear-to-work.

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 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. See "Item 1. Notes To Condensed Consolidated Financial Statements (Unaudited); Note 5. Customer Loyalty Card Program" above for further information on our loyalty card programs.

During the Fiscal 2004 First Quarter, we introduced a new FASHION BUG customer loyalty card program that is being operated under our FASHION BUG proprietary credit card program. During the Fiscal 2005 First Quarter, we recognized revenues of $1.4 million in connection with this loyalty card program. During the Fiscal 2004 First Quarter, no revenues were recognized in connection with this program. During the Fiscal 2005 First Quarter and Fiscal

2004 First Quarter, we also recognized revenues of $1.8 million and $1.9 million, respectively, in connection with our CATHERINES loyalty card program.

In Fiscal 2002, we began a customer loyalty card program for our FASHION BUG store customers. During the Fiscal 2004 First Quarter, we recognized revenues of $4.2 million in connection with this program. As of December 1, 2002, we discontinued the issuance of new cards under this program, and we terminated this program during the Fiscal 2004 Second Quarter.

Cost of Goods Sold, Buying, and Occupancy

The increase in cost of goods sold, buying, and occupancy expenses from the Fiscal 2004 First Quarter to the Fiscal 2005 First Quarter principally reflects the increase in net sales. Cost of goods sold as a percentage of net sales decreased 1.1% from the Fiscal 2004 First Quarter to the Fiscal 2005 First Quarter. All of our brands experienced improvements in merchandise margins. Higher levels of promotional activity at our LANE BRYANT brand, as discussed above, negatively affected merchandise margins in the Fiscal 2004 First Quarter. 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 decreased 1.5% from the Fiscal 2004 First Quarter to the Fiscal 2005 First Quarter. The decrease was primarily a result of leverage on relatively fixed occupancy costs as a result of the increase in net sales. 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 increased from the Fiscal 2004 First Quarter to the Fiscal 2005 First Quarter, but decreased 0.6% as a percentage of net sales. The increase was primarily a result of the increase in net sales, partially offset by continued tight control of store expenses, particularly store payroll. Selling expenses decreased 0.5% as a percentage of net sales. General and administrative expenses decreased 0.1% as a percentage of net sales.

Expenses Related to Cost Reduction Plan

On March 18, 2003, we announced a cost reduction plan designed to take advantage of the centralization of all corporate administrative services throughout the Company and to realize certain efficiencies, in order to improve profitability. See "Item 1. Notes To Condensed Consolidated Financial Statements (Unaudited); Note 6. Expenses Related to Cost Reduction Plan" above and "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 14. Expenses Related to Cost Reduction Plan" in our Annual Report on Form 10-K for the fiscal year ended January 31, 2004 for details of this program. We accounted for the plan in accordance with the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The cost reduction plan was substantially completed during Fiscal 2004. The total costs recognized during Fiscal 2004 related to this plan were $11.5 million, with $4.4 million of the costs recognized during the Fiscal 2004 First Quarter.

This cost reduction plan is expected to improve annualized pre-tax earnings by a total of approximately $45 million. During Fiscal 2004, we realized cost reductions of more than $30 million, and we expect to realize the remaining benefits of the cost reduction plan during Fiscal 2005.

During the Fiscal 2004 First Quarter, we made the decision to sell our Memphis, Tennessee distribution center, and began accelerating the depreciation of the asset to its estimated net realizable value as of its expected cease-use date of June 2003. During the Fiscal 2004 Third Quarter, we began to evaluate alternative uses for the facility, and began to depreciate the then-current carrying amount of the asset over its estimated useful life.

Expenses related to the plan incurred during the Fiscal 2004 First Quarter are included in "Expenses related to cost reduction plan" in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income.

Income Tax Provision

The effective income tax rate was 32.7% in the Fiscal 2005 First Quarter as compared to 38.9% in the Fiscal 2004 First Quarter. The lower effective tax rate in the Fiscal 2005 First Quarter is primarily the result of finalizing certain prior-year tax audits. We expect the effective income tax rate for the year to be approximately 36.3%. The higher effective tax rate in the Fiscal 2004 First Quarter was due primarily to a provision for taxes related to one of our insurance programs, which we settled with the Internal Revenue Service during the second half of Fiscal 2004.

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)	May 1, 2004	January 31, 2004
Cash and cash equivalents	$145.3	$123.8
Long-term available-for-sale securities	$15.5	$14.5
Working capital	$298.0	$271.9
Current ratio	1.8	1.9
Long-term debt to equity ratio	30.8%	33.5%

Our net cash provided by operating activities was $35.6 million for the Fiscal 2005 First Quarter, as compared to $20.6 million for the Fiscal 2004 First Quarter. The increase was a result of a $14.1 million increase in net income before non-cash charges and a $26.6 million increase in accrued expenses, income taxes, and other liabilities. These increases were partially offset by a $11.4 million increase in our investment in inventories, net of accounts payable and a $14.3 million increase in prepaid expenses.

The increase in the net investment in inventories was primarily a result of a seasonal build-up of year-round and transitional inventories. Prepaid expenses increased $18.2 million during the Fiscal 2005 First Quarter, as compared to an increase of $3.9 million during the Fiscal 2004 First Quarter. The increase was primarily a result of the timing of payments for rent. Accrued expenses and other liabilities increased $7.9 million during the Fiscal 2005 First Quarter, as compared to a decrease of $13.6 million during the Fiscal 2004 First Quarter, primarily as a result of the timing of certain payments. Income taxes payable increased $12.0 million during the Fiscal 2005 First Quarter, as compared to an increase of $6.9 million during the Fiscal 2004 First Quarter. The increase in income taxes payable was primarily a result of the increase in income before income taxes in the Fiscal 2005 First Quarter as compared to the Fiscal 2004 First Quarter.

Capital Expenditures

Our capital expenditures were $9.8 million during the Fiscal 2005 First Quarter. In addition, we acquired $3.9 million of point-of-sale equipment for our CATHERINES stores under capital leases. The total investment in property, equipment, and leasehold improvements, including cash expenditures and capital lease financing, was $13.7 million. During the remainder of Fiscal 2005, we anticipate incurring additional capital expenditures of approximately $55 - $60 million, primarily for the construction and fixturing of new stores, remodeling and fixturing of existing stores, and improvements to our corporate offices and distribution centers. We expect to finance approximately $53 - $57 million of these capital expenditures through internally generated funds and $2 - $3 million through capital lease financing.

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 and one of our agreements with Limited Brands restrict the payment of dividends on our common stock.

Off-Balance-Sheet Financing

We have formed a trust called the Charming Shoppes Master Trust (the "Trust") to which Spirit of America National Bank, our credit card bank, has transferred, through a special-purpose entity, its interest in credit card receivables created under our FASHION BUG proprietary credit card program. We, together with the Trust, have entered into various agreements under which the Trust can sell, on a revolving basis, interests in these receivables for a specified term. When the revolving period terminates, an amortization period begins during which principal payments are made to the parties with whom the Trust has entered into the securitization agreement.

As of May 1, 2004, the Trust had the following securitization facilities outstanding:

(Dollars in millions)	Series 1999-1	Series 2002-1	Series 1999-2	S
Date of facility..................	July 1999	November 2002	May 1999	J
Type of facility..................	Term	Term	Conduit	
Maximum funding...................	$150.0	$100.0	$50.0	

Funding as of May 1, 2004..........	$125.4	$100.0	$9.4	
First scheduled principal payment..	March 2004	August 2007	Not applicable	No
Expected final principal payment...	February 2005	May 2008	Not applicable	No
Renewal............................	Not applicable	Not applicable	Annual	

The Series 1999-1 securitization began its scheduled amortization period in March 2004, and $24.6 million of principal was amortized in the Fiscal 2005 First Quarter. The remainder of the principal is scheduled to amortize as follows: $36.8 million in the Fiscal 2005 Second Quarter; $36.8 million in the Fiscal 2005 Third Quarter; $36.0 million in the Fiscal 2005 Fourth Quarter; and $15.8 million in the Fiscal 2006 First Quarter. We expect to fund the amortization through our securitization program.

During the Fiscal 2005 First Quarter, we sold to investors an additional $9.5 million of certificates under the 2002-1 Series that we were previously holding as a retained interest. These certificates were included in our short-term available-for-sale securities as of January 31, 2004. As these credit card receivables securitizations reach maturity, we plan to obtain funding for the FASHION BUG proprietary credit card program 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 $75.2 million of private label credit card receivables in the Fiscal 2005 First Quarter and had $248.7 million of securitized credit card receivables outstanding as of May 1, 2004. We held certificates and retained interests in our securitizations of $58.0 million as of May 1, 2004, 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. and Charming Shoppes Seller, Inc., our consolidated wholly-owned indirect subsidiaries, are separate special-purpose entities created for the securitization program. As of May 1, 2004, Charming Shoppes Receivables Corp. held $19.0 million of Charming Shoppes Master Trust certificates and retained interests and Charming Shoppes Seller, Inc. held retained interests of $8.7 million (which are included in the $59.2 million of short-term available-for-sale securities we held at May 1, 2004). 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.

We could be affected by certain 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 May 1, 2004, 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.

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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 this program 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 31, 2004.

We also have non-recourse agreements under which third parties provide accounts receivable proprietary credit card sales accounts receivable funding programs for both our CATHERINES and LANE BRYANT brands. These funding programs expire in January 2005 for CATHERINES and in January 2006 for LANE BRYANT. Under these agreements, the third parties reimburse us daily for sales generated by the respective store's credit card accounts. Additional information regarding these 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 31, 2004.

On January 28, 2004, in accordance with the terms of the Merchant Services Agreement pursuant to which the CATHERINES proprietary credit cards are issued, we gave notification of termination and election to purchase the CATHERINES credit card portfolio to the third-party provider. In accordance with the terms of the Merchant Services Agreement, the purchase option required us to provide one year's notice in order to terminate the agreement and to purchase the portfolio, subject to the negotiation of the final purchase agreement. We expect to fund the CATHERINES credit card portfolio using our securitization program.

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 31, 2004.

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 May 1, 2004, 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 program, (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.

The interest rate on borrowings under the Facility ranges from Prime to Prime plus .50% per annum for Prime Rate Loans, and LIBOR plus 1.5% 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 May 1, 2004, the interest rate on borrowings under the Facility was 4.0% for Prime Rate Loans and 2.6% 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 consolidated 12-month earnings before interest, taxes, depreciation, and amortization ("EBITDA") (excluding non-recurring, non-cash charges as defined in the Facility), of $115.0 million. As of May 1, 2004, the excess and suppressed availability, including excess cash, under the revolving credit facility was $319.3 million. We had outstanding letters of credit totaling $55.2 million as of May 1, 2004. As of May 1, 2004, we were not in violation of any of the covenants included in the Facility.

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 31, 2004.

As of May 1, 2004, under authority granted by our Board of Directors during prior fiscal years, we are authorized to repurchase approximately 5 million additional shares of our common stock. Our ability to exercise this authority is currently subject to certain restrictions by the terms of our revolving credit facility and an agreement with Limited Brands that we entered into in conjunction with our acquisition of LANE BRYANT. Subject to obtaining consent, and as conditions may allow, we may from time to time acquire additional shares of our common stock. Such shares, if purchased, would be held as treasury shares.

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 proprietary credit card program through various operating entities that we own. The primary activity of these entities is to service our proprietary credit card receivables portfolio, the balances of which we sell under a credit card securitization program. Under the securitization program, 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 proprietary credit card accounts are billed using a floating rate index (the Prime lending rate), subject to a floor and limited by legal maximums. The certificates issued under the securitization 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 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 May 1, 2004, the floating finance charge rate on the credit cards was below the contractual floor rate, thus exposing us to interest rate risk on the portion of certificates that are funded at floating rates. To the extent that short-term interest rates were to increase by one percentage point by the end of Fiscal 2005, an increase of approximately $685 thousand in selling, general, and administrative expenses would result.

As of May 1, 2004, 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. 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 9. 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

There have been no material developments in legal proceedings involving the Company or its subsidiaries since those reported in our Annual Report on Form 10-K for the fiscal year ended January 31, 2004.

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, and there are no other proceedings that are expected to have a material adverse effect on our financial condition or results of operations.

Item 6. Exhibits and Reports on Form 8-K

(a) 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. (Exhibit 3.2)

10.1 2003 Incentive Compensation Plan, incorporated by reference to Appendix C of the Registrant's Proxy Statement Pursuant to Section 14 of the Securities Exchange Act of 1934, filed on May 22, 2003.

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.

(b) Reports on Form 8-K

On February 4, 2004, we filed a Current Report on Form 8-K to report, under "Item 5. Other Events and Regulation FD Disclosure" the text of our press release, issued February 4, 2004, announcing that we have amended and restated our $300 million revolving credit facility effective as of January 29, 2004.

On March 18, 2004, we filed a Current Report on Form 8-K to furnish, under "Item 12. Results of Operations and Financial Condition" the text of our press release, issued March 18, 2004, announcing our earnings for the quarter and fiscal year ended January 31, 2004.

On April 14, 2004, we filed a Current Report on Form 8-K to report, under "Item 5. Other Events and Regulation FD Disclosure" the text of our press release, issued April 12, 2004, announcing that Yvonne Montgomery Curl has been appointed to our Board of Directors.

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 28, 2004

/S/ Dorrit J. Bern

Dorrit J. Bern
Chairman of the Board
President and Chief Executive Officer

Date: May 28, 2004

/S/ Eric M. Specter

Eric M. Specter
Executive Vice President
Chief Financial Officer

Exhibit Index

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