

CHARMING SHOPPES INC

Form 10-Q

June 06, 2008

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

FORM 10-Q

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

For the quarterly period ended May 3, 2008

Or

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

For the transition period from _____ to _____

Commission File No. 000-07258

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

PENNSYLVANIA
(State or other jurisdiction of incorporation or
organization)

23-1721355
(I.R.S. Employer Identification No.)

450 WINKS LANE, BENSALEM, PA 19020
(Address of principal executive offices) (Zip
Code)

(215) 245-9100
(Registrant's telephone number,
including Area Code)

NOT APPLICABLE

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

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

Yes No

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

Large Accelerated Filer
Non-accelerated Filer

Accelerated Filer
Smaller Reporting Company

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

Yes No

The number of shares outstanding of the issuer's Common Stock (par value \$.10 per share) as of June 4, 2008 was 113,445,915 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

(In thousands, except share amounts)	May 3, 2008 (Unaudited)	February 2, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 79,175	\$ 61,335
Available-for-sale securities	6,456	13,364
Accounts receivable, net of allowances of \$6,762 and \$6,262	8,190	33,535
Investment in asset-backed securities	116,119	115,912
Merchandise inventories	371,097	330,216
Deferred advertising	8,177	5,546
Deferred taxes	8,459	7,531
Prepayments and other	140,432	151,716
Current assets of discontinued operations	114,051	132,753
Total current assets	852,156	851,908
Property, equipment, and leasehold improvements – at cost	1,073,041	1,107,662
Less accumulated depreciation and amortization	633,128	658,410
Net property, equipment, and leasehold improvements	439,913	449,252
Trademarks and other intangible assets	188,762	188,942
Goodwill	66,666	66,666
Other assets	55,820	56,536
Total assets	\$ 1,603,317	\$ 1,613,304
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 158,541	\$ 122,629
Accrued expenses	163,879	167,002
Current liabilities of discontinued operations	45,697	48,504
Current portion – long-term debt	8,566	8,827
Total current liabilities	376,683	346,962
Deferred taxes	37,394	37,275
Other non-current liabilities	208,245	192,454
Long-term debt	306,039	306,169
Stockholders' equity		
Common Stock \$.10 par value:		
Authorized – 300,000,000 shares		
Issued – 151,882,380 shares and 151,569,850 shares	15,188	15,157
Additional paid-in capital	411,127	407,499

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Treasury stock at cost – 38,482,213 shares and 36,477,246 shares	(347,730)	(336,761)
Accumulated other comprehensive income/(loss)	(3)	22
Retained earnings	596,374	644,527
Total stockholders' equity	674,956	730,444
Total liabilities and stockholders' equity	\$ 1,603,317	\$ 1,613,304

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

See Notes to Condensed Consolidated Financial Statements

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

(In thousands, except per share amounts)	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Net sales	\$ 641,346	\$ 696,614
Cost of goods sold, buying, catalog, and occupancy expenses	447,183	473,151
Selling, general, and administrative expenses	186,795	180,098
Restructuring charges	3,611	0
Total operating expenses	637,589	653,249
Income from operations	3,757	43,365
Other income	515	1,330
Interest expense	(2,369)	(3,263)
Income from continuing operations before income taxes	1,903	41,432
Income tax provision	1,246	14,966
Income from continuing operations	657	26,466
Loss from discontinued operations, net of income tax benefit of \$20,854 in 2008 and \$302 in 2007	(35,114)	(168)
Net income/(loss)	(34,457)	26,298
Other comprehensive loss, net of tax		
Unrealized losses on available-for-sale securities, net of income tax benefit of \$15 in 2008 and \$1 in 2007	(25)	(3)
Comprehensive income/(loss)	\$ (34,482)	\$ 26,295
Basic net income/(loss) per share:		
Income from continuing operations	\$.01	\$.22
Loss from discontinued operations, net of tax	(.31)	.00
Net income/(loss)(1)	\$ (.30)	\$.21
Diluted net income/(loss) per share:		
Income from continuing operations	\$.01	\$.20
Loss from discontinued operations, net of tax	(.30)	.00
Net income/(loss)(1)	\$ (.30)	\$.20

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

See Notes to Condensed Consolidated Financial Statements

(1) Results may not add due to rounding.

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

(In thousands)	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Operating activities		
Net income/(loss)	\$ (34,457)	\$ 26,298
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation and amortization	27,188	22,744
Estimated loss on disposition of discontinued operations	45,251	0
Deferred income taxes	(1,036)	(395)
Stock-based compensation	2,898	2,924
Excess tax benefits related to stock-based compensation	0	(636)
Write-down of deferred taxes related to stock-based compensation	(263)	0
Write-down of capital assets	1,919	0
Net loss from disposition of capital assets	558	460
Net gain from securitization activities	(367)	(328)
Changes in operating assets and liabilities		
Accounts receivable, net	25,345	26,535
Merchandise inventories	(39,060)	(40,075)
Accounts payable	30,864	18,496
Deferred advertising	(5,142)	1,006
Prepayments and other	(8,952)	4,349
Income taxes payable	0	1,869
Accrued expenses and other	1,414	(4,318)
Net cash provided by operating activities	46,160	58,929
Investing activities		
Investment in capital assets	(22,014)	(37,511)
Gross purchases of securities	(12,636)	(1,322)
Proceeds from sales of securities	19,404	2,563
Increase in other assets	(36)	(2,546)
Net cash used by investing activities	(15,282)	(38,816)
Financing activities		
Proceeds from issuance of senior convertible notes	0	250,000
Proceeds from long term borrowings	87	0
Repayments of long-term borrowings	(2,271)	(2,749)
Payments of deferred financing costs	(45)	(6,250)
Excess tax benefits related to stock-based compensation	0	636
Purchase of hedge on senior convertible notes	0	(82,250)

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Sale of common stock warrants	0	49,050
Purchases of treasury stock	(10,969)	(131,102)
Net proceeds/(payments) from shares issued under employee stock plans	69	(373)
Net cash provided/(used) by financing activities	(13,129)	76,962
Increase in cash and cash equivalents	17,749	97,075
Cash and cash equivalents, beginning of period	61,842	143,838
Cash and cash equivalents, end of period	\$ 79,591	\$ 240,913
Non-cash financing and investing activities		
Assets acquired through capital leases	\$ 1,793	\$ 0

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

The accompanying interim unaudited condensed consolidated balance sheet as of May 3, 2008, condensed consolidated statements of operations and comprehensive income for the thirteen weeks ended May 3, 2008 and May 5, 2007, and condensed consolidated statements of cash flows for the thirteen weeks ended May 3, 2008 and May 5, 2007 have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission. In our opinion, we have made all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position, results of operations and comprehensive income, and cash flows.

Certain prior-year amounts in the condensed consolidated statements of operations and comprehensive income have been reclassified to conform to the current-year presentation. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles. These financial statements and related notes should be read in conjunction with our financial statements and related notes included in our February 2, 2008 Annual Report on Form 10-K. The results of operations for the thirteen weeks ended May 3, 2008 and May 5, 2007 are not necessarily indicative of operating results for the full fiscal year.

As used in these notes, the term "Fiscal 2009" refers to our fiscal year ending January 31, 2009 and the term "Fiscal 2008" refers to our fiscal year ended February 2, 2008. The term "Fiscal 2010" refers to our fiscal year ending January 30, 2010. The term "Fiscal 2009 First Quarter" refers to our fiscal quarter ended May 3, 2008 and the term "Fiscal 2008 First Quarter" refers to our fiscal quarter ended May 5, 2007. The term "Fiscal 2009 Second Quarter" refers to our fiscal quarter ending August 2, 2008. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, our consolidated subsidiaries.

Discontinued Operations

On April 25, 2008 we announced that our Board of Directors began exploring a broad range of operating and strategic alternatives for our non-core misses apparel catalog titles in order to provide a greater focus on our core brands and to enhance shareholder value. The non-core misses apparel catalog titles met the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to be accounted for as held for sale as of May 3, 2008. The operations and cash flows will be eliminated from our financial statements upon the sale and we will not have any significant involvement in the operations after the sale. Accordingly, the results of the non-core misses apparel catalog titles have been reported as discontinued operations in our consolidated statements of operations and balance sheets for all periods presented.

Results from discontinued operations for the 13 weeks ended May 3, 2008 and May 5, 2007, net of income tax benefit, were as follows:

(In thousands)	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Net sales	\$ 64,679	\$ 88,098
Loss from discontinued operations	\$ (55,968)(1)	\$ (470)

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Income tax benefit	20,854(1)	302
Loss from discontinued operations, net of income tax benefit	\$ (35,114)(1)	\$ (168)

(1)Includes estimated loss on disposition of (\$28,390), net of an income tax benefit of \$16,861 and loss from operations of (\$6,724), net of an income tax benefit of \$3,993.

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

Note 1. Condensed Consolidated Financial Statements (Continued)

The financial information included in these Notes to Condensed Consolidated Financial Statements reflects only the results of our continuing operations.

Segment Reporting

We operate and report in two segments: Retail Stores and Direct-to-Consumer. We determine our operating segments based on the way our chief operating decision-makers review our results of operations. We consider our retail stores and store-related E-commerce as operating segments that are similar in terms of economic characteristics, production processes, and operations. Accordingly, we have aggregated our retail stores and store-related E-commerce into a single reporting segment (the "Retail Stores" segment). Our catalog and catalog-related E-commerce operations are reported under the Direct-to-Consumer segment. The Retail Stores segment derives its revenues from sales through retail stores and store-related E-commerce sales under our LANE BRYANT® (including LANE BRYANT OUTLET®), FASHION BUG®, CATHERINES PLUS SIZES®, and PETITE SOPHISTICATE® (including PETITE SOPHISTICATE OUTLET®) brands. The Direct-to-Consumer segment, excluding discontinued operations, derives its revenues from catalog sales and catalog-related E-commerce sales under our LANE BRYANT WOMAN® and FIGI'S® titles. See "Discontinued Operations" above and "Note 10. Segment Reporting" below for further information regarding our discontinued operations and segment reporting.

Stock-based Compensation

We have various stock-based compensation plans under which we are currently granting awards, which are more fully described in "Item 8. Financial Statements and Supplementary Data; Note 11. Stock-Based Compensation Plans" in our February 2, 2008 Annual Report on Form 10-K.

Shares available for future grants under our stock-based compensation plans as of May 3, 2008:

2004 Stock Award and Incentive Plan	735,591
2003 Non-Employee Directors Compensation Plan	186,324
1994 Employee Stock Purchase Plan	967,767
1988 Key Employee Stock Option Plan	111,224

Stock option and stock appreciation right activity for the thirteen weeks ended May 3, 2008:

	Option Shares	Average Option Price	Option Prices Per Share	Aggregate Intrinsic Value(1) (000's)
Outstanding at February 2, 2008	1,894,874	\$ 5.95	\$ 1.00	\$ 1,777
Granted – option price equal to market price	2,572,176	5.00	5.00	5.00

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Canceled/forfeited	(42,037)	6.81	1.00	–	12.48	
Exercised	(80,863)	4.65	1.00	–	5.47	67(2)
Outstanding at May 3, 2008	4,344,150	\$ 5.40	\$ 1.00	–	\$ 13.84	\$ 0
Exercisable at May 3, 2008	1,722,564	\$ 6.13	\$ 1.00	–	\$ 13.84	\$ 0

(1) Aggregate market value less aggregate exercise price.

(2) As of date of exercise.

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

Note 1. Condensed Consolidated Financial Statements (Continued)

Stock-based compensation expense for the thirteen weeks ended May 3, 2008 and May 5, 2007 includes (i) compensation cost for all partially-vested stock-based awards granted prior to the beginning of Fiscal 2007, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), and (ii) compensation cost for all stock-based awards granted subsequent to the beginning of Fiscal 2007, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"), a revision of SFAS No. 123. Current grants of stock-based compensation consist primarily of restricted stock, restricted stock unit, and stock appreciation right awards.