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CHARMING SHOPPES INC
Form 10-Q
December 18, 2001

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 November 3, 2001

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. 0-7258

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, BENSLEM, 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 ()

The number of shares outstanding of the issuer's Common Stock, as of Novem-
ber 3, 2001, was 110,933,717 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

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(In thousands)	November 3, 2001 ----- (Unaudited)	February 3, 2001 -----
ASSETS		
Current assets		
Cash and cash equivalents.....	\$ 56,578	\$ 56,544
Available-for-sale securities, (including fair value adjustments of \$34 and \$3, respectively).....	40,964	48,817
Merchandise inventories.....	433,738	259,127
Deferred taxes.....	31,848	10,678
Prepayments and other.....	77,213	56,748
	-----	-----
Total current assets.....	640,341	431,914
	-----	-----
Property, equipment, and leasehold improvements.....	648,259	504,071
Less: accumulated depreciation and amortization.....	322,043	286,208
	-----	-----
Net property, equipment, and leasehold improvements.....	326,216	217,863
	-----	-----
Trademarks and other intangible assets.....	171,967	0
Goodwill.....	113,045	92,520
Available-for-sale securities (including fair value adjustments of \$8 and \$77, respectively).....	10,199	76,461
Other assets.....	36,450	34,009
	-----	-----
Total assets.....	\$1,298,218	\$852,767
	=====	=====

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

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(In thousands except share amounts)	November 3, 2001 ----- (Unaudited)	February 3, 2001 -----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings.....	\$ 152,503	\$ 0
Accounts payable.....	149,433	94,881
Accrued expenses.....	167,553	123,690
Income taxes payable.....	7,965	0
Current portion -- long-term debt.....	7,597	4,954
	-----	-----
Total current liabilities.....	485,051	223,525
	-----	-----
Deferred taxes.....	34,475	21,433
Long-term debt.....	205,198	113,540
Minority interest.....	1,000	1,000
Stockholders' equity		
Common Stock \$.10 par value		
Authorized -- 300,000,000 shares		
Issued -- 111,349,933 shares and		
110,731,483 shares, respectively.....	11,135	11,073
Additional paid-in capital.....	100,619	80,977
Treasury stock at cost -- 416,216 shares and		
9,105,000 shares, respectively.....	(1,899)	(41,537)
Deferred employee compensation.....	(4,191)	(1,629)
Accumulated other comprehensive (loss) income.....	(869)	74
Retained earnings.....	467,699	444,311
	-----	-----
Total stockholders' equity.....	572,494	493,269
	-----	-----
Total liabilities and stockholders' equity.....	\$1,298,218	\$852,767
	=====	=====

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Unaudited)

	Thirteen Weeks Ended	
(In thousands except per-share amounts)	November 3, 2001 ----	October 28, 2000 ---- (Restated)
Net sales.....	\$549,295	\$363,812
Cost of goods sold, buying, and occupancy expenses.....	396,026	255,576
Selling, general, and administrative expenses.....	146,248	94,846
Amortization of goodwill.....	1,221	1,199
Total operating expenses.....	543,495	351,621
Income from operations.....	5,800	12,191
Other income, principally interest.....	1,098	2,139
Interest expense.....	(6,636)	(2,393)
Income before income taxes.....	262	11,937
Income tax provision.....	102	4,560
Net income.....	160	7,377
Unrealized (losses) gains on available-for-sale securities, net of income taxes of \$0 and (\$243), respectively.....	(1)	456
Reclassification of realized losses on available-for-sale securities, net of income tax benefit of \$0 and \$57, respectively.....	0	104
Reclassification of amortization of deferred loss on termina- tion of derivative, net of income tax benefit of \$46.....	85	0
Total other comprehensive income, net of taxes.....	84	560
Comprehensive income.....	\$ 244	\$ 7,937
Basic net income per share.....	\$.00	\$.07
Diluted net income per share.....	\$.00	\$.07

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

(In thousands except per-share amounts)	Thirty-nine Weeks Ended	
	November 3, 2001 ----	October 28, 2000 ---- (Restated)
Net sales.....	\$1,346,756	\$1,172,395
Cost of goods sold, buying, and occupancy expenses.....	973,483	823,622
Selling, general, and administrative expenses.....	324,489	276,079
Amortization of goodwill.....	3,664	3,595
Total operating expenses.....	1,301,636	1,103,296
Income from operations.....	45,120	69,099
Other income, principally interest.....	4,503	6,252
Interest expense.....	(11,407)	(6,595)
Income before income taxes and cumulative effect of accounting change.....	38,216	68,756
Income tax provision.....	14,828	26,265
Income before cumulative effect of accounting change.....	23,388	42,491
Cumulative effect of accounting change, net of income tax benefit of \$334.....	0	(540)
Net income.....	23,388	41,951
Unrealized (losses) gains on available-for-sale securities, net of income taxes of \$5 and (\$393), respectively.....	(53)	734
Reclassification of realized losses on available-for-sale securities, net of income tax benefit of \$4 and \$90, respectively.....	6	166
Unamortized deferred loss on termination of derivative, net of income tax benefit of \$621.....	(1,152)	0
Reclassification of amortization of deferred loss on termina- tion of derivative, net of income tax benefit of \$138.....	256	0
Total other comprehensive (loss) income, net of taxes.....	(943)	900
Comprehensive income.....	\$ 22,445	\$ 42,851

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Basic net income per share:		
Income before cumulative effect of accounting change.....	\$.22	\$.42
Cumulative effect of accounting change, net of taxes.....	.00	(.01)
	-----	-----
Net income.....	\$.22	\$.41
	=====	=====
Diluted net income per share:		
Income before cumulative effect of accounting change.....	\$.22	\$.40
Cumulative effect of accounting change, net of taxes.....	.00	(.01)
	-----	-----
Net income.....	\$.22	\$.39
	=====	=====

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

(In thousands)	Thirty-nine Weeks Ended	
	November 3, 2001	October 28, 2000
	----	----
		(Restated)
Operating activities		
Net income.....	\$23,388	\$41,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	43,982	35,964
Other, net.....	302	329
Changes in operating assets and liabilities, excluding acquisition of Lane Bryant, Inc.:		
Merchandise inventories.....	(66,660)	(47,911)
Accounts payable.....	29,001	47,364
Prepayments and other.....	(10,245)	10,670
Accrued expenses.....	2,101	(21,556)
Income taxes payable.....	7,965	7,291
	-----	-----
Net cash provided by operating activities.....	29,834	74,102
	-----	-----
Investing activities		
Investment in capital assets.....	(48,369)	(45,250)
Proceeds from sales of capital assets.....	0	833
Acquisition of Lane Bryant, Inc., net of cash acquired.....	(280,841)	0
Proceeds from sales of available-for-sale securities.....	105,931	54,285
Gross purchases of available-for-sale securities.....	(31,866)	(55,281)
Increase in other assets.....	(3,481)	(4,169)
	-----	-----
Net cash used in investing activities.....	(258,626)	(49,582)
	-----	-----
Financing activities		
Proceeds from short-term borrowings.....	370,994	0
Repayments of short-term borrowings.....	(218,491)	0
Proceeds from long-term borrowings.....	85,950	0
Repayments of long-term borrowings.....	(4,299)	(2,503)

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Payments of deferred financing costs.....	(7,541)	0
Purchases of treasury stock.....	0	(713)
Proceeds from exercise of stock options.....	2,213	2,656
	-----	-----
Net cash provided by (used in) financing activities.....	228,826	(560)
	-----	-----
Increase in cash and cash equivalents.....	34	23,960
Cash and cash equivalents, beginning of period.....	56,544	34,299
	-----	-----
Cash and cash equivalents, end of period.....	\$ 56,578	\$ 58,259
	=====	=====
Non-cash financing and investing activities		
Common stock issued for acquisition of Lane Bryant, Inc.....	\$ 55,000	\$ 0
	=====	=====
Equipment acquired through capital leases.....	\$ 12,650	\$ 14,331
	=====	=====

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

1. Condensed Consolidated Financial Statements

The condensed consolidated balance sheet as of November 3, 2001 and the condensed consolidated statements of operations and comprehensive income and of cash flows for the thirteen and thirty-nine weeks ended November 3, 2001 and October 28, 2000 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at November 3, 2001 and the results of operations and cash flows for the thirteen and thirty-nine weeks ended November 3, 2001 and October 28, 2000 have been made. Certain prior-year amounts in the consolidated statements of operations have been reclassified to conform to the current presentation.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's February 3, 2001 Annual Report on Form 10-K. The results of operations for the thirteen and thirty-nine weeks ended November 3, 2001 and October 28, 2000 are not necessarily indicative of operating results for the full fiscal year.

In the fourth quarter of the fiscal year ended February 3, 2001 ("Fiscal 2001"), the Company changed its method of accounting for sales returns and layaway sales, as required by Securities and Exchange Commission Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." The Company adopted SAB 101 effective as of the beginning of

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Fiscal 2001 and restated its results of operations for the first three quarters of Fiscal 2001. The cumulative effect of the adoption of SAB 101 as of January 30, 2000 was a decrease in income, net of taxes, of \$540,000. Results of operations for the thirteen and thirty-nine weeks ended October 28, 2000 as previously reported, prior to restatement for the adoption of SAB 101, are as follows:

	Thirteen Weeks Ended October 28, 2000 ----	Thirty-nine Weeks Ended October 28, 2000 ----
(In thousands, except per-share amounts)		
Net sales.....	\$365,690	\$1,175,253
Cost of goods sold, buying, and occupancy expenses.	256,609	825,194
Net income.....	7,899	43,286
Basic net income per share.....	\$.08	\$.43
Diluted net income per share.....	.08	.41

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

1. Condensed Consolidated Financial Statements (continued)

Certain components of cash flow from operating activities for the thirty-nine weeks ended October 28, 2000 have been restated to reflect the adoption of SAB 101.

2. Acquisition

On August 16, 2001, the Company acquired 100% of the outstanding stock of Lane Bryant, Inc. ("Lane Bryant") from a subsidiary of The Limited, Inc. for cash of \$286,223,000, including direct costs of the acquisition, and 8,688,784 shares of the Company's Common Stock, valued at \$55,000,000. Lane Bryant operates 653 retail apparel stores in 46 states, specializing in fashion apparel and related accessories for women wearing plus-sizes 14 and greater. Lane Bryant had net sales of \$930 million in the fiscal year ended February 3, 2001. The cash paid for the acquisition was funded with the use of approximately \$83,000,000 of the Company's existing cash and cash equivalents, a \$75,000,000 term loan, and revolving loans obtained under a new credit facility obtained in connection with the acquisition (see "Note 4. Debt" below). The Common Stock issued had been previously reacquired by the Company and was being held as treasury shares. The Limited, Inc. is restricted from selling the Charming Shoppes, Inc. Common Stock for a one-year period after the close of the transaction. The acquisition has been accounted for under the purchase method of accounting, and the results of operations of Lane Bryant are included in the Company's results of operations from the date of acquisition. Prior-period results have not been restated.

Assets acquired and liabilities assumed have been recorded at their estimated fair values. The recorded values of assets acquired and liabilities assumed are preliminary, and are subject to adjustment, pending final determination of their acquisition values. The final allocation of the purchase price is not expected to differ materially from the allocations

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used to prepare these financial statements. The Company expects to complete the final allocation of the purchase price within twelve months from the date of acquisition. Based on a preliminary determination of the value of the net assets acquired, the Company recognized a liability of approximately \$4.3 million for the estimated value of additional shares of the Company's Common Stock to be issued upon final settlement of the acquisition. The Company expects to determine the actual number of additional shares to be issued by the end of the fiscal year ended February 2, 2002 ("Fiscal 2002"). The number of shares of the Company's common stock issued or to be issued in connection with the acquisition is based on a five-day average market value as defined in the purchase agreement.

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

2. Acquisition (continued)

In accordance with the requirements of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," the Company recognized certain intangible assets acquired, primarily trademarks, tradenames, and internet domain names, separately from goodwill. The excess of the cost of the acquisition over the estimated fair value of the identifiable net assets acquired (\$24,189,000) has been allocated to goodwill. In accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," the goodwill, trademarks, tradenames, and internet domain names will not be amortized. Other intangible assets acquired, consisting of customer lists (\$2,700,000) and a covenant not to compete (\$600,000), will be amortized over their estimated useful life of five years.

The acquisition of Lane Bryant complements the Company's long-term growth strategy of becoming a leader in the sale of plus-size specialty apparel. Lane Bryant is a premier brand in the plus-size market with an established customer base and proprietary brand names, and operates profitably in multiple retail venues, primarily in leading malls.

The following unaudited pro forma information is based on historical data, and gives effect to the Company's acquisition of Lane Bryant as if the acquisition had occurred on January 30, 2000. The pro forma information includes adjustments having a continuing impact on the consolidated company as a result of using the purchase method of accounting for the acquisition. Pro forma adjustments consist of additional depreciation from the step-up in value of property, equipment, and leasehold improvements acquired, additional amortization expense related to intangible assets acquired, additional interest expense and amortization of deferred financing costs related to debt incurred to finance the acquisition (see "Note 4. Debt" below), and a reduction in interest income from the use of approximately \$83,000,000 of the Company's cash and cash equivalents to fund a portion of the acquisition.

The unaudited pro forma information is not necessarily indicative of the actual results of operations that would have occurred if the acquisition had occurred as of January 30, 2000, and is not necessarily indicative of the results that may be achieved in the future. The unaudited pro forma information does not reflect adjustments for operating synergies that the Company may realize as a result of the acquisition. No assurances can be given as to the amount and timing of any financial benefits that the Company may realize as a result of the acquisition.

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

2. Acquisition (continued)

Unaudited pro forma results of operations:

(In thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 3, 2001 ----	October 28, 2000 ----	November 3, 2001 ----	October 28, 2000 ----
Net sales.....	\$574,037	\$579,688	\$1,839,091	\$1,840,146
Income before cumulative effect of accounting change.	(800)	2,059	29,485	38,678
Net income (loss).....	(800)	2,059	29,485	38,138
Income (loss) per share before cumulative effect of accounting change:				
Basic.....	\$(0.01)	\$0.02	\$0.26	\$0.35
Diluted.....	(0.01)	0.02	0.26	0.34
Net income (loss) per share:				
Basic.....	\$(0.01)	\$0.02	\$0.26	\$0.35
Diluted.....	(0.01)	0.02	0.26	0.34

3. Accrued Restructuring Expenses and Restructuring Credit

On March 5, 1998, the Company's Board of Directors approved a restructuring plan (the "Plan") that resulted in a pre-tax charge of \$34,000,000. The Plan was approved in conjunction with the decision to eliminate men's merchandise from the Company's Fashion Bug stores. As of February 3, 2001, this restructuring plan was completed, and there were no remaining restructuring accruals relating to this plan. The following table summarizes accrued restructuring charges related to this Plan as of January 29, 2000 and payments charged against the accrual during the thirty-nine weeks ended October 28, 2000:

(In thousands)	Accrued At January 29, 2000 ----	Payments -----	Accrued At October 28, 2000 ----
Lease terminations/amendments and renovations of vacated store space....	\$4,890	\$ (4,474)	\$ 416
Other costs.....	1,807	(815)	992
	-----	-----	-----

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\$6,697 \$ (5,289) \$1,408
 ===== ===== =====

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

3. Accrued Restructuring Expenses and Restructuring Credit (continued)

During the fourth quarter of the fiscal year ended January 29, 2000 ("Fiscal 2000"), the Company recorded a restructuring charge of \$1,459,000 in connection with the Company's plan to consolidate its Modern Woman stores into its Catherine's stores. The restructuring charge was primarily for lease termination costs related to the closing of 11 Modern Woman stores that geographically overlapped Catherine's stores. During Fiscal 2001, the Company closed 10 of the 11 stores, and accrued restructuring charges of \$1,086,000 related to these stores were paid. During the thirty-nine weeks ended November 3, 2001, the Company closed the remaining store and \$373,000 was charged against this accrual. As of November 3, 2001, this restructuring plan was completed, and there were no remaining restructure accruals relating to this plan.

4. Debt

Long-term debt:

(In thousands)	November 3, 2001	February 3, 2001
	----	----
7.5% Convertible subordinated notes due 2006.....	\$ 96,047	\$ 96,047
Term loan due August 16, 2004.....	75,000	0
Capital lease obligations.....	24,473	15,890
7.77% mortgage note.....	10,950	0
7.5% mortgage note.....	6,310	6,449
Other.....	15	108
	-----	-----
Total long-term debt.....	212,795	118,494
Less current portion.....	7,597	4,954
	-----	-----
	\$205,198	\$113,540
	=====	=====

In connection with the acquisition of Lane Bryant, on August 16, 2001 the Company replaced its existing \$150,000,000 revolving credit facility with a \$375,000,000 credit facility pursuant to a loan and security agreement of the same date (the "Facility" or the "Agreement"). This Facility includes a revolving credit facility with a maximum availability of \$300,000,000, subject to borrowing limitations based on eligible inventory and the value of certain real property, and a three-year term loan of \$75,000,000. The Facility provides for cash borrowings and enables the Company to issue up to \$150,000,000 of letters of credit for overseas purchases of merchandise.

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The Facility is secured by the general assets of the Company, except for certain assets of the Company's credit card securitization program, certain

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

4. Debt (continued)

real properties subject to other mortgages, assets of the Company's joint venture with Monsoon plc, and assets of the Company's non-U.S. operations. The Facility expires on August 16, 2004, with an option to renew the revolving credit facility for an additional year. The Company also terminated its existing \$20,000,000 and \$10,000,000 revolving credit facilities, which were obtained in connection with the Company's previous acquisitions of the Catherine's and Modern Woman stores.

The interest rate on borrowings under the revolving credit line ranges from Prime to Prime plus .75% per annum for Prime Rate Loans, and LIBOR plus 2% to LIBOR plus 2.75% per annum for Eurodollar Rate Loans, and is determined quarterly, based on the Company's Leverage Ratio or excess availability, as defined in the Agreement. The interest rate on borrowings under the term loan equals Prime plus 4% per annum, with minimum and maximum rates of 11.5% and 13%, respectively, per annum. As of November 3, 2001, the interest rates on borrowings under the revolving credit line and term loan were 4.8% and 11.5%, respectively. There is a fee of 1-1/2% per annum on outstanding documentary letters of credit, a fee of 2% per annum on outstanding stand-by letters of credit, a fee of .375% to .5% per annum on the unused portion of the revolving credit facility, and annual servicing fees totaling \$156,000. Costs incurred by the Company in obtaining the Facility were approximately \$7,541,000. These debt acquisition costs have been deferred and are being amortized over the life of the Agreement.

The Agreement includes limitations on sales and leasebacks, the incurrence of additional liens and debt, capital lease financing, and other limitations. The Agreement also requires, among other things, that the Company not pay dividends on its Common Stock and maintain an Adjusted Tangible Net Worth (as defined in the Agreement) of \$228,000,000 (subject to increase or decrease in certain circumstances). Until the term loan is paid in full, the Company is required to maintain a minimum 12-month earnings before interest, income taxes, depreciation, and amortization ("EBITDA") of \$140,000,000 and maintain a ratio of Total Secured Debt to EBITDA of not greater than 3 to 1, as more fully described in the Agreement. The 12-month EBITDA that includes periods prior to the date of the Agreement is specifically defined in the agreement. As of November 3, 2001, the availability under the revolving credit facility was \$111,170,000.

The 7.77% mortgage note, dated November 1, 2001, has a ten-year term with 119 monthly installments of principal and interest of \$103,000 commencing in January 2002 and a final payment of any remaining unpaid principal and interest in December 2011. The mortgage note is secured by land, buildings, fixtures, and equipment owned by the Company at its offices in Bensalem, Pennsylvania and by leases and rents owned or received by the

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

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4. Debt (continued)

Company from tenants of the Bensalem facility. The net proceeds of \$10,851,000 from the mortgage note were used to repay a portion of the borrowings outstanding under the \$300,000,000 revolving credit facility, discussed above.

5. Stockholders' Equity

(In thousands)	Thirty-nine Weeks Ended November 3, 2001 -----
Total stockholders' equity, beginning of period.....	\$493,269
Net income.....	23,388
Market value of treasury shares issued for acquisition of Lane Bryant, Inc.....	55,000
Exercises of stock options.....	927
Amortization of deferred compensation expense.....	853
Net unamortized deferred loss on termination of derivative, net of income tax benefit of \$483.....	(896)
Net unrealized losses on available-for-sale securities.....	(47)

Total stockholders' equity, end of period.....	\$572,494 =====

6. Derivative Financial Instruments

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," as of the beginning of Fiscal 2002. During Fiscal 2001, the Company terminated an interest rate swap agreement with a notional principal amount of \$50 million. In accordance with SFAS No. 133, the deferred loss on termination of the swap as of February 4, 2001 (\$1,152,000 net of a tax benefit of \$621,000) has been recognized in "Accumulated other comprehensive (loss) income" on the Company's consolidated balance sheet, and is being amortized to selling, general, and administrative expenses over the 44-month remaining life of the original swap period.

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

7. Customer Loyalty Card Program

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During the first quarter of the current fiscal year, the Company began a customer loyalty card program for its Fashion Bug store customers. The program grants discounts on customer purchases over a twelve-month period upon payment of a \$20 annual fee. Revenues from the program are recognized as sales over the life of the membership as discounts are earned. Upon cancellation of a loyalty card, refunds of membership fees are reduced by the amount of any discounts granted to the member under the program. Costs incurred by the Company in connection with the program are recognized in cost of goods sold as incurred. During the thirteen and thirty-nine weeks ended November 3, 2001, the Company recognized \$4,433,000 and \$8,060,000, respectively, of revenues in connection with this program.

8. Net Income Per Share

(In thousands except per-share amounts)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 3, 2001 ----	October 28, 2000 ---- (Restated)	November 3, 2001 ----	October 28, 2000 ---- (Restated)
Basic weighted average common shares outstanding.....	109,579	101,155	104,067	101,042
Dilutive effect of assumed conversion of convertible notes.....	0	0	0	12,875
Dilutive effect of stock options.....	964	827	989	1,019
	-----	-----	-----	-----
Diluted weighted average common shares and equivalents outstanding.....	110,543	101,982	105,056	114,936
	=====	=====	=====	=====
Income before cumulative effect of accounting change.....	\$160	\$7,377	\$23,388	\$42,491
Decrease in interest expense from assumed conversion of notes, net of income taxes.....	0	0	0	3,376
	----	-----	-----	-----
Income before cumulative effect of accounting change used to determine diluted earnings per share.....	160	7,377	23,388	45,867
Cumulative effect of accounting change, net of income taxes.....	0	0	0	(540)
	----	-----	-----	-----
Net income used to determine diluted earnings per share.....	\$160	\$7,377	\$23,388	\$45,327
	=====	=====	=====	=====
Options with weighted average exercise price greater than market price, excluded from computation of diluted earnings per share:				
Number of shares.....	6,417	4,559	5,593	4,014
Weighted average exercise price per share.....	\$7.32	\$7.69	\$7.48	\$7.95

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

The effect of assumed conversion of the Company's 7.5% Convertible Subordinated Notes due 2006 was excluded from the computation of diluted net income per share for the thirteen weeks ended November 3, 2001 and October 28, 2000 and the thirty-nine weeks ended October 28, 2000 because the effect would have been anti-dilutive.

Grants of stock awards under the Company's restricted stock award programs generally require continuing employment for a specified period of time as a condition for vesting of the award. Grants that have not vested and are subject to a risk of forfeiture are included in the calculation of diluted earnings per share using the treasury stock method if the impact of the award is dilutive. Upon vesting, shares issued under these award programs are included in the calculation of basic earnings per share.

9. Impact of Recent Accounting Pronouncements

In September 2000, The FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," a replacement of SFAS No. 125. SFAS No. 140 retains most of the provisions of SFAS No. 125, but revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. SFAS No. 140 is based on application of a financial-components approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, de-recognizes financial assets when control has been surrendered, and de-recognizes liabilities when extinguished.

SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001, and is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company adopted the disclosure provisions of SFAS No. 140 as of Fiscal 2001, and will adopt the accounting requirements of SFAS No. 140 to the extent that it issues new beneficial interests after March 31, 2001. Adoption of SFAS No. 140 did not have a material impact on the results of operations or financial position for the thirteen or thirty-nine weeks ended November 3, 2001, and is not expected to have a material impact on future operating results.

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

9. Impact of Recent Accounting Pronouncements (continued)

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141

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requires the use of the purchase method of accounting for business combinations initiated after June 30, 2001, and expands the definition of intangible assets that are to be recorded separately from goodwill. For business combinations accounted for under the purchase method which were completed prior to July 1, 2001, previously recorded goodwill and intangibles are to be evaluated against the criteria in SFAS No. 141, which may result in the reclassification of certain intangible assets into or out of recorded goodwill. SFAS No. 142 requires that goodwill and certain intangible assets with an indefinite useful life are not to be amortized, but are to be reviewed for impairment at least annually and written down in periods in which the recorded value of the goodwill or intangible asset exceeds its fair value.

For goodwill and other intangible assets acquired prior to June 30, 2001, the Company is required to adopt the provisions of SFAS No. 141 and SFAS No. 142 as of February 3, 2002 (the beginning of the fiscal year ended February 1, 2003). The Company's condensed consolidated balance sheet as of November 3, 2001 includes \$88.9 million of goodwill recognized as a result of the acquisition of Catherines Stores, Inc. ("Catherine's") in January 2000. In accordance with the provisions of these statements, the Company will continue to amortize the Catherine's goodwill through the end of Fiscal 2002, recognizing approximately \$4.9 million of amortization for Fiscal 2002. Commencing February 3, 2002, the Company will no longer amortize the Catherine's goodwill; however, subsequent impairment reviews may result in periodic write-downs of the Catherine's goodwill. In addition, intangible assets meeting the requirement for separate disclosure under SFAS Nos. 141 and 142 may be reclassified out of the Catherine's goodwill as of the date of adoption of the statements, and may be separately amortized based on their useful lives. Except for discontinuing the amortization of goodwill, the Company has not determined the impact of adoption of SFAS Nos. 141 and 142 with respect to the Catherine's goodwill on the Company's financial condition or results of operations.

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

9. Impact of Recent Accounting Pronouncements (continued)

The Company is required to adopt the provisions of SFAS No. 141 for business combinations accounted for under the purchase method that are completed subsequent to June 30, 2001. In accordance with the transition provisions of SFAS No. 142, the Company is required to adopt the provisions relating to non-amortization of goodwill and recognition of intangible assets for goodwill and intangibles acquired subsequent to June 30, 2001. The Company is required to adopt the provisions of SFAS No. 142 in full as of February 3, 2002. The Company adopted the provisions of SFAS No. 141 and the transition provisions of SFAS No. 142 in accounting for its acquisition of Lane Bryant, Inc. (see "Note 2. Acquisition" above).

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In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, and addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Adoption of SFAS No. 143 is not expected to have a material impact on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for Impairment of Long-lived Assets and Long-lived Assets to be Disposed Of." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" related to the disposal of a segment of a business. SFAS No. 144 also resolves certain implementation issues related to SFAS No. 121. The Company is currently evaluating the effect that adoption of SFAS No. 144 will have on the Company's financial position or results of operations.

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

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements concerning the Company's operations, performance and financial condition. In particular, it includes forward-looking statements regarding the Company's growth, earnings, sales performance, store openings and closings, cost savings, capital requirements, the Company's exposure to fluctuations in interest rates, and other matters. Such forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. Such risks and uncertainties may include, but are not limited to, (i) failure to achieve successful integrations, (ii) rapid changes in or miscalculation of fashion trends, (iii) extreme or unseasonable weather conditions, (iv) economic downturns, a weakness in overall consumer demand, inflation, and cyclical variations in the retail market for women's fashion apparel, (v) the risks attendant to the sourcing of the Company's merchandise needs abroad, including exchange rate fluctuations, political instability, trade sanctions or restrictions, changes in quota and duty regulations, delays in shipping, or increased costs of transportation, (vi) the interruption of merchandise flow to the Company's retail stores from its centralized distribution facilities, (vii) competitive pressures, (viii) the ability to hire and train associates, (ix) the availability of suitable store

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locations on appropriate terms, (x) failure to realize merger-related synergies, and (xi) the adverse effects of acts or threats of war, terrorism, or other armed conflict on the United States and international economies. These, and other risks and uncertainties, are detailed further in this Item 2, in "Part I, Item 1 -- Business: Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995" of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2001, and in the Company's reports filed with the Securities and Exchange Commission from time to time.

RECENT DEVELOPMENTS

On August 16, 2001, the Company acquired 100% of the outstanding stock of Lane Bryant, Inc. ("Lane Bryant") from a subsidiary of The Limited, Inc. ("The Limited") for cash of \$286,223,000 and 8,688,784 shares of the Company's Common Stock, valued at \$55,000,000. Lane Bryant operates 653 retail apparel stores in 46 states, specializing in fashion apparel and related accessories for women wearing plus-sizes 14 and greater. Lane Bryant had net sales of \$930 million in the fiscal year ended February 3,

2001. The cash paid for the acquisition was funded with the use of approximately \$83,000,000 of the Company's existing cash and cash equivalents, a \$75,000,000 term loan, and revolving loans obtained under a new credit facility obtained in connection with the acquisition (discussed below). The Common Stock issued had been previously re-acquired by the Company and was being held as treasury shares. The Limited, Inc. is restricted from selling the Charming Shoppes, Inc. Common Stock for a one-year period after the close of the transaction. The acquisition has been accounted for under the purchase method of accounting, and the results of operations of Lane Bryant are included in the Company's results of operations from the date of acquisition. Prior-period results have not been restated.

Assets acquired and liabilities assumed have been recorded at their estimated fair values. The recorded values of assets acquired and liabilities assumed are preliminary, and are subject to adjustment, pending final determination of their acquisition values. The final allocation of the purchase price is not expected to differ materially from the allocations used to prepare these financial statements. The Company expects to complete the final allocation of the purchase price within twelve months from the date of acquisition. Based on a preliminary determination of the value of the net assets acquired, the Company recognized a liability of approximately \$4.3 million for the estimated value of additional shares of the Company's Common Stock to be issued upon final settlement of the acquisition. The Company expects to determine the actual number of additional shares to be issued by the end of the fiscal year ended February 2, 2002 ("Fiscal 2002"). The number of shares of the Company's common stock issued or to be issued in connection with the acquisition is based on a five-day average market value as defined in the purchase agreement.

In accordance with the requirements of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," the Company recognized certain intangible assets acquired, primarily trademarks, tradenames, and internet domain names, separately from goodwill. The excess of the cost of the acquisition over the estimated fair value of the identifiable net assets acquired (\$24,189,000)

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has been allocated to goodwill. In accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," the goodwill, trademarks, tradenames, and internet domain names will not be amortized. Other intangible assets acquired, consisting of customer lists (\$2,700,000) and a covenant not to compete (\$600,000), will be amortized over their estimated useful life of five years.

In connection with the acquisition of Lane Bryant, on August 16, 2001 the Company replaced its existing \$150,000,000 revolving credit facility with a \$375,000,000 credit facility pursuant to a loan and security agreement of the same date (the "Facility" or the "Agreement"). This Facility includes a revolving credit facility with a maximum availability of \$300,000,000, subject to borrowing limitations based on eligible inventory and the value of certain real property, and a three-year term loan of \$75,000,000. The Facility provides for cash borrowings and enables the Company to issue up to \$150,000,000 of letters of credit for overseas purchases of merchandise. The Facility is secured by the general assets of the Company, except for certain assets of the Company's credit card securitization program, certain real properties subject to other mortgages, assets of the Company's joint venture with Monsoon plc, and assets of the Company's non-U.S. operations. The Facility expires on August 16, 2004, with an option to renew the revolving credit facility for an additional year. The Company also terminated its existing \$20,000,000 and \$10,000,000 revolving credit facilities, which were obtained in connection with the Company's previous acquisitions of the Catherine's and Modern Woman stores.

The interest rate on borrowings under the revolving credit line ranges from Prime to Prime plus .75% per annum for Prime Rate Loans, and LIBOR plus 2% to LIBOR plus 2.75% per annum for Eurodollar Rate Loans, and is determined quarterly, based on the Company's Leverage Ratio or excess availability, as defined in the Agreement. The interest rate on borrowings under the term-loan equals Prime plus 4% per annum, with minimum and maximum rates of 11.5% and 13%, respectively, per annum. As of November 3, 2001, the interest rates on borrowings under the revolving credit line and term loan were 4.8% and 11.5%, respectively. There is a fee of 1-1/2% per annum on outstanding documentary letters of credit, a fee of 2% per annum on outstanding stand-by letters of credit, a fee of .375% to .5% per annum on the unused portion of the revolving credit facility, and annual servicing fees totaling \$156,000. Costs incurred by the Company in obtaining the Facility were approximately \$7,541,000. These debt acquisition costs have been deferred and are being amortized over the life of the Agreement.

The Agreement includes limitations on sales and leasebacks, the incurrence of additional liens and debt, capital lease financing, and other limitations. The Agreement also requires, among other things, that the Company not pay dividends on its Common Stock and maintain an Adjusted Tangible Net Worth (as defined in the Agreement) of \$228,000,000 (subject to increase or decrease in certain circumstances). Until the term loan is paid in full, the Company is required to maintain a minimum twelve-month earnings before interest, income taxes, depreciation, and amortization ("EBITDA") of \$140,000,000 and maintain a ratio of Total Secured Debt to EBITDA of not greater than 3 to 1, as more fully described in the Agreement. The 12-

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month EBITDA that includes periods prior to the date of the Agreement is specifically defined in the agreement.

The acquisition of Lane Bryant complements the Company's long-term growth strategy of becoming one of the leading specialty retailers of plus-size apparel. Lane Bryant is a premier brand in the plus-size market with an established customer base and proprietary brand names, and operates profitably in multiple retail venues, primarily in leading malls.

On September 11, 2001, major terrorist attacks occurred against the World Trade Center in New York City and the Pentagon Building in Washington, D.C. These attacks adversely affected the United States economy, which was already slowing and showing signs of a recession prior to September 11, 2001. The Company did not experience any direct instances of destruction or impairment of its assets. However, the Company believes that the effects of the terrorist incidents on the United States economy had an adverse impact on the Company's results of operations during the quarter ended November 3, 2002.

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The following table sets forth certain financial data expressed as a percentage of net sales:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 3, 2001 ----	October 28, 2000 ----	November 3, 2001 ----	October 28, 2000 ----
Net sales.....	100.0%	100.0%	100.0%	100.0%
Cost of goods sold, buying, and occupancy expenses.....	72.1	70.2	72.3	70.3
Selling, general, and administrative expenses.....	26.7	26.1	24.1	23.5
Amortization of goodwill.....	0.2	0.3	0.3	0.3
Income from operations.....	1.0	3.4	3.3	5.9
Other income, principally interest	0.2	0.6	0.3	0.5
Interest expense.....	1.2	0.7	0.8	0.6
Income tax provision.....	0.0	1.3	1.1	2.2
Income before cumulative effect of accounting change.....	0.0	2.0	1.7	3.6
Net income.....	0.0	2.0	1.7	3.6

The following table sets forth certain comparative sales data:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 3, 2001 ----	October 28, 2000 ----	November 3, 2001 ----	October 28, 2000 ----
(Decrease) increase in comparable store sales(1) (2):				
Fashion Bug.....	(7.2)%	1.2%	(6.3)%	1.0%
Catherine's.....	(3.8)	--	(1.5)	--
Sales from new stores as a percentage of total prior-period sales(2):				
Fashion Bug.....	5.2	8.0	5.7	7.8
Catherine's.....	1.9	26.1 (3)	3.2	33.0 (3)
Lane Bryant.....	52.6		16.3	
Monsoon/Accessorize.....	0.2	--	0.1	--
Prior-period sales from closed stores as a percentage of total prior-period sales(2):				
Fashion Bug.....	(3.0)	(3.3)	(3.0)	(3.2)
Catherine's stores.....	(1.4)	--	(4.0)	--
(Decrease) increase in total sales	51.0	31.6	14.9	38.6

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Thirteen Weeks Ended November 3, 2001 and October 28, 2000

Net sales for the quarter ended November 3, 2001 ("Fiscal 2002 Third Quarter") totaled \$549.3 million as compared to net sales of \$363.8 million for the quarter ended October 28, 2000 ("Fiscal 2001 Third Quarter"). Net sales for the Fiscal 2002 Third Quarter include \$265.3 million in sales from Fashion Bug stores, \$191.2 million in sales from Lane Bryant stores, \$92.2 million in sales from Catherine's Stores, and \$0.6 million in sales from Monsoon/Accessorize stores. Sales from Lane Bryant stores are for the period from August 16, 2001 (the date of acquisition) through November 3, 2001. Net sales for the Fiscal 2001 Third Quarter include \$271.5 million in sales from Fashion Bug stores and \$92.3 million in sales from Catherine's Stores. In line with overall consumer shopping trends and a generally weak retail sales environment, the Company experienced year-over-year decreases in store traffic levels across all of the Company's chains. For Fashion Bug stores, improvements in junior sportswear were more than offset by declines in other merchandise categories. Fashion Bug comparable store sales were also negatively affected by a decrease in sales of girls merchandise. In January 2001, the Company announced plans to support growth in large-size apparel and eliminate girls apparel from Fashion Bug stores, effective at the end of the 2000-2001 winter season. For Catherine's Stores, increases in sales of casual sportswear and coats were more than offset by decreases in sales of other merchandise categories. For Lane Bryant stores, sales of sweaters, knit tops, and jeans benefited from a strong back-to-school season in the first half of the quarter. Although Lane Bryant's results prior to August 16, 2001 are not included in the Company's results of operations and comparable store sales calculations, Lane Bryant's same-store sales for the Fiscal 2002 Third Quarter were comparable to the Fiscal 2001 Third Quarter.

As of November 3, 2001, the Company operated 1,268 Fashion Bug and Fashion Bug Plus stores, 659 Lane Bryant stores, 559 Catherine's stores, and 9 Monsoon/Accessorize stores, as compared to 1,237 Fashion Bug and Fashion Bug Plus stores and 535 Catherine's stores as of October 28, 2000.

Cost of goods sold, buying, and occupancy expenses expressed as a percentage of sales increased 1.9% in the Fiscal 2002 Third Quarter as compared to the Fiscal 2001 Third Quarter. Cost of goods sold as a percentage of sales decreased 0.8% in the Fiscal 2002 Third Quarter as compared to the Fiscal 2001 Third Quarter. Higher merchandise margins in the Lane Bryant stores were partially offset by decreased margins in the Fashion Bug and Catherine's stores as a result of higher levels of promotional activity in response to slower sales activity. Cost of goods sold includes merchandise costs, net of discounts and allowances, freight, and inventory shrinkage. Net merchandise costs and freight are capitalized as inventory costs.

Buying and occupancy expenses expressed as a percentage of sales increased 2.7% in the Fiscal 2002 Third Quarter as compared to the Fiscal 2001 Third Quarter. The increase in buying and occupancy expenses as a percentage of sales was primarily attributable to the lack of leverage on relatively fixed occupancy costs as a result of a decline in comparable store sales and relatively higher occupancy expenses for the Lane Bryant stores. Buying expenses increased slightly as a percentage of sales, primarily as a result of buying costs for Lane Bryant stores, which are relatively higher

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due to the product development and design process that supports a 100% private-label business. Buying expenses include payroll, payroll-related costs, and operating expenses for the Company's buying departments and warehouses. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities, maintenance, and depreciation for the Company's 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 expenses increased 0.6% as a percentage of sales. Selling expenses in the Fiscal 2002 Third Quarter increased 1.9% as a percentage of sales as compared to the Fiscal 2001 Third Quarter. The increase was attributable to the lack of leverage on relatively fixed store payroll expenses as a result of the decline in comparable store sales. An increase in credit income (a component of selling expenses) in the Fiscal 2002 Third Quarter was offset by increased delinquencies in the Company's proprietary credit card program. Administrative expenses decreased 1.3% as a percentage of sales, primarily as a result of the synergistic effect of a larger sales base on corporate administrative expenses. Selling, general, and administrative expenses exclude goodwill amortization related to the acquisition of the Catherine's stores.

Other income expressed as a percentage of sales decreased 0.4% in the Fiscal 2002 Third Quarter as compared to the Fiscal 2001 Third Quarter, primarily as a result of a decrease in interest income. Interest income decreased as a result of lower levels of invested funds during the Fiscal 2002 Third Quarter as compared to the Fiscal 2001 Third Quarter. During the Fiscal 2002 Third Quarter, the Company used \$83,000,000 of cash and investments in connection with the acquisition of Lane Bryant (see "RECENT DEVELOPMENTS" above).

Interest expense expressed as a percentage of sales increased 0.5% in the Fiscal 2002 Third Quarter as compared to the Fiscal 2001 Third Quarter. The increase was primarily a result of increased borrowings in connection with the acquisition of Lane Bryant (see "RECENT DEVELOPMENTS" above). Interest expense also increased as a result of an increase in capital lease financing obligations in the Fiscal 2002 Third Quarter as compared to the Fiscal 2001 Third Quarter.

The income tax provision for the Fiscal 2002 Third Quarter was 38.8% of the Company's pre-tax income, as compared to 38.2% for the Fiscal 2001 Third Quarter. The increase in the effective tax rate is primarily attributable to an increase in the tax provision related to one of the Company's employee insurance programs.

Net income per share, assuming dilution, for the Fiscal 2002 Third Quarter was \$.00 as compared to \$.07 for the Fiscal 2001 Third Quarter. Diluted net income per share excluding goodwill amortization (cash earnings per share) was \$.01 for the Fiscal 2002 Third Quarter as compared to \$.08 for the Fiscal 2001 Third Quarter.

Thirty-nine Weeks Ended November 3, 2001 and October 28, 2000

Net sales for the thirty-nine weeks ended November 3, 2001 ("first three quarters of Fiscal 2002") totaled \$1,346.8 million as compared to net sales

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of \$1,172.4 million for the thirty-nine weeks ended October 28, 2000 ("first three quarters of Fiscal 2001"). Net sales for the first three quarters of Fiscal 2002 include \$860.7 million in sales from the Company's Fashion Bug stores, \$191.2 million in sales from Lane Bryant stores, \$293.7 million in sales from Catherine's Stores, and \$1.2 million in sales from Monsoon/Accessorize stores. Sales from Lane Bryant stores are for the period from August 16, 2001 (the date of acquisition) through November 3, 2001. Net sales for the first three quarters of Fiscal 2001 include \$872.3 million in sales from the Company's Fashion Bug stores and \$300.1 million in sales from Catherine's Stores. Fashion Bug comparable store sales decreased primarily as a result of a progressively weaker general retail sales environment during the first three quarters of Fiscal 2002. Improvements in junior and plus sportswear were more than offset by declines in other merchandise categories. Fashion Bug comparable store sales were also negatively affected by a decrease in sales of girls merchandise as a result of the Company's plans to support growth in large-size apparel and eliminate girls apparel from Fashion Bug stores. For Catherine's Stores, which have also been negatively affected by the generally weaker retail sales environment, an increase in sales of casual sportswear was more than offset by declines in other merchandise categories. Although Lane Bryant's results prior to August 16, 2001 are not included in the Company's results of operations and comparable store sales calculations, Lane Bryant's year-to-date comparable store sales increased 2%.

Cost of goods sold, buying, and occupancy expenses expressed as a percentage of sales increased 2.0% in the first three quarters of Fiscal 2002 as compared to the first three quarters of Fiscal 2001. Cost of goods sold as a percentage of sales was unchanged in the first three quarters of Fiscal 2002 as compared to the first three quarters of Fiscal 2001. Reduced merchandise margins in the Company's Fashion Bug and Catherine's stores as a result of an increased level of promotional activity during the first three quarters of Fiscal 2002 and costs related to exiting the girls business in the Company's Fashion Bug stores were primarily offset by higher merchandise margins in the Lane Bryant stores and to a lesser extent by strong management of in-season inventory levels. Cost of goods sold includes merchandise costs, net of discounts and allowances, freight, and inventory shrinkage. Net merchandise costs and freight are capitalized as inventory costs.

Buying and occupancy expenses expressed as a percentage of sales increased 2.0% in the first three quarters of Fiscal 2002 as compared to the first three quarters of Fiscal 2001. The increase in buying and occupancy expenses as a percentage of sales was primarily attributable to the lack of leverage on relatively fixed occupancy costs as a result of a decline in comparable store sales. Increased utilities expenses and relatively higher occupancy expenses for new and relocated stores as compared to the Company's existing stores also contributed to the increase in buying and occupancy expenses as a percentage of sales. Buying expenses increased slightly as a percentage of sales, primarily as a result of buying costs for Lane Bryant stores, which are relatively higher due to the product development and design process that supports a 100% private-label business.

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Buying expenses include payroll, payroll related costs, and operating expenses for the Company's buying departments and warehouses. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities, maintenance, and depreciation for the Company's 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 expenses expressed as a percentage of sales increased 0.6% in the first three quarters of Fiscal 2002 as compared to the first three quarters of Fiscal 2001. Selling expenses increased 1.1% as a percentage of sales. The increase was attributable to the lack of leverage on relatively fixed store payroll expenses as a result of the decline in comparable store sales. An improvement in the Company's credit operations (which are included in selling expenses) as a result of reduced interest rates related to the Company's asset securitization program was partially offset by increased delinquencies in the Company's proprietary credit card program during the latter part of the current-year period. Administrative expenses decreased 0.5% as a percentage of sales, primarily as a result of the synergistic effect of a larger sales base on corporate administrative expenses. Selling, general, and administrative expenses exclude goodwill amortization related to the acquisition of the Catherine's stores.

Other income expressed as a percentage of sales decreased 0.2% in the first three quarters of Fiscal 2002 as compared to the first three quarters of Fiscal 2001, primarily as a result of a decrease in interest income. Interest income decreased as a result of lower levels of invested funds during the first three quarters of Fiscal 2002 as compared to the first three quarters of Fiscal 2001. During the first three quarters of Fiscal 2002, the Company converted investments in marketable securities to cash and cash equivalents and used \$83,000,000 of cash and cash equivalents in connection with the acquisition of Lane Bryant (see "RECENT DEVELOPMENTS" above).

Interest expense expressed as a percentage of sales increased 0.2% in the first three quarters of Fiscal 2002 as compared to the first three quarters of Fiscal 2001. The increase was a result of increased borrowings in connection with the acquisition of Lane Bryant (see "RECENT DEVELOPMENTS" above) and an increase in capital lease financing obligations.

The income tax provision for the first three quarters of Fiscal 2002 was 38.8% of the Company's pre-tax income, as compared to 38.2% for the first three quarters of Fiscal 2001. The increase in the effective tax rate is primarily attributable to an increase in the tax provision related to one of the Company's employee insurance programs.

Net income per share, assuming dilution, for the first three quarters of Fiscal 2002 was \$.22 as compared to \$.39 for the first three quarters of Fiscal 2001. Diluted net income per share excluding goodwill amortization (cash earnings per share) was \$.26 for the first three quarters of Fiscal 2002 as compared to \$.43 for the first three quarters of Fiscal 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of working capital are cash flow from operations, its proprietary credit card receivables securitization agreements, its investment portfolio, and its credit facilities. The following table highlights certain information related to the Company's liquidity and

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capital resources:

(Dollars in thousands)	November 3, 2001 ----	February 3, 2001 ----
Working capital.....	\$155,290	\$208,389
Cash and cash equivalents.....	56,578	56,544
Available-for-sale securities.....	51,163	125,278
Current ratio.....	1.3	1.9
Long-term debt to equity (%).....	35.8	23.0

Net cash provided by operating activities was \$29.8 million for the first three quarters of Fiscal 2002, as compared to \$74.1 million for the first three quarters of Fiscal 2001. Cash provided by operating activities for the first three quarters of Fiscal 2002 was negatively impacted by reduced operating income, an increase in merchandise inventories, and an increase in prepaid expenses, which were partially offset by a net decrease in payments of accrued expenses. As a result of the recent decline in interest rates, a portion of the Company's investments in U. S. government agency bonds with early redemption provisions were called for redemption during the first three quarters of Fiscal 2002. The \$74.1 million decrease in available-for-sale securities during the first three quarters of Fiscal 2002 was primarily a result of these redemptions. The Company invested the proceeds from these early redemptions in cash equivalents pending their use in connection with the acquisition of Lane Bryant in August 2002 (see "RECENT DEVELOPMENTS" above).

In connection with the acquisition of Lane Bryant, on August 16, 2001 the Company replaced its existing \$150,000,000 revolving credit facility with a \$375,000,000 credit facility pursuant to a loan and security agreement of the same date. See "RECENT DEVELOPMENTS" above for a description of the \$375,000,000 credit facility. The Company also entered into various agreements with The Limited under which The Limited will provide certain transitional services. The agreements range from 1 month to 36 months, and the Company expects to pay approximately \$6,900,000, \$10,600,000, and \$1,400,000 during the fiscal years ended February 2, 2002, February 1, 2003, and January 31, 2004, respectively, to The Limited under these agreements. The Company may terminate these agreements prior to their expiration dates with notice

In addition, Lane Bryant has subleased approximately 205 properties from The Limited pursuant to a Master Sublease. The stores subject to the Master Sublease were operated as Lane Bryant stores prior to the closing of the acquisition. The Company has guaranteed the obligations of Lane Bryant under the Master Sublease, and, in connection with such guaranty, has entered into an agreement with The Limited, which requires the Company to comply with certain financial covenants, as more fully described in the covenant agreement with The Limited. Lane Bryant has also leased office space and warehouse distribution space from an affiliate of The Limited pursuant to a lease agreement.

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During the first three quarters of Fiscal 2002, pursuant to a program to replace its existing POS equipment, the Company acquired \$12.7 million of POS equipment for its Fashion Bug and Catherine's Stores under capital leases. These leases generally have an initial lease term of 60 months and contain a bargain purchase option. The Company anticipates acquiring additional POS equipment at a total cost of approximately \$3.0 million over the next 9-12 months, which will be financed through the use of capital leases.

As of November 3, 2001, the Company has current debt maturity payments of \$7.6 million, which are primarily for amounts due under the Company's capital lease obligations and mortgage notes.

Capital expenditures (excluding equipment acquired through capital leases) were \$48.4 million during the first three quarters of Fiscal 2002. During the remainder of Fiscal 2002, the Company anticipates incurring additional capital expenditures of approximately \$10 million. These capital expenditures will primarily be for the construction, remodeling, and fixturing of new and existing retail stores, investments in management information systems technology, and improvements to the Company's corporate offices and distribution centers. The Company expects to finance these capital expenditures principally through internally-generated funds. As a result of the uncertain current economic environment, the Company is reevaluating store expansion plans and presently intends to limit capital expenditures for the fiscal year ending February 1, 2003 ("Fiscal 2003") to approximately \$50 million. The number of new store openings could change as the Company continues to assess its outlook. The Company continues to evaluate individual store performance, which could lead to increased store closings in the near term.

The Company plans to open approximately 126 new stores, remodel 35-40 stores, and relocate 50-55 stores during the fiscal year ended February 2, 2002 ("Fiscal 2002"). The following table sets forth information with respect to store activity for the first three quarters of Fiscal 2002:

	Fashion Bug Stores -----	Lane Bryant Stores -----	Catherine's Stores -----	Monsoon/ Accessorize Stores -----	Total -----
Stores at February 3, 2001....	1,230		524	0	1,754
	-----		---	-	-----
Stores acquired.....		651			651
Stores opened.....	60	9	48	9	126
Stores closed.....	(22)	(1)	(13)	0	(36)
	-----	---	---	-	-----
Net change in stores.....	38	659	35	9	741
	-----	---	---	-	-----
Stores at November 3, 2001....	1,268	659	559	9	2,495
	=====	===	===	=	=====
Stores relocated during period	26		20		46
Stores remodeled during period	24		11		35

The Company has a trust to which the Company sells, at face value, its

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interest in receivables created under the Company's Fashion Bug proprietary credit card program. The Company, together with the trust, has entered into various agreements whereby it 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 party with whom the trust has entered into the securitization agreement.

Charming Shoppes Receivables Corp. and Charming Shoppes, Street, Inc., wholly owned indirect subsidiaries of the Company, are separate special-purpose corporations. At November 3, 2001, Charming Shoppes Receivables Corp. had \$33.6 million of Charming Shoppes Master Trust Certificates, and Charming Shoppes Street, Inc. had \$1.1 million of cash. These assets will be available first and foremost to satisfy the claims of the respective creditors of these separate corporate entities, including certain claims of investors in the Charming Shoppes Master Trust. The providers of the credit enhancements and trust investors have no other recourse to the Company. The Company does not receive collateral from any party to the securitization, and the Company does not have any risk of counter-party non-performance.

The Company has non-recourse agreements pursuant to which third parties provide accounts receivable proprietary credit card sales funding programs for both its Catherine's and Lane Bryant stores. These funding programs expire in January 2005 for Catherine's and in January 2006 for Lane Bryant. Under these agreements, the third parties reimburse the Company daily with respect to the proprietary credit card sales generated by the respective store's credit card accounts.

The securitization and funding agreements improve the overall liquidity of the Company by providing short-term sources of funding. Additional information regarding these programs is included in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Financial Condition; Liquidity and Capital Resources" of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2001.

The Company adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," as of the beginning of Fiscal 2002. During the fiscal year ended February 3, 2001 ("Fiscal 2001"), the Company terminated an interest rate swap agreement with a notional principal amount of \$50 million. In accordance with SFAS No. 133, the deferred loss on termination of the swap as of February 4, 2001 (\$1,152,000 net of a tax benefit of \$621,000) has been recognized in "Other comprehensive income" on the Company's consolidated balance sheet, and is being amortized to selling, general, and administrative expenses over the 44-month remaining life of the original swap period.

The Company believes that cash flow from operations, its proprietary credit card receivables securitization and funding agreements, its investment portfolio, and its credit facilities are sufficient to support current operations.

MARKET RISK

The Company manages its Fashion Bug proprietary credit card program through various operating entities that are wholly owned by the Company. The primary activity of these entities is to service the proprietary credit card portfolio, the balances of which are sold to a trust under a credit card securitization program. Under the securitization program, the Company can be exposed to fluctuations in interest rates to the extent that interest rates charged to its customers vary from the rates paid on certificates issued by the trust. Finance charges on all accounts are billed using a floating rate index (the Prime lending rate), subject to a floor and limited by legal maximums. The floating rate index on all of the certificates is either one-month LIBOR or the commercial paper rate, depending on the issue. The Company has exposure in the movement of basis risk between the floating-rate index on the certificates and the Prime rate. As of November 3, 2001, the floating rate finance charge rate was below the contractual floor rate, thus exposing the Company to a portion of interest-rate risk. To the extent that short-term interest rates were to increase by one percentage point by the end of Fiscal 2002, an increase of approximately \$500,000 in selling, general, and administrative expenses would result.

The Company is not subject to material foreign exchange risk, as the Company's foreign transactions are primarily U. S. Dollar-denominated and the Company's foreign operations do not constitute a material part of its business.

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.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

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(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.

- 2.1 Stock Purchase Agreement dated as of July 9, 2001 among Charming Shoppes, Inc., Venice Acquisition Corporation, LFAS, Inc. and The Limited, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.1)
- 2.2 Services Agreement dated as of August 16, 2001 between LBH, Inc. and The Limited, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.2)
- 2.3 Covenant Agreement dated as of August 16, 2001 between Charming Shoppes, Inc. and The Limited, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.3)
- 2.4 Master Sublease dated as of August 16, 2001 between The Limited, Inc. and Lane Bryant, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.4)
- 2.5 Lease Agreement dated as of August 16, 2001 by and between Distribution Land Corp. and Lane Bryant, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.5)
- 2.6 Loan and Security Agreement dated as of August 16, 2001 by and among Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI Industries, Inc., Catherine Stores Corporation, Lane Bryant, Inc. and FB Apparel, Inc., as Borrowers, Charming Shoppes of Delaware, Inc., as Borrowers' Agent, Congress Financial Corporation, as Administrative Agent, Collateral Agent, Joint Lead Arranger and Joint Bookrunner, J.P. Morgan Business Credit Corp., as Co-Agent, Joint Lead Arranger and Joint Bookrunner and The Financial Institutions named therein, as Lenders, incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 2.6)
- 3.1 Restated Articles of Incorporation, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 1994. (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)
- 4.1 Registration Agreement dated as of August 16, 2001 between Charming Shoppes, Inc. and The Limited, Inc., incorporated by reference to Form 8-K of the Registrant dated August 16, 2001, filed on August 31, 2001. (Exhibit 4.1)

(b) Reports on Form 8-K

On October 30, 2001, the Company filed an amendment on Form 8-K/A to a report on Form 8-K dated August 16, 2001. The Form 8-K was filed to report, under "Item 2. Acquisition or Disposition of Assets," the acquisition by Venice Acquisition Corporation, a subsidiary of the Company,

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of all of the outstanding capital stock of LBH, Inc. from a subsidiary of The Limited, Inc. LBH, Inc. owns all of the outstanding capital stock of Lane Bryant, Inc. and certain other entities that hold assets used in Lane Bryant's business. In accordance with Items 7(a)(4) and 7(b)(2) of Form 8-K, the amendment on Form 8-K/A was filed to provide the financial statements and pro forma financial information required by "Item 7. Financial Statements, Pro Forma Financial Information, and Exhibits" of Form 8-K.

SIGNATURES

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

CHARMING SHOPPES, INC.

(Registrant)

Date: December 17, 2001

/S/DORRIT J. BERN

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

Date: December 17, 2001

/S/ERIC M. SPECTER

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Eric M. Specter
Executive Vice President
Chief Financial Officer