CHARMING SHOPPES INC
Form 10-Q
December 05, 2003

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 1, 2003

or

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

For the transition period from ______________ to _______________

Commission File No. 000-07258

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

PENNSYLVANIA	23-1721355
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
450 WINKS LANE, BENSALEM, PA	19020
(Address of principal executive offices)	(Zip Code)

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

NOT APPLICABLE
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

The number of shares outstanding of the issuer's Common Stock, as of December 1, 2003, was 113,180,608 shares.

CHARMING SHOPPES, INC. AND SUBSIDIARIES
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Item 1. Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per-share amounts)	November 1, 2003 (Unaudited)	February 1 2003
ASSETS		
Current assets		
Cash and cash equivalents	$ 72,287	$ 102,026
Available-for-sale securities	55,024	50,286
Merchandise inventories	408,170	286,472
Deferred taxes	16,626	11,726
Prepayments and other	64,123	77,504
Total current assets	616,230	528,014
Property, equipment, and leasehold improvements - at cost	698,052	668,168
Less accumulated depreciation and amortization	378,730	348,295
Net property, equipment, and leasehold improvements	319,322	319,873
Trademarks and other intangible assets	170,643	171,138
Goodwill	68,594	68,594
Available-for-sale securities	23,641	23,472
Other assets	24,791	28,065
Total assets	$ 1,223,221	$ 1,139,156
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 195,553	$ 147,952
Accrued expenses	152,627	163,598
Income taxes payable	801	7,144
Current portion - long-term debt	14,523	12,595
Accrued expenses related to cost reduction plan	2,877	0
Total current liabilities	366,381	331,289
Deferred taxes and other non-current liabilities	61,986	43,188
Long-term debt	200,588	203,045
Stockholders' equity		
Common Stock $.10 par value:		
Authorized - 300,000,000 shares		

Issued - 125,446,267 shares and 125,149,242 shares, respectively	12,545	12,515
Additional paid-in capital	201,561	200,040
Treasury stock at cost - 12,265,993 shares	(84,136)	(84,136
Deferred employee compensation	(2,918)	(3,370
Accumulated other comprehensive loss	(414)	(550
Retained earnings	467,628	437,135
Total stockholders' equity	594,266	561,634
Total liabilities and stockholders' equity	$ 1,223,221	$ 1,139,156

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

(In thousands, except per-share amounts)	Thirteen Weeks Ended November 1, 2003	Thirteen Weeks Ended November 2, 2002(1)
Net sales	$ 530,291	$ 542,332
Cost of goods sold, buying, and occupancy expenses	381,154	391,047
Selling, general, and administrative expenses	141,719	148,323
Expenses related to cost reduction plan	148	0
Restructuring credit	0	(1,351)
Total operating expenses	523,021	538,019
Income from operations	7,270	4,313
Other income, principally interest	344	698
Interest expense	(4,123)	(4,667)
Income before income taxes and minority interest	3,491	344
Income tax provision	1,341	672
Income (loss) before minority interest	2,150	(328)
Minority interest in net loss of consolidated subsidiary	9	36
Net income (loss)	$ 2,159	$ (292)
Basic net income (loss) per share	$ .02	$ .00

Diluted net income (loss) per share	$ .02	$ .00

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

(In thousands, except per-share amounts)	Thirty-nine Weeks Ended November 1, 2003	Thirty-nine Weeks Ended November 2, 2002(1)
Net sales	$ 1,700,033	$ 1,811,255
Cost of goods sold, buying, and occupancy expenses	1,205,067	1,269,658
Selling, general, and administrative expenses	423,883	458,870
Expenses related to cost reduction plan	10,968	0
Restructuring credit	0	(1,351)
Total operating expenses	1,639,918	1,727,177
Income from operations	60,115	84,078
Other income, principally interest	1,308	1,861
Interest expense	(11,777)	(17,147)
Income before income taxes, minority interest, and cumulative effect of accounting changes	49,646	68,792
Income tax provision	19,295	26,829
Income before minority interest and cumulative effect of accounting changes	30,351	41,963
Minority interest in net loss of consolidated subsidiary	142	487
Income before cumulative effect of accounting changes	30,493	42,450
Cumulative effect of accounting changes, net of income tax benefit of $2,758	0	(49,098)
Net income (loss)	$ 30,493	$ (6,648)

Basic net income (loss) per share:		
Before cumulative effect of accounting changes	$ .27	$ .37
Cumulative effect of accounting changes	.00	(.43)
Net income (loss)	$ .27	$ (.06)
Diluted net income (loss) per share:		
Before cumulative effect of accounting changes	$ .26	$ .35
Cumulative effect of accounting changes	.00	(.37)
Net income (loss)	$ .26	$ (.02)

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

(In thousands)	Thirteen Weeks Ended November 1, 2003	Thirteen Weeks Ended November 2, 2002(1)	Thirty-nine Weeks Ended November 1, 2003	Thirty-nine Weeks Ended November 2, 2002(1)
Net income (loss)	$ 2,159	$ (292)	$ 30,493	$ (6,648)
Unrealized losses on available-for-sale securities, net of income taxes of $66, $18, $77, and $77, respectively	(102)	(32)	(120)	(129)
Reclassification of amortization of deferred loss on termination of derivative, net of income taxes of $(46), $(46), $(138), and $(138), respectively	85	85	256	256
Total other comprehensive income (loss), net of taxes	(17)	53	136	127
Comprehensive income (loss)	$ 2,142	$ (239)	$ 30,629	$ (6,521)

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

(In thousands)	Thirty-nine Weeks Ended November 1, 2003	Thirty-nine Weeks Ended November 2, 2002(1)
Operating activities		
Net income (loss)	$ 30,493	$ (6,648)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	56,714	58,263
Write-down of Catherine's Goodwill	0	43,975
Cumulative effect of capitalization of cash received from vendors	0	7,881
Deferred income taxes	11,015	(2,762)
Loss from disposition of capital assets	1,363	2,667
Capitalized interest on conversion of convertible notes	0	3,026
Other, net	(142)	(487)
Changes in operating assets and liabilities:		
Merchandise inventories	(121,698)	(81,985)
Accounts payable	47,601	72,417
Prepayments and other	13,252	(1,500)
Accrued expenses and other	(8,007)	20,054
Income taxes payable	(6,343)	15,990
Accrued restructuring costs	0	(11,975)
Accrued expenses related to cost reduction plan	2,877	0
Net cash provided by operating activities	27,125	118,916
Investing activities		
Investment in capital assets	(39,376)	(64,575)
Proceeds from sales of available-for-sale securities	24,971	15,973
Gross purchases of available-for-sale securities	(30,075)	(31,193)
Proceeds from sales of capital assets	0	801
Increase in other assets	(3,632)	(374)
Net cash used in investing activities	(48,112)	(79,368)
Financing activities		
Proceeds from short-term borrowings	173,213	362,358
Repayments of short-term borrowings	(173,213)	(390,460)
Proceeds from long-term borrowings	1,053	164,000
Repayments of long-term borrowings	(10,792)	(81,296)
Payments of deferred financing costs	0	(5,491)
Purchases of treasury stock	0	(84,136)
Proceeds from exercise of stock options	987	5,093
Net cash used in financing activities	(8,752)	(29,932)

Increase (decrease) in cash and cash equivalents	(29,739)	9,616
Cash and cash equivalents, beginning of period	102,026	36,640
Cash and cash equivalents, end of period	$ 72,287	$ 46,256
Non-cash financing and investing activities		
Common stock issued on conversion of convertible notes	$ 0	$ 92,131
Equipment acquired through capital leases	$ 9,210	$ 2,850

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

1. Condensed Consolidated Financial Statements

We have prepared the condensed consolidated balance sheet as of November 1, 2003, the condensed consolidated statements of operations and comprehensive income (loss) for the thirteen and thirty-nine weeks ended November 1, 2003 and November 2, 2002, and the condensed consolidated statements of cash flows for the thirty-nine weeks ended November 1, 2003 and November 2, 2002 without audit. In the opinion of our management, all adjustments (which include only normal recurring adjustments, except for the cumulative effect of accounting changes) necessary to present fairly the financial position at November 1, 2003, the results of operations for the thirteen and thirty-nine weeks ended November 1, 2003 and November 2, 2002, and cash flows for the thirty-nine weeks ended November 1, 2003 and November 2, 2002 have been made.

We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. These condensed consolidated financial statements should be read in conjunction with the financial statements and related notes included in our February 1, 2003 Annual Report on Form 10-K. The results of operations for the thirteen and thirty-nine weeks ended November 1, 2003 and November 2, 2002 are not necessarily indicative of operating results for the full fiscal year.

As used in these notes, the terms "Fiscal 2004" and "Fiscal 2003" refer to our fiscal year ending January 31, 2004 and our fiscal year ended February 1, 2003, respectively. The terms "Fiscal 2004 First Quarter" and "Fiscal 2003 First Quarter" refer to the thirteen weeks ended May 3, 2003 and May 4, 2002, respectively. The terms "Fiscal 2004 Second Quarter" and "Fiscal 2003 Second Quarter" refer to the thirteen weeks ended August 2, 2003 and August 3, 2002, respectively. The terms "Fiscal 2004 Third Quarter" and "Fiscal 2003 Third Quarter" refer to the thirteen weeks ended November 1, 2003 and November 2, 2002, respectively. The terms "first three quarters of Fiscal 2004" and "first three quarters of Fiscal 2003" refer to the thirty-nine weeks ended November 1, 2003 and November 2, 2002, respectively. The term "Fiscal 2003 Fourth Quarter" refers to the thirteen weeks ended February 1, 2003. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, its consolidated subsidiaries.

In accordance with the transition provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," we performed a review of our goodwill and other indefinite-lived intangible assets for impairment during the Fiscal 2003 Second Quarter. We determined that the carrying value of goodwill related to our acquisition of Catherines Stores Corporation ("Catherine's") exceeded its estimated fair value under SFAS No. 142. We recognized a charge of $43,975,000 as the cumulative effect of an accounting change as of the beginning of Fiscal 2003 to reduce the carrying value of the Catherine's goodwill to its estimated fair value. This charge has no tax effect, as it is not deductible for tax purposes.

1. Condensed Consolidated Financial Statements (continued)

In the Fiscal 2003 Fourth Quarter, we adopted the provisions of FASB Emerging Issues Task Force ("EITF") Issue 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor," as of the beginning of Fiscal 2003, and restated our results of operations for the first three quarters of Fiscal 2003. EITF Issue 02-16 addresses the accounting for cash consideration given to a customer, including both a reseller of the vendor's products and an entity that purchases the vendor's products, from a reseller. The Issue provides accounting guidance on how a customer should characterize cash consideration received from a vendor, and when to recognize and how to measure that consideration in its income statement. The cumulative effect of the adoption of EITF Issue 02-16 as of the beginning of Fiscal 2003 was a charge of $5,123,000, net of income taxes of $2,758,000. For interim reporting, markdown allowances are generally deferred, and are recognized in the period in which markdown expenses are recognized.

The results of operations for the Fiscal 2003 Third Quarter and first three quarters of Fiscal 2003 as previously reported, prior to the restatement for the adoption of EITF Issue 02-16, were as follows:

(In thousands, except per-share amounts)	Thirteen Weeks Ended November 2, 2002	Thirty-nine Weeks Ended November 2, 2002
Net sales..	$ 542,332	$ 1,811,255
Cost of goods sold, buying, and occupancy expenses	389,748	1,269,802
Net income (loss)................................	502	(1,613)
Net income (loss) per share:		
Basic..	$ .00	$ (.01)
Diluted......................................	.00	.01

We account for stock-based compensation using the intrinsic value method, in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. We amortize deferred compensation expense attributable to stock awards and stock options having an exercise price less than the market price on the date of grant over the vesting period of the award or option. We do not recognize compensation expense for options having an exercise price equal to the market price on the date of grant or for shares purchased under our Employee Stock Purchase Plan. We have elected to follow the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," and have adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," as of the beginning of Fiscal 2004.

1. Condensed Consolidated Financial Statements (continued)

The following table reconciles net income (loss) and net income (loss) per share as reported, using the intrinsic value method under APB No. 25, to pro forma net income (loss) and pro forma net income (loss) per share using the fair value method under SFAS No. 123:

(In thousands, except per-share amounts)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2003	November 2, 2002(1)	November 1, 2003	November 2, 2002(1)
Net income (loss), as reported..........	$ 2,159	$ (292)	$ 30,493	$ (6,648)
Add stock-based employee compensation as reported, using intrinsic value method, net of income taxes.........	245	194	745	603
Less stock-based employee compensation, using fair value method, net of income taxes.......................	(810)	(1,502)	(2,494)	(4,360)
Pro forma net income (loss).............	$ 1,594	$ (1,600)	$ 28,744	$ (10,405)
Basic net income (loss) per share:				
As reported........................	$ .02	$ .00	$ .27	$ (.06)
Pro forma..........................	.01	(.01)	.26	(.09)
Diluted net income (loss) per share:				
As reported........................	.02	.00	.26	(.02)
Pro forma..........................	.01	(.01)	.25	(.05)

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2. Trademarks and Other Intangible Assets

(In thousands)	November 1, 2003	February 1, 2003
Trademarks, tradenames, and internet domain names .	$168,800	$168,800
Customer lists and covenant not to compete	3,300	3,300
Total at cost	172,100	172,100
Less accumulated amortization of customer lists and covenant not to compete	1,457	962
Net trademarks and other intangible assets	$170,643	$171,138

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

3. Long-term Debt

(In thousands)	November 1, 2003	February 1, 2003
4.75% Senior Convertible Notes due 2012	$150,000	$150,000
Capital lease obligations	32,592	31,703
6.53% mortgage note	12,600	13,650
7.77% mortgage note	10,152	10,478
7.5% mortgage note	5,896	6,059
Other long-term debt	3,871	3,750
Total long-term debt	215,111	215,640
Less current portion	14,523	12,595
Long-term debt	$200,588	$203,045

4. Stockholders' Equity

(In thousands)	Thirty-nine Weeks Ended November 1, 2003
Total stockholders' equity, beginning of period	$ 561,634
Net income	30,493
Exercises of stock options	857
Amortization of deferred compensation expense	1,146
Amortization of deferred loss on termination of derivative, net of tax	256
Unrealized losses on available-for-sale securities, net of tax	(120)
Total stockholders' equity, end of period	$ 594,266

5. Customer Loyalty Card Programs

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers generally join these programs by paying an annual membership fee. We recognize revenue on these loyalty programs as sales over the life of the membership period based on when the customer earns the benefits. Costs we incur in connection with administering these programs are recognized in cost of goods sold as incurred.

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

5. Customer Loyalty Card Programs (continued)

During the Fiscal 2004 First Quarter, we introduced a new Fashion Bug customer loyalty card program that we operate under our Fashion Bug proprietary credit card program. Like our other loyalty programs, this program entitles customers to various rebates, discounts, and other benefits upon payment of an annual membership fee. This program also provides customers with the option to cancel their membership within 90 days, entitling them to a full refund of their annual fee. Additionally, after 90 days, customers that cancel their membership are entitled to a pro rata fee refund based on the number of months remaining on the annual membership. Accordingly, we recognize 25% of the annual membership fee as revenue after 90 days, with the remaining fee recognized on a pro rata basis over nine months. During the Fiscal 2004 Third Quarter and Fiscal 2004 Second Quarter, we recognized revenues of $2,517,000 and $2,791,000, respectively, in connection with this program. No revenues were recognized during the Fiscal 2004 First Quarter. We have accrued $1,900,000 for the estimated costs of discounts earned and coupons issued and not redeemed during the first three quarters of Fiscal 2004.

Under a previous Fashion Bug store loyalty card program, we recognized revenues from annual membership fees as sales over the life of the membership based on discounts earned by the customer. For customers who do not earn discounts during the membership period that exceed the card fee, the difference between the membership fee and discounts earned is recognized as revenue upon the expiration of the annual membership period. Upon early cancellation of the loyalty card, refunds of membership fees are reduced by the amount of any discounts granted to the member under the program. During the Fiscal 2004 Third Quarter and Fiscal 2003 Third Quarter, we recognized revenues of $401,000 and $5,804,000, respectively, in connection with this program. During the first three quarters of Fiscal 2004 and the first three quarters of Fiscal 2003, we recognized revenues of $6,709,000 and $16,211,000, respectively, in connection with this program. As of December 1, 2002, we discontinued the issuance of new cards under this program. We terminated this program during the Fiscal 2004 Second Quarter.

6. Net Income (Loss) Per Share

	Thirteen Weeks Ended		Thirty-ni
(In thousands, except per-share amounts)	November 1, 2003	November 2, 2002(1)	November 2003
Basic weighted average common shares outstanding	112,533	115,605	112,438
Dilutive effect of assumed conversion of 4.75% senior convertible notes	0	0	15,182
Dilutive effect of assumed conversion of 7.5% convertible subordinated notes	0	0	0
Dilutive effect of stock options and awards	2,423	0	1,139
Diluted weighted average common shares and equivalents outstanding	114,956	115,605	128,759
Income (loss) before cumulative effect of accounting changes	$ 2,159	$ (292)	$30,493
Decrease in interest expense from assumed conversion of notes, net of income taxes	0	0	3,248
Income (loss) before cumulative effect of accounting changes used to determine diluted net income (loss) per share	2,159	(292)	33,741
Cumulative effect of accounting changes	0	0	0
Net income (loss) used to determine diluted net income (loss) per share	$ 2,159	$ (292)	$33,741

Options with weighted average exercise price greater than market price, excluded from computation of diluted net income (loss) per share:			
Number of shares	7,542	4,910	8,351
Weighted average exercise price per share	$ 6.67	$ 7.58	$ 6.64

The effect of an assumed conversion of our 4.75% senior convertible notes into 15.2 million shares of our common stock was excluded from the calculation of diluted net income per share for the thirteen weeks ended November 1, 2003 because the effect would have been anti-dilutive. The effect of an assumed conversion of our 4.75% senior convertible notes, and the dilutive effect of stock options and awards of 1.0 million shares, were excluded from the calculation of diluted net loss per share for the thirteen weeks ended November 2, 2002 because the effect would have been anti-dilutive.

7. Expenses Related to Cost Reduction Plan

On March 18, 2003, we announced a cost reduction plan, designed to take advantage of the centralization of all corporate administrative services throughout the Company and to realize efficiencies available to us, in order to improve profitability. The components of the cost reduction plan are as follows:

- Reduction in corporate operating expenses by streamlining processes and gaining optimal pricing through the consolidation of vendors and the continued centralization of finance, human resources, and other administrative functions in order to leverage the efficiency of our shared services organization.

- Workforce reduction at our corporate and divisional home offices.

- Consolidation of our Memphis, Tennessee distribution center into our distribution center in White Marsh, Maryland.

- Consolidation of our Hollywood, Florida credit operations into our Milford, Ohio facility.

- Closing of the 9 Monsoon/Accessorize stores that we operate under a joint venture with Monsoon plc.

We are accounting for the plan in accordance with the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The total estimated costs related to the plan are $11,143,000, of which $4,431,000 of costs were incurred during the Fiscal 2004 First Quarter, $6,389,000 of costs were incurred during the Fiscal 2004 Second Quarter, and $148,000 of costs were incurred during the Fiscal 2004 Third Quarter.

The total estimated costs related to the plan consist of the following:

(In thousands)

Workforce reduction costs....................................	$ 3,064
Lease termination and related costs..........................	3,703
Acceleration of depreciation of property, equipment, and leasehold improvements...............................	3,703
Other facility closure costs.................................	673
Total estimated costs..	$11,143

Workforce reduction costs represent involuntary termination benefits and retention bonuses. Employees affected by the plan were notified during the Fiscal 2004 First Quarter. During the Fiscal 2004 First Quarter, we terminated 118 employees and accrued the severance benefit in accordance with SFAS No. 146. We terminated 231 employees during the Fiscal 2004 Second Quarter in connection with the closing of our Memphis, Tennessee distribution center, our Hollywood, Florida credit operations, and our remaining Monsoon stores. In accordance with SFAS No. 146, we recognized retention bonuses ratably over the service period. Lease termination and related costs mainly represent the estimated fair value of the remaining lease obligations at the Hollywood, Florida facility, reduced by estimated sublease income. In accordance with

7. Expenses Related to Cost Reduction Plan (continued)

SFAS No. 146, we recognized the present value of the remaining lease obligation less estimated sublease income related to the Hollywood, Florida facility in June 2003 when we closed the facility. Accelerated depreciation costs mainly represent the acceleration of depreciation of the net book value of the assets at our Memphis, Tennessee distribution center, which we closed in June 2003, to estimated fair value.

During the Fiscal 2004 First Quarter, we made the decision to sell the Memphis, Tennessee distribution center, and began accelerating the depreciation of the asset to its fair value as of its expected cease-use date of June 2003. During the Fiscal 2004 Third Quarter, we made a decision to re-evaluate the use of the facility. As a result, we began to depreciate the current carrying amount of the asset over its estimated useful life.

Expenses incurred in connection with the plan and payments/settlements of those expenses for the first three quarters of Fiscal 2004, and the remaining accrual at November 1, 2003, were as follows:

(In thousands)	Thirty-nine Weeks Ended November 1, 2003 Expenses Incurred	Thirty-nine Weeks Ended November 1, 2003 Payments/ Settlements	Accrual at November 1, 2003
Workforce reduction costs	$ 3,059	$(2,856)	$ 203
Lease termination and related costs	3,571	(897)	2,674
Accelerated depreciation costs (non-cash charge)	3,703	(3,703)	0
Other facility closure costs	635	(635)	0
Total	$10,968	$(8,091)	$ 2,877

Expenses related to the plan accrued during the thirteen-weeks and thirty-nine weeks ended November 1, 2003 are included in "Expenses related to cost reduction plan" in the accompanying Condensed Consolidated Statements of Operations for the respective periods.

8. Restructuring Credit

On January 28, 2002, we announced a restructuring plan that included the closing of The Answer/Added Dimensions chain of 77 stores and the conversion of approximately 20% of the Added Dimensions stores to Catherine's stores.

During the thirteen weeks ended November 2, 2002 we completed the closing and conversion of The Answer/Added Dimensions stores, and we recognized a pre-tax restructuring credit of $1,351,000. The restructuring credit was primarily a result of our ability to negotiate lease terminations and amendments on terms more favorable than our original estimates.

9. Corporate-owned Life Insurance Program

During the Fiscal 2004 Second Quarter, we reached a settlement with the Internal Revenue Service regarding its audit of our corporate-owned life insurance ("COLI") program. The settlement included $18,477,000 of income taxes and $4,428,000 of interest, net of a tax benefit of $2,390,000. Of the $18,477,000 of income taxes, $16,125,000 was satisfied through the use of existing operating loss and tax credit carrybacks. As part of the settlement, we surrendered our existing life insurance policies and received their cash surrender value of $16,332,000. The settlement had no impact on our current results of operations, as we had previously provided for taxes to cover the settlement. The settlement will have a net positive impact of approximately $7,100,000 on our Fiscal 2004 cash flows.

10. Impact of Recent Accounting Pronouncements

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. Our adoption of SFAS No. 143 as of the beginning of Fiscal 2004 had no impact on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," an amendment of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 amends SFAS No. 123 to provide alternative transition methods for a voluntary change from the intrinsic value method of accounting for stock-based compensation under APB Opinion No. 25 to the fair value method of accounting under SFAS No. 123. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method used in accounting for stock-based compensation and the effects of the method used on reported results.

We have adopted the interim financial statement disclosure requirements of SFAS No. 148 in the Fiscal 2004 First Quarter. At the present time, we do not intend to voluntarily change from the intrinsic value method of accounting for stock-based compensation to the fair value method.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after that date.

We do not currently hold derivative instruments subject to the provisions of SFAS No. 133, as amended. Adoption of SFAS No. 149 had no impact on our financial position or results of operations.

10. Impact of Recent Accounting Pronouncements (continued)

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that financial instruments within the scope of the statement be classified as a liability (or an asset in some circumstances). Under previous guidance, such instruments could be classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. On November 7, 2003, the FASB issued a FASB Staff Position ("FSP") to defer indefinitely the application of various provisions of SFAS No. 150 for certain mandatorily redeemable non-controlling interests of all entities. The FSP also deferred indefinitely the classification and measurement provisions for non-controlling interests in consolidated limited-life entities.

We have not issued financial instruments subject to the provisions of SFAS No. 150. We do not expect that adoption of SFAS No. 150 will have a material impact on our financial position or results of operations.

In January 2003, the FASB issued Financial Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements." A variable interest entity ("VIE") is a corporation, trust, partnership, or other legal entity used for business purposes that either does not have equity investors with substantive voting rights or has equity investors that do not provide sufficient financial resources for the entity to finance its activities without additional subordinated financial support from other parties. Consolidation of a VIE by a variable interest holder is required if the variable interest holder is subject to a majority of the VIE's risk of loss, is entitled to receive a majority of the VIE's residual returns, or both. The variable interest holder that consolidates the VIE is the primary beneficiary. FIN No. 46 also requires that the primary beneficiary and all other enterprises with a significant variable interest in a VIE provide certain additional disclosures. FIN No. 46 provides certain exceptions to these rules, including qualifying special purpose entities ("QSPEs") subject to the requirements of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

FIN No. 46 is effective for all VIEs created after January 31, 2003. The disclosure provisions of FIN No. 46 apply to financial statements issued after January 31, 2003, regardless of when the VIE was established. For VIEs created before February 1, 2003, the consolidation provisions of FIN. No. 46, as originally issued, were to be applied in the first interim or annual reporting period beginning after June 15, 2003. In October 2003, the FASB postponed the implementation date for VIEs created before February 1, 2003 to the first interim or annual period ending after December 15, 2003, provided that the reporting entity has not issued financial statements reporting the VIE in accordance with FIN No. 46. Early adoption of the provisions of FIN No. 46 is permitted. We are currently assessing the impact of FIN No. 46 on our financial statements; however, we do not expect that adoption of FIN No. 46 will have a material impact on our financial position or results of operations.

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

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes appearing elsewhere in this report. It should also be read in conjunction with the management's discussion and analysis of financial condition and results of operations, financial statements, and accompanying notes appearing in our annual report on Form 10-K for the fiscal year ended February 1, 2003. As used in this management's discussion and analysis, the terms "Fiscal 2004" and "Fiscal 2003" refer to our fiscal year ending January 31, 2004 and our fiscal year ended February 1, 2003, respectively. The term "Fiscal 2005" refers to our fiscal year ending January 29, 2005. The terms "Fiscal 2004 First Quarter" and "Fiscal 2003 First Quarter" refer to the thirteen weeks ended May 3, 2003 and May 4, 2002, respectively. The terms "Fiscal 2004 Second Quarter" and "Fiscal 2003 Second Quarter" refer to the thirteen weeks ended August 2, 2003 and August 3, 2002, respectively. The terms "Fiscal 2004 Third Quarter" and "Fiscal 2003 Third Quarter" refer to the thirteen weeks ended November 1, 2003 and November 2, 2002, respectively. The terms "first three quarters of Fiscal 2004" and "first three quarters of Fiscal 2003" refer to the thirty-nine weeks ended November 1, 2003 and November 2, 2002, respectively. The term "Fiscal 2003 Fourth Quarter" refers to the thirteen weeks ended February 1, 2003. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

With the exception of historical information, the matters contained in the following analysis and elsewhere in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, and cost reductions; plans for future operations; and financing needs or plans, as well as assumptions relating to the foregoing. The words "expect," "should," "project," "estimate," "predict," "anticipate," "plan," "believes," and similar expressions are also intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, some of which we cannot predict or quantify. Future events and actual results, performance, and achievements could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. We assume no obligation to update any forward-looking statement to reflect actual results or changes in or additions to the factors affecting such forward-looking statements.

Factors that could cause our actual results of operations or financial condition to differ from those described in this report include, but are not necessarily limited to, the following:

- Our business is dependent upon our being able to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors, which we may not be able to successfully accomplish in the future.

- The general slowdown in the United States economy and the uncertain economic outlook has led to reduced consumer demand for our apparel and accessories and may continue to do so in the future.

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

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

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

- We depend on key personnel, particularly our Chief Executive Officer, Dorrit J. Bern, and we may not be able to retain or replace these employees or recruit additional qualified personnel.

- We depend on our distribution centers and could incur significantly higher costs and longer lead times associated with distributing our products to our stores if any of these distribution centers were to shut down for any reason.

- We may experience disruptions in the flow of our merchandise during the relocation of our Columbus, Ohio distribution center to our White Marsh, Maryland distribution center.

- We depend for our working capital needs on the availability of credit, including credit we receive from our suppliers and their agents, and on our credit card securitization program. If we were unable to obtain sufficient financing at affordable cost, our ability to merchandise our stores would be adversely affected.

- We rely significantly on foreign sources of production and face a variety of risks (including political instability, imposition of duties, quotas, or sanctions, increased security requirements applicable to imports, delays in shipping, increased costs of transportation, and issues relating to compliance with domestic or international labor standards) generally associated with doing business in foreign markets and importing merchandise from abroad.

- Our stores experience seasonal fluctuations in net sales and operating income. Any decrease in sales or margins during our peak sales periods, or in the availability of working capital needed in the months preceding such periods, could have a material adverse effect on our business. In addition, extreme or unseasonable weather conditions may have an impact on our sales.

- War, acts of terrorism, or the threat of either may negatively impact availability of merchandise and customer traffic to our stores, or otherwise adversely affect our business.

- We may be unable to obtain adequate insurance for our operations at a reasonable cost.

- We may be unable to protect our trademarks and other intellectual property rights, which we believe are important to our success and our competitive position.

- We may be unable to hire and retain suitable sales associates at our stores.

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

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

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

- We may be unable to successfully integrate Lane Bryant into our current operating structure, or implement our plan to improve merchandise assortments and sales performance in our Lane Bryant stores. We also currently rely on logistics services from Limited Brands, Inc. ("Limited Brands") with respect to our Lane Bryant stores.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are discussed in the management's discussion and analysis of financial condition and results of operations and notes accompanying the consolidated financial statements that appear in our annual report on Form 10-K for the fiscal year ended February 1, 2003. Except as otherwise disclosed in the financial statements and accompanying notes included in this report, there were no material changes in our critical accounting policies or in the assumptions or estimates we used to prepare the financial information appearing in this report.

During the Fiscal 2004 First Quarter, we introduced a new Fashion Bug customer loyalty card program that is being operated under our Fashion Bug proprietary credit card program. See "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 5. Customer Loyalty Card Program" above for details of this program.

RESULTS OF OPERATIONS

The following table presents certain financial data expressed as a percentage of net sales and on a comparative basis:

	Thirteen Weeks Ended		Percentage Change From Prior Period	Thirty-nine Weeks En	
	November 1, 2003	November 2, 2002(1)		November 1, 2003	Novemb 2002
Net sales...................	100.0%	100.0%	(2.3)%	100.0%	100
Cost of goods sold, buying, and occupancy expenses................	71.9	72.1	(2.5)	70.9	70
Selling, general, and administrative expenses.	26.7	27.3	(4.5)	24.9	25
Expenses related to cost reduction plan..........	0.0	-	-	0.6	
Restructuring credit........	-	(0.2)	(100.0)	-	(0
Income from operations......	1.4	0.8	68.6	3.5	4
Other income, principally interest................	0.1	0.1	(50.7)	0.1	0
Interest expense............	0.8	0.9	(11.6)	0.7	0
Income tax provision........	0.3	0.1	99.6	1.1	1
Minority interest in net loss of subsidiary..........	-	-	(75.0)	-	

Cumulative effect of accounting changes......	-	-	-	-	(2
Net income (loss)	0.4	(0.1)	-	1.8	(0

The following table presents our net sales by store brand:

(In millions)	Thirteen Weeks Ended November 1, 2003	Thirteen Weeks Ended November 2, 2002	Thirty-nine Weeks Ended November 1, 2003	Thirty-nine Weeks Ended November 2, 2002
Fashion Bug...........	$247.9	$256.6	$ 797.9	$ 867.1
Lane Bryant...........	206.7	205.0	652.6	670.8
Catherine's...........	75.7	79.8(1)	247.8	270.6(1)
Monsoon/Accessorize...	- (2)	0.9	1.7(2)	2.8
Total net sales.......	$530.3	$542.3	$1,700.0	$1,811.3

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

	Thirteen Weeks Ended November 1, 2003	Thirteen Weeks Ended November 2, 2002	Thirty-nine Week November 1, 2003	Nov
Increase (Decrease) in comparable store sales(1):				
Consolidated company....................	0%	(4)%	(3)%	
Fashion Bug............................	6	(1)	2	
Catherine's............................	(5)	1	(1)	
Lane Bryant............................	(5)	(8)	(9)	
Sales from new stores as a percentage of total consolidated prior-period sales:				
Fashion Bug............................	1	3	1	
Catherine's............................	1	2	1	
Lane Bryant............................	3	2	3	
Prior-period sales from closed stores as a				

percentage of total consolidated prior-period sales:			
Fashion Bug............................	(4)	(3)	(5)
Catherine's............................	(1)	(4)	(2)
Lane Bryant............................	(1)	(1)	(1)
Increase (decrease) in total sales............	(2)	(1)	(6)

Comparison of Thirteen Weeks Ended November 1, 2003 and November 2, 2002

Net Sales

Net sales were $530.3 million for the quarter ended November 1, 2003 ("Fiscal 2004 Third Quarter"), a decrease of 2.2% from net sales of $542.3 million for the quarter ended November 2, 2002 ("Fiscal 2003 Third Quarter"). The number of retail stores in operation at the end of the Fiscal 2004 Third Quarter was 2,257 stores, compared to 2,340 stores at the end of the Fiscal 2003 Third Quarter. The decrease in sales was due primarily to a decrease in the number of operating stores at our Fashion Bug chain following our Fiscal 2003 store restructuring initiative and negative comparable store sales results at our Lane Bryant and Catherine's chains. Consolidated comparable store sales were flat for the Fiscal 2004 Third Quarter.

For Fashion Bug stores, higher average dollar transactions and positive comparable store sales in the Plus and Misses categories, along with the chain's "Priced Just Right" program, contributed to a comparable store sales increase of 6% for the Fiscal 2004 Third Quarter. For Catherine's stores, higher unit sales in the quarter were more than offset by negative traffic trends, resulting in negative comparable store sales of 5%. Categories with positive comparable store sales included Denim, which performed strongly as a result of the chain's fit initiative, Accessories, Leather Coats, Bras, and Shape Wear, which were offset by declines in comparable store sales of Career Wear, including Separates, Dresses, and Suits. Lane Bryant experienced negative comparable stores sales of 5% for the quarter but improved on a quarter over quarter basis. Lane Bryant stores experienced increased unit sales and higher average dollar transactions, which were more than offset by weak mall traffic and lower numbers of transactions as compared to the prior-year period. Improved comparable store sales of Intimate Apparel, Accessories, Active Wear, Knit and Woven Separates, and Outerwear were offset by declines in comparable store sales of Casual and Wear-to-Work Apparel lines. Our plans are to remain focused on continuing our progress in improving merchandise assortments at Lane Bryant.

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers generally join these programs by paying an annual membership fee. We recognize revenue on these loyalty programs as sales over the life of the membership period based on when the customer earns the benefits. Costs we incur in connection with administering these programs are recognized in cost of goods sold as incurred.

During the Fiscal 2004 First Quarter, we introduced a new Fashion Bug customer loyalty card program that is being operated under our Fashion Bug proprietary credit card program. See "Item 1. NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (Unaudited); Note 5. Customer Loyalty Card Program" above for details of this program. During the Fiscal 2004 Third Quarter, we decreased the accrual for the estimated costs of discounts earned and coupons issued and not redeemed from $2.4 million to $1.9 million. During the Fiscal 2004 Third Quarter, we recognized revenues of $2.5 million in connection with the new loyalty card program.

In Fiscal 2002, we began a customer loyalty card program for our Fashion Bug store customers. See "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 5. Customer Loyalty Card Program" above for details of this program. During the Fiscal 2004 Third Quarter and Fiscal 2003 Third Quarter, we recognized revenues of $0.4 million and $5.8 million, respectively, in connection with this program. As of December 1, 2002, we discontinued the issuance of new cards under this program. We terminated this program during the Fiscal 2004 Second Quarter.

Cost of Goods Sold, Buying, and Occupancy

Cost of goods sold, buying, and occupancy expenses were $381.2 million for the Fiscal 2004 Third Quarter, a decrease from $391.0 million for the Fiscal 2003 Third Quarter, principally reflecting the decrease in net sales. As a percentage of net sales, these costs decreased 0.2% in the Fiscal 2004 Third Quarter as compared to the Fiscal 2003 Third Quarter.

Cost of goods sold as a percentage of net sales decreased 0.2% in the Fiscal 2004 Third Quarter as compared to the Fiscal 2003 Third Quarter. The decrease was primarily a result of improved margins in our Fashion Bug and Lane Bryant chains, partially offset by reduced margins in our Catherine's chain. 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 as a percentage of net sales in the Fiscal 2004 Third Quarter were unchanged from the Fiscal 2003 Third Quarter. Buying expenses include payroll, payroll-related costs, and operating expenses for our buying departments and warehouses. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities, maintenance, and depreciation for our stores and warehouse facilities and equipment. Buying and occupancy costs are treated as period costs and are not capitalized as part of inventory.

Selling, General, and Administrative

Selling, general, and administrative expenses were $141.7 million for the Fiscal 2004 Third Quarter, a decrease from $148.3 million for the Fiscal 2003 Third Quarter. As a percentage of net sales, these costs decreased by 0.6% in the Fiscal 2004 Third Quarter as compared to the Fiscal 2003 Third Quarter. Selling expenses as a percentage of sales for the Fiscal 2004 Third Quarter decreased 0.6% from the prior-year period. General and administrative expenses were slightly lower than the prior-year period, and were unchanged as a percentage of sales. The improvements in selling, general, and administrative expenses were primarily a result of reductions in store payroll and the realization of cost reduction initiatives, including improved management of controllable expenses.

Expenses Related to Cost Reduction Plan

On March 18, 2003, we announced a cost reduction plan designed to take advantage of the centralization of all corporate administrative services throughout the Company and to realize efficiencies available to us, in order to improve profitability. See "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 7. Expenses Related to Cost Reduction Plan" above for details of this program. The total estimated costs related to this plan are $11.1 million, of which $0.1 million of costs were incurred during the Fiscal 2004 Third Quarter. We do not expect a material after-tax cash impact from execution of this plan. We expect this cost reduction plan to improve annualized pre-tax earnings by approximately $45 million. During the thirty-nine weeks ended November 1, 2003, we realized cost reductions of more than $20 million as a result of this plan. We expect to realize the remaining benefits of the cost reduction plan by the end of Fiscal 2005.

During the Fiscal 2004 First Quarter, we made the decision to sell our Memphis, Tennessee distribution center, and began accelerating the depreciation of the asset so that it was recorded at fair value on its cease-use date of June 2003. During the Fiscal 2004 Third Quarter, we made a decision to re-evaluate the use of the facility. As a result, we began to depreciate the current carrying amount of the asset over its estimated useful life.

Expenses incurred in connection with the plan and payments/settlements of those expenses for the Fiscal 2004 Third Quarter, and the remaining accrual at November 1, 2003, were as follows:

(In millions)	Accrued at August 2, 2003	Expenses for Quarter Ended November 1, 2003	Payments/ Settlements	Accrued at November 1, 2003
Workforce reduction costs...	$0.9	$0.0	$(0.7)	$0.2
Lease termination and related costs...........	2.8	0.1	(0.2)	2.7
Total......................	$3.7	$0.1	$(0.9)	$2.9

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

Restructuring Credit

During the Fiscal 2003 Third Quarter, we completed the closing and conversion of The Answer/ Added Dimensions stores, and we recognized a pre-tax restructuring credit of $1.4 million. See "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 8. Restructuring Credit" above. The restructuring credit was primarily a result of our ability to negotiate lease terminations and amendments on terms more favorable than our original estimates.

Other Income/Interest Expense

Other income (principally interest income) was $0.3 million for the Fiscal 2004 Third Quarter, a decrease from $0.7 million for the Fiscal 2003 Third Quarter. Interest expense was $4.1 million for the Fiscal 2004 Third Quarter, a decrease of 11.7% from $4.7 million for the Fiscal 2003 Third Quarter. The decrease was primarily a result of a reduced level of borrowings in the Fiscal 2004 Third Quarter as compared to the Fiscal 2003 Third Quarter.

Income Tax Provision

The income tax provision for the Fiscal 2004 Third Quarter was $1.3 million, resulting in a 38.4% effective tax rate, as compared to an income tax provision for the Fiscal 2003 Third Quarter of $0.7 million, resulting in a 195.4% effective tax rate. During the Fiscal 2003 Third Quarter we increased the estimated effective tax rate for Fiscal 2003 from 38.2% to 39.0%. The increase in the effective tax rate for Fiscal 2003 was a result of the effect of unfavorable net permanent differences between book income and taxable income on our reduced estimate of Fiscal 2003 pre-tax income. The impact of this change in estimate on a relatively small pre-tax income for the Fiscal 2003 Third Quarter resulted in the high effective tax rate for the quarter.

Comparison of Thirty-nine Weeks Ended November 1, 2003 and November 2, 2002

Net Sales

Net sales were $1,700.0 million for the first three quarters of Fiscal 2004, a decrease of 6.1% from net sales of $1,811.3 million for the first three quarters of Fiscal 2003. The decrease in sales was due primarily to negative comparable store sales results at our Lane Bryant chain, a decrease in the number of operating stores at our Fashion Bug chain following our Fiscal 2003 store restructuring initiative, and the closing of our The Answer/Added Dimensions chain during Fiscal 2003. We experienced a year-over-year decrease in consolidated comparable store sales of 3%.

Fashion Bug stores experienced quarter-over-quarter improvements in comparable store sales, with a comparable store sales decrease of 3% in the Fiscal 2004 First Quarter offset by comparable store sales increases of 3% and 6% in the Fiscal 2004 Second Quarter and Fiscal 2004 Third Quarter, respectively. Year-to-date comparable store sales increased 2%, with increases in Plus Sportswear, Accessories, Intimate Apparel, and Shoes partially offset by decreases in Junior Sportswear and Dresses. Catherine's stores comparable store sales, which had improved from a decrease of 2% in the Fiscal 2004 First Quarter to an increase of 4% in the Fiscal 2004 Second Quarter, decreased 5% in the Fiscal 2004 Third Quarter. Year-to-date comparable store sales decreased 1%, reflecting decreases in Dresses, Career Sportswear, Suits, and Hosiery. Although Lane Bryant stores have experienced negative comparative store sales, they have shown quarter-over-quarter improvements, with a 5% decrease in comparable store sales in the Fiscal 2004 Third Quarter, as compared to a 9% decrease in the Fiscal 2004 Second Quarter and an 11% decrease in the Fiscal 2004 First Quarter. Year-to-date comparable stores sales decreased 9%, reflecting decreases in

Sweaters, Casual Woven Tops, and Denim Separates which were partially offset by increases in Knit and Active Separates, Sleepwear, and Casual Woven Tops. Improved merchandise assortments for our Lane Bryant stores have resulted in increased unit sales and improved sales performance for the chain.

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers generally join these programs by paying an annual membership fee. We recognize revenue on these loyalty programs as sales over the life of the membership period based on when the customer earns the benefits. Costs we incur in connection with administering these programs are recognized in cost of goods sold as incurred.

During the Fiscal 2004 First Quarter, we introduced a new Fashion Bug customer loyalty card program that is being operated under our Fashion Bug proprietary credit card program. See "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 5. Customer Loyalty Card Program" above for details of this program. We have accrued $1.9 million for the estimated costs of discounts earned and coupons issued and not redeemed during the first three quarters of Fiscal 2004. During the first three quarters of Fiscal 2004, we recognized revenues of $5.3 million in connection with the new loyalty card program.

In Fiscal 2002, we began a customer loyalty card program for our Fashion Bug store customers. See "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 5. Customer Loyalty Card Program" above for details of this program. During the first three quarters of Fiscal 2004 and the first three quarters of Fiscal 2003, we recognized revenues of $6.7 million and $16.2 million, respectively, in connection with this program. As of December 1, 2002, we discontinued the issuance of new cards under this program. We terminated this program during the Fiscal 2004 Second Quarter.

Cost of Goods Sold, Buying, and Occupancy

Cost of goods sold, buying, and occupancy expenses were $1,205.1 million for the first three quarters of Fiscal 2004, a decrease from $1,269.7 million for the first three quarters of Fiscal 2003, principally reflecting the decrease in net sales. As a percentage of net sales, these costs increased 0.8% in the first three quarters of Fiscal 2004 as compared to the first three quarters of Fiscal 2003.

Cost of goods sold as a percentage of net sales increased 0.2% in the first three quarters of Fiscal 2004 as compared to the first three quarters of Fiscal 2003. The increase was a result of lower merchandise margins in our Lane Bryant and Catherine's chains, partially offset by an improvement in margins in our Fashion Bug chain. 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 as a percentage of net sales increased 0.6% in the first three quarters of Fiscal 2004 as compared to the first three quarters of Fiscal 2003. 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 negative comparable store sales, particularly in our Lane Bryant chain. Buying expenses include payroll,

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

Selling, General, and Administrative

Selling, general, and administrative expenses were $423.9 million for the first three quarters of Fiscal 2004, a decrease from $458.9 million for the first three quarters of Fiscal 2003. As a percentage of net sales, these costs decreased by 0.4% in the first three quarters of Fiscal 2004 as compared to the first three quarters of Fiscal 2003. Selling expenses as a percentage of sales for the first three quarters of Fiscal 2004 decreased 0.2% from the prior-year period, and general and administrative expenses decreased 0.2% as a percentage of sales. These decreases were primarily a result of the realization of cost reduction initiatives, including improved management of controllable expenses.

Expenses Related to Cost Reduction Plan

On March 18, 2003, we announced a cost reduction plan designed to take advantage of the centralization of all corporate administrative services throughout the Company and to realize efficiencies available to us, in order to improve profitability. See "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 7. Expenses Related to Cost Reduction Plan" above for details of this program. The total estimated costs related to this plan are $11.1 million, of which $11.0 million of costs were incurred during the first three quarters of Fiscal 2004. We do not expect a material after-tax cash impact from execution of this plan. We expect this cost reduction plan to improve annualized pre-tax earnings by approximately $45 million. During the thirty-nine weeks ended November 1, 2003, we realized cost reductions of more than $20 million as a result of this plan. We expect to realize the remaining benefits of the cost reduction plan by the end of Fiscal 2005.

During the Fiscal 2004 First Quarter, we terminated 118 employees and accrued the severance benefit in accordance with SFAS No. 146. We terminated 231 employees during the Fiscal 2004 Second Quarter in connection with the closing of our Memphis, Tennessee distribution center, our Hollywood, Florida credit operations, and our remaining Monsoon stores. In accordance with SFAS No. 146, we recognized retention bonuses ratably over the service period. In accordance with SFAS No. 146, we recognized the present value

of the remaining lease obligation less estimated sublease income related to the Hollywood, Florida facility in June 2003 when we closed the facility.

During the Fiscal 2004 First Quarter, we made the decision to sell the Memphis, Tennessee distribution center, and began accelerating the depreciation of the asset so that it was recorded at fair value on its cease-use date of June 2003. During the Fiscal 2004 Third Quarter, we made a decision to re-evaluate the use of the facility. As a result, we began to depreciate the current carrying amount of the asset over its estimated useful life.

Expenses incurred in connection with the plan and payments/settlements of those expenses for the first three quarters of Fiscal 2004, and the remaining accrual at November 1, 2003, were as follows:

(In millions)	Expenses for Thirty-nine Weeks Ended November 1, 2003	Payments/ Settlements	Accrued at November 1, 2003
Workforce reduction costs..........................	$ 3.1	$(2.9)	$0.2
Lease termination and related costs................	3.6	(0.9)	2.7
Accelerated depreciation costs (non-cash charge)....	3.7	(3.7)	0.0
Other facility closure costs.......................	0.6	(0.6)	0.0
Total..	$11.0	$(8.1)	$2.9

Expenses related to the plan incurred during the first three quarters of Fiscal 2004 are included in "Expenses related to cost reduction plan" in the accompanying Condensed Consolidated Statements of Operations.

Restructuring Credit

During the first three quarters of Fiscal 2003, we completed the closing and conversion of The Answer/Added Dimensions stores, and we recognized a pre-tax restructuring credit of $1.4 million (see "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 8. Restructuring Credit" above). The restructuring credit was primarily a result of our ability to negotiate lease terminations and amendments on terms more favorable than our original estimates.

Other Income/Interest Expense

Other income (principally interest income) was $1.3 million for the first three quarters of Fiscal 2004, a decrease from $1.9 million for the first three quarters of Fiscal 2003. Interest expense was $11.8 million for the first three quarters of Fiscal 2004, a decrease of 31.3% from $17.1 million for the first three quarters of Fiscal 2003. Interest expense for the first three quarters of Fiscal 2003 included a write-off of $1.0 million of unamortized deferred financing costs related to our $67.5 million 11.5% term loan which was paid off. In addition, the decrease was the result of both reduced levels of borrowings and lower interest rates on borrowings in the first three quarters of Fiscal 2004 as compared to the first three quarters of Fiscal 2003. During the Fiscal 2003 Second Quarter, we replaced $96.0 million of 7.5% Convertible Subordinated Notes due 2006 and a $67.5 million 11.5% term loan with $150.0 million of 4.75% Senior Convertible Notes.

Income Tax Provision

The income tax provision for the first three quarters of Fiscal 2004 was $19.3 million, resulting in a 38.9% effective tax rate, as compared to an income tax provision for the first three quarters of Fiscal 2003 of $26.8 million, resulting in a 39.0% effective tax rate.

Cumulative Effect of Accounting Changes

In Fiscal 2003, we changed our method of accounting for cash consideration received from a vendor in accordance with the provisions of FASB Emerging Issues Task Force ("EITF") Issue 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor." EITF Issue 02-16 (the "Issue") addresses the accounting for cash consideration given to a customer, including both a reseller of the vendor's products and an entity that purchases the vendor's products, from a reseller. The Issue provides accounting guidance on how a customer should characterize cash consideration received from a vendor and when to recognize and how to measure that consideration in its income statement.

We adopted the provisions of EITF Issue 02-16 as of the beginning of Fiscal 2003 and restated our results of operations for the first three quarters of Fiscal 2003. The cumulative effect of the adoption of EITF Issue 02-16 as of the beginning of Fiscal 2003 was a charge of $5.1 million, net of income taxes of $2.8 million.

In accordance with the transition provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," we performed a review of our goodwill and other indefinite-lived intangible assets for impairment during the Fiscal 2003 Second Quarter. We determined that the carrying value of goodwill related to our Catherine's stores acquisition exceeded the estimated fair value of the goodwill under SFAS No. 142. We recognized a charge of $44.0 million as the cumulative effect of an accounting change as of the beginning of Fiscal 2003 to reduce the carrying value of the Catherine's goodwill to its estimated fair value. This charge has no tax effect, as it is not deductible for tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of working capital are cash flow from operations, our proprietary credit card receivables securitization agreements, our investment portfolio, and our credit facility.

The following table highlights certain information related to our liquidity and capital resources:

(Dollars in millions)	November 1, 2003	February 1, 2003
Cash and cash equivalents..................	$72.3	$102.0
Long-term available-for-sale securities.....	$23.6	$23.5
Working capital............................	$249.8	$196.7
Current ratio..............................	1.7	1.6
Long-term debt to equity ratio.............	33.8%	36.2%

Our net cash provided by operating activities was $27.1 million for the first three quarters of Fiscal 2004, as compared to $118.9 million for the first three quarters of Fiscal 2003. The decrease was a result of a $6.5 million decrease in net income before non-cash charges and the cumulative effect of accounting changes; a $64.5 million increase in our investment in inventories, net of accounts payable; and a $20.8 million net change in prepaid and accrued expenses and income taxes payable.

The increase in the net investment in inventories was primarily a result of a pre-Christmas seasonal build-up of inventories and a temporarily depressed level of inventories at the end of the Fiscal 2003 Third Quarter caused by dock strikes on the West Coast. The current year increase reflects a return to more normalized inventory levels. Prepaid expenses decreased $13.3 million during the first three quarters of Fiscal 2004, as compared to an increase of $1.5 million during the first three quarters of Fiscal 2003. The Fiscal 2004 decrease was primarily a result of our surrender of existing life insurance policies and receipt of their cash surrender value in connection with our settlement of an Internal Revenue Service audit of our corporate-owned life insurance program (see below). The settlement also resulted in a decrease in income taxes payable during the first three quarters of Fiscal 2004 that more than offset accrued taxes payable for the period. Income taxes payable decreased $6.3 million during the first three quarters of Fiscal 2004, as compared to an increase of $16.0 million during the first three quarters of Fiscal 2003. Accrued expenses and other liabilities decreased $8.0 million during the first three quarters of Fiscal 2004, as compared to an increase of $20.1 million during the first three quarters of Fiscal 2003, primarily as a result of the timing of certain payments. Cash flow from operating activities for the first three quarters of Fiscal 2003 also included a $12.0 million decrease in accrued restructuring costs for payments related to a restructuring plan announced on January 28, 2002.

Our capital expenditures were $39.4 million during the first three quarters of Fiscal 2004. In addition, we acquired $9.2 million of equipment under capital leases. During the remainder of Fiscal 2004, we anticipate incurring additional capital expenditures of approximately $10 - $12 million, primarily for the construction and fixturing of new stores, remodeling and fixturing of existing stores, and improvements to our corporate offices and distribution centers. We expect to finance these capital expenditures principally through internally generated funds. In addition to the $10 - $12 million of capital expenditures discussed above, we expect to incur approximately $8 million of additional capital lease financing during the period from December 2003 through June 2004 in connection with the replacement of point-of-sale equipment for our Lane Bryant stores.

During the Fiscal 2004 Second Quarter, we reached a settlement with the Internal Revenue Service regarding its audit of our corporate-owned life insurance ("COLI") program. The settlement included $18.5 million of income taxes and $4.4 million of interest, net of a tax benefit of $2.4 million. Of the $18.5 million of income taxes, $16.1 million was satisfied through the use of existing operating loss and tax credit carrybacks. As part of the settlement, we surrendered our existing life insurance policies and received their cash surrender value of $16.3 million. The settlement had no impact on our current results of operations, as we had previously provided for taxes to cover the settlement. The settlement will have a net positive impact of approximately $7.1 million on our Fiscal 2004 cash flows.

The following table sets forth information with respect to our store activity for the first three quarters of Fiscal 2004 and planned store activity for all of Fiscal 2004 (including the first three quarters of Fiscal 2004):

	Fashion Bug	Lane Bryant	Catherine's	Monsoon/ Accessorize	Total
Fiscal 2004 Year-to-Date:					
Stores at February 1, 2003......	1,083	689	467	9	2,248
Stores opened..................	2	31	10		43
Stores converted...............	(2)	8(1)	(2)		4
Stores closed..................	(15)	(9)	(5)	(9)	(38)
Net change in stores...........	(15)	30	3	(9)	9
Stores at November 1, 2003......	1,068	719	470	0	2,257
Stores relocated during period..	19	20	15		54
Stores remodeled during period..	3	10	1		14
Fiscal 2004:					
Planned store openings..........	2	33-35	10-15		45-52
Planned store closings..........	25-32	16-20	10-15	9	60-76
Planned store relocations.......	20-25	20-25	15-20		55-70

We have formed a trust called the Charming Shoppes Master Trust (the "Trust") to which Spirit of America National Bank, our credit card bank, has transferred, through a special-purpose entity, its interest in credit card receivables created under our Fashion Bug proprietary credit card program. We, together with the Trust, have entered into various agreements under which the Trust can sell, on a revolving basis, interests in these receivables for a specified term. When the revolving period terminates, an amortization period begins during which principal payments are made to the parties with whom the Trust has entered into the securitization agreement. The Trust currently has two series of credit card receivables securitizations, series 1999-1 and 2002-1, with outstanding investor interests of $150.0 million and $100.0 million, respectively. The first scheduled principal payment dates and expected final principal payment dates range from March 15, 2004 to February 15, 2005 for Series 1999-1 and August 15, 2007 to May 15, 2008 for Series 2002-1. As these credit card receivables securitizations reach maturity, we plan to obtain funding for the Fashion Bug proprietary credit card program through additional securitizations. However, we can give no assurance that we will be successful in securing financing through either replacement securitizations or other sources of replacement financing.

We securitized $232.7 million of private label credit card receivables in the first three quarters of Fiscal 2004 and had $263.0 million of securitized credit card receivables outstanding as of November 1, 2003. We held certificates and retained interests in our securitizations of $54.7 million as of November 1, 2003, which were generally subordinated in right of payment to certificates issued by the trust to third-party investors. Our obligation to repurchase receivables sold to the trust is limited to those receivables that, at the time of their transfer, fail to meet the trust's eligibility standards under normal representations and warranties. To date, our repurchases of receivables pursuant to this obligation have been insignificant.

Charming Shoppes Receivables Corp. and Charming Shoppes Seller, Inc., our consolidated wholly-owned indirect subsidiaries, are separate special-purpose entities created for the securitization program. At November 1, 2003, Charming Shoppes Receivables Corp. held $45.6 million of Charming Shoppes Master Trust certificates and retained interests and Charming Shoppes Seller, Inc. held retained interests of $0.7 million (which are included in the $54.7 million of retained interests we held at November 1, 2003). These assets are first and foremost available to satisfy the claims of the respective creditors of these separate corporate entities, including certain claims of investors in the Charming Shoppes Master Trust.

We could be affected by certain events that would cause the trust to hold proceeds of receivables within the trust as additional enhancement, which proceeds would otherwise be available to be paid to us with respect to our subordinated interests. For example, if either we or the trust fail to meet certain financial performance standards, a credit enhancement condition would occur and the trust would be required to retain amounts otherwise payable to us. In addition, the failure to satisfy certain financial performance standards could further cause the trust to stop using collections on trust assets to purchase new receivables, and would require such collections to be used to repay investors on a prescribed basis, as provided in the trust agreements. If this were to occur, it could result in our having insufficient liquidity; however, we believe we should have sufficient notice to seek alternative forms of financing through other third-party providers. As of November 1, 2003, the trust was in compliance with all applicable financial performance standards. Amounts placed into enhancement accounts, if not required to be paid to the other certificate holders, will be available to us at the termination of the securitization series. We have no obligation to directly fund the enhancement account of the trust, other than for breaches of customary representations, warranties, and covenants and for customary indemnities. These representations, warranties, covenants, and indemnities do not protect the trust or investors in the trust against credit-related losses on the receivables. The providers of the credit enhancements and trust investors have no other recourse to us.

On June 24, 2003, a credit-rating agency placed our rated securitization certificates on a credit watch. On September 10, 2003, the credit-rating agency removed the securitization certificates from credit watch and reaffirmed the ratings of the certificates.

These securitization agreements are intended to improve our overall liquidity by providing short-term sources of funding. The agreements provide that we will continue to service the credit card receivables and control credit policies. This control allows us, absent certain adverse events, to fund continued credit card receivable growth and to provide the appropriate customer service and collection activities. Accordingly, our relationship with our credit card customers is not affected by these agreements. Additional information regarding this program is included in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 14. Asset Securitization" of our Annual Report on Form 10-K for the fiscal year ended February 1, 2003.

We also have non-recourse agreements under which third parties provide accounts receivable proprietary credit card sales funding programs for both our 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 us daily with respect to the proprietary credit card sales generated by the respective store's credit card accounts. Additional information regarding these agreements is included in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 14. Asset Securitization" of our Annual Report on Form 10-K for the fiscal year ended February 1, 2003.

We have not paid any dividends since 1995, and we do not expect to declare or pay any dividends on our common stock in the foreseeable future. The payment of future dividends is within the discretion of our Board of Directors and will depend upon our future earnings, if any, our capital requirements, financial condition and other relevant factors. Additionally, our existing credit facility and one of our agreements with Limited Brands restrict the payment of dividends on our common stock.

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

FINANCING

As of November 1, 2003, we had a $300.0 million revolving credit facility, which provides for cash borrowings and enables us to issue up to $150.0 million of letters of credit for overseas purchases of merchandise and for other guarantees. The availability of borrowings under our revolving credit facility is subject to limitations based on eligible inventory and the value of certain real property. The credit facility is secured by our general assets, except for certain assets related to our credit card securitization program, certain real properties and equipment subject to other mortgages, our interest in our joint venture with Monsoon plc, and the assets of our non-U.S. subsidiaries. The credit facility expires on August 16, 2004, and can be renewed for an additional year at our option. As of November 1, 2003, there were no borrowings outstanding under the revolving credit facility. We purchase merchandise from both the domestic and overseas wholesale apparel marketplace six to nine months prior to the start of a season and utilize letters of credit for overseas purchases.

The interest rate on borrowings under the revolving credit facility ranges from Prime to Prime plus .75% per annum for Prime Rate Loans, and LIBOR plus 2.0% to LIBOR plus 2.75% per annum for Eurodollar Rate Loans. The applicable rate is determined quarterly, based on our Leverage Ratio or excess availability, as defined in the credit facility. As of November 1, 2003, the interest rate on borrowings under the revolving credit line was 4.0%.

The revolving credit facility includes limitations on sales and leasebacks, the incurrence of additional liens and debt, capital lease financing, and other limitations. The revolving credit facility also requires, among other things, that we not pay dividends on our common stock and, under certain circumstances, that we maintain an Adjusted Tangible Net Worth of $228.0 million (subject to adjustment). As of November 1, 2003, we were in compliance with the covenants included in the revolving credit facility. As of November 1, 2003, the excess availability under the revolving credit facility was $234.5 million.

Additional information regarding our long-term borrowings is included in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 7. Debt" of our Annual Report on Form 10-K for the fiscal year ended February 1, 2003.

As of November 1, 2003, under authority granted by our Board of Directors during prior fiscal years, we are authorized to repurchase approximately 5 million additional shares of our common stock. Our ability to exercise this authority currently is restricted by the terms of our revolving credit facility and an agreement with Limited Brands that we entered into in conjunction with our acquisition of Lane Bryant. Subject to obtaining consents, and as conditions may allow, we may acquire additional shares of our common stock. Such shares, if purchased, would be held as treasury shares.

MARKET RISK

We manage our Fashion Bug proprietary credit card program through various operating entities that we own. The primary activity of these entities is to service our proprietary credit card portfolio, the balances of which we sell under a credit card securitization program. Under the securitization program, we can be exposed to fluctuations in interest rates to the extent that the interest rates charged to our customers vary from the rates paid on certificates issued by the trust. Until November 2000, the credit card program billed finance charges based on a fixed rate. As of November 2000, 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. As of November 1, 2003, a portion of the certificates have fixed rates. To the extent that interest rates decline, we may be exposed to interest-rate risk on our fixed-rate certificates. The floating rate index on our floating-rate certificates is either one-month LIBOR or the commercial paper rate, depending on the issuance. Consequently, we have exposure in the movement of basis risk between the floating rate index on the certificates and the Prime rate. As of November 1, 2003, the floating-rate finance charge rate was below the contractual floor rate, thus exposing us to a portion of interest-rate risk. If short-term interest rates were to increase by one percentage point by the end of Fiscal 2004, an increase of approximately $306 thousand in selling, general, and administrative expenses would result.

As of November 1, 2003, there were no borrowings outstanding under our revolving credit facility. To the extent that there are borrowings outstanding under our revolving credit facility, such borrowings would be exposed to variable interest rates. An increase in market interest rates would increase our interest expense and decrease our cash flows. A decrease in market interest rates would decrease our interest expense and increase our cash flows.

We are not subject to material foreign exchange risk, as our foreign transactions are primarily U.S. Dollar-denominated and our foreign operations do not constitute a material part of our business.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

See "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 10. Impact of Recent Accounting Pronouncements" above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; MARKET RISK," above.

Item 4. Controls and Procedures

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

As of the end of the period covered by this report on Form 10-Q (the "Evaluation Date"), our Disclosure Committee, under the supervision and with the participation of management, including our CEO and CFO, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our management, including our CEO and CFO, has concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective. Furthermore, there has been no change in our internal control over financial reporting that occurred during the period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In October 2003, we settled a purported class action suit filed in Alameda Superior Court, California on October 26, 2001 against Lane Bryant, Inc. by a terminated employee. The suit alleged that the terminated employee and all Lane Bryant store sales managers in California were misclassified as exempt employees, and are actually nonexempt employees and entitled to be paid overtime which they had not received. The settlement did not have a material impact on our results of operations for the quarter or nine months ended November 1, 2003.

There have been no other material developments in legal proceedings involving the Company or its subsidiaries since those reported in our Annual Report on Form 10-K for the fiscal year ended February 1, 2003 and our Quarterly Report on Form 10-Q for the quarter ended May 3, 2003.

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

3.1 Restated Articles of Incorporation, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 1994. (File No. 000-07258, Exhibit 3.1)

3.2 Bylaws, as Amended and Restated, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999. (Exhibit 3.2)

31.1 Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On August 21, 2003, we filed a Current Report on Form 8-K to furnish, under "Item 12. Results of Operations and Financial Condition," the text of our press release, issued August 21, 2003, announcing our earnings for the quarter ended August 2, 2003 (the second quarter of our fiscal year ending January 31, 2004).

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 4, 2003

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

Date: December 4, 2003

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

Exhibit Index

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