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CHARMING SHOPPES INC
Form 10-Q
December 17, 2002

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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 2, 2002

or

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

For the transition period from _____ to _____

Commission File No. 000-07258

CHARMING SHOPPES, INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of
incorporation or organization)

23-1721355

(I.R.S. Employer
Identification No.)

450 WINKS LANE, BENSALEM, PA

(Address of principal executive office)

19020

(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

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November 2, 2002, was 112,840,144 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHARMING SHOPPES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)	November 2, 2002 ---- (Unaudited)	February 2, 2002 ----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 46,256	\$ 36,640
Available-for-sale securities, including fair value adjustments of \$0 and \$24, respectively	51,566	48,351
Merchandise inventories	383,057	300,407
Deferred taxes	19,960	21,228
Prepayments and other	93,877	78,118
	-----	-----
Total current assets	594,716	484,744
	-----	-----
Property, equipment, and leasehold improvements	672,005	657,067
Less: accumulated depreciation and amortization	348,114	341,055
	-----	-----
Net property, equipment, and leasehold improvements	323,891	316,012
	-----	-----
Trademarks and other intangible assets	171,294	171,794
Goodwill	69,159	110,243
Available-for-sale securities, including fair value adjustments of \$(221) and \$(39), respectively	33,814	22,015
Other assets	17,586	27,869
	-----	-----
Total assets	\$1,210,460	\$1,132,677
	=====	=====

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

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(In thousands, except share and per-share amounts)	November 2, 2002 ----- (Unaudited)	February 2, 2002 -----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	\$ 26,195	\$ 54,296
Accounts payable	180,308	107,891
Accrued expenses	169,889	148,373
Income taxes payable	15,990	0
Deferred taxes	24,900	0
Accrued restructuring costs	7,783	19,758
Current portion - long-term debt	11,711	9,379
	-----	-----
Total current liabilities	436,776	339,697
	-----	-----
Deferred taxes	8,787	33,687
Long-term debt	202,608	208,491
Minority interest	513	1,000
Stockholders' equity		
Common Stock \$.10 par value		
Authorized - 300,000,000 shares		
Issued - 125,106,137 shares at November 2, 2002 and		
111,891,156 shares at February 2, 2002	12,511	11,189
Additional paid-in capital	199,465	103,267
Treasury stock at cost - 12,265,993 shares at November 2, 2002 ...	(84,136)	0
Deferred employee compensation	(3,665)	(3,741)
Accumulated other comprehensive loss	(691)	(818)
Retained earnings	438,292	439,905
	-----	-----
Total stockholders' equity	561,776	549,802
	-----	-----
Total liabilities and stockholders' equity	\$1,210,460	\$1,132,677
	=====	=====

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

(In thousands, except per-share amounts)	Thirteen Weeks Ended	
	November 2, 2002 -----	November 3, 2001 -----
Net sales	\$ 542,332	\$ 549,295
	-----	-----

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Cost of goods sold, buying, and occupancy expenses	389,748	396,026
Selling, general, and administrative expenses	148,323	146,248
Restructuring credit	(1,351)	0
Amortization of goodwill	0	1,221
	-----	-----
Total operating expenses	536,720	543,495
	-----	-----
Income from operations	5,612	5,800
Other income, principally interest	698	1,098
Interest expense	(4,667)	(6,636)
	-----	-----
Income before income taxes	1,643	262
Income tax provision	1,177	102
	-----	-----
Income before minority interest	466	160
Minority interest in net loss of consolidated subsidiary, net of income taxes of \$22	36	0
	-----	-----
Net income	\$ 502	\$ 160
	=====	=====
Basic net income per share	\$.00	\$.00
	=====	=====
Diluted net income per share	\$.00	\$.00
	=====	=====

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

(In thousands, except per-share amounts)	Thirty-nine Weeks	
	November 2, 2002	Novem 2
	----	---
Net sales	\$ 1,811,255	\$ 1,
	-----	-----
Cost of goods sold, buying, and occupancy expenses	1,269,802	
Selling, general, and administrative expenses	458,870	
Restructuring credit	(1,351)	
Amortization of goodwill	0	
	-----	-----
Total operating expenses	1,727,321	1,
	-----	-----
Income from operations	83,934	

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Other income, principally interest	1,861	
Interest expense	(17,147)	
	-----	-----
Income before income taxes and cumulative effect of accounting change	68,648	
Income tax provision	26,773	
	-----	-----
Income before minority interest and cumulative effect of accounting change	41,875	
Minority interest in net loss of consolidated subsidiary, net of income taxes of \$301	487	
	-----	-----
Income before cumulative effect of accounting change	42,362	
Cumulative effect of accounting change	(43,975)	
	-----	-----
Net income (loss)	\$ (1,613)	\$
	=====	=====
Basic net income (loss) per share:		
Income before cumulative effect of accounting change	\$.37	
Cumulative effect of accounting change	(.38)	

Net income (loss)	\$ (.01)	
	=====	
Net income (loss) per share, assuming dilution:		
Income before cumulative effect of accounting change	\$.35	
Cumulative effect of accounting change	(.33)	

Net income (loss)	\$.01(1)	
	=====	

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

(In thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 2, 2002	November 3, 2001	November 2, 2002	November 3, 2001
	----	----	----	----
Net income (loss)	\$ 502	\$ 160	\$ (1,613)	\$ 23,388
	-----	-----	-----	-----
Unrealized losses on available-for-sale securities, net of income taxes of \$18, \$0, \$77, and \$5, respectively	(32)	(1)	(129)	(53)
Reclassification of realized losses on available-for-sale securities, net of income taxes of \$0, \$0, \$0 and \$(4), respectively	0	0	0	6

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Unamortized deferred loss on termination of derivative, net of income taxes of \$621 .				(1,152)
Reclassification of amortization of deferred loss on termination of derivative, net of income taxes of \$(47), \$(46), \$(139) and \$(138), respectively	85	85	256	256
	-----	-----	-----	-----
Total other comprehensive income (loss), net of taxes	53	84	127	(943)
	-----	-----	-----	-----
Comprehensive income (loss)	\$ 555	\$ 244	\$ (1,486)	\$ 22,445
	=====	=====	=====	=====

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

(In thousands)	Thirty-nine Weeks Ended November 2, 2002 ----	November 3, 2001 ----
Operating activities		
Net income (loss)	\$ (1,613)	\$ 23,388
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	58,263	43,982
Cumulative effect of accounting change	43,975	0
Loss (gain) from disposition of capital assets	2,667	(182)
Capitalized interest on conversion of convertible notes	3,026	0
Other, net	(547)	484
Changes in operating assets and liabilities:		
Merchandise inventories	(82,651)	(66,660)
Accounts payable	72,417	29,001
Prepayments and other	(1,500)	(10,245)
Accrued expenses	20,864	2,101
Income taxes payable	15,990	7,965
Accrued restructuring costs	(11,975)	0
	-----	-----
Net cash provided by operating activities	118,916	29,834
	-----	-----
Investing activities		
Investment in capital assets	(64,575)	(48,369)
Proceeds from sales of capital assets	801	0
Acquisition of Lane Bryant, Inc., net of cash acquired	0	(280,841)
Proceeds from sales of available-for-sale securities	15,973	105,931
Gross purchases of available-for-sale securities	(31,193)	(31,866)
Decrease in other assets	(374)	(3,481)
	-----	-----
Net cash used in investing activities	(79,368)	(258,626)
	-----	-----
Financing activities		

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Proceeds from short-term borrowings	362,358	370,994
Repayments of short-term borrowings	(390,460)	(218,491)
Proceeds from long-term borrowings	164,000	85,950
Repayments of long-term borrowings	(81,296)	(4,299)
Payments of deferred financing costs	(5,491)	(7,541)
Purchases of treasury stock	(84,136)	0
Proceeds from exercise of stock options	5,093	2,213
	-----	-----
Net cash (used in) provided by financing activities	(29,932)	228,826
	-----	-----
Increase in cash and cash equivalents	9,616	34
Cash and cash equivalents, beginning of period	36,640	56,544
	-----	-----
Cash and cash equivalents, end of period	\$ 46,256	\$ 56,578
	=====	=====
Non-cash financing and investing activities		
Common stock issued on conversion of convertible notes	\$ 92,131	\$ 0
	=====	=====
Common stock issued for acquisition of Lane Bryant, Inc. ..	\$ 0	\$ 55,000
	=====	=====
Equipment acquired through capital leases	\$ 2,850	\$ 12,650
	=====	=====

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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 2, 2002, the condensed consolidated statements of operations and comprehensive income (loss) for the thirteen and thirty-nine weeks ended November 2, 2002 and November 3, 2001, and the condensed consolidated statements of cash flows for the thirty-nine weeks ended November 2, 2002 and November 3, 2001 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments, except for a cumulative effect of accounting change and a restructuring credit) necessary to present fairly the financial position at November 2, 2002, the results of operations for the thirteen and thirty-nine weeks ended November 2, 2002 and November 3, 2001, and cash flows for the thirty-nine weeks ended November 2, 2002 and November 3, 2001 have been made.

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 2, 2002 Annual Report on Form 10-K. The results of operations for the thirteen and thirty-nine weeks ended November 2, 2002 and November 3, 2001 are not necessarily indicative of operating results for the full fiscal year.

As used in these notes, the terms "Fiscal 2003" and "Fiscal 2002" refer to the Company's fiscal year ending February 1, 2003 and fiscal year ended February

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2, 2002, respectively. The terms "the Company", "we", "us", and "our" refer to Charming Shoppes, Inc. and, where applicable, its consolidated subsidiaries.

2. Acquisition

On August 16, 2001, we acquired 100% of the outstanding stock of Lane Bryant, Inc. ("Lane Bryant") from a subsidiary of Limited Brands, Inc. ("Limited Brands") (formerly The Limited, Inc.). The acquisition has been accounted for under the purchase method of accounting. The results of operations of Lane Bryant are included in our results of operations for the thirteen and thirty-nine weeks ended November 2, 2002. Our results of operations for the thirteen and thirty-nine weeks ended November 3, 2001 include the results of operations of Lane Bryant from the date of acquisition.

The acquisition of Lane Bryant complements our 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 in multiple retail venues, primarily in leading malls.

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

2. Acquisition (continued)

The following unaudited pro forma results of operations for the thirteen and thirty-nine weeks ended November 3, 2001 are based on historical data, and give effect to our acquisition of Lane Bryant as if the acquisition had occurred on February 4, 2001. 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, and a reduction in interest income from the use of approximately \$83,000,000 of our cash and cash equivalents to fund a portion of the acquisition.

The unaudited pro forma results of operations are not necessarily indicative of the actual results of operations that would have occurred if the acquisition had occurred as of February 4, 2001, and are 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 we may realize as a result of the acquisition. No assurances can be given as to the amount and timing of any financial benefits that we may realize as a result of the acquisition.

	Thirteen Weeks Ended November 3, 2001 ----	Thirty-nine Weeks Ended November 3, 2001 ----
(In thousands)		

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Net sales	\$574,037	\$1,839,091
Net income (loss) ...	(800)	29,485
Net income per share:		
Basic	\$ (.01)	\$.26
Diluted	(.01)	.26

In connection with the acquisition of Lane Bryant, we recorded a liability of \$4,640,000 for estimated costs related to an unfavorable service contract. During the first quarter of the current fiscal year, we finalized the contract and revised our estimate of costs related to the contract to \$2,292,000, which resulted in a decrease in the goodwill recognized in connection with the Lane Bryant acquisition of \$1,435,000, net of deferred income taxes of \$913,000. During the second quarter of the current fiscal year, we recorded a liability for severance in accordance with an agreement entered into with an affiliate of Limited Brands at the time of the acquisition to use the existing Lane Bryant distribution center and receive related distribution services on a transition basis, which resulted in an increase in Lane Bryant goodwill of \$611,000, net of deferred income taxes of \$389,000. During the third quarter of the current fiscal year, we reduced the acquisition value assigned to equipment and leasehold improvements in the existing Lane Bryant distribution center, which will be abandoned at the end of the transition period as a result of our acquisition of a replacement distribution center in White Marsh, Maryland, increased a liability for future claims related to Lane Bryant's pre-acquisition operations, and decreased deferred tax assets as a result of a correction of the effective tax rate used to determine deferred taxes related to certain assets acquired, which resulted in an increase in Lane Bryant goodwill of \$3,715,000, including net deferred income taxes of \$744,000.

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

3. Trademarks and Other Intangible Assets

(In thousands)	November 2, 2002 ----	February 2, 2002 ----
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	806	306
	-----	-----
Net trademarks and other intangible assets	\$171,294	\$171,794
	=====	=====

4. Debt

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Long-term debt:

(In thousands)	November 2, 2002 ----	February 2, 2002 ----
4.75% Senior Convertible Notes due 2012	\$150,000	\$ 0
7.5% Convertible Subordinated Notes due 2006	0	96,047
Term loan due August 16, 2004	0	67,500
Capital lease obligations	29,577	32,256
6.53% mortgage note	14,000	0
7.77% mortgage note	10,583	10,885
8.15% mortgage note	4,048	4,908
7.5% mortgage note	6,111	6,261
Other	0	13
	-----	-----
Total long-term debt	214,319	217,870
Less current portion	11,711	9,379
	-----	-----
	\$202,608	\$208,491
	=====	=====

On May 28, 2002, we completed a private placement of \$130,000,000 of 4.75% Senior Convertible Notes due 2012 (the "Senior Notes"). On June 20, 2002, the initial purchasers of the private placement exercised their option to purchase an additional \$20,000,000 principal amount of the Senior Notes, resulting in the private placement of Senior Notes in an aggregate principal amount of \$150,000,000.

The Senior Notes will mature on June 1, 2012 and are convertible at any time prior to maturity into shares of our common stock at a conversion price of \$9.88, subject to adjustment upon certain events. The Senior Notes are redeemable at our option, in whole or in part, at any time on or after June 4, 2007, at declining redemption prices, starting at 102.38% of principal and decreasing to 100.48% on or after June 1, 2011. Under certain circumstances involving a change in control of the Company, holders of the Senior Notes may require us to repurchase all or a portion of the Senior Notes at 100% of the principal amount plus accrued and

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

4. Debt (continued)

unpaid interest, if any. Also, under such circumstances we have the option of paying the repurchase price in shares of our common stock, valued at 95% of the average of the closing prices of the common stock for the five-day trading period immediately before and including the third trading day preceding the repurchase date. There is no sinking fund for the Senior Notes.

Net proceeds received from the issuance of the Senior Notes were \$145,500,000. We used a portion of the net proceeds to repay in full our \$67,500,000 term loan due August 16, 2004, \$3,486,000 outstanding under our

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revolving credit facility, and \$6,942,000 of the 7.5% Convertible Subordinated Notes due 2006 called for redemption (see below). We also used a portion of the proceeds to purchase 2,740,000 shares of our common stock at a cost of \$18,708,000. The remaining proceeds (\$48,864,000) were invested in cash and cash equivalents pending their use toward the purchase of 9,525,993 shares of our common stock from Limited Brands (see "Note 6. Stockholders' Equity" below). In addition, we wrote off \$951,000 of unamortized deferred financing costs related to the term loan. The write-off of the deferred financing costs has been included in continuing operations in the Consolidated Statements of Operations for the thirty-nine weeks ended November 2, 2002, in accordance with the early-application provisions of SFAS No. 145 (see "Note 11. Impact of Recent Accounting Pronouncements" below). The term loan that was repaid had an 11.5% interest rate and various financial covenants.

On May 29, 2002, we called our 7.5% Convertible Subordinated Notes due 2006 (the "Subordinated Notes") for redemption on June 28, 2002. The redemption price was 102.5% of the principal amount of the Subordinated Notes, plus accrued and unpaid interest to the date of redemption. The Subordinated Notes had an original maturity date of July 15, 2006, and could be converted into shares of our common stock until the close of business on June 27, 2002 at a conversion price of \$7.46. During the thirty-nine weeks ended November 2, 2002, \$89,105,000 principal amount of the Subordinated Notes were converted into 11,944,338 shares of our common stock pursuant to the conversion terms of the Notes. Accrued interest expense of \$3,026,000 on the Subordinated Notes that were converted has been reclassified to additional paid-in capital. On June 28, 2002, the remaining Subordinated Notes, with an aggregate principal amount of \$6,942,000, were redeemed for \$7,351,000, including the 2.5% redemption premium and accrued interest of \$236,000 to the date of redemption. The redemption premium of \$174,000 has been included in continuing operations in the Consolidated Statements of Operations for the thirty-nine weeks ended November 2, 2002, in accordance with the early-application provisions of SFAS No. 145 (see "Note 11. Impact of Recent Accounting Pronouncements" below).

In October 2002, we borrowed \$14,000,000 under a 6.53% mortgage note. The note has a ten-year term with 120 monthly installments of principal in the amount of \$117,000 plus interest. The mortgage note is secured by land, a building, and certain fixtures we own at our distribution center in White Marsh, Maryland, which we acquired on September 24, 2002. The net proceeds were used to finance a substantial portion of the White Marsh acquisition.

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

5. Accrued Restructuring Costs

On January 28, 2002, we announced a restructuring plan, including a number of initiatives designed to position the Company for increased profitability and growth in the plus-size businesses. The major components of the plan included (1) 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, (2) the closing of 130 under-performing Fashion Bug stores, and (3) the conversion of 44 Fashion Bug store locations to Lane Bryant stores. The restructuring plan resulted in a pre-tax charge of \$37,708,000 in the fourth quarter of Fiscal 2002. The restructuring charge included a \$17,763,000 non-cash write-down of fixed assets (primarily store fixtures and improvements) in the stores to be closed, \$18,500,000 of anticipated payments to landlords for the

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early termination of existing store leases, \$829,000 for severance costs, and \$616,000 for sign removal and other costs. The fixtures and improvements have no alternative use or salvage value, and we expect to scrap them at the time the stores are closed.

During the thirty-nine weeks ended November 2, 2002, we closed 97 Fashion Bug stores (including 33 stores to be converted to Lane Bryant stores) and 68 Catherine's/Added Dimensions stores, and converted 9 Added Dimensions stores to Catherine's stores, in connection with the restructuring plan. 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. We expect to substantially complete the remainder of the restructuring plan by the end of Fiscal 2003.

The following is a summary of restructuring costs accrued in connection with the plan and amounts charged against the accrual during the thirty-nine weeks ended November 2, 2002:

(In thousands)	Accrued At February 2, 2002 ----	Payments -----	Revision of Cost Estimate -----	Accrued At November 2, 2002 ----
Lease terminations/amendments	\$ 18,500	\$ (9,880)	\$ (1,351)	\$ 7,269
Severance	829	(529)	0	300
Sign removal and other costs	429	(215)	0	214
	-----	-----	-----	-----
	\$ 19,758	\$(10,624)	\$ (1,351)	\$ 7,783
	=====	=====	=====	=====

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

6. Stockholders' Equity

(In thousands)	Thirty-nine Weeks Ended November 2, 2002 ----
Total stockholders' equity, beginning of period	\$ 549,802
Conversion of convertible notes	92,131
Purchases of treasury stock	(84,136)
Net loss	(1,613)
Exercises of stock options	4,538
Amortization of deferred compensation expense	927
Amortization of deferred loss on termination of derivative, net of tax	256
Unrealized losses on available-for-sale securities, net of tax	(129)

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Total stockholders' equity, end of period	----- \$ 561,776 =====
---	------------------------------

On August 28, 2002, we purchased 3,175,331 shares of our common stock from Limited Brands for \$21,291,000 (\$6.705 per share). On September 17, 2002, we purchased an additional 6,350,662 shares of our common stock from Limited Brands for \$44,137,000 (\$6.95 per share). We had previously issued 9,525,993 shares of our common stock to Limited Brands in connection with our acquisition of Lane Bryant in August 2001. During the thirty-nine weeks ended November 2, 2002, we also purchased an aggregate total of 2,740,000 shares of our common stock on the open market for \$18,708,000 (an average cost of \$6.828 per share). The transactions were financed through the use of existing cash and proceeds from the issuance of our 4.75% Senior Convertible Notes (see "Note 4. Debt" above). The purchased shares will be held as treasury shares.

7. Derivative Financial Instruments

We 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 the fiscal year ended February 3, 2001 ("Fiscal 2001"), we terminated an interest rate swap agreement with a notional principal amount of \$50,000,000. In accordance with SFAS No. 133, we recognized the deferred loss on termination of the swap as of February 4, 2001 (\$1,152,000 net of a tax benefit of \$621,000) in "Accumulated other comprehensive (loss) income" during the thirty-nine weeks ended November 3, 2001. We are amortizing the deferred loss to selling, general, and administrative expenses over the 44-month remaining life of the original swap period.

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

8. Customer Loyalty Card Program

In Fiscal 2002, we began a customer loyalty card program for our Fashion Bug store customers. The program grants discounts on customer purchases over a twelve-month period upon payment of a \$25 annual fee. Revenues from card fees under the program are recognized as sales over the life of the membership dependent on discounts being earned by the customer. If a customer does not earn discounts in an amount that exceeds the card fee, such difference is recognized as revenue upon the expiration of the annual period. Upon early 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 we incur in connection with administering the program are recognized in cost of goods sold as incurred. During the thirteen weeks ended November 2, 2002 and November 3, 2001, we recognized revenues of \$5,804,000 and \$4,433,000, respectively, in connection with this program. During the thirty-nine weeks ended November 2, 2002 and November 3, 2001, we recognized revenues of \$16,211,000 and \$8,060,000, respectively, in connection with this program. As of December 1, 2002, no new cards will be issued under this program.

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9. Net Income Per Share

(In thousands, except per-share amounts)	Thirteen Weeks Ended November 2, 2002 ----	November 3, 2001 ----	Thirty-nine Weeks Ended November 2, 2002 ----	November 2001 ----
Basic weighted average common shares outstanding	115,605	109,579	114,322	104,067
Dilutive effect of assumed conversion of convertible notes	0	0	15,813	0
Dilutive effect of stock options	1,006	964	1,867	989
	-----	-----	-----	-----
Diluted weighted average common shares and equivalents outstanding	116,611	110,543	132,002	105,056
	=====	=====	=====	=====
Income before cumulative effect of accounting change	\$502	\$160	\$42,362	\$23,388
Decrease in interest expense from assumed conversion of notes, net of income taxes .	0	0	3,556	0
	----	----	-----	-----
Income before cumulative effect of accounting change used to determine diluted earnings per share	502	160	45,918	23,388
Cumulative effect of accounting change	0	0	(43,975)	0
	----	----	-----	-----
Net income used to determine diluted earnings per share	\$502	\$160	\$ 1,943	\$23,388
	====	====	=====	=====
Options with weighted average exercise price greater than market price, excluded from computation of diluted earnings per share:				
Number of shares	4,910	6,417	1,008	5,593
Weighted average exercise price per share	\$7.58	\$7.32	\$11.23	\$7.48

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

10. Cumulative Effect of Accounting Change

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." We adopted the provisions of SFAS No. 142 in full as of February 3, 2002 (see "Note 11. Impact of Recent Accounting Pronouncements" below). Our consolidated balance sheet as of February 2, 2002 included \$87,205,000 of goodwill related to the acquisition of Catherine's Stores Corporation ("Catherine's").

In accordance with the transition provisions of SFAS No. 142, we tested the Catherine's goodwill for impairment. We determined that the carrying value of

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the Catherine's goodwill (including the value of intangible assets not separately accounted for) exceeded the estimated fair value of the Catherine's goodwill under SFAS No. 142. We determined the estimated fair value of the Catherine's goodwill using the present value of expected future cash flows associated with the Catherine's assets, and we recorded a write-down, which is not deductible for income tax purposes, of \$43,975,000 to reduce the carrying value of the goodwill to its estimated fair value. The majority of the write-down is attributable to the value of unrecorded trademarks. The write-down has been presented as the cumulative effect of an accounting change as of February 3, 2002 in our Consolidated Statement of Operations for the thirty-nine weeks ended November 2, 2002. The calculation of the estimated fair value of the Catherine's goodwill required estimates, assumptions, and judgments, and results might have been materially different if different estimates, assumptions, and judgments had been used.

We also evaluated our goodwill, trademarks, tradenames, and internet domain names related to the Lane Bryant acquisition as of February 3, 2002 in accordance with the provisions of SFAS No. 142, and determined that there has been no impairment of these assets.

11. Impact of Recent Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 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 that were completed prior to July 1, 2001, previously recorded goodwill and intangibles are to be evaluated against the criteria in SFAS No. 142, which may result in the reclassification of certain intangible assets into or out of recorded goodwill. SFAS No. 142 requires that goodwill and intangible assets with an indefinite useful life not be amortized, but reviewed for impairment upon adoption of SFAS No. 142 and at least annually thereafter, and written down in periods in which the recorded value of the goodwill or intangible asset exceeds its fair value. The transition provisions of SFAS No. 142 require the continuation of amortization of goodwill acquired prior to June 30, 2001, and require non-amortization of goodwill and indefinite-lived intangible assets acquired subsequent to June 30, 2001, until the provisions of SFAS No. 142 are adopted in full.

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

11. Impact of Recent Accounting Pronouncements (continued)

We adopted the provisions of SFAS No. 142 in full as of February 3, 2002. During the thirteen and thirty-nine weeks ended November 3, 2001, we recognized amortization of Catherine's goodwill of \$1,221,000 and \$3,664,000, respectively. Commencing February 3, 2002, we are no longer amortizing the Catherine's goodwill. In accordance with the provisions of SFAS No. 142, we will periodically review the value of the Catherine's goodwill and goodwill related to our acquisition of Lane Bryant for impairment (see "Note 10. Cumulative Effect of Accounting Change" above).

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The pro forma effect of applying the non-amortization provisions of SFAS No. 142 for the thirteen and thirty-nine weeks ended November 3, 2001 is as follows:

(In thousands)	Thirteen Weeks Ended November 3, 2001 ----	Thirty-nine Weeks Ended November 3, 2001 ----
Net income as reported	\$ 160	\$ 23,388
Amortization of goodwill (1)	1,221	3,664
	-----	-----
Pro forma net income excluding goodwill amortization	\$ 1,381	\$ 27,052
	=====	=====
Fully diluted net income per share as reported	\$.00	\$.22
Pro forma per share effect of excluding goodwill amortization (1)01	.04
	-----	-----
Pro forma fully diluted net income per share	\$.01	\$.26
	=====	=====

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. We do not expect adoption of SFAS No. 143 to have a material impact on our financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." 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 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. During the thirty-nine weeks ended November 2, 2002, we recorded a \$2,700,000 write-down of under-performing assets related to our joint venture pursuant to SFAS No. 144. The amount of the write-down is the same as what would have been recorded under previously applicable accounting standards. The adoption of SFAS No. 144 did not have a material impact on our financial position or results of operations for the thirteen and thirty-nine weeks ended November 2, 2002.

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

11. Impact of Recent Accounting Pronouncements (continued)

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In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 requires gains and losses on extinguishments of debt to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS No. 4. Extraordinary treatment will be required for certain extinguishments as provided in 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." SFAS No. 145 also amends SFAS No. 13, "Accounting for Leases" to require certain modifications to capital leases to be treated as sale-leaseback transactions and modifies the accounting for sub-leases when the original lessee remains a secondary obligor (or guarantor). SFAS No. 145 also rescinded SFAS No. 44 "Accounting for Intangible Assets of Motor Carriers," and made numerous technical corrections. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods that does not meet the criteria of APB Opinion No. 30 for such classification should be reclassified to conform with the provisions of SFAS No. 145. Earlier application of the provisions of SFAS No. 145 related to the rescission of SFAS No. 4 is encouraged.

On May 28, 2002 we repaid in full our \$67,500,000 term loan due August 16, 2004. In connection with the repayment of the term loan, we wrote off \$951,000 of unamortized deferred financing costs. On June 28, 2002, we redeemed \$6,942,000 of our 7.5% Convertible Subordinated Notes due 2006 at a redemption premium of \$174,000 (see "Note 4. Debt" above). In accordance with the early-application provisions of SFAS No. 145, we included the \$951,000 write-off and the \$174,000 redemption premium in income from continuing operations in the Consolidated Statements of Operations for the thirty-nine weeks ended November 2, 2002.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under SFAS No. 146, an entity's commitment to a plan, by itself, does not create an obligation that meets the definition of a liability. SFAS No. 146 also establishes fair value as the objective for initial measurement of the liability. Severance pay would be recognized over time rather than up front if the benefit arrangement requires employees to render future service beyond a "minimum retention period." The liability for severance pay would be recognized as employees render service over the future service period, even if the benefit formula used to calculate an employee's termination benefit is based on length of service. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged.

We have traditionally recognized certain costs associated with restructuring plans as of the date of commitment to the plan. Adoption of SFAS No. 146 could result in the deferral of recognition of such costs for restructuring plans we initiate in periods subsequent to the effective date of the statement from the date we commit to the plan to the date that we incur the costs. We are not able to determine the specific impact, if any, that adoption of SFAS No. 146 would have on our financial position or results of operations for periods subsequent to the effective date of the statement.

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

12. Subsequent Event

We are in discussions with the Internal Revenue Service regarding a settlement of their audit of our corporate-owned life insurance ("COLI") program. In anticipation of the proposed settlement, we have reclassified \$24,900,000 of deferred taxes from a long-term liability to a current liability. As part of the proposed settlement, we will surrender existing COLI policies, which have approximately \$16,000,000 in cash value. We have reclassified the cash value of the policies from other non-current assets to other current assets. The estimated cash required to fund the settlement as proposed, after receipt of the proceeds from the surrender of the COLI policies, would be approximately \$8,900,000, which would be funded from internally generated funds or borrowings under our credit facility. Although the ultimate outcome of this matter cannot be predicted with certainty, we do not believe that settlement will have a material impact on our financial condition or results of operations.

In connection with the securitization of credit card receivables under our Fashion Bug proprietary credit card program, on November 22, 2002, we issued \$100.0 million of five-year asset-backed certificates in a private placement, of which \$80.0 million have been sold to investors to-date. To the extent that the remaining certificates are not sold, we will hold them as a retained interest. The weighted average fixed interest rate on the certificates is 4.68%. These certificates will replace an \$83.5 million securitization series that is scheduled to mature during the quarter ended February 1, 2003.

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 the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2002. As used herein, the terms "Fiscal 2003" and "Fiscal 2002" refer to our fiscal year ending February 1, 2003 and fiscal year

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ended February 2, 2002, respectively.

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, and capital expenditures, plans for future operations, and financing needs or plans, as well as assumptions relating to the foregoing. The words "expect," "project," "estimate," "predict," "anticipate," "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 cannot be predicted or quantified. 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:

- o 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.
 - o 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.
 - o The women's specialty retail apparel industry is highly competitive and we may be unable to compete successfully against existing or future competitors.
 - o We cannot assure the successful implementation of our business plan for increased profitability and growth in our plus-sized women's apparel business.
 - o Our business plan is largely dependent upon the continued growth in the plus-sized women's apparel market, which may not continue.
 - o 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.
 - o 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.
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- o 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.

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- o We rely significantly on foreign sources of production and face a variety of risks (including political instability, imposition of duties or quotas, increased security requirements applicable to imports, delays in shipping, increased costs of transportation, and issues relating to compliance with domestic or international labor standards) generally associated with doing business in foreign markets and importing merchandise from abroad.
- o 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.
- o 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.
- o We may be unable to obtain adequate insurance for our operations at a reasonable cost.
- o 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.
- o We may be unable to hire and retain suitable sales associates at our stores.
- o We may be unable to successfully implement our restructuring plan described elsewhere in this report.
- o Our manufacturers may be unable to manufacture and deliver merchandise to us in a timely manner or to meet our quality standards.
- o 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.
- o We may be unable to successfully integrate Lane Bryant into our current operating structure, and we 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 the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2002. 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.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." We adopted the provisions of SFAS No. 142 in full as of February 3, 2002 (see "Item

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1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 11. Impact of Recent Accounting Pronouncements" above).

Our consolidated balance sheet as of February 2, 2002 included \$87.2 million of goodwill related to the acquisition of Catherine's Stores Corporation ("Catherine's"). In accordance with the transition provisions of SFAS No. 142, we tested the Catherine's goodwill for impairment during the thirteen weeks ended August 3, 2002. We determined that the carrying value of the Catherine's goodwill (including the value of the intangible assets not separately accounted for) exceeded the estimated fair value of the Catherine's goodwill under SFAS No. 142. We determined the estimated fair value of the Catherine's goodwill using the present value of expected future cash flows associated with the Catherine's assets, and we recorded a write-down, which is not deductible for income tax purposes, of \$44.0 million to reduce the carrying value of the goodwill to its estimated fair value. The majority of the write-down is attributable to the value of unrecorded trademarks. The write-down has been presented as the cumulative effect of an accounting change as of February 3, 2002 in our Consolidated Statement of Operations for the thirty-nine weeks ended November 2, 2002. The calculation of the estimated fair value of the Catherine's goodwill required estimates, assumptions, and judgments, and results might have been materially different if different estimates, assumptions, and judgments had been used.

We also evaluated our goodwill, trademarks, tradenames, and internet domain names related to the Lane Bryant acquisition as of February 3, 2002 in accordance with the provisions of SFAS No. 142, and determined that there has been no impairment of these assets.

RESULTS OF OPERATIONS

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

	Thirteen Weeks Ended		Percentage Increase/ (Decrease)	Thirty-nine Weeks Ended		Perce Inc (Dec From Pe
	November 2, 2002	November 3, 2001	From Prior Period	November 2, 2002	November 3, 2001	From Pe
	----	----	-----	----	----	--
Net sales.....	100.0%	100.0%	(1.3)%	100.0%	100.0%	
Cost of goods sold, buying, and occupancy expenses.....	71.9	72.1	(1.6)	70.1	72.3	
Selling, general, and administrative expenses	27.3	26.7	1.4	25.4	24.1	
Restructuring credit.....	0.2	--	--	0.1	--	
Amortization of goodwill...	--	0.2	(100.0)	--	0.2	(1
Income from operations.....	1.0	1.0	(3.2)	4.6	3.4	
Other income, principally interest.....	0.1	0.2	(36.4)	0.1	0.3	(
Interest expense.....	0.8	1.2	(29.7)	0.9	0.9	
Income tax provision.....	0.2	0.0	--	1.5	1.1	
Minority interest in net loss of subsidiary.....	--	--	--	--	--	
Cumulative effect of accounting change.....	--	--	--	(2.4)	--	
Net income (loss).....	0.1	0.0	213.8	(0.0)	1.7	(1

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The following table sets forth our net sales by store brand:

(in millions)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 2, 2002	November 3, 2001	November 2, 2002	November 3, 2001
Fashion Bug	\$256.6	\$265.3	\$ 867.1	\$ 860.7
Lane Bryant	205.0	191.2(1)	670.8	191.2(1)
Catherine's	79.8	92.2	270.6	293.7
Monsoon/Accessorize	0.9	0.6	2.8	1.2
Total net sales ...	\$542.3	\$549.3	\$1,811.3	\$1,346.8

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 2, 2002	November 3, 2001	November 2, 2002	November 3, 2001
(Decrease) increase in comparable store sales (1):				
Fashion Bug.....	(1)%	(7)%	0%	(6)%
Catherine's.....	1	(4)	0	(2)
Lane Bryant.....	(8)	--	(4)	--
Sales from new stores as a percentage of total prior-period sales:				
Fashion Bug.....	3	5	3	6
Catherine's.....	2	2	2	3
Lane Bryant.....	2	53	35	16
Prior-period sales from closed stores as a percentage of total prior-period sales:				
Fashion Bug.....	(3)	(3)	(3)	(3)
Catherine's.....	(4)	(1)	(4)	(4)
Lane Bryant.....	(1)	--	0	--
Increase (decrease) in total sales.....	(1)	51	34	15

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Comparison of Thirteen Weeks Ended November 2, 2002 and November 3, 2001

Net Sales

Net sales were \$542.3 million for the quarter ended November 2, 2002 ("Fiscal 2003 Third Quarter"), a decrease of 1.3% from net sales of \$549.3 million for the quarter ended November 3, 2001 ("Fiscal 2002 Third Quarter"). The number of retail stores in operation at the end of the Fiscal 2003 Third Quarter was 2,340 stores, compared to 2,495 stores at the end of the Fiscal 2002 Third Quarter. We experienced a year-over-year decrease in overall comparable store sales of 4%. The decrease in sales was due primarily to negative results at our Lane Bryant chain. Lane Bryant stores had comparable store sales decreases in sweaters, denim, and intimate apparel. In particular, the Lane Bryant chain experienced poor customer acceptance of, and fit and quality issues with, certain of its products during the Fiscal 2003 Third Quarter, resulting in higher levels of promotional pricing. In addition, certain basic products were under-inventoried, resulting in missed

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sales opportunities. Due to product lead times, these issues are expected to negatively impact Lane Bryant results for the quarter ending February 1, 2003 ("Fiscal 2003 Fourth Quarter") and could negatively impact Lane Bryant results for the quarter ending May 3, 2003 ("Fiscal 2004 First Quarter") and the quarter ending August 2, 2003 ("Fiscal 2004 Second Quarter"). Fashion Bug stores experienced comparable store sales decreases in missy sportswear, dresses, coats, and intimate apparel, which were partially offset by increases in plus sportswear and accessories. For Catherine's Stores, comparable store sales increases in casual sportswear and dresses, intimate apparel, and jewelry were partially offset by declines in career sportswear.

In Fiscal 2002, we began a customer loyalty card program for our Fashion Bug store customers. We recognized \$5.8 million of revenues in the Fiscal 2003 Third Quarter and \$4.4 million of revenues in the Fiscal 2002 Third Quarter in connection with this program. As of December 1, 2002, no new cards will be issued under this program.

Cost of Goods Sold, Buying, and Occupancy

Cost of goods sold, buying, and occupancy expenses were \$389.7 million in the Fiscal 2003 Third Quarter, a decrease of 1.6% from \$396.0 million in the Fiscal 2002 Third Quarter, principally reflecting the decrease in net sales. As a percentage of net sales, these costs decreased 0.2% in the Fiscal 2003 Third Quarter as compared to the Fiscal 2002 Third Quarter.

Cost of goods sold as a percentage of net sales decreased 1.7% in the Fiscal 2003 Third Quarter as compared to the Fiscal 2002 Third Quarter. The decrease was a result of higher merchandise margins in all of our chains, due primarily to improved inventory control as compared to the prior year and benefits from our store restructuring program. 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 1.5% in the Fiscal 2003 Third Quarter as compared to the Fiscal 2002 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 negative overall comparable store sales. Buying expenses include payroll, payroll-related costs, and operating expenses for our buying

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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 \$148.3 million in the Fiscal 2003 Third Quarter, an increase of 1.4% from \$146.2 million in the Fiscal 2002 Third Quarter. As a percentage of net sales, these costs increased by 0.6% in the Fiscal 2003 Third Quarter as compared to the Fiscal 2002 Third Quarter. Selling expenses as a percentage of sales for the Fiscal 2003 Third Quarter were unchanged from the prior-year period. General and administrative expenses increased 0.6% as a percentage of sales, primarily as a result of the lack of leverage from negative comparable store sales. During the Fiscal 2003 Third Quarter, we completed the integration of the Lane Bryant management information systems, which we expect to result in future cost synergies for the Company.

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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 5. Accrued Restructuring Costs" 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.

Amortization of Goodwill

We recognized \$1.2 million of amortization of goodwill during the Fiscal 2002 Third Quarter related to the Catherine's acquisition. We adopted the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," as of February 3, 2002, and we are no longer amortizing the Catherine's goodwill. However, the Catherine's goodwill and goodwill related to our acquisition of Lane Bryant are subject to periodic impairment reviews in accordance with the provisions of SFAS No. 142 (see "CRITICAL ACCOUNTING POLICIES" above and "Comparison of Thirty-nine Weeks Ended November 2, 2002 and November 3, 2001; Cumulative Effect of Accounting Change" below).

Other Income

Other income was \$0.7 million in the Fiscal 2003 Third Quarter, a decrease of 36.4% from \$1.1 million in the Fiscal 2002 Third Quarter. This decrease was primarily caused by a decrease in interest income. Interest income decreased as a result of a decrease in the average yield on investments during the Fiscal 2003 Third Quarter as compared to the Fiscal 2002 Third Quarter.

Interest Expense

Interest expense was \$4.7 million in the Fiscal 2003 Third Quarter, a decrease of 29.7% from \$6.6 million in the Fiscal 2002 Third Quarter. The decrease was the result of both lower interest rates on borrowings and reduced levels of borrowings in the Fiscal 2003 Third Quarter as compared to the Fiscal 2002 Third Quarter. During Fiscal 2003, we replaced \$96.0 million of 7.5% Convertible Subordinated Notes due 2006 and a \$67.5 million 11.5% term loan with

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\$150.0 million of 4.75% Senior Convertible Notes (see "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 4. Debt" above and "FINANCING" below).

Income Tax Provision

The income tax provision for the Fiscal 2003 Third Quarter was \$1.2 million, resulting in a 71.6% effective tax rate, as compared to an income tax provision for the Fiscal 2002 Third Quarter of \$0.1 million, resulting in a 38.9% 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%. This increase in the effective tax rate is 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 the change in estimate on a relatively small pre-tax income in the Fiscal 2003 Third Quarter resulted in the high effective tax rate for the quarter.

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Comparison of Thirty-nine Weeks Ended November 2, 2002 and November 3, 2001

Net Sales

Net sales were \$1,811.3 million for the thirty-nine weeks ended November 2, 2002 ("first three quarters of Fiscal 2003"), an increase of 34.5% from net sales of \$1,346.8 million for the thirty-nine weeks ended November 3, 2001 ("first three quarters of Fiscal 2002"), primarily due to our acquisition of Lane Bryant in August 2001. Including Lane Bryant comparable store sales on a pro forma basis, overall comparable store sales decreased 1% from the prior-year period. Lane Bryant stores had comparable store sales decreases in sweaters, denim, and intimate apparel. In particular, the Lane Bryant chain experienced poor customer acceptance of, and fit and quality issues with, certain of its products during the Fiscal 2003 Third Quarter, resulting in higher levels of promotional pricing. In addition, certain basic products were under-inventoried, resulting in missed sales opportunities. Due to product lead times, these issues are expected to negatively impact Lane Bryant results for the Fiscal 2003 Fourth Quarter and could negatively impact results for the Fiscal 2004 First Quarter and Fiscal 2004 Second Quarter. For Fashion Bug stores, comparable store sales increases in junior and plus sportswear, footwear, and accessories were offset by declines in missy sportswear, dresses, coats, and intimate apparel. For Catherine's Stores, comparable store sales increases in casual sportswear were offset by declines in other merchandise categories. During the current year, we discontinued the Added Dimensions chain, closed the remaining stores in the chain, and liquidated the remaining Added Dimensions store inventory.

In Fiscal 2002, we began a customer loyalty card program for our Fashion Bug store customers. We recognized \$16.2 million of revenues in the first three quarters of Fiscal 2003 and \$8.1 million of revenues in the first three quarters of Fiscal 2002 in connection with this program. As of December 1, 2002, no new cards will be issued under this program.

Cost of Goods Sold, Buying, and Occupancy

Cost of goods sold, buying, and occupancy expenses were \$1,269.8 million in the first three quarters of Fiscal 2003, an increase of 30.4% from \$973.5 million in the first three quarters of Fiscal 2002, principally reflecting the increase in net sales. As a percentage of net sales, these costs decreased 2.2% in the first three quarters of Fiscal 2003 as compared to the first three quarters of Fiscal 2002.

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Cost of goods sold as a percentage of net sales decreased 3.6% in the first three quarters of Fiscal 2003 as compared to the first three quarters of Fiscal 2002. The higher merchandise margins reflected the addition of the Lane Bryant chain, improved gross margins and inventory controls in all chains, and benefits from our store closing initiative. During the Fiscal 2003 Second Quarter, markdowns taken in connection with the liquidation of the Added Dimensions inventories were offset by \$3.0 million of costs accrued during the fourth quarter of Fiscal 2002 related to the valuation of inventory for stores to be closed as the result of our restructuring plan. 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 1.4% in the first three quarters of Fiscal 2003 as compared to the first three quarters of Fiscal 2002. 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. Relatively higher occupancy expenses for the Lane Bryant stores and a \$2.7 million write-down of under-performing assets related to our joint venture also contributed to the increase in buying and occupancy expenses as a percentage of net sales. Buying expenses for the first three quarters of Fiscal 2003, as a percentage of net sales, were unchanged from the comparable prior-year period. 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

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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 \$458.9 million in the first three quarters of Fiscal 2003, an increase of 41.4% from \$324.5 million in the first three quarters of Fiscal 2002, principally reflecting the acquisition of Lane Bryant. As a percentage of net sales, these costs increased by 1.3% in the first three quarters of Fiscal 2003 as compared to the first three quarters of Fiscal 2002. Selling expenses increased 0.6% as a percentage of sales. The increase was attributable to a number of factors, including higher store payroll and benefits costs, new point-of-sales systems at Fashion Bug, and an increase in direct marketing expenses in the Catherine's and Lane Bryant chains. Credit income (a component of selling expenses) decreased in the first three quarters of Fiscal 2003 as a result of increased credit losses and higher operating costs with respect to our Fashion Bug proprietary credit card program. General and administrative expenses increased 0.7% as a percentage of sales, primarily as a result of accruals for employee benefit costs, costs associated with transitional service agreements related to the Lane Bryant acquisition, and the lack of leverage on fixed costs, particularly at Lane Bryant.

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 5. Accrued Restructuring Costs" 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.

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Amortization of Goodwill

We recognized \$3.7 million of amortization of goodwill during the first three quarters of Fiscal 2002 related to the Catherine's acquisition. We adopted the provisions of SFAS No. 142 as of February 3, 2002, and we are no longer amortizing the Catherine's goodwill. However, the Catherine's goodwill and goodwill related to our acquisition of Lane Bryant are subject to periodic impairment reviews in accordance with the provisions of SFAS No. 142 (see "Cumulative Effect of Accounting Change" below).

Other Income

Other income was \$1.9 million in the first three quarters of Fiscal 2003, a decrease of 58.7% from \$4.5 million in the first three quarters of Fiscal 2002. This decrease was primarily caused by a decrease in interest income. Interest income decreased as a result of a decrease in the average yield on investments during the first three quarters of Fiscal 2003 as compared to the first three quarters of Fiscal 2002.

Interest Expense

Interest expense was \$17.1 million in the first three quarters of Fiscal 2003, an increase of 50.3% from \$11.4 million in the first three quarters of Fiscal 2002. This increase was primarily the result of short-term and long-term borrowings incurred in connection with the Lane Bryant acquisition, and to a lesser extent, the result of additional long-term mortgage borrowings and acquisitions of point-of-sale equipment under long-term capital leases. In addition, we wrote off \$951 thousand of unamortized deferred financing costs related to our \$67.5 million term loan which was repaid during the period (see "FINANCING" below), which resulted in additional interest expense in the current-year period. These increases were partially offset

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by reduced interest expense in the Fiscal 2003 Third Quarter as compared to the Fiscal 2002 Third Quarter as a result of relatively lower interest rates on borrowings and reduced levels of borrowings. During Fiscal 2003, 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 (see "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 4. Debt" above and "FINANCING" below).

Income Tax Provision

The income tax provision for the first three quarters of Fiscal 2003 was \$26.8 million, resulting in a 39.0% effective tax rate, as compared to an income tax provision for the first three quarters of Fiscal 2002 of \$14.8 million, resulting in a 38.8% 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%. This increase in the effective tax rate is 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.

Cumulative Effect of Accounting Change

We adopted the provisions of SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets" in full as of February 3, 2002. In accordance with the transition provisions of SFAS No. 142, we tested the Catherine's goodwill for impairment during the thirteen weeks ended August

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3, 2002, and recorded a write-down of \$44.0 million to reduce the carrying value of the goodwill to its estimated fair value. The write-down has been presented as the cumulative effect of an accounting change as of February 3, 2002 in our Consolidated Statement of Operations for the thirty-nine weeks ended November 2, 2002 (see "CRITICAL ACCOUNTING POLICIES" above).

RECENT DEVELOPMENTS

On August 28, 2002, we purchased 3,175,331 shares of our common stock from Limited Brands for \$21.3 million (\$6.705 per share). On September 17, 2002, we purchased an additional 6,350,662 shares of our common stock from Limited Brands for \$44.1 million (\$6.95 per share). The transactions were financed through the use of existing cash and proceeds from the issuance of our 4.75% Senior Convertible Notes (see "FINANCING" below). We had previously issued 9,525,993 shares of our common stock to Limited Brands in connection with our acquisition of Lane Bryant in August 2001. The purchased shares will be held as treasury shares.

On September 24, 2002, we acquired a 392,500 square foot distribution center on 29 acres of land in White Marsh, Maryland at a cost of \$17.3 million. This distribution center will replace our existing Lane Bryant distribution center in Columbus, Ohio, which we are using under an agreement with an affiliate of Limited Brands. In connection with our acquisition of Lane Bryant from Limited Brands in August 2001, we entered into an agreement with an affiliate of Limited Brands to use the Ohio distribution center and receive related distribution services on a transition basis through August 2004, with the right to terminate the services earlier upon notice. We expect the White Marsh facility to have sufficient capacity to service the entire chain of Lane Bryant stores. We expect to incur approximately \$10.0 million of additional capital expenditures over the next nine to twelve months for equipment for, and improvements to, the facility. We have received a commitment to finance the majority of these additional capital expenditures through a capital lease arrangement.

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In October 2002, we borrowed \$14.0 million under a 6.53% mortgage note. The note has a ten-year term with 120 monthly installments of principal in the amount of \$117 thousand plus interest. The mortgage note is secured by land, a building, and certain fixtures at the White Marsh, Maryland distribution center. The net proceeds were used to finance a substantial portion of the White Marsh acquisition.

In connection with the securitization of credit card receivables under our Fashion Bug proprietary credit card program, on November 22, 2002, we issued \$100.0 million of five-year asset-backed certificates in a private placement, of which \$80.0 million have been sold to investors to date. To the extent that the remaining certificates are not sold, we will hold them as a retained interest. The weighted average fixed interest rate on the certificates is 4.68%. These certificates will replace an \$83.5 million securitization series that is scheduled to mature during the quarter ended February 1, 2003.

We are in discussions with the Internal Revenue Service regarding a settlement of their audit of our corporate-owned life insurance ("COLI") program. In anticipation of the proposed settlement, we have reclassified \$24.9 million of deferred taxes from a long-term liability to a current liability. As part of the proposed settlement, we will surrender COLI policies, which have approximately \$16.0 million in cash value. We have reclassified the cash value of the policies from other non-current assets to other current assets. The

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estimated cash required to fund the settlement as proposed, after receipt of the proceeds from the surrender of the COLI policies, would be approximately \$8.9 million, which would be funded from internally generated funds or borrowings under our credit facility. Although the ultimate outcome of this matter cannot be predicted with certainty, we do not believe that settlement will have a material impact on our financial condition or results of operations.

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 thousands)	November 2, 2002 ----	February 2, 2002 ----
Cash and cash equivalents.....	\$ 46,256	\$ 36,640
Available-for-sale securities.....	85,380	70,366
Working capital.....	157,940	145,047
Current ratio.....	1.4	1.4
Long-term debt to equity ratio.....	36.1%	37.9%

Our net cash provided by operating activities was \$118.9 million for the first three quarters of Fiscal 2003, as compared to \$29.8 million for the first three quarters of Fiscal 2002. The increase was primarily a result of an increase in net income before a non-cash write-down of goodwill and non-cash charges for depreciation and amortization, a decrease in prepaid expenses, and increases in accrued expenses and income taxes payable. In addition, our investment in inventories, net of accounts payable, decreased during the first three quarters of Fiscal 2003 as compared to the first three quarters of Fiscal 2002 as a result of inventory management initiatives and improved vendor terms from conforming Lane Bryant's vendor terms to our corporate terms. These changes were partially offset by a \$12.0 million decrease in accrued restructuring costs during the first three quarters of Fiscal 2003.

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Our capital expenditures were \$64.6 million during the first three quarters of Fiscal 2003. In addition, we acquired \$2.9 million of point-of-sale equipment under capital leases. During the remainder of Fiscal 2003, we anticipate incurring additional capital expenditures of approximately \$10.0-\$15.0 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. During the Fiscal 2003 Third Quarter, we acquired a 392,500 square foot distribution center in White Marsh, Maryland to replace our existing Lane Bryant distribution center in Columbus, Ohio for \$17.3 million (see "RECENT DEVELOPMENTS" above). In addition to the \$10.0-\$15.0 million of capital expenditures discussed above, we expect to incur approximately \$10.0 million of capital expenditures over the next nine to twelve months for equipment for, and improvements to, the White Marsh facility. We have received a commitment to finance the majority of these additional capital

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expenditures through a capital lease arrangement.

We plan to close 73 Fashion Bug stores during the remainder of Fiscal 2003, including 7 stores which will be converted to Lane Bryant stores. We do not plan to open any additional stores during the remainder of Fiscal 2003. During the first three quarters of Fiscal 2003, we closed 97 Fashion Bug stores (including 33 stores which will be converted to Lane Bryant stores) and 68 Catherine's/Added Dimensions stores, and converted 9 Added Dimensions stores to Catherine's stores, in connection with our restructuring plan (see "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 5. Accrued Restructuring Costs" above).

The following table sets forth information with respect to store activity for the first three quarters of Fiscal 2003:

	Fashion Bug Stores -----	Lane Bryant Stores -----	Catherine's/ Added Dimensions Stores -----	Monsoon/ Accessorize Stores -----	Total -----
Stores at February 2, 2002.....	1,252	647	538	9	2,446
Stores opened.....	7	27	24	1	59
Stores converted.....	(33)	33	0(1)		0
Stores closed.....	(67)	(11)	(87)	0	(165)
Net change in stores.....	(93)	49	(63)	1	(106)
Stores at November 2, 2002.....	1,159	696	475	10	2,340
Stores relocated during period..	17	4	11		32
Stores remodeled during period..	4	5	8		17

As part of our Fashion Bug proprietary credit card program, we have formed a trust called the Charming Shoppes Master Trust to which Spirit of America National Bank (our credit card bank) has transferred, through a special purpose entity, its interest in Fashion Bug credit card receivables. 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.

We securitized \$268.5 million of credit card receivables during the first three quarters of Fiscal 2003 and had \$293.7 million of securitized credit card receivables outstanding as of November 2, 2002. We held retained interests in our securitizations of \$51.6 million as of November 2, 2002, 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

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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, we have repurchased only a small amount of receivables pursuant to this obligation.

On November 22, 2002, we issued \$100.0 million of new five-year asset-backed certificates in a private placement, of which \$80.0 million have been sold to investors to-date. To the extent that the remaining certificates are not sold, we will hold them as a retained interest. The weighted average fixed interest rate on the certificates is 4.68%. These certificates will replace an \$83.5 million securitization series that is scheduled to mature during the quarter ended February 1, 2003.

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 2, 2002, Charming Shoppes Receivables Corp. held \$40.2 million of Charming Shoppes Master Trust Certificates and Charming Shoppes Seller, Inc. held retained interests of \$1.2 million (which are included in the \$51.6 million of retained interests we held at November 2, 2002). 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 require additional enhancement from proceeds within the trust that would otherwise be available to be paid to us with respect to our subordinated interests. Specifically, if either the trust or we 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. During Fiscal 2002, credit card receivable credit loss percentages exceeded a specified threshold percentage, which obligated the trust to accumulate \$9.5 million into such an enhancement account. As of November 2, 2002, the Charming Shoppes Master Trust had all of the \$9.5 million segregated for such additional enhancement purposes. 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. The \$9.5 million in the enhancement accounts is classified as "available-for-sale securities" in current assets as of November 2, 2002. We do not expect the requirement to materially affect our liquidity or results of operations. We have no obligation to directly fund the enhancement account of the trust, other than for breaches of customary representations, warranties, and covenants. These representations, warranties, covenants, and related indemnities do not protect the trust or investors in the trust against credit-related losses on the receivables. The providers of the credit enhancements and trust investors have no other recourse to us.

These securitization agreements are intended to improve our overall liquidity by providing short-term sources of funding. Additional information regarding this program is included in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended February 2, 2002.

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

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in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended February 2, 2002.

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 2, 2002, 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. As of November 2, 2002, there were \$26.2 million of borrowings outstanding under the revolving credit facility. 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.

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, and is determined quarterly, based on our Leverage Ratio or excess availability, as defined in the credit facility. As of November 2, 2002, the interest rate on outstanding borrowings under the facility was 4.75%.

The credit facility includes limitations on sales and leasebacks, the incurrence of additional liens and debt, capital lease financing, and other limitations. The 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 2, 2002, we were not in violation of any of the covenants included in the credit facility.

On May 28, 2002, we completed a private placement of \$130.0 million of 4.75% Senior Convertible Notes due 2012 (the "Senior Notes"). On June 20, 2002, the initial purchasers of the private placement exercised their option to purchase an additional \$20.0 million principal amount of the Senior Notes, resulting in the private placement of Senior Notes in an aggregate principal amount of \$150.0 million.

The Senior Notes will mature on June 1, 2012 and are convertible at any time prior to maturity into shares of our common stock at a conversion price of \$9.88, subject to adjustment upon certain events. The Senior Notes are redeemable at our option, in whole or in part, at any time on or after June 4, 2007, at declining redemption prices, starting at 102.38% of principal and decreasing to 100.48% on or after June 1, 2011. Under certain circumstances involving a change in control of the Company, holders of the Senior Notes may require us to repurchase all or a portion of the Senior Notes at 100% of the principal amount plus any accrued and unpaid interest. Also, under such circumstances we have the option of paying the repurchase price in shares of our common stock, valued at 95% of the average of the closing prices of the common

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stock for a five-day trading period immediately before and including the third trading day preceding the repurchase date. There is no sinking fund for the Senior Notes.

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Net proceeds received from the issuance of the Senior Notes were \$145.5 million. We used a portion of the net proceeds to repay in full our \$67.5 million term loan due August 16, 2004, \$3.5 million outstanding under our revolving credit facility, and \$6.9 million of the 7.5% Convertible Subordinated Notes due 2006 called for redemption (see below). We also used a portion of the proceeds to purchase 2,675,000 shares of our common stock at a cost of \$18.3 million. The remaining proceeds (\$49.3 million) were invested in cash and cash equivalents pending their use for the purchase of 9,525,993 shares of our common stock from Limited Brands (see "RECENT DEVELOPMENTS" above). In addition, we wrote off \$951 thousand of unamortized deferred financing costs related to the term loan. The write-off of the deferred financing costs has been included in continuing operations in the Consolidated Statements of Operations for the thirty-nine weeks ended November, 2002, in accordance with the early-application provisions of SFAS No. 145 (see "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 11. Impact of Recent Accounting Pronouncements" above). The term loan that was repaid had an 11.5% interest rate and various financial covenants.

On May 29, 2002, we called our 7.5% Convertible Subordinated Notes due 2006 (the "Subordinated Notes") for redemption on June 28, 2002. The redemption price was 102.5% of the principal amount of the Subordinated Notes, plus accrued and unpaid interest up to the date of redemption. The Subordinated Notes had an original maturity date of July 15, 2006, and could be converted into shares of our common stock until the close of business on June 27, 2002 at a conversion price of \$7.46. During the thirty-nine weeks ended November 2, 2002, \$89.1 million principal amount of the Subordinated Notes were converted into 11,944,338 shares of our common stock pursuant to the conversion terms of the Notes. Accrued interest expense of \$3.0 million on the Subordinated Notes that were converted has been reclassified to additional paid-in capital. On June 28, 2002, the remaining Subordinated Notes, with an aggregate principal amount of \$6.9 million, were redeemed for \$7.4 million, including the 2.5% redemption premium and accrued interest of \$236 thousand to the date of redemption. The redemption premium of \$174 thousand has been included in continuing operations in the Consolidated Statements of Operations for the thirty-nine weeks ended November 2, 2002, in accordance with the early-application provisions of SFAS No. 145 (see "Item 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited); Note 11. Impact of Recent Accounting Pronouncements" above).

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. The floating rate index on all of the certificates is either one-month LIBOR or the commercial paper rate, depending on the issuance. Consequently, we have reduced our exposure to fluctuations in interest rates. However, we have exposure in the movement of basis risk between the floating rate index on the certificates and the Prime

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rate. As of November 2, 2002, the floating-rate finance charge rate was below the contractual floor rate, thus exposing us 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 2003, an increase of approximately \$200 thousand in selling, general, and administrative expenses would result.

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As of November 2, 2002, there were \$26.2 million of borrowings outstanding under our revolving credit facility. These borrowings are 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 11. 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.

Within the 90-day period prior to the filing of this report on Form 10-Q (the "Evaluation Date"), an evaluation was carried out by the Disclosure Committee, under the supervision and with the participation of management, including our CEO and CFO, 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 have been no significant changes in our internal controls or in other factors (including any corrective actions with regard to significant deficiencies or material weaknesses in internal controls) that could significantly affect those controls subsequent to the date of their most recent evaluation.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 26, 2001, a terminated employee filed a purported class action suit in Alameda Superior Court, California against Lane Bryant, Inc. alleging that she and all Lane Bryant store sales managers in California were misclassified as exempt employees, and are actually nonexempt and entitled to be paid overtime which they had not received. The plaintiff alleges violations of Labor Code Sections 1194 and 515 and the Industrial Welfare Commission Order promulgated pursuant to those Sections, as well as a violation of Business & Professions Code Sections 17,200 et seq. The plaintiff seeks back pay and injunctive relief for the misclassification, and reimbursement and disgorgement of profits for the violation of the Business & Professions Code.

Lane Bryant is currently investigating whether the case would be appropriate for class treatment. Lane Bryant will vigorously and aggressively oppose class certification and the merits of the class case should it be certified, or the individual case should it not be certified. Although the ultimate outcome of this matter cannot be predicted with certainty, we do not believe that the case will have a material impact on our financial condition or results of operations.

There are no other pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we or any of our subsidiaries is a party or of which our property or the property of any of our subsidiaries is the subject 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)
- 4.1 Indenture, dated as of May 28, 2002, between Charming Shoppes, Inc. and Wachovia Bank, National Association, incorporated by reference to Form 10-Q of the Registrant for the quarter ended May 4, 2002. (Exhibit 4.1)
- 4.2 Registration Rights Agreement, dated as of May 28, 2002, by and among Charming Shoppes, Inc., as Issuer, and J. P. Morgan Securities, Inc., Bear Stearns & Co., Inc., First Union Securities, Inc., Lazard Freres & Co., LLC, and McDonald Investments, Inc., as Initial Purchasers, incorporated by reference to Form 10-Q of the Registrant for the quarter ended May 4, 2002. (Exhibit 4.2)
- 4.3 Amendment No. 4, dated September 23, 2002, to Loan and Security Agreement

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dated as of August 16, 2001 by and among Charming Shoppes, Inc., Charming Shoppes of Delaware, Inc., CSI

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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.

- 10.1 Series 2002-1 Supplement, dated as of November 20, 2002, to Second Amended and Restated Pooling and Service Agreement, dated as of November 25, 1997, as amended on July 22, 1999 and on May 8, 2001, among Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and Wachovia Bank, National Association, as Trustee, for \$100,000,000 Charming Shoppes Master Trust Asset-Backed Certificates Series 2002-1.
- 10.2 Charming Shoppes Master Trust \$63,500,000 Fixed Rate Class A Asset Backed Certificates, Series 2002-1 and \$16,500,000 Fixed Rate Class B Asset Backed Certificates, Series 2002-2 Certificate Purchase Agreement, dated as of November 22, 2002.
- 10.3 Certificate Purchase Agreement, dated as of November 22, 2002, among Wachovia Bank, National Association, as Trustee, Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and The Class C Holders described therein.
- 10.4 Certificate Purchase Agreement, dated as of November 22, 2002, among Wachovia Bank, National Association, as Trustee, Charming Shoppes Receivables Corp., as Seller, Spirit of America, Inc., as Servicer, and The Class D Holders described therein.
- 10.5 \$14,000,000 Promissory Note, dated October 2002, between White Marsh Distribution, LLC., as Borrower, and General Electric Capital Business Asset Funding Corporation, as Payee and Holder.
- 10.6 Commercial Deed of Trust, Security Agreement, Assignment of Leases and Rents, and Fixture Filing, made as of October 2002, among the Grantor, White Marsh Distribution, LLC, as Borrower, in favor of James M. Smith, as Trustee, for the benefit of the Beneficiary, General Electric Capital Business Asset Funding Corporation, as Lender.
- 99.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), executed by the Chief Executive Officer of the Company.
- 99.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), executed by the Chief Financial Officer of the Company.

(b) Reports on Form 8-K

On August 21, 2002, we filed a Current Report on Form 8-K to report under "Item 5. Other Events and Regulation FD Disclosure" an excerpt of financial information included in the text of a press release we issued on August 20, 2002, announcing our earnings and sales for the second quarter ended August 3, 2002 and the recording of the cumulative effect of an accounting change related to the adoption of FAS 142, "Goodwill and Other Intangible Assets."

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On October 8, 2002, we filed a Current Report on Form 8-K to report under "Item 5. Other Events and Regulation FD Disclosure" the text of a press release we issued on October 8, 2002, reporting our comparable store sales results for the five weeks ended October 5, 2002 and re-projected earnings guidance for the remainder of Fiscal 2003, in conjunction with a scheduled presentation at the McDonald Investments 2002 Consumer Growth Conference.

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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 13, 2002

/S/DORRIT J. BERN

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

Date: December 13, 2002

/S/ERIC M. SPECTER

Eric M. Specter
Executive Vice President
Chief Financial Officer

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Certification By Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dorrit J. Bern, Principal Executive Officer of Charming Shoppes, Inc.,
certify that:

1. I have reviewed this quarterly report on Form 10-Q of Charming Shoppes,

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Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-4) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 13, 2002

/S/DORRIT J. BERN

Dorrit J. Bern

Chairman of the Board

President and Principal Executive Officer

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I, Eric M. Specter, Principal Financial Officer of Charming Shoppes, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Charming Shoppes, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-4) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 13, 2002

/S/ERIC M. SPECTER

Eric M. Specter
Executive Vice President
Principal Financial Officer

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Exhibit Index

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