CHARMING SHOPPES INC
Form 10-K
March 30, 2010

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

FORM 10-K

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

For the fiscal year ended January 30, 2010

OR

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

For the transition period from _______________ to _____________

Commission File Number: 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.)
3750 STATE ROAD, BENSALEM, PA 19020 (Address of principal executive offices) (Zip Code)	(215) 245-9100 (Registrant's telephone number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (par value $.10 per share)	The NASDAQ Stock Market LLC Chicago Stock Exchange, Inc.
Stock Purchase Rights	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes	No
x	o

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:

Yes	No
o	x

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

Yes	No
x	o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):

Yes	No
o	o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

x

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

Large Accelerated Filer x	Accelerated Filer o
Non-accelerated Filer o	Smaller Reporting Company o

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

Yes	No
o	x

The aggregate market value of the outstanding common stock of the registrant held by non-affiliates as of August 1, 2009 (the last day of the registrant's most recently completed second fiscal quarter), based on the closing price on July 31, 2009, was approximately $554,650,664.

As of March 22, 2010, 115,774,055 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this Form 10-K is incorporated by reference herein from the registrant's definitive proxy statement for its 2010 annual shareholders meeting, which is expected to be filed within 120 days after the end of the fiscal year covered by this Annual Report.

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CHARMING SHOPPES, INC.
FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

GENERAL

We are a multi-brand, specialty apparel retailer with a leading market share in women's plus-size specialty apparel. During Fiscal 2009 our business operations consisted primarily of three distinct core brands: LANE BRYANT®, FASHION BUG®, and CATHERINES PLUS SIZES®. These core brands operate retail stores and store-related e-commerce websites under our Retail Stores segment. Through our multiple channels, fashion content, and broad merchandise assortments, we seek to appeal to customers from a broad range of socioeconomic, demographic, and cultural groups. During our fiscal year ended January 30, 2010 ("Fiscal 2009") the sale of plus-size apparel represented approximately 87% of our total net sales. In addition to our Retail Stores segment we also derive revenues from sales of food and gifts through our FIGI'S® catalog and website, which operates under our Direct-to-Consumer segment.

LANE BRYANT is a widely recognized brand name in plus-size fashion. Through private labels such as CACIQUE®, LANE BRYANT, and select national brands, we offer fashionable and sophisticated apparel in plus-sizes 14 – 28, including intimate apparel, wear-to-work and casual sportswear, accessories, select footwear, and social occasion apparel. LANE BRYANT has a loyal customer base, generally ranging in age from 35 to 55 years old, which shops for fashionable merchandise in the moderate price range. Our 754 LANE BRYANT retail stores comprise 4.4 million square feet of real estate and are located in 46 states and the District of Columbia, in a combination of destination malls, lifestyle centers, and strip shopping centers. Our store base was reduced by 32 stores or 4.1% during Fiscal 2009 and our average store size was consistent year over year at approximately 5,900 square feet. During Fiscal 2009 our LANE BRYANT website (lanebryant.com) averaged 2.4 million unique visitors per month with an established on-line community.

Our LANE BRYANT intimate apparel side-by-side store pairs LANE BRYANT's casual and wear-to-work sportswear assortments with an expanded line of CACIQUE intimates as well as additional national brands, presented in a double store-front. This larger footprint of approximately 7,200 square feet per combined store compares with the full-line LANE BRYANT store footprint of approximately 5,600 square feet. Included in the 754 stores operated by LANE BRYANT as of January 30, 2010 are 137 stores operated in the side-by-side format.

LANE BRYANT OUTLET® is a national chain offering women's plus-size apparel in the outlet sales channel. Through our private labels and select national brands we offer fashionable and sophisticated apparel in plus-sizes 14 – 28, including intimate apparel, wear-to-work and casual sportswear, accessories, select footwear, and social occasion apparel. Our 106 LANE BRYANT OUTLET retail stores comprise 0.6 million square feet of real estate and are located in 34 states throughout the country, consistent with the prior year. LANE BRYANT OUTLET stores average approximately 5,900 square feet.

FASHION BUG stores specialize in selling plus-size and misses apparel in sizes 6 – 30 serving women's lifestyle needs from weekend and business casual to dressy, as well as active wear, accessories, intimate apparel, and footwear. FASHION BUG customers generally range in age from 30 to 50 years old and shop in the low-to-moderate price range. Our 801 FASHION BUG retail stores comprise 7.0 million square feet of real estate and are located in 43 states, primarily in strip shopping centers. Our store base was reduced by 96 stores or 10.7% during fiscal 2009 and our average store size was consistent year over year at approximately 8,700 square feet. During Fiscal 2009 our FASHION BUG website (fashionbug.com) averaged 1.2 million unique visitors per month.

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CATHERINES PLUS SIZES carries a full range of plus sizes (16-34) and is particularly known for extended sizes (28-34). In 2010 Catherines will expand their sizing range to include size 0X. Following this expansion, the full ranges of sizes offered at Catherines will be 16-36 and 0X through 5X. CATHERINES® offers classic apparel and accessories for wear-to-work and casual lifestyles. CATHERINES customers are generally in the 45 years old and older age group, shop in the moderate price range, and are concerned with comfort, fit, and value. Our 460 CATHERINES retail stores comprise 1.9 million square feet of real estate and are located in 44 states, primarily in strip shopping centers. Our store base was reduced by 3 stores or 0.6% during fiscal 2009 and our average store size was consistent year over year at approximately 4,200 square feet. During Fiscal 2009 our CATHERINES website (catherines.com) averaged more than 0.6 million unique visitors per month.

In order to further focus on our core brands, during Fiscal 2009 we decided to close our PETITE SOPHISTICATE OUTLET® stores and convert a majority of the space to CATHERINES stores in outlet locations. We completed the conversion of 28 PETITE SOPHISTICATE OUTLET stores to CATHERINES outlet locations during February 2010. The CATHERINES outlet locations offer classic apparel and accessories for wear-to-work and casual lifestyles in an outlet store format. Substantially all of the CATHERINES outlet locations operate with a LANE BRYANT OUTLET store in side-by-side locations. As of January 30, 2010 we operated 6 CATHERINES stores in outlet locations in 6 states throughout the country. During February 2010 we opened an additional 28 CATHERINES stores in outlet locations for a total of 34 stores in 23 states throughout the country. These stores average approximately 2,600 square feet.

During Fiscal 2009 we successfully redesigned each of our core brands' websites and converted to a new e-commerce technology platform with the objective of providing an improved on-line customer experience in order to increase website traffic and sales conversion rates. In February 2010 we announced the debut of a universal shopping cart linking four of our e-commerce websites: lanebryant.com, cacique.com, fashionbug.com, and catherines.com. Through this universal shopping cart we began offering free shipping for customers who choose to pick up their merchandise at any of our more than 2,100 store locations and a flat $7 shipping rate, regardless of the number of concepts shopped, for shipments to customers' homes.

In addition to the core brands operated under our Retail Stores segment, during Fiscal 2009 we marketed food and specialty gift products through our FIGI'S Gifts in Good Taste catalog and related e-commerce website under our Direct-to-Consumer segment. FIGI'S specializes in dairy cheeses, smokehouse meats, holiday fare, bakery, chocolates, nuts, sweets, and snacks. FIGI'S also offers special gift assortments, collectible treasures, and exclusive and personalized items. In January 2010 we announced plans to expand the sale of FIGI'S products into third-party retailers' stores and through third-party retailers' e-commerce websites.

Financial information by business segment for each of our last three fiscal years is included in "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements; NOTE 19. SEGMENT REPORTING" below.

During Fiscal 2008 we appointed brand presidents for each of our core brands and hired product design and development executives at LANE BRYANT and FASHION BUG to allow us to increase our percentage of internally designed and developed fashion products. During Fiscal 2009 we added an executive leader of global sourcing and global sourcing talent at each of our brands to better leverage our scale in order to lower the cost of merchandise and appointed e-commerce talent at each of our brands to help us in developing our product assortment.

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We have also refocused on our core retail brands through divestiture of non-core assets, substantial reductions in operating expenses, and a streamlining of our operations. To-date, our efforts to divest our non-core assets and focus on our core retail brands have resulted in the sale of our Crosstown Traders catalog operations, the sale of our proprietary credit card receivables programs, the shutdown of our LANE BRYANT WOMAN catalog, figure® magazine, and PETITE SOPHISTICATE stores, and the conversion of our PETITE SOPHISTICATE OUTLET stores to CATHERINES stores. In addition, we have achieved reductions in operating expenses through the implementation of programs such as significant rent reduction initiatives and the closing of underperforming stores. We also opportunistically repurchased a portion of our outstanding long-term debt. During Fiscal 2009 we also entered into a new three-year senior secured revolving credit facility agreement. During Fiscal 2010 we will continue to pursue opportunities to maintain and protect our liquidity and financial position. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; OVERVIEW" below for further discussion of our organizational initiatives and details of our multi-year strategy.

RETAIL STORES SEGMENT

Stores

Our 2,121 retail stores (as of January 30, 2010) are primarily located in suburban areas and small towns. Approximately 78% of our FASHION BUG, CATHERINES, and LANE BRYANT OUTLET stores are strip-center based, with the remainder located in community and regional malls. Approximately 53% of our LANE BRYANT stores are located in strip and lifestyle shopping centers, with the remaining stores located primarily in malls. We continually evaluate additional store locations that meet our financial and operational objectives.

Our retail store merchandise displays enable our customers to assemble coordinated and complete outfits that satisfy their lifestyle needs. We test and implement new store designs and fixture packages that are aimed at providing an effective merchandise presentation. We relocate or remodel our stores as appropriate to convey a fresh and contemporary shopping environment. We emphasize customer service, including the presence of helpful salespeople in the stores, layaway plans, customer loyalty programs, and acceptance of merchandise returns for cash or credit within a reasonable time period. Typically, our stores are open seven days per week, eleven hours per day Monday through Saturday and seven hours on Sunday.

Retail stores operate under direct local management with guidance from our management operations team. Each store has a manager who is in daily operational control of and manages the specific location, including overseeing the duties of display, selling, and reporting through point-of-sale terminals. We employ district managers who travel to all stores in their district to view store operations and provide guidance. Each district manager works with an average of 13 stores. Regional managers, who report to a Vice President of Stores, supervise the district managers. Generally, district managers are appointed from the pool of store managers and store managers are appointed from the pool of assistant store managers. Store management is motivated through internal advancement and promotion, competitive compensation, and various incentive, medical, and retirement plans. Store management also has access to centrally developed resources on store operations, merchandising, and buying policies.

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The challenging economic and retail environment has continued to adversely impact our business, as consumers remain cautious about their purchases in response to the increasingly uncertain economic environment and high unemployment. In response to the continuing weak retail and economic environment, during Fiscal 2008 and Fiscal 2009 we significantly reduced capital spending through reductions in the number of store openings and relocations as compared to prior years and net store base reductions of 108 stores in Fiscal 2008 and 180 stores in Fiscal 2009. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; OVERVIEW" below for additional information regarding our actual and planned store openings and closings.

Our store openings, closings, and number of locations over the past three fiscal years are as follows:

	Year Ended					
	January 30, 2010		January 31, 2009		February 2, 2008	
Store Activity:						
Number of stores open at beginning of period	2,301		2,409		2,378	
Stores opened	8	(1)	48	(4)	103	(5)
Stores converted	(28	)(2)	0		0	
Stores closed	(160	)(3)	(156	)(3)	(72	)
Number of stores open at end of period	2,121		2,301		2,409	
Number of Stores Open at End of Period by Brand:						
LANE BRYANT	860	(6)	892	(6)	896	(6)
FASHION BUG	801		897		989	
CATHERINES	460		463		468	
PETITE SOPHISTICATE OUTLET	0	(2)	49		56	(7)
Number of stores open at end of period	2,121		2,301		2,409	

(1) Includes 7 LANE BRYANT stores and 1 FASHION BUG store.

(2) During Fiscal 2009 we decided to close our PETITE SOPHISTICATE OUTLET stores and convert a majority of the locations to CATHERINES stores in outlet locations. We completed the conversion of 5 stores during Fiscal 2009 and completed the remaining 28 conversions in February 2010.

(3) Includes 22 FASHION BUG and 10 LANE BRYANT stores in Fiscal 2009 and 78 FASHION BUG, 10 CATHERINES, 21 LANE BRYANT, 2 LANE BRYANT OUTLET, 1 PETITE SOPHISTICATE OUTLET, and 4 PETITE SOPHISTICATE stores in Fiscal 2008 closed in connection with the store closing initiatives announced in February 2008 and November 2008.

(4) Includes 7 LANE BRYANT OUTLET stores, 11 LANE BRYANT/CACIQUE intimate apparel side-by-side stores, and 4 PETITE SOPHISTICATE OUTLET stores.

(5) Includes 19 LANE BRYANT OUTLET stores, 37 LANE BRYANT intimate apparel side-by-side stores, 7 PETITE SOPHISTICATE OUTLET stores, and 4 PETITE SOPHISTICATE stores.

(6) Includes LANE BRYANT OUTLET stores as follows: 106 in Fiscal 2009 and Fiscal 2008, and 101 in Fiscal 2007.

(7) Includes 4 PETITE SOPHISTICATE stores, which were closed during Fiscal 2008.

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Merchandising and Buying

We employ a merchandising and buying strategy that is focused on providing an attractive selection of apparel and accessories that reflect the fashion preferences of the core customer for each of our retail store brands. The marketing and merchandising operations for each of our core brands operate as separate groups. We believe that the specialization of marketers and buyers within each brand enhances each brand's identity and distinctiveness. We also use domestic and international fashion market guidance, fashion advisory services, and proprietary design. We seek to maintain high quality standards with respect to merchandise fabrication, construction, and fit.

We continually refine our merchandise assortments to reflect the needs and demands of our diverse customer groups and the demographics of each store location. At LANE BRYANT we offer a combination of fashion basics and current fashions in casual and wear-to-work merchandise and our CACIQUE brand of intimate apparel, as well as other national brand intimate apparel and accessories. We translate current trends into appropriate products for our customer. At FASHION BUG we offer a broad assortment of both casual and wear-to-work apparel in plus and misses sizes at low-to-moderate prices. FASHION BUG's merchandise typically reflects established fashion trends and includes a broad offering of ready-to-wear apparel as well as footwear, accessories, intimate apparel, and seasonal items, such as outerwear. At CATHERINES we offer a broad assortment of plus-size merchandise in classic styles designed to provide "head-to-toe" dressing for our customers. CATHERINES features casual and career sportswear, dresses, intimate apparel, suits, and accessories in a variety of plus-sizes, including petites and extended sizes. CATHERINES has developed a unique expertise in the comfort, fit, design, and manufacturing of extended sizes, making it one of the few retailers to emphasize these sizes. We are in the process of re-working our "Right Fit" programs to reduce confusion, strengthen the offering of the overall pant program, and include additional lengths.

LANE BRYANT OUTLET features products developed exclusively for our outlet stores, which include updated key items and best-sellers from our full-line LANE BRYANT brand. Selected expanded categories, such as intimate apparel, footwear, social occasion, and accessories are also offered at LANE BRYANT OUTLET. CATHERINES stores in outlet locations offer selected merchandise available in our full-line CATHERINES stores.

For stores that are identified as having certain attributes we use our distribution capabilities to stock the stores with products specifically targeted to such attributes. Our merchandising staff obtains store-wide and brand-wide inventory information generated by merchandise information systems that use point-of-sale terminals. The status of our merchandise can be tracked from the placement of our initial order for the merchandise to the actual sale to our customer. Based on this data, our merchandise managers compare budgeted-to-actual sales and make merchandising decisions as needed, including re-order, markdowns, and changes in the buying plans for upcoming seasons. In addition, we continue to work to improve inventory turnover by better managing the flow of seasonal merchandise to our stores across all geographic regions.

Our stores typically experience peak sales during the Easter, Labor Day, and December holiday seasons. We generally build inventory levels before these peak sales periods. To maintain current and fashionable inventory we reduce the price of slow-moving merchandise throughout the year. Much of our merchandise is developed for one or more of our four seasons: Spring, Summer, Fall, and Holiday. End-of-season sales are conducted with the objective of carrying an appropriate amount of seasonal merchandise over from one season to another. Retail Stores segment sales for the four quarters of Fiscal 2009, as a percent of annual Retail Stores segment sales, were 26.6%, 26.7%, 23.2%, and 23.5%, respectively.

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Marketing and Promotions

We use several types of advertising to stimulate retail store customer traffic. We primarily use targeted direct-mail and e-mail advertising to preferred customers selected from a database of approximately 26.8 million private-label credit card, third-party credit card, and cash customers who have purchased merchandise from us within the past three years. We may also use radio, television, newspaper, internet advertising, fashion shows and other “grassroots” campaigns to stimulate traffic at certain strategic times of the year. We also use pricing policies, displays, store promotions, and convenient store hours and locations to attract customers. We maintain websites for our LANE BRYANT (including CACIQUE), FASHION BUG, and CATHERINES brands that provide information regarding current fashions and promotions and also provide internet shopping.

We offer our FASHION BUG, LANE BRYANT, and CATHERINES retail store customers various loyalty card programs. Customers who join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers join some of these programs by paying an annual membership fee. Other programs are offered that do not require the payment of a membership fee but allow cardholders to earn points for purchases using a private-label credit card, which may be redeemed for merchandise coupons upon the accumulation of a specified number of points. We are currently studying these programs with a consultant and intend to make changes to strengthen these programs. Additional information on our loyalty card programs is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; CRITICAL ACCOUNTING POLICIES; Revenue Recognition” below.

Sourcing

To meet the demands of our customers we access both the overseas and domestic wholesale markets for our Retail Stores segment merchandise purchases. Our merchandise purchases are primarily sourced from outside of the United States. We source merchandise both through our overseas sourcing operation, where we are the importer of record, and from domestic vendors that also source merchandise from overseas. This allows us to maintain flexible lead times, respond quickly to current fashion trends, and replenish merchandise inventory as necessary. During Fiscal 2009 we purchased merchandise from approximately 477 suppliers located throughout the world, which reflected an 18% reduction in suppliers from Fiscal 2008. We also purchase a portion of our LANE BRYANT merchandise from Mast Industries, Inc. (“Mast”), a contract manufacturer and apparel importer that is a wholly-owned subsidiary of Limited Brands, Inc. These purchases from Mast accounted for approximately 7% of our total Retail Stores merchandise purchases and approximately 14% of merchandise purchases for LANE BRYANT and LANE BRYANT OUTLET during Fiscal 2009. No other vendor accounted for more than 2% of total Retail Stores merchandise purchases during Fiscal 2009.

We pay for a majority of our merchandise purchases outside the United States on an open account basis. We pay for the remainder of our purchases outside the United States primarily through corporate-issued letters of credit where we are the importer of record. The geographic diversification of our sourcing network provides us with the flexibility to locate alternate sources for our products in order to meet our pricing targets.

To date, we have not experienced difficulties in purchasing merchandise overseas or importing such merchandise into the United States. Should events such as political instability or a natural disaster result in a disruption of normal activities in any single country with which we do business, we believe that we would have adequate alternative sources of supply.

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Distribution and Logistics

We currently operate two distribution centers for our Retail Stores segment. For our 907 FASHION BUG and LANE BRYANT OUTLET stores we operate a distribution center in Greencastle, Indiana. This facility is located on a 150-acre tract of land and contains a building of approximately 865,000 square feet. We estimate that this facility has the capacity to service up to approximately 1,800 stores. For our 1,214 LANE BRYANT and CATHERINES stores we operate a distribution center in White Marsh, Maryland. The White Marsh facility is located on 28 acres of land and contains a building of approximately 513,000 square feet that is currently designed to service up to approximately 1,800 stores.

The vast majority of our merchandise purchases are received at these distribution facilities, where they are prepared for distribution to our stores. Automated sorting systems in the distribution centers enhance the flow of merchandise from receipt to quality control inspection, receiving, ticketing, packing, and final shipment. Merchandise is shipped to each store principally by common carriers. We use computerized automated distribution attributes to combine shipments when possible and improve the efficiency of the distribution operations.

Inventory and fulfillment activities for our store-related e-commerce operations are handled by a third-party warehouse facility in Indianapolis, Indiana, using approximately 310,000 square feet of space for merchandise receipt, storage, picking, packing, shipping, and returns processing. A majority of this merchandise is received from our Greencastle and White Marsh distribution centers.

Our distribution and logistics operations provide adequate capacity for the foreseeable future, and we continually evaluate our overall long-term distribution and logistics requirements.

DIRECT-TO-CONSUMER SEGMENT

We established our Direct-to-Consumer segment in June 2005 with the acquisition of Crosstown Traders, Inc. Crosstown Traders operated multiple catalog titles and related websites, with the majority of revenues derived from the catalog sales of women's apparel, footwear, and accessories. Crosstown Traders also derived revenues from the sales of food and gifts through its FIGI'S catalog business. A substantial majority of the sales through FIGI'S occurs during the December holiday season. In October 2007 the LANE BRYANT catalog trademark, which had been licensed to a third party, reverted to us and we launched our LANE BRYANT WOMAN catalog and related website.

In April 2008 we began to explore strategic alternatives for our direct-to-consumer business in order to provide a greater focus on our core brands and to enhance shareholder value. In September 2008 we completed the sale of our Crosstown Traders non-core misses apparel catalogs to an affiliate of Orchard Brands, a portfolio company owned by Golden Gate Capital. We also discontinued the LANE BRYANT WOMAN catalog during the first half of Fiscal 2009. As of the end of Fiscal 2009 our Direct-to-Consumer segment consisted solely of the operations of our FIGI'S catalog and related website.

In connection with the sale of the Crosstown Traders apparel catalogs we retained certain components of its infrastructure. Accordingly, we entered into transitional service agreements with an affiliate of Orchard Brands to provide certain services, including information technology, use of existing facilities, and financial services. These service agreements ended during Fiscal 2009, and we discontinued using the retained facilities and became responsible for any remaining lease liabilities for the facilities.

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We own 125,000 square-feet of automated distribution center space in Marshfield, Wisconsin that serves as the main distribution area for our FIGI'S operations and ships approximately 2,500,000 packages per year. A 122,000 square-foot leased facility in Stevens Point, Wisconsin and a 46,000 square-foot owned facility in Neillsville, Wisconsin also service FIGI'S. These facilities will continue to provide adequate capacity for our FIGI'S operations for the foreseeable future.

PROPRIETARY CREDIT PROGRAMS

On August 13, 2009 we announced an agreement for the sale of our proprietary credit card receivables programs to World Financial Network National Bank ("WFNNB"), a subsidiary of Alliance Data Systems Corporation ("Alliance Data"). We also entered into ten-year operating agreements with Alliance Data for the provision of private-label credit card programs for our customers. The transaction closed on October 30, 2009.

Prior to the sale of the proprietary credit card portfolio we managed our proprietary credit card programs to enhance customer loyalty and to allow us to integrate our direct-mail marketing strategy when communicating with our core customers. We also earned revenue from operating the proprietary credit card programs through the utilization of asset securitization facilities as the primary funding source for our proprietary credit card receivables programs. As a result, a primary source of additional revenue was derived from the distribution of net excess spread revenue under our asset securitization facilities.

Under the terms of the ten-year operating agreements, Alliance Data offers private-label credit cards bearing our retail brand names and we will receive ongoing payments from Alliance Data related to private-label credit card sales, reimbursement of some private-label credit card program marketing costs, and net revenue sharing associated with marketing of certain enhancement services to cardholders. The enhancement programs give Alliance Data the exclusive right (but not the obligation) to offer to our private-label credit cardholders credit protection programs (including debt cancellation) and other enhancement marketing services and to market these programs through credit card billing statements and other channels. In addition, we may offer third-party vendor products that do not compete with the Alliance Data products and services described in this paragraph subject to certain limitations and fees.

In addition to our private-label credit card programs our FIGI'S food and gifts business offers interest-free, three-payment credit terms over three months to its customers, with the first payment due on a defined date 30 to 60 days after a stated holiday.

Additional information regarding the sale of our proprietary credit card receivables programs and the operations of our asset securitization facilities prior to the sale is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; FINANCIAL CONDITION; Off-Balance-Sheet Arrangements" and "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements; NOTE 12. SALE OF PROPRIETARY CREDIT CARD RECEIVABLES PROGRAMS and NOTE 17. ASSET SECURITIZATION" below.

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COMPETITION

The women's specialty retail apparel business is highly competitive, with numerous competitors, including individual and chain fashion specialty stores, department stores, discount stores, catalog retailers, and internet-based retailers, some of which may have greater financial resources, marketing capabilities, or brand recognition than we have. We cannot reasonably estimate the number of our competitors due to the large number of women’s apparel retailers. The primary elements of competition are merchandise style, size, selection, fit, quality, display, price, attractive website layout, efficient fulfillment of website mail orders, and personalized service to our customers. For our retail stores, store location, design, advertising, and promotion are also significant elements of competition.

EMPLOYEES

As of the end of Fiscal 2009 we employed approximately 27,000 associates, which included approximately 20,500 part-time employees. In addition, we hire a number of temporary employees during the December holiday season. As of the end of Fiscal 2009, 72 of our employees were represented by a union whose contract is currently due to expire in August 2012 and 7 of our employees were represented by a union whose contract is currently due to expire in August 2011. We believe that our overall relationship with these unions and our associates in general is satisfactory.

TRADEMARKS AND SERVICEMARKS

We own, or are in the process of obtaining, all rights to the trademarks and trade names we believe are necessary to conduct our business as presently operated. “FASHION BUG®”, “FASHION BUG PLUS®”, “L.A. BLUES®”, “STUDIO 1940®”, “RIGHT FIT BY FASHION BUG®”, “CATHERINES®”, “CATHERINES PLUS SIZES®”, “MAGGIE BARNES®”, “ANNA MAXWELL®”, “LIZ&ME®”, “SERENADA®”, “RIGHT FIT BY CATHERINES®”, “LAN BRYANT®”, “LANE BRYANT OUTLET®”, “LANE BRYANT WOMAN®”, “VENEZIA®”, “CACIQUE®”, “RIGHT F BY LANE BRYANT®”, “FIGI’S®”, and several other trademarks and servicemarks of lesser importance to us have been registered or are in the process of being registered with the United States Patent and Trademark Office and in other countries.

We also own the following internet domain name registrations: cacique.com, catherines.com, charming.com, charmingshoppes.com, fashionbug.com, fashionbugplus.com, lanebryant.com, figis.com and others of lesser importance.

EXECUTIVE OFFICES

Charming Shoppes, Inc. was incorporated in Pennsylvania in 1969. Our principal offices are located at 3750 State Road, Bensalem, Pennsylvania 19020. Our telephone number is (215) 245-9100.

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AVAILABLE INFORMATION

Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on or through our website at www.charmingshoppes.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Our historical filings can also be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 on official business days during the hours of 10:00 a.m. to 3:00 p.m. or can be accessed directly from the SEC's website at http://www.sec.gov. Information on the operation of the Public Reference Room can be obtained by calling the SEC at (800) 732-0330. See "PART III; Item 10. Directors, Executive Officers, and Corporate Governance" below for additional information that is available on our internet website.

Item 1A. Risk Factors

You should carefully consider and evaluate all of the information in this annual report on Form 10-K and the documents incorporated by reference into this report, including the risk factors listed below. Any of these risks could materially and adversely affect our business, financial condition, and results of operations, and could cause our actual results to differ materially from our plans, projections, or other forward-looking statements included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" below and elsewhere in this Report on Form 10-K, and in our other public filings. The occurrence of one or more of these risks could also materially and adversely affect the price of our common stock.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Ongoing economic conditions have adversely affected, and may continue to adversely affect, our business and results of operations.

Consumer spending habits, including spending for our products, are affected by, among other things, prevailing economic conditions, levels of employment, salary levels, wage rates, availability of consumer credit, consumer confidence, fluctuating fuel and energy costs, and consumer perception of economic conditions. Consumer discretionary spending, including purchases of women's apparel, tends to decline during recessionary periods. The recent deterioration in economic conditions in both the domestic and global economies has adversely affected our business and our results of operations. The tightening of consumer credit and an uncertain economic outlook has caused a reduction in consumer spending, which has contributed to a significant reduction in our net sales. We could be required to take additional markdowns in response to lower-than-anticipated levels of demand for our products, and promotional activity by our competitors could have a further adverse impact on our results of operations.

We cannot reliably predict the extent to which current or future economic conditions will affect our business. We expect retail demand and revenues to remain weak for an extended period of time, and we will continue to maintain inventory levels and purchases in line with our expectations for reduced customer demand. A prolonged continuation of the current economic conditions could have a material adverse effect on our business, financial condition, and results of operations.

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Our business is dependent upon our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors.

Customer tastes and fashion trends are volatile and tend to change rapidly, particularly for women's apparel. Our success depends in part on our ability to effectively predict and respond to quickly changing fashion tastes and consumer demands, and to translate market trends into appropriate, saleable product offerings. These risks may increase as we shift a higher proportion of our product from third-party vendors and domestic sourcing to internally-designed merchandise and overseas sourcing. The increased lead times associated with overseas sourcing could increase our risk of misjudging fashion trends or styles. If we are unable to successfully predict or respond to changing styles or trends and misjudge the market for our products or any new product lines, our sales will be lower and we may be faced with a substantial amount of unsold inventory or missed sales opportunities. In response, we may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory, which could have a material adverse effect on our business, financial condition, and results of operations. This could also impact our reputation with our customers, which could diminish brand loyalty.

Existing and increased competition in the women's retail apparel and direct-to-consumer markets may reduce our net revenues, profits, and market share.

The women's specialty retail apparel and direct-to-consumer markets are highly competitive. Our competitors include individual and chain fashion specialty stores, department stores, discount stores, catalog retailers, and internet-based retailers. As a result of this competition we are required to effectively market and competitively price our products to consumers in diverse markets, and we may experience pricing pressures, increased marketing expenditures, and loss of market share. This could have a material adverse effect on our business, financial condition, and results of operations, including reduced sales and margins.

We believe that the principal bases upon which we compete are merchandise style, size, selection, fit, quality, display, price, attractive website layout, efficient fulfillment of website mail orders, and personalized service to our customers, as well as store location, design, advertising, and promotion. Other women's apparel and direct-to-consumer companies with greater financial resources, marketing capabilities, or brand recognition may enter the plus-size business. We cannot give assurance that we will be able to compete successfully against existing or future competitors.

Maintaining and improving our operating margins are dependent on our ability to successfully control our operating costs.

In order to maintain or improve our operating margins we need to successfully manage our operating costs. Our inability to successfully manage labor costs, occupancy costs, or other operating costs, or our inability to take advantage of opportunities to reduce operating costs, could adversely affect our operating margins and our results of operations. We are subject to the Fair Labor Standards Act and various state and Federal laws and regulations governing such matters as minimum wages, exempt status classification, overtime, and employee benefits. Changes in Federal or state laws or regulations regarding minimum wages, unionization, or other employee benefits could cause us to incur additional wage and benefit costs, which could adversely affect our results of operations. In addition, we may be unable to obtain adequate insurance coverage for our operations at a reasonable cost.

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We cannot assure that we will realize the expected benefits from our private-label credit card programs.

We cannot assure that we will realize the expected benefits from the ten-year operating agreements with Alliance Data. A significant portion of our sales revenues are generated through our private-label credit cards. Therefore, changes in the private-label credit card programs that adversely impact our ability to facilitate customer credit may adversely impact our results of operations. Alliance Data will have discretion over certain policies and arrangements with the cardholders and may change these policies and arrangements in ways that could affect our relationship with the cardholders. Any such changes could adversely affect our private-label credit card sales and our results of operations. Our ability to continue to offer private-label credit card programs to our customers will depend on the success of our strategic alliance with Alliance Data.

Credit card operations are subject to numerous Federal and state laws that impose disclosure and other requirements upon the origination, servicing, and enforcement of credit accounts, and limitations on the amount of finance charges and fees that may be charged by a credit card provider. Alliance Data may be subject to regulations to which we were not subject prior to the sale of the credit card portfolio. To the extent that such limitations or regulations materially limit the availability of credit or increase the cost of credit to our cardholders or negatively impact provisions which affect our revenue streams associated with the ten-year operating agreements, our results of operations could be adversely affected. In addition, changes in credit card use, payment patterns, or default rates could be affected by a variety of economic, legal, social, or other factors over which we have no control and cannot predict with certainty. Such changes could also negatively impact the availability of credit or increase the cost of credit to our cardholders or negatively impact provisions that affect our revenue streams associated with the ten-year operating agreements.

We may not be able to obtain sufficient working capital financing.

Our business requires substantial investment in our inventory for a long period before sales of that inventory occur. Consequently, we require significant amounts of working capital financing. We depend on the availability of credit to fund our working capital, including credit we receive from our bankers, our factors, our suppliers and their agents, and on our ongoing payments from our strategic alliance related to private-label credit card sales. The current global financial crisis could adversely affect our ability or the ability of our vendors to secure adequate credit financing. If we or our vendors are unable to obtain sufficient financing at an affordable cost, our ability to merchandise our retail stores or e-commerce businesses could be adversely affected.

We may be unable to successfully execute on our key priorities.

We continue to execute on our five key priorities to guide our organization: (1) focus on the customer; (2) stabilize and begin to grow profitable revenue; (3) increase EBITDA; (4) increase cash flow; and (5) employee empowerment with accountability. Our key priorities are designed to support our strategic goals to enhance our competitive position and improve our financial results. We cannot assure the successful execution and the realization of the benefits of our key priorities, which may vary materially based on various factors, including the timing of execution of our strategic initiatives.

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Our operating results fluctuate from season to season.

Our retail store and direct-to-consumer operations experience seasonal fluctuations in net sales and consequently in operating income, with peak sales typically occurring during the Easter, Labor Day, and December holiday seasons. In addition, extreme or unseasonable weather can affect our sales. Any decrease in net sales or margins during our peak selling periods, or in the availability of working capital needed in the months before these periods, could have a material adverse effect on our business, financial condition, and results of operations.

We usually order merchandise in advance of peak selling periods and sometimes before new fashion trends are confirmed by customer purchases. We must carry a significant amount of inventory, including perishable products for our FIGI'S food and gifts operations, before the peak selling periods. If we are not successful in selling our inventory, especially during our peak selling periods, we may be forced to rely on markdowns or promotional sales to dispose of the inventory or we may not be able to sell the inventory at all, which could have a material adverse effect on our business, financial condition, and results of operations.

We face challenges in managing our business.

Successful long-term growth will require that we continue to expand and improve our internal systems and our operations, including our internal sourcing operations.

These objectives have created, and may continue to create, additional demands on our staff and on our operating systems. We cannot assure the successful implementation of our business plan to re-focus on our core brands, divest non-core assets, and increase our percentage of internally designed, developed, and sourced fashion product, or that we will achieve our objectives as quickly or as effectively as we have planned. Any delays in achieving our objectives could substantially increase the costs associated with such initiatives.

Certain of our business processes that are dependent on technology are outsourced to third parties. Such processes include credit card authorization and processing, our e-commerce platform, and certain other information technology functions. Although we seek to insure that all providers of outsourced services observe proper internal control practices and procedures, we cannot assure that failures will not occur. The failure of such third parties to provide adequate services could adversely affect our customers' shopping experience, our results of operations, liquidity, or our ability to provide adequate financial and management reporting.

Our long-term growth plan for our Retail Stores segment depends on our ability to open and operate new retail stores and to convert, where applicable, the formats of existing stores on a profitable basis. In addition, we will need to identify, hire, and retain a sufficient number of qualified personnel to work in our stores.

We depend on key personnel and may not be able to retain or replace these employees or recruit additional qualified personnel.

Our success and our ability to execute our business strategy depend largely on the efforts and abilities of our executive officers and their management teams and our ability to attract, hire, and retain officers and management. We also must motivate employees to remain focused on our strategies and goals, particularly during a period of changing executive leadership at both our corporate level and our operating division level. We do not maintain key-person life insurance policies with respect to any of our employees. If we cannot hire and retain effective management, we may be unable to compete effectively with other retailers.

Recent changes in, and additions to, our management as part of the implementation of our multi-year strategy and our effort to improve our competitive position and results of operations may not achieve the desired results.

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Our business plan is largely dependent upon continued growth in the plus-size women's apparel market.

Our business is primarily focused on sales of plus-size women's apparel, which represents a majority of our total net sales. Our results of operations could be adversely affected by a lack of continued growth in the plus-size women's apparel market.

We could be materially and adversely affected if any of our distribution or fulfillment centers are shut down.

We operate distribution and fulfillment centers in Greencastle, Indiana; White Marsh, Maryland; Marshfield, Wisconsin; and Stevens Point, Wisconsin and use a third-party fulfillment center in Indianapolis, Indiana that services our e-commerce operations. In addition, we use third-party freight consolidators and service providers in Los Angeles, California and North Bergen, New Jersey. Most of the merchandise we purchase is shipped directly to our distribution and fulfillment centers or freight consolidators where it is prepared for shipment to the appropriate stores or to the customer. If any of our distribution centers, fulfillment centers, or freight consolidators were to shut down or lose significant capacity for any reason, the other locations may not be able to adequately support the resulting additional distribution demands, in part because of capacity constraints and in part because each location services a particular brand or brands. As a result, we could incur significantly higher costs and experience longer lead times associated with distributing our products to our stores or customers during the time it takes for us to reopen or replace the affected distribution center, fulfillment center, or freight consolidator. Should the third-party fulfillment center that services our e-commerce operations cease providing fulfillment services the resultant failure to deliver e-commerce orders promptly could adversely affect our e-commerce operations and our results of operations.

The occurrence of, or threat of, a natural disaster, war, acts of terrorism, or other armed conflict on the United States or international economies may negatively impact the availability of merchandise and otherwise adversely impact our business.

The occurrence of, or threat of, a natural disaster, war, acts of terrorism, or other armed conflict could negatively affect our ability to obtain merchandise for sale in our stores or through our direct-to-consumer business. A significant portion of our merchandise is imported from other countries. If imported goods become difficult or impossible to bring into the United States and we cannot obtain such merchandise from other sources at similar costs, our net sales and profit margins may be adversely impacted. If commercial transportation is curtailed or substantially delayed our business may be adversely impacted, as we may have difficulty shipping merchandise to our distribution centers, fulfillment centers, freight consolidators, stores, or our direct-to-consumer customers. As a result of the occurrence of, or threat of, a natural disaster or acts of terrorism in the United States we may be required to suspend operations in some or all of our stores, which could have a material adverse impact on our business, financial condition, and results of operations.

Our inability to successfully manage customer service or fulfillment for our e-commerce websites could adversely impact our results of operations.

Successful management of our e-commerce operations is dependent on our and our vendors' ability to maintain efficient and uninterrupted customer service and order fulfillment. Inadequate systems capacity, a disruption or slowdown in telecommunications services, changes in technology, vendor disputes, changes in government regulations, systems issues, security breaches, a failure to integrate order management systems, or customer privacy issues could result in reduced sales or increases in operating expenses as a result of our efforts or our inability to remedy such issues. In addition, we and our vendors may not be able to hire sufficient qualified associates to support our e-commerce operations during peak periods, especially during the December holiday season. The occurrence of one or more of these events could adversely affect our e-commerce business.

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We rely on foreign sources of production.

We purchase a significant portion of our apparel directly in foreign markets and indirectly through domestic vendors with foreign sources. We face a variety of risks generally associated with doing business in foreign markets and importing merchandise from abroad. Such risks include (but are not necessarily limited to):

- political instability;
- increased security requirements applicable to imported goods;
- trade restrictions;
- imposition of or changes in duties, quotas, taxes, and other charges on imports;
- currency and exchange risks;
- issues relating to compliance with domestic or international labor standards;
- concerns over anti-dumping;
- delays in shipping; or
- increased costs of transportation.

New requirements could be proposed that would have an impact on the trading status of certain countries and could include retaliatory duties or other trade sanctions that, if enacted, could increase the cost of products purchased from suppliers in such countries or restrict the importation of products from such countries.

Our purchasing patterns are dictated by our seasonal inventory requirements. We typically enter into purchase commitments with our vendors for seasonal inventories up to six months ahead of when we take delivery of those products. All of our purchase commitments with foreign vendors are denominated in U.S. dollars and are settled in U.S. dollars. These arrangements provide a natural hedge to the impacts of changes in the value of the U.S. dollar relative to the foreign currencies during the period from when we enter into purchase commitments with our vendors to when we take delivery of the products in the countries from which we source our products. However, changes in the value of the U.S. dollar relative to other currencies can impact the negotiated pricing for products when comparing one seasonal buying period to another. We have a network of countries and vendors from which we can source, but additional weakening of the U.S. dollar in relation to those foreign currencies could increase the cost of our foreign-sourced products. The future performance of our business depends on our foreign suppliers and may be adversely affected by the factors listed above, which are beyond our control.

Issues of global workplace conditions may adversely affect our business.

If any one of our manufacturers or vendors fails to operate in compliance with applicable laws and regulations, is perceived by the public as failing to meet certain United States labor standards, or employs unfair labor practices, our business could be adversely affected. Current global workplace concerns of the public include perceived low wages, poor working conditions, age of employees, and various other employment standards. These globalization issues may affect the available supply of certain manufacturers' products, which may result in increased costs to us. Furthermore, a negative customer perception of any of our key vendors or their products may result in a lower customer demand for our apparel.

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We depend on strip shopping center and mall traffic and our ability to identify suitable store locations for our Retail Stores segment.

Our sales are dependent in part on a high volume of strip shopping center and mall traffic. Strip shopping center and mall traffic may be adversely affected by, among other things, economic downturns, the closing of anchor stores, or changes in customer shopping preferences. A decline in the popularity of strip shopping center or mall shopping among our target customers could have a material adverse effect on our business. To take advantage of customer traffic and the shopping preferences of our customers we need to maintain or acquire stores in desirable locations. We cannot assure that desirable store locations will continue to be available. Acquisition of additional store locations is also dependent on our ability to successfully negotiate lease terms for such locations. In addition, the timely opening of new store locations could be adversely affected by delays in obtaining necessary permits and approvals, lack of availability of construction materials and labor, or work stoppages. Our ability to acquire or maintain desirable store locations could be adversely affected by financial difficulties encountered by strip shopping center or mall landlords or by competition with other retailers for prime locations.

We may be unable to protect our trademarks and other intellectual property rights.

We believe that our trademarks and servicemarks are important to our success and our competitive position due to their name recognition with our customers. We devote substantial resources to the establishment and protection of our trademarks and servicemarks on a worldwide basis. Nevertheless, there can be no assurance that the actions we have taken to establish and protect our trademarks and servicemarks will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of their trademarks, servicemarks, or proprietary rights. Also, others may assert rights in, or ownership of, our trademarks and other proprietary rights and we may not be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States.

We may acquire or divest businesses or enter into joint ventures or strategic alliances, which may materially affect our business, financial condition, and results of operations.

We continually evaluate our portfolio of businesses and may decide to buy or sell businesses or enter into joint ventures or other strategic alliances. Significant acquisitions and alliances may increase demands on management, financial resources, and information and internal control systems. Our success with respect to acquisitions and alliances will depend, in part, on our ability to manage and integrate acquired businesses and alliances with our existing businesses and to successfully implement, improve, and expand our systems, procedures, and controls. In addition, we may divest existing businesses, which would cause a decline in revenues and may make our financial results more volatile. If we fail to integrate and manage acquired businesses successfully or to manage the risks associated with divestitures, joint ventures, or other alliances, our business, financial condition, and results of operations could be materially and adversely affected.

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OTHER RISKS

Anti-takeover provisions in our governing documents and Pennsylvania law may discourage other companies from attempting to acquire us.

Some provisions of our articles of incorporation and bylaws and of Pennsylvania law may discourage some transactions where we would otherwise experience a change in control, such as provisions that:

- do not permit cumulative voting;
- permit our board to issue "blank check" preferred stock without shareholder approval;
- require certain advance notice procedures with regard to the nomination of candidates for election as directors, other than nominations by or at the direction of our board;
- prevent our directors from being removed without cause except upon super-majority shareholder approval; and
- prevent a holder of 20% or more of our common stock from taking certain actions without certain approvals.

Failure to comply with the provisions of the Sarbanes-Oxley Act of 2002 could adversely affect our business.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports. Our independent registered public accounting firm is required to report on whether or not they believe that we maintained, in all material respects, effective internal control over financial reporting. If we are unable to maintain effective internal control over financial reporting we could be subject to regulatory sanctions and a possible loss of public confidence in the reliability of our financial reporting. Such a failure could result in our inability to provide timely and/or reliable financial information and could adversely affect our business.

We could be required to repurchase our 1.125% Senior Convertible Notes due May 1, 2014 for cash prior to maturity of the notes.

The holders of our 1.125% Senior Convertible Notes due May 1, 2014 (the “1.125% Notes”) could require us to repurchase the principal amount of the notes for cash before maturity of the notes upon the occurrence of a “fundamental change” as defined in the prospectus filed in connection with the 1.125% Notes. Such a repurchase would require significant amounts of cash, would be subject to important limitations on our ability to repurchase, such as the risk of our inability to obtain funds for such repurchase, and could adversely affect our financial condition.

New accounting rules or regulations or changes in existing rules or regulations could adversely impact our reported results of operations.

Changes to existing accounting rules or the adoption of new rules could have an adverse effect on our reported results of operations, which could also have an adverse effect on the market price of our common stock.

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Changes in estimates related to our evaluation of property, plant, equipment, goodwill, or intangible assets for impairment could adversely affect our reported results of operations.

We make certain significant assumptions, estimates, and projections related to the useful lives and valuation of our property, plant, and equipment and the valuation of goodwill and other intangible assets related to acquisitions. The carrying amount and/or useful life of these assets are subject to periodic and/or annual valuation tests for impairment. Impairment results when the carrying value of an asset exceeds the undiscounted (or for goodwill and indefinite-lived intangible assets the discounted) future cash flows associated with the asset. If actual experience were to differ materially from the assumptions, estimates, and projections used to determine useful lives or the valuation of property, plant, equipment, goodwill, or intangible assets, a write-down for impairment of the carrying value of the assets, or acceleration of depreciation or amortization of the assets, could result. Such a write-down or acceleration of depreciation or amortization could have an adverse impact on our reported results of operations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We lease all our stores with the exception of two stores that we own. Typically, our store leases have initial terms of 5 to 10 years and generally contain provisions for co-tenancies, renewal options, additional rents based on a percentage of sales, and payment of real estate taxes and common area charges. In addition, we lease certain of our corporate office, distribution center, warehouse, and other administrative facilities. Additional information with respect to our real estate leases is included in "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements; NOTE 18. LEASES" below.

With respect to leased stores open as of January 30, 2010 the following table shows the number of store leases expiring during the calendar periods indicated, assuming the exercise of our renewal options:

Period	Number of Leases Expiring
2010	98(1)
2011 – 2015	681
2016 – 2020	478
2021 – 2025	586
2026 – 2030	232
2031 – 2035	35
Thereafter	8

(1) Includes 48 stores on month-to-month leases.

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Additional information with respect to facilities that we own or lease is as follows:

Size in Sq. Feet	Location	Leased/ Owned	Description
865,000	Greencastle, IN	Owned	FASHION BUG, and LANE BRYANT OUTLET distribution center
513,000	White Marsh, MD	Owned	LANE BRYANT and CATHERINES distribution center
288,000	Tucson, AZ	Leased	Currently idle(1)
145,000	Bensalem, PA	Owned	Corporate headquarters, technology center, and administrative offices
142,000	Bensalem, PA	Leased	FASHION BUG, CATHERINES, and LANE BRYANT OUTLET home offices and corporate administrative offices
135,000	Columbus, OH	Leased	LANE BRYANT home office
125,000	Marshfield, WI	Owned	FIGI'S distribution center
122,000	Stevens Point, WI	Leased	FIGI'S distribution and call centers
108,000	Tucson, AZ	Leased	Currently idle(1)
71,000	Marshfield, WI	Owned	FIGI'S warehouse
64,000	Marshfield, WI	Owned	FIGI'S administrative offices and call center
52,000	Tucson, AZ	Leased	Currently idle(1)
46,000	Neillsville, WI	Owned	FIGI'S distribution center
40,000	Marshfield, WI	Owned	FIGI'S warehouse
36,000	Tucson, AZ	Leased	Currently idle(1)
23,000	Hong Kong, PRC	Owned	International sourcing offices
16,000	Marshfield, WI	Owned	FIGI'S manufacturing facility
15,000	Tucson, AZ	Leased	Currently idle(1)
8,000	Hangzhou, PRC	Leased	International sourcing offices
7,000	New Delhi, India	Leased	International sourcing offices

(1) In September 2008 we sold our Crosstown Traders non-core misses apparel catalogs to an affiliate of Orchard Brands. In connection with the sale we retained certain components of their infrastructure and entered into transitional service agreements with an affiliate of Orchard Brands Subsequent to the transitional period we discontinued the use of the retained transitional facilities. See "Item 1. Business; DIRECT-TO-CONSUMER SEGMENT" above for additional information.

Item 3. Legal Proceedings

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

Item 4. [Reserved]

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Additional Part I Information –Executive Officers of the Registrant

The following list contains certain information relative to our executive officers. There are no family relationships among any of our executive officers.

James P. Fogarty, 41, has served as President and Chief Executive Officer and as a member of the Board of Directors since April 2009. Before that he served as Managing Director of Alvarez & Marsal ("A&M"), an independent global professional services firm, from August 1994 until April 2009. He was also a member of A&M's Executive Committee for North America Restructuring. During his tenure at A&M, he most recently served as President and Chief Operating Officer of Lehman Brothers Holdings, subsequent to its Chapter 11 bankruptcy filing, from September 2008 to April 2009, as President and Chief Executive Officer of American Italian Pasta Company from September 2005 to February 2008, and as Chief Financial Officer for Levi Strauss & Co. from December 2003 to March 2005.

Joseph M. Baron, 62, has served as Executive Vice President and Chief Operating Officer since 2002. Mr. Baron has notified the Company that he will retire from the position effective in May 2010.

Fredrick Lamster, 56, has served as Executive Vice President, Human Resources since March 2010. Before that he served as Senior Vice President and Chief Human Resources Officer for Southpole, Inc. from February 2008 to March 2010 and as Senior Vice President, Human Resources for Aeropostale, Inc. from August 2005 to August 2007. Prior to that he served as Executive Vice President, Human Resources for the Limited Stores division of Limited Brands, Inc. from 1997 to August 2005.

Anthony M. Romano, 47, has served as Executive Vice President – Global Sourcing and Business Transformation, since February 2009. Before that he served as Executive Vice President, Chief Supply Chain Officer for Ann Taylor, Inc. from May 2005 through July 2008 and as Executive Vice President, Corporate Operations for Ann Taylor from March 2004 through May 2005.

Eric M. Specter, 52, has served as Executive Vice President and Chief Financial Officer since January 1997, and he has been employed by us since 1983.

Colin D. Stern, 61, has served as Executive Vice President and General Counsel since 1990, and he has been employed by us since 1989. He has also served as Secretary since February 1998.

Jay H. Levitt, 52, has served as President – Fashion Bug since September 2008. Before that he held two consulting positions with international footwear retailers from April 2006 to September 2008 and was a managing partner at Gentsch Capital partners, a private equity firm, from December 2005 to September 2008. From April 2001 to September 2005 he was Chief Executive Officer for the May Merchandising division of May Department Stores Company.

Brian Woolf, 61, has served as President – Lane Bryant since July 2008. Before that he served as Chairman of the Board and Chief Executive Officer for Cache, a women's specialty retailer, from October 2000 to January 2008.

John J. Sullivan, 63, has served as Senior Vice President – Corporate Controller since April 2007 and as Vice President – Corporate Controller since October 1998.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our common stock is traded on the over-the-counter market and quoted on the NASDAQ Global Select Market ("NASDAQ") and, as of March 26, 2009 on the Chicago Stock Exchange ("CHX") under the symbol "CHRS." The following table sets forth the high and low sale prices for our common stock during the indicated periods, as reported by NASDAQ.

	Fiscal 2009		Fiscal 2008	
	High	Low	High	Low
1st Quarter	$3.85	$0.45	$6.83	$4.26
2nd Quarter	5.02	2.93	6.20	4.14
3rd Quarter	5.84	4.45	6.35	1.01
4th Quarter	6.68	4.26	2.88	0.57

The approximate number of holders of record of our common stock as of March 22, 2010 was 1,578. This number excludes individual stockholders holding stock under nominee security position listings.

We have not paid any dividends since 1995, and we do not expect to declare or pay any dividends on our common stock in the foreseeable future. The payment of future dividends is within the discretion of our Board of Directors and will depend upon our future earnings, if any, our capital requirements, our financial condition, and other relevant factors. Our amended revolving credit facility allows the payment of dividends on our common stock not to exceed $15 million in any fiscal year. Such payments are subject to maintaining a minimum level of "Excess Availability" (as defined in the facility agreement) for 30 days before the payment of such dividends, immediately after the payment of such dividends, and on a projected pro-forma basis for 12 consecutive fiscal months thereafter. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; FINANCIAL CONDITION; Financing; Long-term Debt" and "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 8. LONG-TERM DEBT" below).

Information regarding our equity compensation plans appears in "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" below.

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs(2)
November 1, 2009 through November 28, 2009	349	(1)	$ 4.53	–	
November 29, 2009 through January 2, 2010	683	(1)	5.40	–	
January 3, 2010 through January 30, 2010	11,436	(1)	5.83	–	
Total	12,468		$ 5.77	–	(2)

(1) Shares withheld for the payment of payroll taxes on employee stock awards that vested during the period.

(2) On November 8, 2007 we publicly announced that our Board of Directors granted authority to repurchase shares of our common stock up to an aggregate value of $200 million. Shares may be purchased in the open market or through privately-negotiated transactions, as market conditions allow. During the period from February 3, 2008 through May 3, 2008 we repurchased a total of 505,406 shares of stock ($5.21 average price paid per share) in the open market under this program. No shares have been purchased under this plan subsequent to May 3, 2008. As of January 30, 2010, $197,364,592 was available for future repurchases under this program. This repurchase program has no expiration date.

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The following graph shows a five-year comparison of cumulative total returns on our common stock, the Russell 2000 Composite Index, and the Dow Jones U.S. Retailers – Apparel Index:

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
Among Charming Shoppes, Inc., The Russell 2000 Index
And The Dow Jones U.S. Retailers – Apparel Index

Assumes $100 invested on January 29, 2005 in Charming Shoppes, Inc. common stock, the Russell 2000 Index, or the Dow Jones U.S. Retailers – Apparel Index, including reinvestment of dividends.

The above chart was plotted using the following data:

	1/29/05	1/28/06	2/3/07	2/2/08	1/31/09	1/30/10
Charming Shoppes, Inc.	$100	$156	$164	$85	$13	$72
Russell 2000 Composite Index	100	119	131	118	75	103
Dow Jones U.S. Retailers – Apparel Index	100	113	133	105	56	107

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Item 6. Selected Financial Data

The following table presents selected financial data taken from our audited financial statements for our five fiscal years ended as of January 28, 2006 through January 30, 2010 and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

CHARMING SHOPPES, INC. AND SUBSIDIARIES
FIVE-YEAR COMPARATIVE SUMMARY

	Year Ended				
(In thousands)	Jan. 30, 2010	Jan. 31, 2009	Feb. 2, 2008	Feb. 3, 2007(1)	Jan. 28, 2006
Operating Statement Data:					
Net sales	$2,064,602	$2,474,898	$2,722,462	$2,751,845	$2,553,645
Cost of goods sold	1,040,985	1,327,387	1,420,159	1,380,838	1,287,072
Gross profit	1,023,617	1,147,511	1,302,303	1,371,007	1,266,573
Occupancy and buying expenses	390,225	427,841	441,580	423,714	397,940
Selling, general, and administrative expenses	582,941	690,095	717,393	697,066	635,795
Depreciation and amortization	76,302	93,741	94,470	87,956	81,289
Sale of proprietary credit card receivables programs	14,237 (2)	0	0	0	0
Impairment of store assets, goodwill, and trademarks	15,741 (3)	81,498 (3)	27,197 (3)	0	0
Restructuring and other charges	31,719 (4)	33,145 (4)	5,332 (4)	0	0
Total operating expenses	1,111,165	1,326,320	1,285,972	1,208,736	1,115,024
Income/(loss) from operations	(87,548)	(178,809)	16,331	162,271	151,549
Other income	834	4,430	8,793	8,273	7,474
Gain on repurchases of 1.125% Senior Convertible Notes	13,979	0	0	0	0
Interest expense	(18,799)	(19,460)	(18,049)	(14,746)	(17,885)
Income/(loss) from continuing operations before income taxes and extraordinary item	(91,534)	(193,839)	7,075	155,798	141,138
Income tax provision/(benefit)	(13,572)	(13,488)	11,238	53,839	48,718
Income/(loss) from continuing operations before extraordinary item	(77,962)	(180,351)	(4,163)	101,959	92,420
Income/(loss) from discontinued operations, net of income taxes(5)	0	(74,922)	(85,039)	6,964	6,971
Extraordinary item, net of income taxes	0	0	912	0	0
Net income/(loss)	$(77,962)	$(255,273)	$(88,290)	$108,923	$99,391

(1) Fiscal 2006 consisted of 53 weeks.

(2) See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 12. SALE OF PROPRIETARY CREDIT CARD RECEIVABLES PROGRAMS" below.

(3) See “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 13. IMPAIRMENT OF STORE ASSETS, GOODWILL, AND TRADEMARKS” below.

(4) See “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; “NOTE 14. RESTRUCTURING AND OTHER CHARGES” below.

(5) See “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 2. DISCONTINUED OPERATIONS” below.

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CHARMING SHOPPES, INC. AND SUBSIDIARIES
FIVE-YEAR COMPARATIVE SUMMARY
(Continued)

	Year Ended				
(Dollars and shares in thousands, except per share amounts)	Jan. 30, 2010	Jan. 31, 2009	Feb. 2, 2008	Feb. 3, 2007(1)	Jan. 28, 2006
Basic income/(loss) per share:					
Continuing operations before extraordinary item	$(0.67)	$(1.57)	$(0.03)	$0.83	$0.77
Discontinued operations, net of income taxes	0.00	(0.65)	(0.70)	0.06	0.06
Extraordinary item, net of income taxes	0.00	0.00	0.01	0.00	0.00
Net income/(loss)(2)	$(0.67)	$(2.23)	$(0.73)	$0.89	$0.83
Basic weighted average common shares outstanding	115,626	114,690	121,160	122,388	119,831
Diluted income/(loss) per share:					
Continuing operations before extraordinary item	$(0.67)	$(1.57)	$(0.03)	$0.76	$0.71
Discontinued operations, net of income taxes	0.00	(0.65)	(0.70)	0.05	0.05
Extraordinary item, net of income taxes	0.00	0.00	0.01	0.00	0.00
Net income/(loss)(2)	$(0.67)	$(2.23)	$(0.73)	$0.81	$0.76
Diluted weighted average common shares and equivalents outstanding	115,626	114,690	121,160	139,763	137,064
Performance Data(3):					
Net return on average stockholders' equity	(15.6)%	(26.7)%	(0.5)%	11.6%	12.3%
Net return on average total assets	(6.4)	(13.0)	(0.3)	6.2	6.5
Adjusted EBITDA(4)	$50,451	$29,575	$143,330	$250,227	$232,838

(1) Fiscal 2006 consisted of 53 weeks.

(2) Results may not add due to rounding.

(3) Based on net income/(loss) from continuing operations.

(4) Income/(loss) from continuing operations before (i) income taxes; (ii) net interest expense/other income; (iii) gain on repurchases of 1.125% Senior Convertible Notes; (iv) restructuring and other charges; (v) impairment of store assets, goodwill, and trademarks; (vi) sale of proprietary credit card receivables programs; and (vii) depreciation and amortization. Adjusted EBITDA includes amortization of stock-based compensation expense, which is a component of selling, general, and administrative expenses. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; RESULTS OF OPERATIONS" below for a further discussion of adjusted EBITDA.

As Of

(Dollars in thousands)	Jan. 30, 2010	Jan. 31, 2009	Feb. 2, 2008(1)	Feb. 3, 2007(1)	Jan. 28, 2006(1)
Balance Sheet Data:					
Total assets	$1,161,657	$1,277,141	$1,611,013	$1,705,723	$1,572,583
Current portion – long-term debt	6,265	6,746	8,827	10,887	14,765
Long-term debt	171,558	232,722	222,224	181,124	191,979
Working capital	335,595	382,024	495,096	460,620	344,229
Stockholders' equity	464,934	536,855	812,495	947,538	814,348

(1) Includes discontinued operations (see “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 2. DISCONTINUED OPERATIONS” below).

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Item 7. 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 ("MD&A") should be read in conjunction with the financial statements and accompanying notes included in "Item 8. Financial Statements and Supplementary Data" below. As used in this report the terms "Fiscal 2009," "Fiscal 2008," and "Fiscal 2007" refer to our fiscal years ended January 30, 2010, January 31, 2009, and February 2, 2008, respectively. The term "Fiscal 2010" refers to our fiscal year which will end on January 29, 2011. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, our consolidated subsidiaries.

In June 2009 the Financial Accounting Standards Board ("FASB") established its Accounting Standards Codification ("ASC") as the official single source of authoritative accounting principles to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States. Information in the ASC is organized numerically in descending order by topic, subtopic, section, and subsection. References in this MD&A to authoritative literature included in the ASC are shown as "ASC" followed by the specific topic, subtopic, section, or subsection where the relevant literature is contained.

FORWARD-LOOKING STATEMENTS

With the exception of historical information, the matters contained in the following analysis and elsewhere in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, projections of revenues, income or loss, cost reductions, capital expenditures, liquidity, divestitures, financing needs or plans, store closings, merchandise strategy, and plans for future operations, as well as assumptions relating to the foregoing. The words "expect," "could," "should," "project," "estimate," "predict," "anticipate," "plan," "intend," "believes," and similar expressions are also intended to ide forward-looking statements.

We operate in a rapidly changing and competitive environment. New risk factors emerge from time to time and it is not possible for us to predict all risk factors that may affect us. Forward-looking statements are inherently subject to risks and uncertainties, some of which we cannot predict or quantify. Future events and actual results, performance, and achievements could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements, which speak only as of the date on which they were made. We assume no obligation to update or revise any forward-looking statement to reflect actual results or changes in, or additions to, the factors affecting such forward-looking statements. Given those risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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, which are discussed in more detail in "Item 1A. Risk Factors," above:

Our business is dependent upon our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors. These risks may increase as we shift a higher proportion of our product to internally-designed merchandise and to overseas sourcing with its associated increase in lead times.

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

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We continue to execute on our five key priorities to guide our organization: (1) focus on the customer; (2) stabilize and begin to grow profitable revenue; (3) increase EBITDA; (4) increase cash flow; and (5) employee empowerment with accountability. Our key priorities are designed to support our strategic goals to enhance our competitive position and improve our financial results. We cannot assure the successful execution and the realization of the benefits of our key priorities, which may vary materially based on various factors, including the timing of execution of our strategic initiatives.

Our inability to successfully manage labor costs, occupancy costs, or other operating costs, or our inability to take advantage of opportunities to reduce operating costs, could adversely affect our operating margins and our results of operations. We cannot assure the successful implementation of our planned cost reduction and capital budget reduction plans or the realization of our anticipated annualized expense savings from our restructuring programs. We may be unable to obtain adequate insurance for our operations at a reasonable cost.

We are subject to the Fair Labor Standards Act and various state and Federal laws and regulations governing such matters as minimum wages, exempt status classification, overtime, and employee benefits. Changes in Federal or state laws or regulations regarding minimum wages, unionization, or other employee benefits could cause us to incur additional wage and benefit costs, which could adversely affect our results of operations.

We depend on the availability of credit for our working capital needs, including credit we receive from our bankers, our factors, our suppliers and their agents, and on our ongoing payments from Alliance Data related to our private-label credit card sales. The current global financial crisis could adversely affect our ability or the ability of our vendors to secure adequate credit financing. If we or our vendors are unable to obtain sufficient financing at an affordable cost, our ability to merchandise our retail stores or e-commerce businesses could be adversely affected.

We cannot assure that we will realize the expected benefits from the ten-year private-label credit card operating agreements with Alliance Data. A significant portion of our sales revenues are generated through our private-label credit cards. Therefore, changes in the private-label credit card programs that adversely impact our ability to facilitate customer credit may adversely impact our results of operations. Alliance Data will have discretion over certain policies and arrangements with the cardholders and may change these policies and arrangements in ways that could affect our relationship with the cardholders. Any such changes could adversely affect our private-label credit card sales and our results of operations. Our ability to continue to offer private-label credit card programs to our customers will depend on the success of our strategic alliance with Alliance Data.

Credit card operations are subject to numerous Federal and state laws that impose disclosure and other requirements upon the origination, servicing, and enforcement of credit accounts, and limitations on the amount of finance charges and fees that may be charged by a credit card provider. Alliance Data may be subject to regulations to which we were not subject prior to the sale of our proprietary credit card receivables programs. To the extent that such limitations or regulations materially limit the availability of credit or increase the cost of credit to our cardholders or negatively impact provisions which affect our revenue streams associated with the ten-year operating agreements, our results of operations could be adversely affected. In addition, changes in credit card use, payment patterns, or default rates could be affected by a variety of economic, legal, social, or other factors over which we have no control and cannot predict with certainty. Such changes could also negatively impact the availability of credit or increase the cost of credit to our cardholders or negatively impact provisions that affect our revenue streams associated with the ten-year operating agreements.

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The recent deterioration in economic conditions in the domestic and global economies, higher levels of unemployment, an uncertain economic outlook, and fluctuating energy costs has led to, and could continue to lead to, reduced consumer demand for our products in the future.

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

Certain of our business processes that are dependent on technology are outsourced to third parties. Such processes include credit card authorization and processing, our e-commerce platform, and certain other information technology functions. Although we make a diligent effort to insure that all providers of outsourced services observe proper internal control practices and procedures, we cannot assure that failures will not occur. The failure of such third parties to provide adequate services could adversely affect our customers' shopping experience, our results of operations, liquidity, or our ability to provide adequate financial and management reporting.

We depend on the efforts and abilities of our executive officers and their management teams and we may not be able to retain or replace these employees or recruit additional qualified personnel.

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

We depend on our distribution and fulfillment centers and third-party freight consolidators, fulfillment centers, and service providers for prompt and efficient deliveries of merchandise to our stores and customers. We could incur significantly higher costs and experience longer lead times associated with distributing our products to our stores and shipping our products to our e-commerce and catalog customers if operations at any of these locations were to be disrupted for any reason. The failure to distribute our products promptly could adversely affect our results of operations.

Natural disasters, as well as war, acts of terrorism, or other armed conflict, or the threat of any such event may negatively impact availability of merchandise and customer traffic to our stores, or otherwise adversely affect our business.

Successful operation of our e-commerce websites and our catalog business is dependent on our ability to maintain efficient and uninterrupted customer service and fulfillment operations.

We rely significantly on foreign sources of production and face a variety of risks generally associated with doing business in foreign markets and importing merchandise from abroad. Such risks include (but are not necessarily limited to) political instability; imposition of or changes in duties or quotas; trade restrictions; increased security requirements applicable to imports; delays in shipping; increased costs of transportation; and issues relating to compliance with domestic or international labor standards.

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Our manufacturers may be unable to manufacture and deliver merchandise to us in a timely manner or to meet our quality standards. In addition, if any one of our manufacturers or vendors fails to operate in compliance with applicable laws and regulations, is perceived by the public as failing to meet certain United States labor standards, or employs unfair labor practices, our business could be adversely affected.

Our long-term growth plan depends on our ability to open and profitably operate new retail stores, to convert, where applicable, the formats of existing stores on a profitable basis, and to continue to expand our outlet distribution channel. Our retail stores depend upon a high volume of traffic in the strip centers and malls in which our stores are located, and our future retail store growth is dependent upon the availability of suitable locations for new stores. In addition, we will need to identify, hire, and retain a sufficient number of qualified personnel to work in our stores. We cannot assure that desirable store locations will continue to be available, or that we will be able to hire and retain a sufficient number of suitable sales associates at our stores.

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

Inadequate systems capacity, a disruption or slowdown in telecommunications services, changes in technology, changes in government regulations, systems issues, security breaches, a failure to integrate order management systems, or customer privacy issues could result in reduced sales or increases in operating expenses as a result of our efforts or our inability to remedy such issues.

We continually evaluate our portfolio of businesses and may decide to acquire or divest businesses or enter into joint venture or strategic alliances. If we fail to manage the risks associated with acquisitions, divestitures, joint ventures, or other alliances, our business, financial condition, and results of operations could be materially and adversely affected.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports. Our independent registered public accounting firm is also required to report on whether or not they believe that we maintained, in all material respects, effective internal control over financial reporting. If we are unable to maintain effective internal control over financial reporting we could be subject to regulatory sanctions and a possible loss of public confidence in the reliability of our financial reporting. Such a failure could result in our inability to provide timely and/or reliable financial information and could adversely affect our business.

The holders of our 1.125% Senior Convertible Notes due May 1, 2014 (the 1.125% Notes) could require us to repurchase the principal amount of the notes for cash before maturity of the notes upon the occurrence of a “fundamental change” as defined in the prospectus filed in connection with the 1.125% Notes (see “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 8. LONG-TERM DEBT” below). Such a repurchase would require significant amounts of cash, would be subject to important limitations on our ability to repurchase, such as the risk of our inability to obtain funds for such repurchase, and could adversely affect our financial condition.

Changes to existing accounting rules or the adoption of new rules could have an adverse impact on our reported results of operations.

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We make certain significant assumptions, estimates, and projections related to the useful lives and valuation of our property, plant, and equipment and the valuation of goodwill and other intangible assets related to acquisitions. The carrying amount and/or useful life of these assets are subject to periodic and/or annual valuation tests for impairment. Impairment results when the carrying value of an asset exceeds the undiscounted (or for goodwill and indefinite-lived intangible assets the discounted) future cash flows associated with the asset. If actual experience were to differ materially from the assumptions, estimates, and projections used to determine useful lives or the valuation of property, plant, equipment, or intangible assets, a write-down for impairment of the carrying value of the assets, or acceleration of depreciation or amortization of the assets, could result. Such a write-down or acceleration of depreciation or amortization could have an adverse impact on our reported results of operations. See "CRITICAL ACCOUNTING POLICIES; Impairment of Property, Plant, and Equipment, Intangible Assets, and Goodwill" and "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 13. IMPAIRMENT OF STORE ASSETS, GOODWILL, AND TRADEMARKS" below.

CRITICAL ACCOUNTING POLICIES

We have prepared the financial statements and accompanying notes included in Item 8 of this report in conformity with United States generally accepted accounting principles. This requires us to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. These estimates and assumptions are based on historical experience, analysis of current trends, and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions.

We periodically reevaluate our accounting policies, assumptions, and estimates and make adjustments when facts and circumstances warrant. Our significant accounting policies are described in the notes accompanying the financial statements included in Item 8 of this report. However, we consider the following accounting policies and related assumptions to be more critical to the preparation of our financial statements and accompanying notes and involve the most significant management judgments and estimates.

Revenue Recognition

Our revenues from merchandise sales are net of sales discounts, returns, and allowances and exclude sales tax. We record a reserve for estimated future sales returns based on an analysis of actual returns and we defer recognition of layaway sales to the date of delivery. A change in our actual rates of sales returns and layaway sales experience would affect the level of revenue recognized.

Catalog and e-commerce revenues include shipping and handling fees billed to customers. These revenues are recognized after all of the following have occurred: execution of the customer's order, authorization of the customer's credit card has been received, and the product has been shipped to and received by the customer. We defer recognition of revenue for product shipped but not yet received by the customer based on an estimate of the number of days the shipments are in-transit. A change in our actual rates of sales returns and/or the time it takes for customers to receive our products would affect the level of revenue recognized.

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We sell gift cards to our Retail Stores segment customers through our stores, store-related websites, and through third parties. We recognize revenue from gift cards when the gift card is redeemed by the customer. Our gift cards do not currently contain expiration dates or inactivity fees. We recognize gift card breakage (unused gift card balances for which we believe the likelihood of redemption is remote) as net sales based on an analysis of historical redemption patterns. A change in the historical pattern of gift card redemptions would affect the level of revenue recognized.

Loyalty Card Programs

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers join some of these programs by paying an annual membership fee. For these programs we recognize revenue as a component of net sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. Certain loyalty card customers earn points for purchases which may be redeemed for merchandise coupons upon the accumulation of a specified number of points. No membership fees are charged in connection with these programs. Costs we incur in connection with administering these programs are recognized in cost of goods sold as incurred.

Accounts Receivable

Our FIGI'S food and gifts business offers credit to its customers using interest-free three-payment credit terms over three months, with the first payment due on a defined date 30 to 60 days after a stated holiday. A substantial portion of the FIGI'S business is conducted during the December holiday season. We evaluate the collectibility of our accounts receivable based on a combination of factors, including analysis of historical trends, aging of accounts receivable, write-off experience, past history of recoveries, and expectations of future performance. Significant changes in future performance relative to our historical experience could have an impact on the levels of our accounts receivable valuation reserves.

Inventories

We value our merchandise inventories at the lower of cost or market using the retail inventory method (average cost basis). We adjust the valuation of inventories at cost and the resulting gross margins in proportion to markdowns and shrinkage on our retail inventories. The retail inventory method results in the valuation of inventories at the lower of cost or market when markdowns are currently taken as a reduction of the retail value of inventories. The majority of these "permanent markdowns," and the resulting adjustments to the carrying cost of our inventories, are recorded in our inventory costing system when the actual ticketed selling price of an item is reduced and are therefore not subject to significant estimates on the part of management. However, at the end of each quarter we perform a review of merchandise that is currently on promotional markdowns (which is considered a "temporary markdown") and identify at an SKU-number level the merchandise that will not be sold again above its current promotional price. Because we have not yet recorded such promotional markdowns in our perpetual inventory system as permanent markdowns, we record a markdown reserve to properly record the inventory at the lower of cost or market using the retail inventory method. Our estimation of markdown reserves involves certain management judgments and estimates that can significantly affect the ending inventory valuation at cost, as well as the resulting gross margins. The markdown reserve will fluctuate depending on the level of seasonal merchandise on-hand, the level of promotional activity, and management's estimate of our ability to liquidate such promotional inventory above its current promotional price in the future. Our failure to properly estimate markdowns currently could result in an overstatement or understatement of inventory cost under the lower of cost or market principle. Our total reserves for these types of markdowns were $16.0 million as of January 30, 2010 and $12.0 million as of January 31, 2009. Historically, we have not had significant variances between our estimates of these markdown reserves and the actual markdown experience for which these reserves were established.

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We perform physical inventory observations at least once annually at each of our stores. For stores with higher-than-average inventory loss rates, we may perform physical inventory observations more frequently. Actual inventory losses are recorded in our financial statements at the time these physical inventory observations are performed. During the periods between our physical inventory observations and our period-end reporting dates, we record a reserve for estimated inventory losses (shrinkage). Our estimates for shrinkage are based on actual inventory losses identified from the results of physical inventory counts at our stores and distribution centers. Historically, our physical inventory losses have averaged between 1% and 2% of our net sales. Our reserves for estimated inventory shrinkage were $1.5 million as of January 30, 2010 and $2.0 million as of January 31, 2009.

We defer into inventory cash received from vendors and recognize these amounts as a reduction of cost of goods sold as the inventory is sold. We defer the recognition of cash received from vendors during interim periods in order to better match the recognition of the cash consideration to the period the inventory is sold.

Impairment of Property, Plant, and Equipment, Intangible Assets, and Goodwill

We assess our property, plant, and equipment and amortizable intangible assets for recoverability whenever events or changes in circumstances indicate that the carrying amounts of these long-lived assets may not be recoverable. We consider historical performance and estimated future results in our evaluation of potential impairment and compare the carrying amount of the asset to the estimated future undiscounted cash flows expected to result from the use of the asset. If the estimated future undiscounted cash flows are less than the carrying amount of the asset, we write down the asset to its estimated fair value and recognize an impairment loss. Our estimate of fair value is generally based on either appraised value or the present value of future cash flows. The estimates and assumptions that we use to evaluate possible impairment require certain significant assumptions regarding factors such as future sales growth and operating performance, and they may change as new events occur or as additional information is obtained.

We test goodwill and other intangible assets for impairment at least annually or more frequently if there is an indication of possible impairment. We perform our annual impairment analysis during the fourth quarter of our fiscal year because our fourth quarter results of operations are significant to us and are an integral part of our analyses. In addition, we prepare our financial plan for the following fiscal year, which is an important part of our impairment analyses, during the fourth quarter of our fiscal year. If our re-evaluation determines that our goodwill or other intangible assets have become impaired, a write-down of the carrying value of the assets would result.

The process of evaluating goodwill for impairment involves the determination of the fair value of our reporting units. Inherent in such fair value determinations are certain judgments and estimates relating to future cash flows, including our interpretation of current economic indicators and market valuations, and assumptions about our strategic plans with regard to our operations. To the extent that additional information arises, market conditions change or our strategies change, it is possible that our conclusion regarding whether existing goodwill is impaired could change and result in a material effect on our consolidated financial position or results of operations.

We rely principally on a discounted cash flow method of the income approach in estimating the fair value of our reporting units. We have consistently applied this methodology in previous goodwill impairment tests because we have concluded that the methodology is the best measure of fair value and is a methodology that market participants would use in valuing these reporting units. The income approach values a business enterprise by discounting future debt-free net cash flows available to the providers of the invested capital to their present worth at a discount rate that reflects both the current return requirements of the market and the risks inherent in the specific investment. The discounted cash flow method estimates annual future cash flows, and then discounts the cash flows to present value. The discounted cash flow methodology uses our projections of financial performance. The most significant assumptions used in the discounted cash flow methodology are the discount rate, the terminal value, and expected future revenues, gross margins, and operating margins, which vary among our reporting units.

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For purposes of our annual impairment test of goodwill performed as of January 30, 2010 we utilized a discount rate of 12.4%. Our estimates of future cash flows are based on our current budgets and are reflective of our current expectations as to sales growth rates and profitability. We believe that our estimates are appropriate under the circumstances. If economic conditions continue to deteriorate and negatively affect our results of operations, we may recognize additional goodwill impairments. Given the significant excess of fair value over the book values of our reporting units as derived from our discounted cash flow analysis we have determined, based on the performance of various sensitivity analyses, that our conclusion would not be affected by other outcomes that are reasonably likely to occur.

Our identifiable intangible assets consist primarily of trademarks. These intangible assets arise primarily from the allocation of the purchase price of businesses acquired to identifiable intangible assets based on their respective fair market values at the date of acquisition. Amounts assigned to identifiable intangible assets, and their related useful lives, are derived from established valuation techniques and management estimates.

Consistent with prior periods and with the methodology used to initially establish and record the fair value of the trademarks noted above, we have applied the "relief-from-royalty" method of the income approach in measuring the fair value of our tradenames in the current-year impairment test. Under this method it is assumed that a company, without the rights to the trade names, would license the right to utilize them for business purposes. The fair value is estimated by discounting the hypothetical royalty payments to their present value over the estimated economic life of the asset. These estimates can be affected by a number of factors including, but not limited to, general economic conditions and availability of market information, as well as our profitability. The most significant assumptions used by management in evaluating the fair value of our tradenames are the discount rate, the royalty rate, and estimated future revenues associated with the use of the tradename.

For purposes of our annual impairment test of our tradenames performed as of January 30, 2010 we utilized a discount rate of 12.4% and a royalty rate in the range of 4% – 5%. Our estimates of future revenues associated with our tradenames are based on our current budgets and are reflective of our current expectations as to sales growth rates. We believe that our estimates are appropriate in the circumstances. Given the significant excess of fair value over the book values of our tradenames as derived from our discounted cash flow analysis we have determined, based on the performance of various sensitivity analyses, that our conclusion would not be affected by other outcomes that are reasonably likely to occur.

Although we believe we have sufficient current and historical information available to us to test for impairment, it is possible that actual cash flows could differ from the estimated cash flows used in our impairment tests.

See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; "NOTE 13. IMPAIRMENT OF STORE ASSETS, GOODWILL, AND TRADEMARKS" below for information regarding impairment losses recognized during Fiscal 2009, Fiscal 2008, and Fiscal 2007.

Asset Securitization

Prior to the sale of our proprietary credit card receivables programs we operated an asset securitization program that primarily involved the sale of proprietary credit card receivables to a special-purpose entity, which in turn transferred the receivables to a separate and distinct qualified special-purpose entity ("QSPE"). The QSPE's assets and liabilities were not consolidated in our balance sheet and the receivables transferred to the QSPEs were isolated for purposes of the securitization program. We used asset securitization to fund the credit card receivables generated by our proprietary credit card programs. See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 17. ASSET SECURITIZATION" below for additional discussion of our asset securitization facility.

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In connection with our asset securitizations program, we would record a beneficial interest, referred to as the interest-only strip (“I/O strip”), which represented the estimated present value of cash flows we expected to receive over the period the receivables were outstanding. In addition to the I/O strip, we recognized a servicing liability because the servicing fees we expected to receive from the securitizations did not provide adequate compensation for servicing the receivables. The servicing liability represented the present value of the excess of the costs of servicing over the servicing fees we expected to receive and was recorded at estimated fair value. We used the same discount rate and estimated life assumptions in valuing the I/O strip and the servicing liability. We amortized the I/O strip and the servicing liability on a straight-line basis over the expected life of the credit card receivables.

We used certain valuation assumptions related to the average life of the receivables sold and anticipated credit losses, as well as an appropriate market discount rate, in determining the estimated value of the I/O strip and the servicing liability. We estimated the values for these assumptions using historical data, the impact of the then-current economic environment on the performance of the receivables sold, and the impact of the potential volatility of the then-current market for similar instruments in assessing the fair value of these retained interests.

Costs Associated With Exit or Disposal Activities

We recognize liabilities for costs associated with an exit or disposal activity when the liabilities are incurred. Commitment to a plan by itself does not create an obligation that meets the definition of a liability. We recognize one-time benefit payments over time rather than “up front” if the benefit arrangement requires employees to render future service beyond a “minimum retention period.” The liability for one-time benefits is 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. We use fair value for the initial measurement of liabilities associated with exit or disposal activities. Severance payments that are offered in accordance with an on-going benefit arrangement are recorded no later than the period when it becomes probable that the costs will be incurred and the costs can be reasonably estimated.

Stock-Based Compensation

We recognize the fair value of stock-based payments as compensation expense in our financial statements. We use the Black-Scholes valuation model to estimate the fair value of stock options and stock appreciation rights (“SARs”) and recognize the related expense for stock-based compensation on a straight-line basis over the service period of the underlying awards. Our initial estimates of compensation cost are based on the number of options, SARs, or awards for which we expect the requisite service period to be completed. These initial estimates are revised if subsequent information indicates that the number of options, SARs, or awards expected to vest differs from our initial estimates. We recognize the cumulative effect of such a change in estimated compensation expense in the period of the change.

The Black-Scholes model requires estimates or assumptions as to the dividend yield and price volatility of the underlying stock, the expected life of the option, and a relevant risk-free interest rate. Periodic amortization of compensation expense requires estimates as to the number of options expected to be forfeited prior to completion of the requisite service period. The use of different option-pricing models and different estimates or assumptions could result in different estimates of compensation expense.

See “Item 8. Financial Statements and Supplementary Data; NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES; Stock-based Compensation” and NOTE 10. STOCK-BASED COMPENSATION PLANS” below for further information on our stock-based compensation expense.

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Insurance Liabilities

We use a combination of third-party insurance and/or self-insurance for certain risks, including workers' compensation, medical, dental, automobile, and general liability claims. Our insurance liabilities are a component of "accrued expenses" on our consolidated balance sheet, and represent our estimate of the ultimate cost of uninsured claims incurred as of the balance sheet date. In estimating our self-insurance liabilities we use independent actuarial estimates of expected losses, which are based on statistical analyses of historical data. Loss estimates are adjusted based upon actual claim settlements and reported claims. Although we do not expect the amounts ultimately paid to differ significantly from our estimates, self-insurance liabilities could be affected if future claim experience differs significantly from the historical trends and the actuarial assumptions. We evaluate the adequacy of these liabilities on a regular basis, modifying our assumptions as necessary, updating our records of historical experience, and adjusting our liabilities as appropriate.

Operating Leases

We lease substantially all of our store properties as well as certain of our other facilities. A majority of our store leases contain lease options that we can unilaterally exercise. The lease term we use for such operating leases includes lease option renewal periods only in instances in which the failure to exercise such options would result in an economic penalty for us and exercise of the renewal option is therefore reasonably assured at the lease inception date. Store leasehold improvement assets are depreciated over the shorter of their useful life or the lease term.

For leases that contain rent escalations, the lease term for recognition of straight-line rent expense commences on the date we take possession of the leased property for construction purposes, which for stores is generally two months prior to a store opening date. Similarly, landlord incentives or allowances under operating leases (tenant improvement allowances) are recorded as a deferred rent liability and recognized as a reduction of rent expense on a straight-line basis over the lease term, commencing on the date we take possession of the leased property for construction purposes.

Senior Convertible Notes

Our cash-settled 1.125% Senior Convertible Notes (the "1.125% Notes") are separated into their debt and equity components at issuance. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature. As a result, the debt is recorded at a discount to adjust its below-market coupon interest rate to the market coupon interest rate for a similar debt instrument without the conversion feature. The difference between the proceeds for the convertible debt and the amount reflected as the debt component represents the value of the conversion feature and is recorded as additional paid-in capital. The debt is subsequently accreted to its par value over its expected life with an offsetting non-cash increase in interest expense on the income statement to reflect interest expense at the market rate for the debt component at the date of issuance.

Concurrent with the issuance of the 1.125% Notes we entered into privately negotiated common stock call options and warrants with affiliates of the initial purchasers. We accounted for the call options and warrants as equity instruments. Accordingly, the cost of the call options and the proceeds from the sale of the warrants are included in additional paid-in capital in our consolidated balance sheets.

The 1.125% Notes will have no impact on our diluted net income per share until the price of our common stock exceeds the conversion price of $15.379 per share. Prior to conversion we will include any dilutive effect of the 1.125% Notes or the warrants in the calculation of diluted net income per share using the treasury stock method. The call options are excluded from the calculation of diluted net income per share because their effect would be anti-dilutive.

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We monitor certain provisions of the 1.125% Notes, the call options, and the warrants for their ongoing treatment as equity instruments on a quarterly basis. Should the issuance of the 1.125% Notes, the purchase of the call options, or the sale of the warrants fail to continue to qualify as equity instruments, we would be required to recognize derivative instruments in connection with the transaction, include the effects of the transaction in assets or liabilities instead of equity, and recognize changes in the fair values of the assets or liabilities in consolidated net income as they occur.

See "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 8. LONG-TERM DEBT" below for further information regarding our 1.125% Notes and related call options and warrants.

Income Taxes

We recognize a tax benefit associated with uncertain tax positions when a tax position is more-likely-than-not to be sustained upon examination, based solely on its technical merits. We measure the recognized benefit as the largest amount of benefit which is more-likely-than-not to be realized on ultimate settlement, based on a cumulative probability basis. We recognize a tax position failing to qualify for initial recognition in the first interim period in which it meets the recognition standard described above, or is resolved through negotiation, litigation, or upon expiration of the statute of limitations. We de-recognize a previously recognized tax position if we subsequently determine that the tax position no longer meets the more-likely-than-not threshold of being sustained. We consider a tax position to be "effectively settled" upon completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled we recognize the full amount of the tax benefit, even if (1) the tax position is not considered more-likely-than-not to be sustained solely on the basis of its technical merits, and (2) the statute of limitations remains open.

We recognize deferred tax assets for temporary differences that will result in deductible amounts in future years and for net operating loss and credit carryforwards. We recognize a valuation allowance to reduce deferred tax assets if, based on existing facts and circumstances, it is more-likely-than-not that some portion or all of our deferred tax assets will not be realized. During Fiscal 2008 we evaluated our assumptions regarding the recoverability of our deferred tax assets. Based on all available evidence we determined that the recoverability of our deferred tax assets is more-likely-than-not limited to our available tax loss carrybacks. Accordingly, we established a valuation allowance against our net deferred tax assets. In future periods we will continue to recognize a valuation allowance until such time as the certainty of future tax benefits can be reasonably assured. When our results of operations demonstrate a pattern of future profitability the valuation allowance may be adjusted, which would result in the reinstatement of all or a part of the net deferred tax assets.

OVERVIEW

This overview of our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") presents a high-level summary of more detailed information contained elsewhere in this Report on Form 10-K. The intent of this overview is to put this detailed information into perspective and to introduce the discussion and analysis contained in this MD&A. Accordingly, this overview should be read in conjunction with the remainder of this MD&A and with the financial statements and other detailed information included in this Report on Form 10-K and should not be separately relied upon.

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In Fiscal 2009, shortly after our new Chief Executive Officer joined, we focused on two primary objectives: (1) strengthen our capital base and liquidity profile, and (2) stabilize and begin to grow the business. With respect to the first objective, we achieved the following accomplishments during Fiscal 2009:

In July 2009 we refinanced our revolving credit facility well ahead of its expiration.

In July 2009 we also decided to discontinue the exploration of the sale of our FIGI'S business, which was a solid contributor to our adjusted EBITDA during Fiscal 2009.

In October 2009 we completed the sale of our proprietary credit card receivables programs to Alliance Data, which dramatically improved the strength of our capital base, and removed the financing risk associated with both the credit card receivables securitization program and the underlying credit card portfolio.

During the third quarter of Fiscal 2009 we decided to close the PETITE SOPHISTICATE OUTLET stores and convert a majority of the space to CATHERINES stores in outlet locations. We completed the conversion by the end of February 2010.

As a result of the above actions, our liquidity position (cash, available-for-sale securities, and availability under our committed revolving credit facility) at the end of Fiscal 2009 totaled $328 million as compared to $280 million in Fiscal 2008, and we ended the year with a cash position of $187 million as compared to $100 million one year ago while buying back $85.4 million principal amount of our 1.125% Senior Convertible Notes.

With respect to the second objective, there is a lead time for adjusting apparel assortments and thus we are a work in process. During the third and fourth quarters of Fiscal 2009 we executed an extensive study of our customer and assortments at LANE BRYANT and FASHION BUG, respectively. We have made progress on how we are positioning our Spring and Summer 2010 assortments.

In addition, at FASHION BUG we analyzed our real estate holdings in the fourth quarter of Fiscal 2009 and, based on the insights that we gained from the study, as well as other studies of our product assortments and business generally, we plan to execute the following steps in Fiscal 2010:

Add juniors merchandise back into approximately 280 FASHION BUG stores in the back-to-school timeframe to provide needed assortment choices to our customers in non-metropolitan markets. We will also be putting junior plus assortments in approximately 50 stores.

In FASHION BUG stores with excess square footage, we plan to implement the following to better serve our customer and improve our FASHION BUG store economics:

Add extended assortments, such as footwear, intimates, and our plus-only Essentials assortment.

Test approximately 25 of our larger FASHION BUG stores in various scenarios, including carrying merchandise from our FASHION BUG and/or LANE BRYANT and/or CATHERINES brands, as well as conversion of a portion of the square footage to those concepts.

Close approximately 100-120 under-performing stores during Fiscal 2010 as announced in the fourth quarter of Fiscal 2009.

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Results of Operations

Consolidated net sales for Fiscal 2009 decreased 17% as compared to Fiscal 2008 due primarily to a 13% decrease in comparable store sales. Our sales decline reflected both positive and negative elements: on the positive side it reflected our focus on profitable revenue; on the negative side it reflected assortments that were not yet where we want them to be. The sales decline reflected (1) lower traffic across our brands; (2) substantial declines in the amount of markdown sales without requisite increases in non-markdown business; (3) a sub-optimal bottoms program at LANE BRYANT and FASHION BUG; and (4) a core assortment that did not deliver on our customer's need for fashion basics positioned with entry price points in the context of both the substantial reductions in markdowns available to customers in our stores and today's value-conscious customer.

Reflecting our focus on profitable revenue and adjusted earnings before income taxes, depreciation, and amortization ("adjusted EBITDA"), our gross margin increased 320 basis points as compared to the prior-year period, and we controlled expenses, which together allowed us to mitigate the impact of our volume declines on the bottom line. As we move into Fiscal 2010 we will continue with our culture of driving profitable revenue while we address our assortment weakness as noted above. Our inventory increased approximately 1% on a comparable-store basis as compared to the end of Fiscal 2008.

We believe we can be more intensively customer-focused and can improve our store traffic conversion rates and sales by providing the customer with more balanced assortments with a stronger focus on our core merchandise while also addressing the fashion needs of our customers. We know through recent customer research that size and fit are the leading priority for our customer. We are working to leverage and improve our fit expertise and sizing approach to strengthen our overall merchandise programs.

Our occupancy and buying expenses increased as a percent of sales for Fiscal 2009 as a result of negative leverage from the decrease in net sales. However, total expense dollars decreased as a result of the operation of fewer stores and occupancy reductions secured from landlords. Our selling, general, and administrative expenses also increased slightly as a percentage of sales but decreased in total expense dollars for Fiscal 2009 as compared to the prior-year period as a result of our expense reduction initiatives and the closing of under-performing stores.

Our consolidated results of operations for Fiscal 2009 continued to reflect a difficult retail environment, with disappointing comparable store sales. However, improvements in gross margins in our retail stores segment and reductions in occupancy and buying expenses, selling, general, and administrative expenses, and impairment charges improved operating results as compared to the prior-year period. Our loss from operations was $87.5 million for Fiscal 2009, a $91.3 million improvement from our loss from operations of $178.8 million for the comparable prior-year period.

Financial Position

Our balance sheet remained strong, with ample liquidity. We had $186.8 million of cash and available-for-sale securities as of the end of Fiscal 2009 as compared to $100.2 million as of the end of Fiscal 2008. We continued to generate positive operating cash flow and ended the year with no borrowings against our $225.0 million committed revolving credit facility. As of January 30, 2010 our available borrowing capacity under the facility was $191.4 million.

Our liquidity allowed us to opportunistically repurchase $85.4 million principal amount of our 1.125% Senior Convertible Notes at a 41% discount from par value during Fiscal 2009. Additionally, during Fiscal 2009 we received a Federal income tax refund in the amount of $27.7 million related to a carryback of net operating losses.

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During Fiscal 2009 we completed the sale of our proprietary credit card receivables programs (see "FINANCIAL CONDITION; Financing; Off-Balance-Sheet Financing" below). In addition to partnering with one of the country's premier credit card providers, the expected benefits of this transaction include the following:

It allows us to further focus on our core business;

It eliminates the financing risk associated with our proprietary credit card receivables programs and the credit risk of the underlying credit card portfolio;

The net cash proceeds to us of $136.6 million has strengthened our liquidity and financial flexibility; and

We will receive ongoing payments from Alliance Data based on credit sales generated by our private-label credit card portfolio.

Management Initiatives

We continue to execute on the following key priorities to guide our organization: (1) focus on the customer; (2) stabilize and begin to grow profitable revenue; (3) increase EBITDA; (4) increase cash flow; and (5) employee empowerment with accountability. Our management initiatives are designed to reinforce and support the execution of our key priorities. Our key initiatives are as follows:

We are working to improve our marketing to insure a balance between marketing to our current customers and to inactive and new customers. We believe we can better succeed by focusing on the basics of efficiently driving traffic both to our stores and online, and by focusing on increasing the conversion rate for customers in our stores and on our websites.

We are focused on assortments planning and selling outfits. We believe we can better succeed by improving our buying and in-store merchandising of appropriate assortments of bottoms, tops, accessories, intimates, and related products. We believe we can improve our store traffic and conversion rates by providing the customer with a more balanced assortment with a stronger focus on our core merchandise while also addressing the fashion needs of our customers. We know through customer research that size and fit are the leading priority for our customer. We are working to leverage and improve our fit expertise and sizing approach to strengthen our overall merchandise programs.

We are working to increase our internally designed and developed products and we are transforming each of our core brands into more distinct brands. During the third quarter of Fiscal 2009 we added global sourcing talent at each of our brands to assist in this process and to better leverage our scale in order to deliver more efficient cost of goods expense.

We are focused on increasing our e-commerce penetration across all of our brands. We redesigned each of our core brands' websites and successfully converted our core brands to a new e-commerce technology platform during the third quarter of Fiscal 2009. In February 2010 we announced the debut of a universal shopping cart linking four of our e-commerce websites: lanebryant.com, cacique.com, fashionbug.com, and catherines.com. Through this universal shopping cart we began offering free shipping for customers who choose to pick up their merchandise at any of our more than 2,100 store locations and a flat $7 shipping rate for shipments to customers' homes. Our objective is to provide an improved on-line customer experience that will result in increased website traffic and sales conversion rates.

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> We are committed to adopting a multi-channel mindset. We will encourage and make it easy for our customer to shop in three convenient ways – in our stores, online, and via telephone. We will also be multi-vehicle in our communications with both existing and new customers, whether via direct mail, email, online, or in our stores.

Consistent with our ongoing initiatives to reduce selling, general, and administrative expenses and capital expenditures to improve cash flow, we continue to analyze our store portfolio to identify under-performing stores for closure. Accordingly, in the Fiscal 2009 Fourth Quarter, we announced a new program for the closing of approximately 100-120 under-performing stores in Fiscal 2010. We estimate the costs to execute the store closing program to be approximately $7 to $9 million, which primarily relate to lease termination charges. As of January 30, 2010 we have closed 8 stores and recognized $749 thousand in lease termination charges under this program.

The changes we have made to our core retail brands, including new floor-set and merchandise strategies, will take time to mature and for our customer to become accustomed to and embrace. Compared to the prior year, we reduced overall inventory levels, enjoyed better sell-through generally, and, as a result, reduced the magnitude of markdown inventory, thereby improving our gross margin and the profitability of our sales. We will continue to maintain appropriate inventory levels while focusing on presenting a more balanced and compelling assortment of merchandise and we will continue to proactively control our operating expenses.

The following discussion of our results of operations, liquidity, and capital resources is based on our continuing operations, and excludes the impact of our discontinued operations (see "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 2. DISCONTINUED OPERATIONS" below).

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RESULTS OF OPERATIONS

Financial Summary

The following table shows our results of operations expressed as a percentage of net sales and on a comparative basis:

	Percentage of Net Sales(1)			Percentage Increase (Decrease) From Prior Year	
	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2009-2008	Fiscal 2008-2007
Net sales	100.0 %	100.0 %	100.0 %	(16.6)%	(9.1)%
Cost of goods sold	50.4	53.6	52.2	(21.6)	(6.5)
Gross profit	49.6	46.4	47.8	(10.8)	(11.9)
Occupancy and buying expenses	18.9	17.3	16.2	(8.8)	(3.1)
Selling, general, and administrative expenses	28.2	27.9	26.4	(15.5)	(3.8)
Depreciation and amortization	3.7	3.8	3.5	(18.6)	(0.8)
Sale of proprietary credit card receivables programs	0.7	–	–	**	–
Impairment of store assets, goodwill, and trademarks	0.8	3.3	1.0	(80.7)	199.7
Restructuring and other charges	1.5	1.3	0.2	(4.3)	521.6
Income/(loss) from operations	(4.2)	(7.2)	0.6	(51.0)(2)	**
Other income	0.0	0.2	0.3	(81.2)	(49.6)
Gain on repurchase of 1/125% Senior Convertible Notes	0.7	–	–	**	–
Interest expense	0.9	0.8	0.7	(3.4)	7.8
Income tax provision/(benefit)	(0.7)	(0.5)	0.4	0.6 (3)	**
Loss from continuing operations	(3.8)	(7.3)	(0.2)	(56.8)(2)	**
Loss from discontinued operations, net of taxes	–	(3.0)	(3.1)	–	(11.9)
Net loss	(3.8)	(10.3)	(3.2)	(69.5)(2)	(189.1)

(1) Results may not add due to rounding.

(2) Decrease in loss.

(3) Increase in income tax benefit.

** Results not meaningful.

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

	Year Ended January 30, 2010 Fiscal Year	Year Ended January 30, 2010 Fourth Quarter	Year Ended January 31, 2009 Fiscal Year	Year Ended January 31, 2009 Fourth Quarter
Retail Stores segment				
Decrease in comparable store sales:(1)				
Consolidated retail stores	(13)%	(12)%	(12)%	(15)%
LANE BRYANT(3)	(15)	(15)	(12)	(17)
FASHION BUG	(14)	(8)	(11)	(14)
CATHERINES	(7)	(6)	(13)	(11)
Sales from new stores as a percentage of total consolidated prior-period net sales:(2)				
LANE BRYANT(3)	1	0	4	3
FASHION BUG	0	0	1	0
CATHERINES	0	0	0	0
Other retail stores(4)	0	0	0	0
Prior-period sales from closed stores as a percentage of total consolidated prior-period net sales:				
LANE BRYANT(3)	(2)	(2)	(3)	(3)
FASHION BUG	(2)	(2)	(2)	(2)
CATHERINES	0	0	0	0
Decrease in Retail Stores segment sales	(16)	(14)	(11)	(16)
Direct-to-Consumer segment				
Increase/(decrease) in Direct-to-Consumer segment sales(5)	(30)	(16)	39	1
Decrease in consolidated total net sales	(17)	(15)	(9)	(14)

(1) "Comparable store sales" is not a measure that has been defined under generally accepted accounting principles. The method of calculating comparable store sales varies across the retail industry and, therefore, our calculation of comparable store sales is not necessarily comparable to similarly-titled measures reported by other companies. We define comparable store sales as sales from stores operating in both the current and prior-year periods. New stores are added to the comparable store sales base 13 months after their open date. Sales from stores

that are relocated within the same mall or strip-center, remodeled, or have a legal square footage change of less than 20% are included in the calculation of comparable store sales. Sales from stores that are relocated outside the existing mall or strip-center, or have a legal square footage change of 20% or more, are excluded from the calculation of comparable store sales until 13 months after the relocated store is opened. Stores that are temporarily closed for a period of 4 weeks or more are excluded from the calculation of comparable store sales for the applicable periods in the year of closure and the subsequent year. Non-store sales, such as catalog and internet sales, are excluded from the calculation of comparable store sales.

(2) Includes incremental Retail Stores segment e-commerce sales.

(3) Includes LANE BRYANT OUTLET stores.

(4) Includes PETITE SOPHISTICATE stores, which were closed in August 2008, and PETITE SOPHISTICATE OUTLET stores, which were closed in the fourth quarter of Fiscal 2009.

(5) Primarily due to LANE BRYANT WOMAN catalog, which began operations in the fourth quarter of Fiscal 2007. During the third quarter of Fiscal 2008 we decided to discontinue the LANE BRYANT WOMAN catalog, which we completed during the second quarter of Fiscal 2009.

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EBITDA and Adjusted EBITDA

We define EBITDA as income/(loss) from continuing operations before (i) income taxes; (ii) net interest expense/other income; and (iii) depreciation and amortization, except for amortization of stock-based compensation, which is a component of selling, general, and administrative expenses. We define adjusted EBITDA as EBITDA before certain recurring items, such as (i) gain on repurchases of 1.125% Senior Convertible Notes; (ii) restructuring and other charges; (iii) impairment of store assets, goodwill, and trademarks; and (iv) sale of proprietary credit card receivables programs. EBITDA and Adjusted EBITDA are not defined under Generally Accepted Accounting Principles ("GAAP") and our computation may not be comparable to similar measures reported by other companies.

We believe that adjusted EBITDA, along with other measures, provides a useful pre-tax measure of our ongoing operating performance and our ability to meet debt service and capital requirements on a comparable basis excluding the impact of certain items and capital-related non-cash charges. We use adjusted EBITDA to monitor and evaluate the performance of our business operations and we believe that it enhances our investors' ability to analyze trends in our business, compare our performance to other companies in our industry, and evaluate our ability to service our debt and capital needs. In addition, we will use adjusted EBITDA as a component of our compensation programs.

Although adjusted EBITDA provides useful information on an operating cash flow basis, it is a limited measure in that it excludes the impact of cash requirements for interest expense, income taxes, capital expenditures, and certain other items requiring cash outlays. Therefore, adjusted EBITDA should be used as a supplement to results of operations and cash flows as reported under GAAP and should not be used as a singular measure of operating performance or as a substitute for GAAP results.

The tables on the following pages show details of our consolidated net sales and a reconciliation of our loss from continuing operations to EBITDA and adjusted EBITDA for the periods indicated.

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Net Sales and Reconciliation of Loss From Continuing Operations to EBITDA and Adjusted EBITDA

(In millions)	Lane Bryant(1)	Fashion Bug	Catherines	Other Retail Stores(2)	Total Retail Stores
Year ended January 30, 2010					
Net sales	$945.8	$692.1	$293.0	$16.7	$1,947.6
Loss from continuing operations	61.5	(6.4)	11.7	(0.6)	66.2
Income tax benefit	–	–	–	–	–
Net interest expense/other income	–	–	–	–	–
Depreciation and amortization	36.4	13.9	7.9	0.1	58.3
EBITDA	97.9	7.5	19.6	(0.5)	124.5
Gain on repurchases of 1.125% Senior Convertible Notes	–	–	–	–	–
Restructuring and other charges	–	–	–	–	–
Impairment of store assets, goodwill, and trademarks	–	–	–	–	–
Sale of proprietary credit card receivables programs	–	–	–	–	–
Adjusted EBITDA	$97.9	$7.5	$19.6	$(0.5)	$124.5
Adjusted EBITDA as a % of net sales	10.4%	1.1%	6.7%	(3.0)%	6.4%

(1) Includes LANE BRYANT OUTLET stores, with net sales of $116.1 and adjusted EBITDA of $18.3.

(2) Includes PETITE SOPHISTICATE stores, which began operations in October 2007 and were closed in August 2008, and PETITE SOPHISTICATE OUTLET stores, which began operations in September 2006 and were closed in the fourth quarter of Fiscal 2009.

(In millions)	Direct-to-Consumer(1)	Corporate And Other	Consolidated
Year ended January 30, 2010			
Net sales	$ 116.6	$0.4 (2)	$ 2,064.6
Loss from continuing operations	2.8	(147.0)	(78.0)
Income tax benefit	–	(13.5)	(13.5)
Net interest expense/other income	–	18.0	18.0
Depreciation and amortization	1.2	16.8	76.3
EBITDA	4.0	(125.7)	2.8
Gain on repurchases of 1.125% Senior Convertible Notes	–	(14.0)	(14.0)
Restructuring and other charges	–	31.7	31.7
Impairment of store assets, goodwill, and trademarks	–	15.8	15.8

Sale of proprietary credit card receivables programs	–	14.2	14.2
Adjusted EBITDA	$ 4.0	$(78.0)	$ 50.5
Adjusted EBITDA as a % of net sales	3.4 %	– (3)	2.4 %