NAPCO SECURITY TECHNOLOGIES, INC
Form 10-K
September 21, 2012
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended June 30, 2012

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition period from ___ to___

Commission File Number 0-10004

NAPCO SECURITY TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	11-2277818 (I.R.S. Employer I.D. Number)
333 Bayview Avenue, Amityville, New York (Address of principal executive offices)	11701 (Zip Code)

Registrant's telephone number, including area code: (631) 842-9400

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

Common Stock, par value $.01 per share (Title of Each Class)	The NASDAQ Stock Market LLC (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

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 o No 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 x No 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “Large accelerated filer”, “Accelerated filer” and “Smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

As of December 31, 2011, the aggregate market value of the common stock of Registrant held by non-affiliates based upon the last sale price of the stock on such date was $30,428,645

As of September 20, 2012, 19,095,713 shares of common stock of Registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the Registrant’s definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Registrant’s 2012 Annual Meeting of Stockholders.

PART I

ITEM 1: BUSINESS.

NAPCO Security Technologies, Inc. ("NAPCO" or the "Company") was incorporated in December 1971 in the State of Delaware. Its executive offices are located at 333 Bayview Ave, Amityville NY 11701. Its telephone number is (631) 842-9400.

The Company is a diversified manufacturer of security products, encompassing electronic locking devices, intrusion and fire alarms and building access control systems. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment.

Website Access to Company Reports

Copies of our filings under the Securities Exchange Act of 1934 (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports) are available free of charge on our website (www.napcosecurity.com) on the same day they are electronically filed with the Securities and Exchange Commission.

Acquisition

On August 18, 2008, the Company, through the formation of a new subsidiary, Marks USA I, LLC ("Marks"), acquired substantially all of the assets and business of G. Marks Hardware, Inc. for $25.2 million, the repayment of $1 million of bank debt and the assumption of certain current liabilities. In August 2009, the Company completed the move of all operations of Marks to its Dominican plant and into the Company's corporate headquarters in Amityville. The Marks business involves the manufacturing and distribution of door-locking devices.

Products

Access Control Systems. Access control systems consist of one or more of the following: various types of identification readers (e.g. card readers, hand scanners, etc.), a control panel, a PC-based computer and electronically activated door-locking devices. When an identification card or other identifying information is entered into the reader, the information is transmitted to the control panel/PC which then validates the data and determines whether to grant access or not by electronically deactivating the door locking device. An electronic log is kept which records various types of data regarding access activity.

The Company designs, engineers, manufactures and markets the software and control panels discussed above. It also buys and resells various identification readers, PC-based computers and various peripheral equipment for access control systems.

Alarm Systems. Alarm systems usually consist of various detectors, a control panel, a digital keypad and signaling equipment. When a break-in occurs, an intrusion detector senses the intrusion and activates a control panel via hard-wired or wireless transmission that sets off the signaling equipment and, in most cases, causes a bell or siren to sound. Communication equipment such as a digital communicator may be used to transmit the alarm signal to a central station or another person selected by a customer.

The Company manufactures and markets the following products for alarm systems:

Automatic Communicators. When a control panel is activated by a signal from an intrusion detector, it activates a communicator that can automatically dial one or more pre-designated telephone numbers. If programmed to do so, a digital communicator dials the telephone number of a central monitoring station and communicates in computer language to a digital communicator receiver, which prints out an alarm message.

Control Panels. A control panel is the "brain" of an alarm system. When activated by any one of the various types of intrusion detectors, it can activate an audible alarm and/or various types of communication devices. For marketing purposes, the Company refers to its control panels by the trade name, generally "Gemini(TM)" and "Magnum Alert(TM)" followed by a numerical designation.

Combination Control Panels/Digital Communicators and Digital Keypad Systems. A combination control panel, digital communicator and a digital keypad (a plate with push button numbers as on a telephone, which eliminates the need for mechanical keys) has continued to be the leading configuration in terms of dealer and consumer preference. Benefits of the combination format include the cost efficiency resulting from a single microcomputer function, as well as the reliability and ease of installation gained from the simplicity and sophistication of micro-computer technology.

Door Security Devices. The Company manufactures a variety of exit alarm locks including simple dead bolt locks, door alarms, mechanical door locks and microprocessor-based electronic door locks with push button and card reader operation.

Fire Alarm Control Panel. Multi-zone fire alarm control panels, which accommodate an optional digital communicator for reporting to a central station, are also manufactured by the Company.

Area Detectors. The Company's area detectors are both passive infrared heat detectors and combination microwave/passive infrared detectors that are linked to alarm control panels. Passive infrared heat detectors respond to the change in heat patterns caused by an intruder moving within a protected area. Combination units respond to both changes in heat patterns and changes in microwave patterns occurring at the same time.

Video Surveillance Systems

Video surveillance systems typically consist of one or more video cameras, a control panel and a video monitor or PC. More advanced systems can also include a recording device and some type of remote communication device such as an internet connection to a PC or browser-enabled cell phone. The system allows the user to monitor various locations at once while recorders save the video images for future use. Remote communication devices can allow the user to view and control the system from a remote location.

The Company designs, engineers, and markets the software and control panels discussed above. It also buys and resells various video cameras, PC-based computers and peripheral equipment for video surveillance systems.

Peripheral Equipment

The Company also markets peripheral and related equipment manufactured by other companies. Revenues from peripheral equipment have not been significant.

Research and Development

The Company's business involves a high technology element. During the fiscal years ended June 30, 2012 and 2011, the Company expended approximately $4,264,000 and $4,392,000, respectively, on Company-sponsored research and development activities conducted by its engineering department to develop and improve the Products. The Company intends to continue to conduct a significant portion of its future research and development activities internally.

Employees

As of June 30, 2012, the Company had 957 full-time employees.

Marketing

The Company's staff of 42 sales and marketing support employees located at the Company's Amityville offices sells and markets the Products primarily to independent distributors and wholesalers of security alarm and security hardware equipment. Management estimates that these channels of distribution represented approximately 53% and 50% of the Company's total sales for each of the fiscal years ended June 30, 2012 and 2011, respectively. The remaining revenues are primarily from installers and governmental institutions. The Company's sales representatives periodically contact existing and potential customers to introduce new products and create demand for those as well as other Company products. These sales representatives, together with the Company's technical personnel, provide training and other services to wholesalers and distributors so that they can better service the needs of their customers. In addition to direct sales efforts, the Company advertises in technical trade publications and participates in trade shows in major United States and European cities.

In the ordinary course of the Company's business the Company grants extended payment terms to certain customers. For further discussion on Accounts Receivable and Concentration of Credit Risk see disclosures included in Item 7.

Competition

The security alarm products industry is highly competitive. The Company's primary competitors are comprised of approximately 20 other companies that manufacture and market security equipment to distributors, dealers, central stations and original equipment manufacturers. The Company believes that no one of these competitors is dominant in the industry. Certain of these companies have substantially greater financial and other resources than the Company.

The Company competes primarily on the basis of the features, quality, reliability and pricing of, and the incorporation of the latest innovative and technological advances into, its Products. The Company also competes by offering technical support services to its customers. In addition, the Company competes on the basis of its expertise, its proven products, its reputation and its ability to provide Products to customers on a timely basis. The inability of the Company to compete with respect to any one or more of the aforementioned factors could have an adverse impact on the Company's business.

Relatively low-priced "do-it-yourself" alarm system products are available to the public at retail stores. The Company believes that these products compete with the Company only to a limited extent because they appeal primarily to the "do-it-yourself" segment of the market. Purchasers of such systems do not receive professional consultation, installation, service or the sophistication that the Company's Products provide.

Seasonality

The Company's fiscal year begins on July 1 and ends on June 30. Historically, the end users of Napco's products want to install its products prior to the summer; therefore sales of its products historically peak in the period April 1 through June 30, the Company's fiscal fourth quarter, and are reduced in the period July 1 through September 30, the Company's fiscal first quarter. In addition, demand is affected by the housing and construction markets. Further deterioration of the current economic conditions may also affect this trend.

Raw Materials

The Company prepares specifications for component parts used in the Products and purchases the components from outside sources or fabricates the components itself. These components, if standard, are generally readily available; if specially designed for the Company, there is usually more than one alternative source of supply available to the Company on a competitive basis. The Company generally maintains inventories of all critical components. The Company for the most part is not dependent on any one source for its raw materials.

Sales Backlog

In general, orders for the Products are processed by the Company from inventory. A sales backlog of approximately $1,482,000 and $2,002,000 existed as of June 30, 2012 and 2011, respectively. The Company expects to fill all of the backlog that existed as of June 30, 2012 during fiscal 2013.
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Government Regulation

The Company's telephone dialers, microwave transmitting devices utilized in its motion detectors and any new communication equipment that may be introduced from time to time by the Company must comply with standards promulgated by the Federal Communications Commission ("FCC") in the United States and similar agencies in other countries where the Company offers such products, specifying permitted frequency bands of operation, permitted power output and periods of operation, as well as compatibility with telephone lines. Each new Product that is subject to such regulation must be tested for compliance with FCC standards or the standards of such similar governmental agencies. Test reports are submitted to the FCC or such similar agencies for approval. Cost of compliance with these regulations has not been material.

Patents and Trademarks

The Company has been granted several patents and trademarks relating to the Products. While the Company obtains patents and trademarks as it deems appropriate, the Company does not believe that its current or future success is dependent on its patents or trademarks.

Foreign Sales

The revenues and identifiable assets attributable to the Company's domestic and foreign operations for its last two fiscal years are summarized in the following table:

Financial Information Relating to Domestic and Foreign Operations

	2012	2011
	(in thousands)	
Sales to external customers(1):		
Domestic	$67,311	$66,793
Foreign	3,617	4,599
Total Net Sales	$70,928	$71,392
Identifiable assets:		
United States	$50,838	$54,426
Dominican Republic (2)	13,912	14,342
Other foreign countries	--	27
Total Identifiable Assets	$64,750	$68,795

(1) All of the Company's sales originate in the United States and are shipped primarily from the Company's facilities in the United States. There were no sales into any one foreign country in excess of 10% of total Net Sales.

(2) Consists primarily of inventories (2012 = $9,866,000; 2011 = $9,955,000) and fixed assets (2012 = $3,936,000; 2011 = $4,189,000) located at the Company's principal manufacturing facility in the Dominican Republic.

ITEM 1A: RISK FACTORS

The risks described below are among those that could materially and adversely affect the Company’s business, financial condition or results of operations. These risks could cause actual results to differ materially from historical experience and from results predicted by any forward-looking statements related to conditions or events that may occur in the future.

Our Business Could Be Materially Adversely Affected as a Result of General Economic and Market Conditions

We are subject to the effects of general economic and market conditions. Since October 2008, the U.S. and international economies have experienced a significant downturn and continue to be at depressed levels. In the event that the U.S. or international financial markets erode further, our revenue, profit and cash-flow levels could be materially adversely affected in future periods. If the worldwide economic downturn worsens, many of our current or potential future customers may experience serious cash flow problems and as a result may, modify, delay or cancel purchases of our products. Additionally, customers may not be able to pay, or may delay payment of, accounts receivable that are owed to us. Furthermore, the ongoing downturn and economic uncertainty makes it difficult for us to forecast our revenues.

Our Business Could Be Materially Adversely Affected as a Result of the Inability to Maintain Adequate Financing

Our business is dependent on maintaining the financing used in the Marks acquisition and to fund operations. The current debt facilities provide for quarterly principal debt repayments of approximately $400,000 plus interest that are in addition to the Company’s historical cash-flow requirements and certain financial covenants relating to ratios affected by profit, asset and debt levels. If the Company’s profits, asset or cash-flow levels decline below the minimums required to meet these covenants or to make the minimum debt payments, the Company may be materially adversely affected. Effects on the Company could include higher interest costs, reduction in borrowing availability or revocation of these credit facilities.

We Are Dependent Upon the Efforts of Richard L. Soloway, Our Chief Executive Officer and There is No Succession Plan in Place

The success of the Company is largely dependent on the efforts of Richard L. Soloway, Chief Executive Officer. The loss of his services could have a material adverse effect on the Company's business and prospects. There is currently no succession plan.

Competitors May Develop New Technologies or Products in Advance of Us

Our business may be materially adversely affected by the announcement or introduction of new products and services by our competitors, and the implementation of effective marketing or sales strategies by our competitors. There can be no assurance that competitors will not develop products that are superior to the Company's products. Further, there can be no assurance that the Company will not experience additional price competition, and that such competition may not adversely affect the Company's position and results of operations.

The Company's Products are Subject to Technological Changes from Time to Time, Which may Result in Increased Research and Developments Expenditures to Attract or Retain Customers

The industry in which the Company operates is characterized by constantly improved products. Future success will depend, in part, on our ability to continue to develop and market products and product enhancements cost-effectively, which will require continued expenditures for product engineering, sales and marketing. The Company's research and development expenditures are principally targeted at enhancing existing products, and to a lesser extent at developing new ones. If the Company cannot modify its products to meet its customers' changing needs, we may lose sales.

Our Business Could Be Materially Adversely Affected by the Inability to Maintain Expense Levels Proportionate to Sales Volume

While Management has completed a program to reduce expense levels relative to current sales levels, if sales levels decrease significantly and we are unable to decrease expenses proportionately, our business may be adversely affected.

Our Business Could Be Materially Adversely Affected as a Result of Housing and Commercial Building Market Conditions

We are subject to the effects of housing and commercial building market conditions. If these conditions deteriorate further, resulting in a additional declines in new housing or commercial building starts, existing home or commercial building sales or renovations, our business, results of operations or financial condition could be materially adversely affected beyond the current levels, particularly in our intrusion and door locking product lines.

Our Business Could Be Materially Adversely Affected as a Result of Lessening Demand in the Security Market

Our revenue and profitability depend on the overall demand for our products. Continued or worsening delays or reductions in spending, domestically or internationally, for electronic security systems could further materially adversely affect demand for our products, which could result in decreased revenues or earnings.

The Markets We Serve Are Highly Competitive and We May Be Unable to Compete Effectively

We compete with approximately 20 other companies that manufacture and market security equipment to distributors, dealers, control stations and original equipment manufacturers. Some of these companies may have substantially greater financial and other resources than the Company. The Company competes primarily on the basis of the features, quality, reliability and pricing of, and the incorporation of the latest innovative and technological advances into, its products. The Company also competes by offering technical support services to its customers. In addition, the Company competes on the basis of its expertise, its proven products, its reputation and its ability to provide products to customers on a timely basis. The inability of the Company to compete with respect to any one or more of the aforementioned factors could have an adverse impact on the Company's business.

Our Business Could be Materially Adversely Affected as a Result of Offering Extended Payment Terms to Customers

We regularly grant credit terms beyond 30 days to certain customers. These terms are offered in an effort to keep a full line of our products in-stock at our customers' locations. The longer terms that are granted, the more risk is inherent in collection of those receivables. We believe that our Bad Debt reserves are adequate to account for this inherent risk.

We Rely On Distributors To Sell Our Products And Any Adverse Change In Our Relationship With Our Distributors Could Result In A Loss Of Revenue And Harm Our Business.

We distribute our products primarily through independent distributors and wholesalers of security alarm and security hardware equipment. Our distributors and wholesalers also sell our competitors' products, and if they favor our competitors' products for any reason, they may fail to market our products as effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. In addition, the financial health of these distributors and wholesalers and our continuing relationships with them are important to our success. Some of these distributors and wholesalers may be unable to withstand adverse changes in business conditions. Our business could be seriously harmed if the financial condition of some of these distributors and wholesalers substantially weakens.

Members of Management and Certain Directors Beneficially Own a Substantial Portion of the Company’s Common Stock and May Be in a Position to Determine the Outcome of Corporate Elections

Richard L. Soloway, our Chief Executive Officer, members of management and the Board of Directors beneficially own 31.4% of the currently outstanding shares of Common Stock. By virtue of such ownership and their positions with Napco, they may have the practical ability to determine the election of all directors and control the outcome of substantially all matters submitted to Napco’s stockholders.

In addition, Napco has a staggered Board of Directors. Such concentration of ownership and the staggered Board could have the effect of making it more difficult for a third party to acquire, or discourage a third party from seeking to acquire, control of Napco.

Our Business Could Be Materially Adversely Affected by an Increase in the Exchange Rate of the Dominican Peso

We are exposed to foreign currency risks due to our operations in the Dominican Republic. We have significant operations in the Dominican Republic which are denominated in Dominican pesos. We are subject to the risk that currency exchange rates between the United States and the Dominican Republic will fluctuate, potentially resulting in an increase in some of our expenses when US dollars are transferred to Dominican pesos to pay these expenses.

Our Business Could Be Materially Adversely Affected by the Integration of Marks into Our Existing Operations

Our business is dependent on the continued effective integration of the acquired Marks business, technologies, product lines and employees into our organization. If this integration deteriorates, our business may be materially adversely affected.

ITEM 1B: UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2: PROPERTIES.

The Company owns executive offices and production and warehousing facilities at 333 Bayview Avenue, Amityville, New York. This facility consists of a fully-utilized 90,000 square foot building on a six acre plot. This six-acre plot provides the Company with space for expansion of office, manufacturing and storage capacities.

The Company's foreign subsidiary located in the Dominican Republic, Napco DR, S.A. (formerly known as NAPCO/Alarm Lock Grupo International, S.A.), owns a building of approximately 167,000 square feet of production and warehousing space in the Dominican Republic. That subsidiary also leases the land associated with this building under a 99-year lease expiring in the year 2092. As of June 30, 2012, a majority of the Company's products were manufactured at this facility, utilizing U.S. quality control standards.

Management believes that these facilities are more than adequate to meet the needs of the Company in the foreseeable future.

ITEM 3: LEGAL PROCEEDINGS.

There are no pending or threatened material legal proceedings to which NAPCO or its subsidiaries or any of their property is subject.

In the normal course of business, the Company is a party to claims and/or litigation. Management believes that the settlement of such claims and/or litigation, considered in the aggregate, will not have a material adverse effect on the Company's financial position and results of operations.

ITEM 4: MINE SAFETY DISCLOSURE.

Not Applicable.

PART II

ITEM 5: MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Principal Market

NAPCO's Common Stock is traded on the NASDAQ Stock Market, Global Market System, under the symbol NSSC.

The tables set forth below reflect the range of high and low sales of the Common Stock in each quarter of the past two fiscal years as reported by the NASDAQ Global Market System.

	Quarter Ended Fiscal 2012			
Common Stock	Sept. 30	Dec. 31	March 31	June 30
High	$2.98	$2.51	$3.13	$3.13
Low	$2.28	$1.97	$2.29	$2.67

	Quarter Ended Fiscal 2011			
Common Stock	Sept. 30	Dec. 31	March 31	June 30
High	$2.05	$1.95	$2.35	$3.00
Low	$1.66	$1.62	$1.68	$2.12

Approximate Number of Security Holders

The number of holders of record of NAPCO's Common Stock as of September 17, 2012 was 111 (such number does not include beneficial owners of stock held in nominee name).

Dividend Information

NAPCO has declared no cash dividends during the past two years with respect to its Common Stock, and the Company does not anticipate paying any cash dividends in the foreseeable future. Any cash dividends must be approved by the Company's lenders.

Equity Compensation Plan Information as of June 30, 2012

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS (a)	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS (b)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE (EXCLUDING SECURITIES REFLECTED IN COLUMN (a) (c)
	1,410,140	$ 2.99	365,000

Equity compensation plans approved by security holders:				
Equity compensation plans not approved by security holders:	—	—		—
Total	1,410,140	$	2.99	365,000

The Non-employee Stock Option plan expired in September 2010. No further options may be granted under this Plan.

ITEM 6: SELECTED FINANCIAL DATA.

The table below summarizes selected financial information. For further information, refer to the audited consolidated financial statements and the notes thereto beginning on page FS-1 of this report.

	Fiscal Year Ended and at June 30 (In thousands, except share and per share data)				
	2012(1)	2011(1)	2010(1)	2009(1)	Thirteen Weeks Ended
(In thousands, except per share amounts)	May 1, 2010	May 2, 2009			
Net sales	$504,805	$538,136			
Cost of goods sold	228,216	250,561			
Gross profit	276,589	287,575			
Occupancy and buying expenses	92,224	102,556			
Selling, general, and administrative expenses	159,173	157,502			
Depreciation and amortization	16,811	20,082			
Restructuring and other charges	889	8,705			
Total operating expenses	269,097	288,845			
Income/(loss) from operations	7,492	(1,270)			
Other income	138	198			
Gain on repurchases of 1.125% Senior Convertible Notes	0	4,251			
Interest expense	(4,474)	(5,020)			
Income/(loss) before income taxes	3,156	(1,841)			
Income tax (benefit)/provision	(739)	4,720			
Net income/(loss)	3,895	(6,561)			
Other comprehensive loss, net of tax					
Unrealized losses on available-for-sale securities	0	(5)			
Comprehensive income/(loss)	$3,895	$(6,566)			
Basic net income/(loss) per share	$0.03	$(0.06)			
Diluted net income/(loss) per share	$0.03	$(0.06)			

See Notes to Condensed Consolidated Financial Statements

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

(In thousands)	Thirteen Weeks Ended May 1, 2010	Thirteen Weeks Ended May 2, 2009
Operating activities		
Net income/(loss)	$3,895	$(6,561)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation and amortization	17,039	20,524
Stock-based compensation	1,074	1,710
Accretion of discount on 1.125% Senior Convertible Notes	2,137	2,884
Deferred income taxes	(1,604)	1,246
Gain on repurchases of 1.125% Senior Convertible Notes	0	(4,251)
Write-down of capital assets	0	3,828
Net loss from disposition of capital assets	538	143
Net loss from securitization activities	0	1,225
Changes in operating assets and liabilities		
Accounts receivable, net	24,956	25,279
Merchandise inventories	(35,674)	(32,072)
Accounts payable	17,105	46,295
Prepayments and other	(10,853)	(11,547)
Accrued expenses and other	(4,427)	(13,464)
Net cash provided by operating activities	14,186	35,239
Investing activities		
Investment in capital assets	(7,763)	(4,702)
Proceeds from sales of securities	200	7,471
(Increase)/decrease in other assets	10	(449)
Net cash provided/(used) by investing activities	(7,553)	2,320
Financing activities		
Repayments of long-term borrowings	(1,543)	(1,841)
Repurchases of 1.125% Senior Convertible Notes	0	(5,631)
Net (payments)/proceeds from shares issued under employee stock plans	(342)	39
Net cash used by financing activities	(1,885)	(7,433)
Increase in cash and cash equivalents	4,748	30,126
Cash and cash equivalents, beginning of period	186,580	93,759
Cash and cash equivalents, end of period	$191,328	$123,885

See Notes to Condensed Consolidated Financial Statements

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

Note 1. Condensed Consolidated Financial Statements

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC"). In our opinion, we have made all adjustments (which, except as otherwise disclosed in these notes, include only normal recurring adjustments) necessary to present fairly our financial position, results of operations and comprehensive income, and cash flows. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles. These financial statements and related notes should be read in conjunction with our financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010. The results of operations for the thirteen weeks ended May 1, 2010 and May 2, 2009 are not necessarily indicative of operating results for the full fiscal year.

As used in these notes, "Fiscal 2010" refers to our fiscal year ending January 29, 2011, "Fiscal 2009" refers to our fiscal year ended January 30, 2010, "Fiscal 2008" refers to our fiscal year ended January 31, 2009, and "Fiscal 2007" refers to our fiscal year ended February 2, 2008. "Fiscal 2010 First Quarter" refers to our fiscal quarter ended May 1, 2010 and "Fiscal 2009 First Quarter" refers to our fiscal quarter ended May 2, 2009. "Fiscal 2009 Second Quarter" refers to our fiscal quarter ended August 1, 2009, "Fiscal 2009 Third Quarter" refers to our fiscal quarter ended October 31, 2009, and "Fiscal 2009 Fourth Quarter" refers to our fiscal quarter ended January 30, 2010. "Fiscal 2010 Second Quarter" refers to our fiscal quarter ending July 31, 2010 and "Fiscal 2008 Second Quarter" refers to our fiscal quarter ended August 2, 2008. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, our consolidated subsidiaries.

Reclassifications

Effective with the Fiscal 2009 Second Quarter we modified the presentation of our condensed consolidated statements of operations and comprehensive income to provide additional details of our operating expenses. The modifications consist primarily of separate disclosure of cost of goods sold and occupancy and buying expenses, and the reclassification of depreciation and amortization from occupancy, buying, selling, general, and administrative expenses to a separate line within operating expenses. Comparative amounts for the Fiscal 2009 First Quarter have been reclassified to conform to the current presentation.

Segment Reporting

We operate and report in two segments: Retail Stores and Direct-to-Consumer. We determine our operating segments based on the way our chief operating decision-makers review our results of operations. Additional information regarding our segment reporting is included in "Note 10. Segment Reporting" below.

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

Note 2. Accounts Receivable

Accounts receivable consist of trade receivables from sales through our FIGI'S® catalog and website. Details of our accounts receivable are as follows:

(In thousands)	May 1, 2010	January 30, 2010
Due from customers	$14,655	$38,992
Allowance for doubtful accounts	(5,964)	(5,345)
Net accounts receivable	$8,691	$33,647

Note 3. Long-term Debt

(In thousands)	May 1, 2010	January 30, 2010
1.125% Senior Convertible Notes, due May 2014	$189,636	$189,636
Capital lease obligations	9,290	10,116
6.07% mortgage note, due October 2014	9,593	9,777
6.53% mortgage note, due November 2012	3,500	3,850
7.77% mortgage note, due December 2011	6,366	6,549
Total long-term debt principal	218,385	219,928
Less unamortized discount on 1.125% Senior Convertible Notes	(39,968)	(42,105)
Long-term debt – carrying value	178,417	177,823
Current portion	(6,333)	(6,265)
Net long-term debt	$172,084	$171,558

Upon maturity of the 1.125% Senior Convertible Notes (the "1.125% Notes") we will be obligated to repay the principal value of the outstanding notes. During the Fiscal 2009 First Quarter we repurchased $13,500,000 aggregate principal amount of 1.125% Notes with $3,438,000 of unamortized discount for a purchase price of $5,631,000 and recognized a gain of $4,251,000 net of unamortized issue costs. Subsequent to the end of the Fiscal 2010 First Quarter we repurchased additional 1.125% Notes (see "Note 14. Subsequent Events" below).

The 6.07% mortgage note is secured by a mortgage on real property at our distribution center in Greencastle, Indiana and an Assignment of Lease and Rents and Security Agreement related to the Greencastle facility. The 6.53% mortgage note is secured by a mortgage on land, a building, and certain fixtures we own at our distribution center in White Marsh, Maryland and by leases we own or rents we receive, if any, from tenants of the White Marsh facility. The 7.77% mortgage note is secured by a mortgage on land, buildings, and fixtures we own at our offices in Bensalem, Pennsylvania and by leases we own or rents we receive, if any, from tenants of the Bensalem facility.

We have a loan and security agreement (the "Agreement") for a $225,000,000 senior secured revolving credit facility that provides for committed revolving credit availability through July 31, 2012. The amount of credit available from time to time under the Agreement is determined as a percentage of the value of eligible inventory, accounts receivable, and cash, as reduced by certain reserves. In addition, the Agreement includes an option allowing us to increase our credit facility up to $300,000,000, based on certain terms and conditions. The credit facility may be used for general corporate purposes, and provides that up to $100,000,000 of the $225,000,000 may be used for letters of credit.

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Note 3. Long-term Debt (Continued)

The Agreement provides for borrowings under either "Base Rate" loans or "Eurodollar Rate" loans. Borrowings under Base Rate loans will generally accrue interest at a margin ranging from 2.75% to 3.25% over the Base Rate (as defined in the agreement) and Eurodollar Rate loans will generally accrue interest at a margin ranging from 3.75% to 4.25% over the London Interbank Offered Rate ("LIBOR"). As of May 1, 2010 the applicable rates under the facility were 6.00% (Base Rate plus 2.75%) for Base Rate Loans and 4.02% (LIBOR plus 3.75%) for Eurodollar Rate Loans.

The Agreement provides for customary representations and warranties and affirmative covenants. The Agreement also contains customary negative covenants providing limitations, subject to negotiated exceptions, for sales of assets; encumbrances; indebtedness; loans, advances and investments; acquisitions; guarantees; new subsidiaries; dividends and redemptions; transactions with affiliates; change in business; limitations or restrictions affecting subsidiaries; credit card agreements; proprietary credit cards; and changes in control of certain of our subsidiaries. If at any time "Excess Availability" (as defined in the Agreement) is less than $40,000,000 then, in each month in which Excess Availability is less than $40,000,000, we will be required to maintain a minimum fixed charge coverage ratio of at least 1.1 to 1 for the then preceding twelve-month fiscal period. The Agreement also provides for certain rights and remedies if there is an occurrence of one or more events of default under the terms of the Agreement. Under certain conditions the maximum amount available under the Agreement may be reduced or terminated by the lenders and the obligation to repay amounts outstanding under the Agreement may be accelerated.

In connection with the Agreement we executed an Amended and Restated Guaranty (the "Amended Guaranty"). Pursuant to the Amended Guaranty, we and most of our subsidiaries jointly and severally guaranteed the borrowings and obligations under the Agreement, subject to standard insolvency limitations. Under the Amended Guaranty, collateral for the borrowings under the Agreement consists of pledges by us and certain of our subsidiaries of the capital stock of each such entity's subsidiaries. The Agreement also provides for a security interest in substantially all of our assets excluding, among other things, equipment, real property, and stock or other equity and assets of excluded subsidiaries. Excluded subsidiaries are not Guarantors under the Agreement and the Amended Guaranty.

As of May 1, 2010 we had an aggregate total of $5,530,000 of unamortized deferred debt acquisition costs related to the facility that will be amortized on a straight-line basis over the life of the facility as interest expense. There were no borrowings outstanding under the facility as of May 1, 2010.

Note 4. Stockholders' Equity

The following table summarizes changes in total stockholders' equity for the Fiscal 2010 First Quarter:

(Dollars in thousands)	Thirteen Weeks Ended May 1, 2010

Total stockholders’ equity, beginning of period	$464,934
Net income	3,895
Issuance of common stock (200,297 shares), net of shares withheld for payroll taxes	(342)
Stock-based compensation	1,074
Total stockholders’ equity, end of period	$469,561

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CHARMING SHOPPES, INC. AND SUBSIDIARIES
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Note 5. Stock-based Compensation Plans

We have various stock-based compensation plans under which we are currently granting awards, which are more fully described in "Item 8. Financial Statements and Supplementary Data; Note 10. Stock-Based Compensation Plans" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010. Current grants of stock-based compensation consist primarily of stock appreciation rights ("SARs") and restricted stock units ("RSUs").

Shares available for future grants under our stock-based compensation plans as of May 1, 2010 were as follows:

2004 Stock Award and Incentive Plan	2,250,299
2003 Non-Employee Directors Compensation Plan	161,897
1994 Employee Stock Purchase Plan	522,173
1988 Key Employee Stock Option Plan	123,371

Stock option and stock appreciation rights activity for the thirteen weeks ended May 1, 2010 was as follows:

	Option/ SARs Shares	Average Option/ SARs Price	Option/SARs Prices per Share	Aggregate Intrinsic Value(1) (000's)
Outstanding at January 30, 2010	7,076,953	$ 2.92	$ 0.99 – $ 13.84	$ 20,421
Granted – exercise price equal to market price	877,731	5.23	5.18 – 6.62	
Canceled/forfeited	(481,326)	5.28	1.00 – 6.81	
Exercised	(2,399)	1.42	1.00 – 2.93	11 (2)
Outstanding at May 1, 2010	7,470,959	$ 3.04	$ 0.99 – $ 13.84	19,396
Exercisable at May 1, 2010	1,453,194	$ 4.30	$ 1.00 – $ 13.84	1,942

(1) Aggregate market value less aggregate exercise price.
(2) As of date of exercise.

Total stock-based compensation expense was as follows:

(In thousands)	Thirteen Weeks Ended May 1, 2010	May 2, 2009
Total stock-based compensation expense	$1,074	$1,710

During the Fiscal 2009 Second Quarter and the Fiscal 2008 Second Quarter we granted cash-settled RSUs under our 2003 Non-Employee Directors Compensation Plan. These cash-settled RSUs have been accounted for as liabilities in accordance with ASC 718-10-25-11, “Compensation – Stock Compensation; Recognition.” Compensation expense related to cash-settled RSUs is recognized over the vesting period of one year from the date of grant and included in “Accrued expenses” in our consolidated balance sheets. Compensation expense of $241,000 for the thirteen weeks ended May 1, 2010 and $282,000 for the thirteen weeks ended May 2, 2009 related to these cash-settled RSUs has been excluded from the above table. Total compensation expense for cash-settled RSUs has been fully recognized as of May 1, 2010.

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Note 5. Stock-based Compensation Plans (Continued)

We use the Black-Scholes valuation model to estimate the fair value of stock options and stock appreciation rights. We amortize stock-based compensation on a straight-line basis over the requisite service period of an award except for awards that include a market condition, which are amortized on a graded vesting basis over their derived service period. Estimates and assumptions we use under the Black-Scholes model are more fully described in "Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies; Stock-based Compensation" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

Total stock-based compensation expense not yet recognized, related to the non-vested portion of stock options, stock appreciation rights, and awards outstanding, was $11,154,000 as of May 1, 2010. The weighted-average period over which we expect to recognize this compensation expense is approximately 3 years.

Note 6. Customer Loyalty Card Programs

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers 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. We recognize costs in connection with administering these programs as cost of goods sold when incurred.

(In thousands)	Thirteen Weeks Ended May 1, 2010	Thirteen Weeks Ended May 2, 2009
Loyalty card revenues recognized	$4,407	$5,019

Accrued expenses include $2,402,000 as of May 1, 2010 and $3,161,000 as of January 30, 2010 for the estimated costs of discounts earned and coupons issued and not yet redeemed under these programs.

Note 7. Net Income/(Loss) per Share

(In thousands, except per share amounts)	Thirteen Weeks Ended May 1, 2010	Thirteen Weeks Ended May 2, 2009	
Basic weighted average common shares outstanding	116,003	115,180	
Dilutive effect of stock options, stock appreciation rights, and awards	2,410	0	(1)
Diluted weighted average common shares and equivalents outstanding	118,413	115,180	
Net income/(loss) used to determine basic and diluted net loss per share	$3,895	$(6,561)	

(1) Stock options, stock appreciation rights ("SARs"), and awards are excluded from the computation of diluted net income/(loss) per share as their effect would have been anti-dilutive.

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Note 7. Net Income/(Loss) per Share (Continued)

	Thirteen Weeks Ended		
(In thousands, except per share amounts)	May 1, 2010	May 2, 2009	
Options/SARs with weighted average exercise price greater than market price, excluded from computation of diluted earnings per share:			
Number of shares	531	0	(1)
Weighted average exercise price per share	$7.31	–	

(1) Stock options and stock appreciation rights (“SARs”) are excluded from the computation of diluted net income/(loss) per share as their effect would have been anti-dilutive.

Our 1.125% Notes will not impact our diluted net income per share until the price of our common stock exceeds the conversion price of $15.379 per share because we expect to settle the principal amount of the 1.125% Notes in cash upon conversion. Our call options are not included in the diluted net income per share calculation as their effect would be anti-dilutive. Should the price of our common stock exceed $21.607 per share, we would include the dilutive effect of the additional potential shares that may be issued related to our warrants, using the treasury stock method. See “Note 3. Long-term Debt” above and “Item 8. Financial Statements and Supplementary Data; Note 8. Long-term Debt” of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010 for further information regarding our 1.125% Notes, call options, and warrants.

Note 8. Income Taxes

We calculate our interim tax provision in accordance with the provisions of ASC 740-270, “Income Taxes; Interim Reporting.” Due to the variability in pre-tax income/(loss) that we have experienced and the existence of a full valuation allowance on our net deferred tax assets, we have concluded that computing our actual year-to-date effective tax rate (as opposed to estimating our annual effective tax rate) provides an appropriate basis for recording income taxes in our interim periods. Additionally, we record an income tax expense or benefit that does not relate to ordinary income/(loss) in the current fiscal year discretely in the interim period in which it occurs. We also recognize the effect of changes in enacted tax laws or rates in the interim periods in which the changes occur.

In computing the income tax provision/(benefit) we make certain estimates and management judgments, such as estimated annual taxable income or loss, the nature and timing of permanent and temporary differences between taxable income for financial reporting and tax reporting, and the recoverability of deferred tax assets. Our estimates and assumptions may change as new events occur, additional information is obtained, or as the tax environment changes.

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Note 8. Income Taxes (Continued)

In accordance with ASC 740, "Income Taxes," we recognize deferred tax assets for temporary differences that will result in deductible amounts in future years and for net operating loss ("NOL") and credit carryforwards. ASC 740 requires recognition of 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 the 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. During Fiscal 2009 we increased the valuation allowance and recognized an additional non-cash provision, net of a tax benefit resulting from the carryback of remaining Fiscal 2008 NOLs pursuant to H.R. 3548, the "Worker, Homeownership, and Business Assistance Act of 2009," which was signed into law on November 6, 2009. 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. Pursuant to ASC 740, 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. As a result of our available Fiscal 2009 net operating loss carryforwards we are able to offset Federal and certain state income tax liabilities estimated for Fiscal 2010.

Income taxes receivable, which primarily include available NOL carrybacks for Fiscal 2009 and Fiscal 2008 and amended return receivables, included in "Prepayments and other" on our condensed consolidated balance sheets, were as follows:

(In thousands)	May 1, 2010	January 30, 2010
Income taxes receivable	$50,574	$50,609

As of May 1, 2010 our gross unrecognized tax benefits associated with uncertain tax positions were $29,877,000. If recognized, the portion of the liabilities for gross unrecognized tax benefits that would decrease our provision for income taxes and increase our net income was $20,131,000. The accrued interest and penalties as of May 1, 2010 were $18,052,000. During the thirteen weeks ended May 1, 2010 the gross unrecognized tax benefits increased by $104,000 and the portion of the liabilities for gross unrecognized tax benefits that, if recognized, would decrease our provision for income taxes and increase our net income decreased by $20,000. Accrued interest and penalties decreased by $19,000 during the thirteen weeks ended May 1, 2010.

As of May 1, 2010 it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next twelve months by as much as $589,000 as a result of resolutions of audits related to U.S. Federal and state tax positions.

Our U.S. Federal income tax returns for Fiscal 2004 and beyond remain subject to examination by the U.S. Internal Revenue Service ("IRS") due to statute of limitations and the filing of amended returns. We file returns in numerous state jurisdictions, with varying statutes of limitations. Our state tax returns for Fiscal 2005 and subsequent years, depending upon the jurisdiction, generally remain subject to examination. The statute of limitations on a limited number of returns for years prior to Fiscal 2005 has been extended by agreement between us and the particular state jurisdiction. The earliest year still subject to examination by state tax authorities is Fiscal 1998.

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Note 9. Asset Securitization

On October 30, 2009 we sold our proprietary credit card receivables programs to World Financial Network National Bank, a subsidiary of Alliance Data Systems Corporation, and entered into ten-year operating agreements with Alliance Data for the provision of private-label credit card programs for our customers. Prior to the sale of the proprietary credit card receivables programs, our proprietary credit card receivables were originated by Spirit of America National Bank (the "Bank"), our wholly-owned credit card bank under our asset securitization program. The sale of our proprietary credit card receivables programs and the operations of our asset securitization program prior to the sale of our proprietary credit card receivables programs is more fully described in "Item 8. Financial Statements and Supplementary Data; Note 12. Sale of Proprietary Credit Card Receivables Programs" and "Note 17. Asset Securitization" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010. See "Note 12. Fair Value Measurements" below for further information related to our certificates and retained interests in our securitized receivables prior to the sale of the proprietary credit card receivables programs.

The following table presents additional information relating to the receivables in our Trust prior to the sale of the credit card portfolio:

(In thousands)	Thirteen Weeks Ended May 2, 2009
Proceeds from sales of new receivables to QSPE	$175,720
Collections reinvested in revolving-period securitizations	236,516
Cash flows received on retained interests	18,981
Servicing fees received	2,470
Net credit losses	11,618

Note 10. Segment Reporting

We operate and report in two segments: Retail Stores and Direct-to-Consumer. We determine our operating segments based on the way our chief operating decision-makers review our results of operations. We consider our retail stores and store-related e-commerce as operating segments that are similar in terms of economic characteristics, production processes, and operations. Accordingly, we have aggregated our retail stores and store-related e-commerce into a single reporting segment (the "Retail Stores" segment). Our catalog and catalog-related e-commerce operations are separately reported under the Direct-to-Consumer segment.

The Retail Stores segment derives its revenues from sales through retail stores and store-related e-commerce sales under our LANE BRYANT® (including LANE BRYANT OUTLET®), FASHION BUG®, and CATHERINES PLUS SIZES®, and, in Fiscal 2009, our PETITE SOPHISTICATE OUTLET® brand. The Direct-to-Consumer segment derives its revenues from catalog sales and catalog-related e-commerce sales under our FIGI'S title.

During Fiscal 2008 we decided to discontinue our LANE BRYANT WOMAN® catalog and our SHOETRADER.COM® website, which were included in our Direct-to-Consumer segment. During the Fiscal 2009 Second Quarter we completed the closing of our LANE BRYANT WOMAN catalog and during the third quarter of Fiscal 2009 we completed the closing of our SHOETRADER.COM website. During the Fiscal 2009 Third Quarter we decided to close our PETITE SOPHISTICATE OUTLET stores and convert a majority of the space to CATHERINES stores in outlet locations, which was completed during the Fiscal 2009 Fourth Quarter and Fiscal 2010 First Quarter.

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Note 10. Segment Reporting (Continued)

During the Fiscal 2009 Third Quarter we completed the sale of our proprietary credit card receivables programs. As a result of the sale, we began to allocate the operating results of our credit card operations, including revenue from our customer loyalty programs, to the Retail Stores segment. Accordingly, we have restated the results of the Retail Stores and Corporate and Other segments for the Fiscal 2009 First Quarter to reflect this change in how our chief operating decision-makers evaluate the performance of our operating segments.

The accounting policies of the segments are generally the same as those described in "Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010. Our chief operating decision-makers evaluate the performance of our operating segments based on a measure of their contribution to operations, which consists of net sales less the cost of merchandise sold and certain directly identifiable and allocable operating costs. We do not allocate certain corporate costs, such as shared services and insurance to our Retail Stores or Direct-to-Consumer segments. Information systems support costs are not allocated to the Retail Stores segment but are allocated to the Direct-to-Consumer segment. Operating costs for our Retail Stores segment consist primarily of store selling, occupancy, buying, and warehousing. Operating costs for our Direct-to-Consumer segment consist primarily of catalog development, production, and circulation; e-commerce advertising; warehousing; and order processing.

Corporate and Other operating costs include: unallocated general and administrative expenses; shared services; insurance; information systems support; corporate depreciation and amortization; corporate occupancy; and other non-routine charges. Operating contribution for the Retail Stores and Direct-to-Consumer segments less Corporate and Other net expenses equals income/(loss) before interest and income taxes.

Operating segment assets are those directly used in, or allocable to, that segment's operations. Operating assets for the Retail Stores segment consist primarily of inventories; the net book value of store facilities; goodwill; and intangible assets. Operating assets for the Direct-to-Consumer segment consist primarily of trade receivables; inventories; deferred advertising costs; the net book value of catalog operating facilities; goodwill; and intangible assets. Corporate and Other assets include: corporate cash and cash equivalents; the net book value of corporate and distribution center facilities; deferred income taxes; and other corporate long-lived assets.

Selected financial information for our operations by reportable segment and a reconciliation of the information by segment to our consolidated totals is as follows:

(In thousands)	Retail Stores	Direct-to-Consumer	Corporate and Other	Consolidated
Thirteen weeks ended May 1, 2010				
Net sales	$492,074	$12,731	$0	$ 504,805
Depreciation and amortization	13,119	298	3,394	16,811
Income/(loss) from operations	27,949	(1,666)	(18,791)(1)	7,492
Net interest expense and other income			(4,336)	(4,336)
Income tax benefit			739	739
Net income/(loss)	27,949	(1,666)	(22,388)	3,895

Capital expenditures	5,270	0	2,493	7,763

(1) Includes restructuring and other charges of $889 (see “Note 11. Restructuring and Other Charges” below).

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Note 10. Segment Reporting (Continued)

(In thousands)	Retail Stores	Direct-to-Consumer	Corporate and Other	Consolidated
Thirteen weeks ended May 2, 2009				
Net sales	$518,311	$19,455	$370 (1)	$ 538,136
Depreciation and amortization	15,110	346	4,626	20,082
Income/(loss) from operations	37,337	(6,451)	(32,156)(2)	(1,270)
Gain on repurchases of 1.125% Senior Convertible Notes			4,251	4,251
Net interest expense and other income			(4,822)	(4,822)
Income tax provision			(4,720)	(4,720)
Net income/(loss)	37,337	(6,451)	(37,447)	(6,561)
Capital expenditures	3,607	0	1,095	4,702

(1) Revenues related to figure magazine, which was discontinued in the Fiscal 2009 First Quarter.
(2) Includes restructuring and other charges of $8,705 (see “Note 11. Restructuring and Other Charges” below).

Note 11. Restructuring and Other Charges

The following table summarizes our restructuring and other charges:

(In thousands)	Costs Incurred as of January 30, 2010	Costs Incurred for Thirteen Weeks Ended May 1, 2010(1)	Estimated Remaining Costs To be Incurred	Total Estimated/ Actual Costs as of May 1, 2010
Fiscal 2008 Announcements				
Lease termination and accretion charges	$11,141	$(67)	$2,135 (2)	$13,209
Severance, retention, and other costs	4,963	135	29	5,127
Fiscal 2009 Announcements				
Closing of PETITE SOPHISTICATE OUTLET stores:				
Non-cash accelerated depreciation	643	(31)	0	612
Store lease termination charges	1,215	0	0	1,215
Other non-cash costs	195	0	0	195
Closing of under-performing stores:				
Store lease termination charges	749	799	7,201	8,749

Total	$18,906	$836	$9,365	$29,107

(1) Excludes $53 of retention costs related to the sale of our proprietary credit card receivables programs, which are included in “Restructuring and Other Charges” in the accompanying condensed consolidated statement of operations and comprehensive income for the thirteen weeks ended May 1, 2010.
(2) Accretion charges related to lease termination liability for retained non-core misses apparel assets.

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Note 11. Restructuring and Other Charges (Continued)

The following table summarizes our accrued restructuring and other charges:

(In thousands)	Accrued as of January 30, 2010(1)	Costs Incurred For Thirteen Weeks Ended May 1, 2010	Payments/ Settlements	Accrued as of May 1, 2010(1)
Fiscal 2008 Announcements				
Severance and retention costs(2)	$1,941	$(16)	$(672)	$1,253
Non-core misses apparel assets:				
Lease termination charges	10,285	(67)	(868)	9,350
Other costs	158	0	(3)	155
Transformational initiatives:				
Severance and retention costs	236	147	(205)	178
Fiscal 2009 Announcements				
Closing of PETITE SOPHISTICATE OUTLET stores:				
Store lease termination charges	1,215	0	0	1,215
Closing of under-performing stores:				
Store lease termination charges	714	744	(185)	1,273
Total	$14,549	$808	$(1,933)	$13,424

(1) Included in “Accrued expenses” in the accompanying condensed consolidated balance sheets.
(2) Primarily severance for departure of former CEO, the closing of our LANE BRYANT WOMAN catalog, and the elimination of other positions.

During the Fiscal 2010 First quarter we continued to recognize lease termination costs for facilities retained in connection with the sale of our Crosstown Traders apparel catalogs. In addition, we recognized lease termination costs for the closing of under-performing stores identified during the Fiscal 2009 Fourth Quarter. See “Item 8. Financial Statements and Supplementary Data; Note 14. Restructuring and Other Charges” of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010 for further information regarding our restructuring and other charges.

As of May 1, 2010 the restructuring charges related to our Fiscal 2007 announcements are complete. Except for accretion charges related to the lease termination liability for the retained non-core misses apparel assets and severance, retention, and other costs related to our transformational initiatives, our restructuring charges are essentially complete. See “Item 8. Financial Statements and Supplementary Data; Note 14. Restructuring and Other Charges” of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010 for additional details of the total charges related to these announcements.

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Note 12. Fair Value Measurements

ASC 820-10-20, "Fair Value Measurements and Disclosures," defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use various methods to determine fair value, including discounted cash flow projections based on available market interest rates and management estimates of future cash payments.

Financial assets and liabilities that are measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

Our financial assets and liabilities subject to ASC 820-10 as of May 1, 2010 were as follows:

(In thousands)	As of May 1, 2010		As of January 30, 2010	Fair Value Method Used
Assets				
Available-for-sale securities(1)	–	(2)	$ 200	Level 2

(1) Unrealized gains and losses on our available-for-sale securities are included in stockholders' equity until realized and realized gains and losses are recognized in income when the securities are sold.
(2) There were no available-for-sale securities as of May 1, 2010.

Prior to the sale of our proprietary credit card receivables programs during the Fiscal 2009 Third Quarter our financial assets included certificates and retained interests in our securitized receivables and our financial liabilities included a servicing liability related to our asset securitization program. We measured these assets and liabilities using Level 3 inputs and reported them at fair value in accordance with ASC 820-10.

We estimated the fair value of our certificates and retained interests in our securitized receivables based on the present value of future expected cash flows using assumptions for the average life of the receivables sold, anticipated credit losses, and the appropriate market discount rate commensurate with the risks involved. This cash flow included an "interest-only" ("I/O") strip, consisting of the present value of the finance charges and late fees in excess of the amounts paid to certificate holders, credit losses, and servicing fees.

The fair value of our servicing liability represented the present value of the excess of our cost of servicing over the servicing fees received. We determined the fair value by calculating all costs associated with billing, collecting, maintaining, and providing customer service during the expected life of the securitized credit card receivable balances. We discounted the amount of these costs in excess of the servicing fees over the estimated life of the receivables sold. The discount rate and estimated life assumptions used for the present value calculation of the servicing liability were consistent with those used to value the certificates and retained interests.

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Note 12. Fair Value Measurements (Continued)

The table below presents a reconciliation of the beginning and ending balances of our certificates and retained interests and our servicing liability during the thirteen weeks ended May 2, 2009:

(In thousands)	Retained Interests	Servicing Liability
Balance, January 31, 2009	$94,453	$3,046
Additions to I/O strip and servicing liability	5,979	1,051
Net reductions to other retained interests	(4,647)	–
Reductions and maturities of QSPE certificates	(1,481)	–
Amortization of the I/O strip and servicing liability	(7,383)	(1,174)
Valuation adjustments to the I/O strip and servicing liability	77	21
Balance, May 2, 2009	$86,998	$2,944

Note 13. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of our financial instruments are as follows:

	May 1, 2010		January 30, 2010	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$191,328	$191,328	$186,580	$186,580
Available-for-sale securities	0	0	200	200
Liabilities:				
1.125% Senior Convertible Notes, due 2014	149,668 (1)	154,553	147,531 (1)	141,279
6.07% mortgage note, due October 2014	9,593	9,065	9,777	9,068
6.53% mortgage note, due November 2012	3,500	3,448	3,850	3,763
7.77% mortgage note, due December 2011	6,366	6,429	6,549	6,560

(1) Net of unamortized discount of $39,968 at May 1, 2010 and $42,105 at January 30, 2010 (see "Note 3. Long-term Debt" above).

The fair value of cash and cash equivalents approximates their carrying amount because of the short maturities of such instruments. The fair value of available-for-sale securities is based on quoted market prices of the securities. The fair value of our 1.125% Senior Convertible Notes is based on quoted market prices for the securities. The fair values of the mortgage notes and other long-term debt are based on estimated current interest rates that we could obtain on similar borrowings.

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

Note 14. Subsequent Events

Subsequent to the end of the Fiscal 2010 First Quarter we repurchased 1.125% Senior Convertible Notes with an aggregate principal amount of $9,945,000 (see “Note 3. Long -term Debt” above). We expect to recognize a gain on these repurchases of approximately $320,000 net of unamortized issue costs during the Fiscal 2010 Second Quarter.

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

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes included in Item 1 of this report. It should also be read in conjunction with the management's discussion and analysis of financial condition and results of operations, financial statements, and accompanying notes appearing in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010. As used in this management's discussion and analysis, "Fiscal 2010" refers to our fiscal year ending January 29, 2011, "Fiscal 2009" refers to our fiscal year ended January 30, 2010, "Fiscal 2008" refers to our fiscal year ended January 31, 2009, and "Fiscal 2007" refers to our fiscal year ended February 2, 2008. "Fiscal 2010 First Quarter" refers to our fiscal quarter ended May 1, 2010 and "Fiscal 2009 First Quarter" refers to our fiscal quarter ended May 2, 2009. "Fiscal 2010 Second Quarter" refers to our fiscal quarter ending July 31, 2010 and "Fiscal 2009 Second Quarter" refers to our fiscal quarter ended August 1, 2009. "Fiscal 2009 Third Quarter" refers to our fiscal quarter ended October 31, 2009, and "Fiscal 2009 Fourth Quarter" refers to our fiscal quarter ended January 30, 2010. The terms "Charming Shoppes," "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and its consolidated subsidiaries exce where the context otherwise requires or as otherwise indicated.

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 "PART I; Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010:

> 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.

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

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. Certain key raw materials in our products, such as cotton, wool, and synthetic fabrics, are subject to availability constraints and price volatility. An increase in the cost or decrease in the availability of such raw materials could adversely affect our operating margins and our results of operations. In addition, 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 is 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 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.

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.

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.

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.

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

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.

Consolidation in the commercial retail real estate industry could affect our ability to successfully negotiate favorable rent terms for our stores in the future. Our ability to operate successfully as a mall-based retailer is dependent upon our ability to develop and maintain good relationships with our landlords. Potential consolidation in the commercial retail real estate industry could limit our future ability to negotiate favorable rent terms or to close under-performing stores on favorable terms. Should a significant consolidation occur, a large proportion of our store base could be concentrated with one or a few entities that could then be in a position to dictate unfavorable terms to us due to the significant leverage they would possess. If we are unable to negotiate favorable rent terms with these entities and are therefore unable to profitably operate our existing stores, our business, financial condition, and results of operations could be materially and adversely affected.

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” of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010). 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 financial position or results of operations.

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CRITICAL ACCOUNTING POLICIES

We have prepared the financial statements and accompanying notes included in "Item 1. Financial Statements" 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 "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 1. Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010. There were no material changes in, or additions to, our critical accounting policies or in the assumptions or estimates we used to prepare the financial information appearing in this report.

RECENT DEVELOPMENTS

Subsequent to the end of the Fiscal 2010 First Quarter we repurchased 1.125% Senior Convertible Notes with an aggregate principal amount of $9.9 million (see "Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); "Note 14. Subsequent Events" above).

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-Q. 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-Q and should not be separately relied upon.

We continue to focus on our primary objective, to stabilize and begin to grow the business. We improved our focus on our customer and provided more focused core tops and bottoms assortments. Our comparable store sales improved from decreases of 13% for our Fiscal 2009 Third Quarter and 12% for our Fiscal 2009 Fourth Quarter to a decrease of 2% for our Fiscal 2010 First Quarter. The improvement was aided by both our assortment positioning and a temporal improvement in the consumer environment. Our e-commerce sales increased 36% as compared to the Fiscal 2009 First Quarter, benefiting from the August 2009 launch of our new websites and the February 2010 launch of our universal shopping cart.

We are beginning to see strength in launches of our core apparel programs. However, each of our Retail Stores segment brands continue to experience declines in store traffic. We continue to adjust our apparel assortments but, with the lead time required for such changes, we continue to be a work in process. Our adjusted EBITDA (see "EBITDA and Adjusted EBITDA" below) for the Fiscal 2010 First Quarter was $25.2 million as compared to $27.5 million for the Fiscal 2009 First Quarter, as we partially mitigated our comparable-sales-driven decline in gross profit dollars with a margin rate improvement and expense reductions.

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Results of Operations

Consolidated net sales for the Fiscal 2010 First Quarter decreased 6% as compared to the Fiscal 2009 First Quarter due primarily to 144 net store closings during the preceding 12-month period, a 2% decrease in consolidated comparable store sales, and the closing of our LANE BRYANT WOMAN catalog and SHOETRADER.COM website during the Fiscal 2009 Second Quarter, which were partially offset by a 36% increase in e-commerce sales. The rate of decline in store traffic and comparable store sales significantly moderated during the Fiscal 2010 First Quarter as we continued our focus on improved merchandise assortments and the difficult economic environment showed some improvement. The sales decline reflected under-performance of our early Spring merchandise assortments.

Excluding the impact of costs incurred in the prior year related to the shutdown and liquidation of inventory for the LANE BRYANT WOMAN catalog and SHOETRADER.COM website, our consolidated gross profit as a percentage of net sales was comparable to the prior year. For the Retail Stores segment, a modest improvement in the gross margin at LANE BRYANT, offset by increased markdowns on early Spring merchandise at our FASHION BUG and CATHERINES brands, resulted in a decrease of 80 basis points in our gross margin. Our inventory increased approximately 13% on a comparable store basis as compared to the end of the Fiscal 2009 First Quarter, reflecting investments in improved Spring assortments, more focused core tops and bottoms assortments, and new assortments in swimwear and footwear.

We improved our customer focus, providing a better-balanced assortment with a an emphasis on core merchandise while also addressing the fashion needs of our customers. We know through customer research that size and fit are a priority for our customer. We are continuing our efforts to leverage and improve our fit expertise and sizing approach to strengthen our overall merchandise programs.

Our occupancy and buying expenses decreased both in dollar amount and as a percent of sales for the Fiscal 2010 First Quarter, primarily related to lower rent expense as a result of the operation of fewer stores and renegotiations of store leases. Our selling, general, and administrative expenses increased both in dollar amount and as a percentage of sales for the Fiscal 2010 First Quarter as compared to the prior-year period primarily as a result of a lack of leverage from negative comparable store sales.

Financial Position

The strength of our capital base and liquidity profile remains solid at the end of the quarter, with ample liquidity through our $191 million of cash and available-for-sale securities as of the end of the Fiscal 2010 First Quarter as compared to $187 million as of the end of Fiscal 2009. We continued to generate positive operating cash flow and ended the quarter with no borrowings against our $225 million committed revolving credit facility. As of May 1, 2010 our available borrowing capacity under the facility was approximately $145 million. We continue to carefully manage our inventory investments to provide a better-balanced assortment with a stronger focus on core merchandise and address the fashion needs of our customers.

Management Initiatives

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 management initiatives are designed to reinforce and support the execution of our key priorities.

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For our LANE BRYANT brand, we have a stronger core tops and bottoms assortment and improved value propositions with our Spring and Summer 2010 assortments through both our regular pricing and our stronger promotional programs. For the Fall timeframe, we will be re-launching a redesigned long length pant program, including our Right Fit technology, but in traditional sizing, in both denim and wear-to-work pants and will add back petite lengths to all stores and a tall length assortment to select stores. For the Fall and Holiday seasons we will increase our focus on footwear and accessories. To strengthen brand awareness at LANE BRYANT we are supporting our stronger assortment through a series of national television advertising spots that began to air in late April during this Spring's American Idol® program. American Idol's Tuesday and Wednesday evening shows are the No. 1- and No. 2-rated programs in broadcast television and have a target audience of female viewers ages 25-54, which is aligned with our customer base. (American Idol is a registered trademark of 19 TV Ltd and FremantleMedia North America, Inc.).

We have revisited our FASHION BUG customer profile through research, input from our field organization, and input from longer-tenured associates on the FASHION BUG product team. We had recently repositioned our product approach to be more traditional. While we do have a customer who wants this product, we also have a customer who wants a fun sexy and sassy product. We are re-positioning our customer profiles and attendant assortments to better address our customers' needs. FASHION BUG is adding these looks, including more fashionable/embellished denim and tops, to its assortments. For Fall, we are re-launching our Right Fit pant assortments, both in wear-to-work and in denim, in our "Right Fits" but with traditional sizing. We will also carry petite lengths in all stores, and tall lengths in some of our stores.

Better understanding our FASHION BUG brand has led us to the following actions:

We will again be offering Juniors initially in approximately 280 stores in the back-to-school timeframe to provide needed assortment choices to our customers, particularly in non-metro markets.

We will also again be offering a Junior Plus assortment in approximately 50 FASHION BUG stores.

We will be adding extended assortments in approximately 100 stores with excess floor space – extended assortments will include our Essentials plus assortment, footwear, and intimate apparel.

We will also be testing approximately 20-25 stores in various scenarios, including carrying sister brands LANE BRYANT or CATHERINES along with FASHION BUG, as well as conversions to those individual concepts.

Our global sourcing organization has been working to achieve more competitive cost of goods in 2010 as well as on becoming more strategic, identifying core fabrics, working to speed up our supply chain, and seeking to mitigate the impact of inflationary pressures on forward pricing for cotton assortments.

The changes we have made to our core retail brands will take time to mature and for our customer to become accustomed to and embrace. 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 as we implement our various initiatives.

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RESULTS OF OPERATIONS

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) Thirteen Weeks Ended		Percentage Change From Prior Period
	May 1, 2010	May 2, 2009	
Net sales	100.0 %	100.0 %	(6.2)%
Cost of goods sold	45.2	46.6	(8.9)
Gross profit	54.8	53.4	(3.8)
Occupancy and buying expenses	18.3	19.1	(10.1)
Selling, general, and administrative expenses	31.5	29.3	1.1
Depreciation and amortization	3.3	3.7	(16.3)
Restructuring and other charges	0.2	1.6	(89.8)
Income/(loss) from operations	1.5	(0.2)	**
Other income	0.0	0.0	(30.3)
Gain on repurchases of debt	0.0	0.8	(100.0)
Interest expense	0.9	0.9	(10.9)
Income tax (benefit)/provision	0.1	0.9	(115.7)
Net income/(loss)	0.8	(1.2)	**

(1) Results may not add due to rounding.
** Results not meaningful.

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The following table shows information related to the change in our consolidated total net sales:

	Thirteen Weeks Ended	
	May 1, 2010	May 2, 2009
Retail Stores segment		
Decrease in comparable store sales(1) :		
Consolidated retail stores	(2)%	(13)%
LANE BRYANT(3)	(3)	(15)
FASHION BUG	(2)	(13)
CATHERINES	(3)	(9)
Sales from new stores as a percentage of total consolidated prior-period sales(2):		
LANE BRYANT(3)	2	2
FASHION BUG	0	0
CATHERINES(4)	1	0
Other retail stores(5)	0	0
Prior-period sales from closed stores as a percentage of total consolidated prior-period sales:		
LANE BRYANT(3)	(1)	(2)
FASHION BUG	(3)	(3)
CATHERINES	(0)	(0)
Other retail stores(5)	(1)	(0)
Decrease in Retail Stores segment sales	(5)	(16)
Direct-to-Consumer segment		
Decrease in Direct-to-Consumer segment sales(6)	(35)	(28)
Decrease in consolidated total net sales	(6)	(16)

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(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 CATHERINES stores in outlet locations, which were converted from PETITE SOPHISTICATE OUTLET stores during the Fiscal 2009 Fourth Quarter and Fiscal 2010 First Quarter.
(5) Includes PETITE SOPHISTICATE OUTLET stores, which were closed or converted to CATHERINES stores in outlet locations during the Fiscal 2009 Fourth Quarter and Fiscal 2010 First Quarter.
(6) Primarily reduced sales from our LANE BRYANT WOMAN catalog and related website. During the Fiscal 2008 Third Quarter we decided to discontinue the LANE BRYANT WOMAN catalog, which we completed during the Fiscal 2009 Second Quarter.

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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 gain on repurchases of 1.125% Senior Convertible Notes and restructuring and other charges. 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 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	Total Retail Stores
Thirteen weeks ended May 1, 2010				
Net sales	$ 246.2	$165.9	$ 80.0	$492.1
Net income/(loss)	25.7	(1.0)	3.2	27.9
Income tax (benefit)/provision	–	–	–	–
Net interest expense/other income	–	–	–	–
Depreciation and amortization	8.4	2.7	2.0	13.1
EBITDA	34.1	1.7	5.2	41.0
Restructuring and other charges	–	–	–	–
Adjusted EBITDA	$ 34.1	$1.7	$ 5.2	$41.0
Adjusted EBITDA as a % of net sales	13.9%	1.0%	6.5%	8.3%

(1) Includes LANE BRYANT OUTLET stores, with net sales of $27.0 and adjusted EBITDA of $3.9.

(In millions)	Direct-to-Consumer(2)	Corporate And Other	Consolidated
Thirteen weeks ended May 1, 2010			
Net sales	$ 12.7	$0.0	$ 504.8
Net income/(loss)	(1.6)	(22.4)	3.9
Income tax (benefit)/provision	–	(0.7)	(0.7)
Net interest expense/other income	–	4.3	4.3
Depreciation and amortization	0.3	3.4	16.8
EBITDA	(1.3)	(15.4)	24.3
Restructuring and other charges	–	0.9	0.9
Adjusted EBITDA	$ (1.3)	$(14.5)	$ 25.2
Adjusted EBITDA as a % of net sales	(10.2)%	– (3)	5.0%

(2) FIGI'S catalog business.
(3) Not meaningful.

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

(In millions)	LANE BRYANT(1)	FASHION BUG	CATHERINES	Other Retail Stores(2)	Total Retail Stores
Thirteen weeks ended May 2, 2009					
Net sales	$ 253.8	$181.4	$ 78.7	$4.4	$518.3
Net income/(loss)	27.4	2.1	7.6	0.2	37.3
Income tax (benefit)/provision	–	–	–	–	–
Net interest expense/other income	–	–	–	–	–
Depreciation and amortization	9.2	3.9	1.9	0.1	15.1
EBITDA	36.6	6.0	9.5	0.3	52.4
Gain on repurchases of 1.125% Senior Convertible Notes	–	–	–	–	–
Restructuring and other charges	–	–	–	–	–
Adjusted EBITDA	$ 36.6	$6.0	$ 9.5	$0.3	$52.4
Adjusted EBITDA as a % of net sales	14.4 %	3.3 %	12.1 %	6.8 %	10.1 %

(1) Includes LANE BRYANT OUTLET stores, with net sales of $27.5 and adjusted EBITDA of $4.1.
(2) Includes PETITE SOPHISTICATE OUTLET stores, which began operations in September 2006 and were closed during the Fiscal 2009 Fourth Quarter.

(In millions)	Direct-to-Consumer(3)	Corporate And Other	Consolidated
Thirteen weeks ended May 2, 2009			
Net sales	$ 19.4	$0.4 (4)	$ 538.1
Net income/(loss)	(6.5)	(37.4)	(6.6)
Income tax (benefit)/provision	–	4.7	4.7
Net interest expense/other income	–	4.8	4.8
Depreciation and amortization	0.4	4.6	20.1
EBITDA	(6.1)	(23.3)	23.0
Gain on repurchases of 1.125% Senior Convertible Notes	–	(4.2)	(4.2)
Restructuring and other charges	–	8.7	8.7
Adjusted EBITDA	$ (6.1)	$(18.8)	$ 27.5
Adjusted EBITDA as a % of net sales	(31.4)%	– (5)	5.1 %

(3) Includes FIGI'S, with net sales of $11.1 and adjusted EBITDA of $(1.3). Also includes net sales of $8.3 and adjusted EBITDA of $(4.8) related primarily to our LANE BRYANT WOMAN catalog business that we shut down in the Fiscal 2009 Second Quarter.

(4) Revenues related to figure magazine, which was discontinued in the Fiscal 2009 First Quarter.

(5) Not meaningful.

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The following table sets forth information with respect to our year-to-date retail store activity for Fiscal 2010 and planned store activity for all of Fiscal 2010:

	LANE BRYANT	FASHION BUG	CATHERINES	Total
Fiscal 2010 Year-to-Date:				
Stores at January 30, 2010	860	801	460	2,121
Stores opened	0	0	0	0
Stores converted(1)	0	0	28	28
Stores closed(2)	(6)	(11)	(4)	(21)
Net change in stores	(6)	(11)	24	7
Stores at May 1, 2010	854	790	484	2,128
Stores relocated during period	5	0	0	5
Fiscal 2010 Plan:				
Store openings	6-8	0	0	6-8
Store conversions(3)	0	0	28	28
Store closings	30-40	55-60	15-20	100-120
Store relocations	9-11	0	0	9-11

(1)During Fiscal 2009 we decided to close our PETITE SOPHISTICATE OUTLET stores and convert 33 of the locations to CATHERINES stores in outlet locations. We converted 5 stores during Fiscal 2009 and converted the remaining 28 stores during the Fiscal 2010 First Quarter.
(2)Includes 11 FASHION BUG, 5 LANE BRYANT, and 4 CATHERINES stores closed as part of the store closing initiatives announced in February 2008, November 2008, and March 2010.
(3)Includes 28 PETITE SOPHISTICATE OUTLET STORES converted to CATHERINES stores in outlet locations in February 2010 (see Footnote (1) above). Does not include 20-25 FASHION BUG test stores to be converted to include merchandise from our LANE BRYANT and CATHERINES brands (see "OVERVIEW" above).

Comparison of Thirteen Weeks Ended May 1, 2010 and May 2, 2009

Consolidated Results of Operations

Net Sales

Fiscal 2010 First Quarter consolidated net sales decreased as compared to the Fiscal 2009 First Quarter primarily as a result of 144 net store closings during the preceding 12-month period, a 2% decrease in consolidated comparable store sales, and the closing of our LANE BRYANT WOMAN catalog and related website during the Fiscal 2009 Second Quarter, partially offset by an increase in Retail Stores segment e-commerce sales. Comparable store sales have stabilized as compared to the prior-year period but continue to be negatively impacted by reduced store traffic levels.

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Retail Stores segment e-commerce sales for the Fiscal 2010 First Quarter increased 36% from the Fiscal 2009 First Quarter and represented 6% of consolidated net sales for the current-year period as compared to 4% of consolidated net sales for the prior-year period. The improvement in e-commerce sales reflects our efforts that began during Fiscal 2009 with the redesign of each of our e-commerce websites, successful conversion to a new technology platform, and ongoing enhancements to our customers' online experience, such as a universal shopping cart and flat-fee shipping rates.

Net sales from our Direct-to-Consumer segment decreased primarily as a result of the closing of our LANE BRYANT WOMAN catalog business, which we completed during the Fiscal 2009 Second Quarter.

Gross Profit

Consolidated gross profit decreased $11.0 million primarily as a result of store closings; however, consolidated gross margin increased 140 basis points in the Fiscal 2010 First Quarter as compared to the prior-year period. The increase in gross margin resulted primarily from the impact of costs incurred in the prior-year period to shutdown and liquidate inventories for the LANE BRYANT WOMAN catalog business and SHOETRADER.COM website. Catalog advertising expenses decreased as compared to the prior-year period primarily as a result of the closing of the LANE BRYANT WOMAN catalog business.

Occupancy and Buying

Consolidated occupancy and buying expenses as a percentage of consolidated net sales decreased 80 basis points as compared to the prior-year period and decreased $10.3 million primarily as a result of operating fewer stores, as well as rent reductions received from landlords and other store-related occupancy savings.

Selling, General, and Administrative

Consolidated selling, general, and administrative expenses as a percentage of net sales increased 220 basis points and increased $1.7 million from the prior-year period, primarily as a result of a lack of leverage from negative comparable store sales.

Retail Stores Segment Results of Operations

Net Sales

Retail Stores segment net sales for the Fiscal 2010 First Quarter decreased primarily as a result of 144 net store closings during the preceding twelve-month period. In addition, comparable store sales for the Fiscal 2010 First Quarter decreased marginally at each of our Retail Stores brands as compared to the Fiscal 2009 First Quarter. Net sales for all of our brands continued to be negatively impacted by reduced store traffic levels. Reduced consumer demand during April offset improvements experienced during March and the Easter holiday period.

Retail Stores segment e-commerce sales for the Fiscal 2010 First Quarter increased 36% from the Fiscal 2009 First Quarter and represented 6.4% of Retail Stores segment net sales for the current-year period as compared to 4.5% of Retail Stores segment net sales for the prior-year period. During the Fiscal 2009 Third Quarter we redesigned our websites and converted to a new technology platform, and during the Fiscal 2010 First Quarter we introduced a universal shopping cart with free shipping to store locations and a flat $7 shipping rate for home delivery, which have enhanced our customers' on-line shopping experience.

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LANE BRYANT sales decreased as compared to the prior-year period primarily as a result of 30 net store closings and 3% decrease in comparable store sales, partially offset by an increase in store-related e-commerce sales and sales from new stores. Traffic levels at LANE BRYANT were down, partially offset by increases in the conversion rate and average dollar sale as compared to the prior-year period.

FASHION BUG sales decreased as a result of 89 net store closings and a 2% decrease in comparable store sales, partially offset by an increase in store-related e-commerce sales. Decreases in traffic levels and average dollar sale were partially offset by an increase in conversion rate as compared to the prior-year period for FASHION BUG.

CATHERINES sales were slightly higher than the prior year primarily as a result of 19 net store openings from the conversion of 33 PETITE SOPHISTICATE OUTLET stores to CATHERINES stores in outlet locations during the Fiscal 2009 Fourth Quarter and Fiscal 2010 First Quarter, as well as an increase in store-related e-commerce sales. These increases were partially offset by a 3% decrease in comparable store sales. A slight increase in conversion rate was offset by decreases in traffic levels and average dollar sale as compared to the prior-year period for CATHERINES.

During the Fiscal 2010 First Quarter we recognized revenues of $4.4 million in connection with our loyalty card programs as compared to revenues of $5.0 million during the 2009 First Quarter.

Gross Profit

Gross profit for the Retail Stores segment as a percentage of net sales decreased 80 basis points due to increased promotional activity to drive store traffic and to sell-through slow-moving early Spring merchandise during the current-year period, particularly at FASHION BUG and CATHERINES. Markdowns as a percentage of sales increased as compared to the prior-year period at each of our brands, especially at FASHION BUG and CATHERINES. Gross profit as a percentage of net sales increased 10 basis points for LANE BRYANT, and decreased 210 basis points for FASHION BUG and 200 basis points for CATHERINES.

Occupancy and Buying

Occupancy and buying expenses for the Retail Stores segment as a percentage of net sales decreased 70 basis points and decreased in dollar amount in the current-year period as compared to the prior-year period, primarily as a result of the closing of under-performing stores during the prior year as well as from occupancy reductions secured from landlords. Occupancy and buying expenses as a percentage of net sales decreased 100 basis points for LANE BRYANT and 70 basis points for FASHION BUG. Occupancy and buying expenses as a percentage of net sales increased 30 basis points for CATHERINES as an increase in buying expenses more than offset an increase in CATHERINES net sales.

Selling, General, and Administrative

Selling, general, and administrative expenses for the Retail Stores segment as a percentage of net sales increased 160 basis points and increased in dollar amount primarily as a result of a lack of leverage from negative comparable store sales. Selling, general, and administrative expenses as a percentage of net sales increased 160 basis points for LANE BRYANT, 90 basis points for FASHION BUG, and 340 basis points for CATHERINES. The increase for CATHERINES is primarily related to marketing expenses in connection with the conversion of PETITE SOPHISTICATE OUTLET STORES to CATHERINES stores in outlet locations during the Fiscal 2009 Fourth Quarter and Fiscal 2010 First Quarter.

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Direct-to-Consumer Segment Results of Operations

Net Sales

The decrease in net sales from our Direct-to-Consumer segment was primarily attributable to the closing of our LANE BRYANT WOMAN catalog and related website during the Fiscal 2009 Second Quarter. Net sales from our FIGI'S catalog increased 15% as compared to the prior-year period.

Gross Profit

Gross profit for the Direct-to-Consumer segment as a percentage of net sales increased 3,220 basis points as compared to the prior-year period primarily as a result of the impact of costs incurred in the prior-year period to shutdown and liquidate inventories for the LANE BRYANT WOMAN catalog business, which was completed during the Fiscal 2009 Second Quarter, and the SHOETRADER.COM website, which was completed during the Fiscal 2009 Third Quarter.

Occupancy and Buying

Occupancy and buying expenses for our Direct-to-Consumer segment as a percentage of net sales decreased 560 basis points primarily as a result of the shutdown of the retained facilities and the write-down of fixed assets from the sale of our non-core misses apparel catalog business, which was completed during the Fiscal 2009 Third Quarter.

Selling, General, and Administrative

Selling, general, and administrative expenses for our Direct-to-Consumer segment as a percentage of net sales increased 1720 basis points primarily as a result of the reduction in net sales from the closing of our LANE BRYANT WOMAN catalog business.

Depreciation and Amortization

Depreciation and amortization expense as a percentage of consolidated net sales decreased 40 basis points as compared to the prior-year period and decreased in dollar amount primarily as a result of our operation of fewer stores in the current-year period as compared to the prior-year period and the write-down of store assets during the Fiscal 2009 Fourth Quarter.

Restructuring and Other Charges

During the Fiscal 2010 First Quarter we recognized charges of approximately $0.9 million primarily related to lease termination costs in connection with our program, announced in March 2010, to close approximately 100-120 under-performing stores during Fiscal 2010. During the Fiscal 2009 First Quarter we recognized charges of approximately $4.6 million for lease termination, severance, relocation, and other costs related to restructuring initiatives announced during Fiscal 2007 and Fiscal 2008. We also recognized approximately $2.9 million of non-cash charges for write-downs of assets retained from the sale of the non-core misses apparel catalog business. In addition, we recognized a total of approximately $1.2 million of retention costs and non-cash accelerated depreciation related to the shutdown of our LANE BRYANT WOMAN catalog operations.

Gain on Repurchases of 1.125% Senior Convertible Notes

During the Fiscal 2009 First Quarter we repurchased 1.125% Senior Convertible Notes due May 2014 with an aggregate principal amount of $13.5 million and recognized a gain on the repurchases of $4.3 million net of unamortized issue costs. Subsequent to the end of the Fiscal 2010 First Quarter we repurchased 1.125% Notes with an aggregate principal amount of $9.9 million (see “Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); “Note 14. Subsequent Events” above).

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Income Tax (Benefit)/Provision

Our income tax benefit for the Fiscal 2010 First Quarter was $0.7 million on income before income taxes of $3.2 million as compared to a tax provision of $4.7 million on a loss before income taxes of $1.8 million for the Fiscal 2009 First Quarter. The income tax benefit for the Fiscal 2010 First Quarter was primarily a result of certain state and foreign income taxes payable as well as required deferred taxes, offset by a benefit resulting from a reduction in our valuation allowance associated with our net operating loss carryback.

The Fiscal 2009 First Quarter income tax provision was a result of an increase in our liability for unrecognized tax benefits, interest and penalties in accordance with ASC 740-10, state and foreign income taxes payable, and required deferred taxes.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding for our working capital requirements are our available cash balances, cash flow from operations, private-label credit card programs, and revolving credit facility. The following table highlights certain information related to our liquidity and capital resources:

(Dollars in millions)	May 1, 2010	January 30, 2010
Cash, cash equivalents, and available-for-sale securities	$191.3	$186.8
Available borrowing capacity under revolving credit facility	$145.0	$141.4
Working capital	$348.0	$335.6
Current ratio	2.2	2.2
Long-term debt to equity ratio	46.5 %	47.3 %

The following discussion of cash flows is based on our consolidated statements of cash flows included in "Item 1. Financial Statements" above.

Our net cash provided by operating activities decreased to $14.2 million for the Fiscal 2010 First Quarter from $35.2 million for the Fiscal 2009 First Quarter. The decrease in cash provided by operating activities was primarily a result of the timing of payments for merchandise accounts payable in the current-year period as compared to the prior-year period due to earlier receipts of Spring inventory, partially offset by a favorable change in our net income/(loss) as compared to the prior-year period. On a comparable-store basis, inventories increased 13% as of May 1, 2010 as compared to May 2, 2009, reflecting investments in improved Spring assortments, more focused core tops and bottoms assortments, and new assortments in swimwear and footwear.

During the Fiscal 2010 First Quarter we used $1.5 million for repayments of long-term borrowings. Subsequent to the end of the Fiscal 2010 First Quarter we repurchased 1.125% Senior Convertible Notes with an aggregate principal amount of $9.9 million (see "Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); "Note 14. Subsequent Events" above). During the Fiscal 2009 First Quarter we repurchased 1.125% Notes with an aggregate principal amount of $13.5 million for an aggregate purchase price of $5.6 million. In addition, during the Fiscal 2009 First Quarter we used $1.8 million for repayments of other long-term borrowings and received $7.5 million of proceeds from the sales of available-for-sale securities.

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Capital Expenditures

Our gross capital expenditures, excluding construction allowances received from landlords, were $7.8 million during the Fiscal 2010 First Quarter as compared to $4.7 million for the Fiscal 2009 First Quarter. Capital expenditures net of construction allowances received from landlords were $6.7 million during the Fiscal 2010 First Quarter as compared to $3.4 million for the Fiscal 2009 First Quarter.

We anticipate that our Fiscal 2010 gross capital expenditures will be approximately $47 million before construction allowances received from landlords as compared to gross capital expenditures of $22.7 million for Fiscal 2009. We expect to use these expenditures according to disciplined return on investment criteria for 6-8 new store openings, remodels and refurbishments, to fund fixturing for new merchandise assortments, to test brand combinations and conversions, and the implementation of information technology tools to assist in improving our business results. We expect to finance these capital expenditures primarily through internally-generated funds.

Repurchases of Common Stock

In November 2007 our Board of Directors authorized a $200 million share repurchase program to make share purchases from time to time in the open market or through privately-negotiated transactions. The timing of such repurchases and the number of shares repurchased will depend on market conditions and we intend to hold shares repurchased as treasury shares. We have not repurchased any shares of common stock subsequent to the Fiscal 2008 First Quarter. Our amended revolving credit facility allows the repurchase of our common stock subject to maintaining a minimum level of “Excess Availability” (as defined in the facility agreement) for 30 days before such repurchase, immediately after such repurchase, and on a projected pro-forma basis for the 12 consecutive fiscal months thereafter. See “PART II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds” below for additional information regarding the share-repurchase program announced in November 2007.

Dividends

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 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 the 12 consecutive fiscal months thereafter.

FINANCING

Off-Balance-Sheet Financing

Sale of Proprietary Credit Card Receivables 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 WFNNB for the provision of private-label credit card programs for our customers. The transaction closed on October 30, 2009. See “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; Financial Condition; Financing;

Off-Balance-Sheet Financing" and "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 12. Sale of Proprietary Credit Card Receivables Programs" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010 for further details regarding the sale of our proprietary credit card receivables programs.

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Asset Securitization Program

Prior to the sale of our proprietary credit card receivables programs, our asset securitization program primarily involved the sale of proprietary credit card receivables to a special-purpose entity, which in turn transferred the receivables to a separate 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 our asset securitization facilities to fund the credit card receivables generated by our FASHION BUG, LANE BRYANT, CATHERINES, and PETITE SOPHISTICATE proprietary credit card programs. Additional information regarding our asset securitization facilities is included in "Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); "Note 9. Asset Securitization" above and in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; Financial Condition; Financing; Off-Balance-Sheet Financing" and "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 17. Asset Securitization" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

Our Proprietary Credit Card Programs

Prior to the October 30, 2009 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. As discussed above, we utilized asset securitization as the primary funding source for our proprietary credit card receivables programs. As a result, our primary source of benefits was derived from the net excess spread revenues we received from monthly securitization distributions associated with the collections on managed outstanding receivables.

In addition to the actual net excess spread revenues we recognized a beneficial interest in the QSPE (an "I/O strip), which represented the estimated present value of cash flows we expected to receive over the estimated period the receivables were outstanding. We also recognized a servicing liability, which 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 amortized the I/O strip and the servicing liability on a straight-line basis over the expected life of the proprietary credit card receivables.

The proprietary credit card programs also generated other net revenues, which included revenue from additional products and services that customers purchased with their credit cards and interest income earned on funds invested in the credit entities. The credit contribution was net of expenses associated with operating the program. Except for net fees associated with the fee-based loyalty programs that we included in net sales, we included the net credit contribution as a reduction of selling, general, and administrative expenses in our consolidated statements of operations and comprehensive income.

Subsequent to the sale of the program, under the ten-year operating agreements WFNNB offers private-label credit cards bearing our retail brand names. We receive ongoing payments from WFNNB 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 level of ongoing payments we receive may increase or decrease as a result of changes in the performance of the private-label credit card programs or changes in the legal and regulatory requirements affecting WFNNB in its conduct of the program.

Payments from WFNNB under the ten-year operating agreements are recognized as a reduction to selling, general and administrative expenses, similar to revenues associated with our proprietary credit card receivables program prior to the sale. With the sale of the proprietary credit card receivables programs to WFNNB, the majority of the expenses associated with the proprietary credit card receivables programs were eliminated.

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Further details of our net credit contribution prior to the sale of the program for the Fiscal 2009 First Quarter are as follows:

(In millions)	Thirteen Weeks Ended May 2, 2009
Net securitization excess spread revenues	$16.9
Net changes to the I/O strip and servicing liability	(1.2)
Other credit card revenues, net(1)	3.2
Total proprietary credit card revenues	18.9
Less total credit card program expenses	14.9
Total credit contribution	$4.0

(1) Excludes inter-company merchant fees between our credit entities and our retail entities..

Further details of our outstanding receivables prior to the sale of the program for the Fiscal 2009 First Quarter are as follows:

(In millions)	Thirteen Weeks Ended May 2, 2009
Average managed receivables outstanding	$504.4
Ending managed receivables outstanding	499.2

Operating Leases

We lease substantially all of our operating stores and certain administrative facilities under non-cancelable operating lease agreements. Additional details on these leases, including minimum lease commitments, are included in "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 18. Leases" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

Revolving Credit Facility

We have a loan and security agreement (the "agreement") that provides for a $225 million senior secured revolving credit facility (the "credit facility"), which includes an option allowing us to increase our credit facility up to $300 million, based on certain terms and conditions. The credit facility may be used for general corporate purposes, and provides that up to $100 million of the $225 million may be used for letters of credit. The credit facility provides for committed revolving credit availability through July 31, 2012. See "Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 3. Long-term Debt" above for further details regarding the credit facility. There were no borrowings outstanding under the credit facility as of May 1, 2010.

The agreement provides for borrowings under either “Base Rate” loans or “Eurodollar Rate” loans. As of May 1, 2010 the applicable interest rates under the amended facility were 6.00% for Base Rate loans and 4.02% for 30 day Eurodollar Rate loans.

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The agreement provides for customary representations and warranties and affirmative covenants, and contains customary negative covenants. The agreement also provides for certain rights and remedies if there is an occurrence of one or more events of default under the terms of the agreement. Under certain conditions the maximum amount available under the agreement may be reduced or terminated by the lenders and the obligation to repay amounts outstanding under the agreement may be accelerated. In each month in which Excess Availability (as defined in the agreement) is less than $40 million, we will be required to maintain a fixed charge coverage ratio of at least 1.1 to 1 for the then preceding twelve-month fiscal period. As of May 1, 2010 the Excess Availability under the amended facility was $195.0 million and we were in compliance with all of the covenants included in the facility.

Long-term Debt

During the Fiscal 2009 First Quarter we repurchased 1.125% Senior Convertible Notes (the "1.125% Notes") with an aggregate principal amount of $13.5 million. Subsequent to the end of the Fiscal 2010 First Quarter we repurchased 1.125% Notes with an aggregate principal amount of $9.9 million (see "Item 1. Notes to Condensed Consolidated Financial Statements (Unaudited); Note 3. Long-term Debt" and "Note 14. Subsequent Events" above). We may elect to repurchase additional notes in privately negotiated transactions or in the open market under circumstances that we believe to be favorable to us as circumstances may allow.

See "FORWARD-LOOKING STATEMENTS" above and "PART I; Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010 for a discussion of the potential impact to our liquidity as a result of the occurrence of a "fundamental change" as defined in the prospectus filed in connection with the 1.125% Notes.

Additional information regarding our long-term borrowings is included in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; Financing; Long-term Debt" and "Part II, Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 8. Long-term Debt" of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

In Fiscal 2010 we plan to continue to utilize our combined financial resources to fund our inventory and inventory-related purchases, advertising and marketing initiatives, and our store development and infrastructure strategies. We believe our cash and available-for-sale securities, our ten-year operating agreements with Alliance Data related to our proprietary credit cards, and our borrowing facilities will provide adequate liquidity for our business operations and growth opportunities during Fiscal 2010. However, our liquidity is affected by many factors, including some that are based on normal operations and some that are related to our industry and the economy. We may seek, as we believe appropriate, additional debt or equity financing to provide capital for corporate purposes or to fund strategic business opportunities. We may also elect to redeem debt financing prior to maturity or to purchase additional 1.125% Senior Convertible Notes under circumstances that we believe to be favorable to us. At this time, we cannot determine the timing or amount of such potential capital requirements, which will depend on a number of factors, including demand for our merchandise, industry conditions, competitive factors, the market value of our outstanding debt, the condition of financial markets, and the nature and size of strategic business opportunities that we may elect to pursue.

MARKET RISK

As of May 1, 2010 there were no borrowings outstanding under our revolving credit facility. Future borrowings made under the facility, if any, could be exposed to variable interest rates.

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

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IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

Not applicable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Other than ordinary routine litigation incidental to our business, there are no other 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 1A. Risk Factors

Except for the following risk factors, which have been included in “Part I; Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; FORWARD-LOOKING STATEMENTS” above, we have not become aware of any material changes in the risk factors previously disclosed in “Part I; Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010:

Consolidation in the commercial retail real estate industry could affect our ability to successfully negotiate favorable rent terms for our stores in the future. Our ability to operate successfully as a mall-based retailer is dependent upon our ability to develop and maintain good relationships with our landlords. Potential consolidation in the commercial retail real estate industry could limit our future ability to negotiate favorable rent terms or to close under-performing stores on favorable terms. Should a significant consolidation occur, a large proportion of our store base could be concentrated with one or a few entities that could then be in a position to dictate unfavorable terms to us due to the significant leverage they would possess. If we are unable to negotiate favorable rent terms with these entities and are therefore unable to profitably operate our existing stores, our business, financial condition, and results of operations could be materially and adversely affected.

Certain key raw materials in our products, such as cotton, wool, and synthetic fabrics, are subject to availability constraints and price volatility. An increase in the cost or decrease in the availability of such raw materials could adversely affect our operating margins and our results of operations.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

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)
January 31, 2010 through February 27, 2010	25,509	(1)	$5.46	–	
February 28, 2010 through April 3, 2010	43,319	(1)	6.69	–	
April 4, 2010 through May 1, 2010	5,271	(1)	5.33	–	
Total	74,099		$6.17	–	(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 May 1, 2010, $197,364,592 was available for future repurchases under this program. This repurchase program has no expiration date.

Item 6. Exhibits

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

2.1 Purchase Agreement dated as of August 12, 2009 among SOANB and CSRC, as sellers, SOAI, and WFNNB, as purchaser, incorporated by reference to Form 8-K of the Registrant dated August 12, 2009, filed on August 14, 2009 (File No. 000-07258, Exhibit 10.1).

3.1 Restated Articles of Incorporation, incorporated by reference to Form 10-Q of the Registrant for the quarter ended August 2, 2008 (File No. 000-07258, Exhibit 3.1).

3.2 Bylaws, as Amended and Restated, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 31, 2009 (File No. 000-07258, Exhibit 3.2).

10.1 Form of Annual Incentive Plan for Executive Officers, incorporated by reference to Form 8-K of the Registrant dated March 29, 2010, filed on April 2, 2010 (File No. 000-07258,

Exhibit 10.1).

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10.2 Form of Time-Based Stock Appreciation Rights Agreement for Executive Officers, incorporated by reference to Form 8-K of the Registrant dated April 5, 2010, filed on April 8, 2010 (File No. 000-07258, Exhibit 10.1).

10.3 Form of Time-Based Restricted Stock Units Agreement for Executive Officers, incorporated by reference to Form 8-K of the Registrant dated April 5, 2010, filed on April 8, 2010 (File No. 000-07258, Exhibit 10.2).

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

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

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

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SIGNATURES

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

CHARMING SHOPPES, INC.
(Registrant)

Date: June 3, 2010	/S/ JAMES P. FOGARTY James P. Fogarty President Chief Executive Officer
Date: June 3, 2010	/S/ ERIC M. SPECTER Eric M. Specter Executive Vice President Chief Financial Officer

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EXHIBIT INDEX

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