

CHARMING SHOPPES INC

Form 10-K

April 02, 2008

Table of Contents

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

FORM 10-K

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

For the fiscal year ended February 2, 2008

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: 000-07258

CHARMING SHOPPES, INC.
(Exact Name of Registrant as Specified in
Its Charter)

PENNSYLVANIA
(State or other jurisdiction of incorporation
or organization)

23-1721355
(I.R.S. Employer Identification No.)

450 WINKS LANE, BENSLEM,
PA 19020

(Address of principal executive
offices) (Zip Code)

(215) 245-9100

(Registrant's telephone number, including
Area Code)

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

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

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

None
(Title of Class)

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

YesNo

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

YesNo

Table of Contents

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:

YesNo

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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

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

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

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

YesNo

The aggregate market value of the outstanding common stock of the registrant held by non-affiliates as of August 4, 2007 (the last day of the registrant's most recently completed second fiscal quarter), based on the closing price on August 3, 2007, was approximately \$1,165,407,157.

As of March 24, 2008, 113,251,845 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this Form 10-K is incorporated by reference herein from the registrant's definitive proxy statement for its 2008 annual shareholders meeting, which is expected to be filed within 120 days after the end of the fiscal year covered by this Annual Report.

Table of ContentsCHARMING SHOPPES, INC.
FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1</u>	
<u>Business</u>	1
<u>General</u>	1
<u>Retail Stores</u>	
<u>Segment</u>	2
<u>Direct-to-Consumer</u>	
<u>Segment</u>	8
<u>Proprietary Credit</u>	
<u>Programs</u>	10
<u>Competition</u>	11
<u>Employees</u>	12
<u>Trademarks and</u>	
<u>Servicemarks</u>	12
<u>Executive</u>	
<u>Offices</u>	12
<u>Available</u>	
<u>Information</u>	12
<u>Item 1A</u>	
<u>Risk Factors</u>	13
<u>Risks Related to Our Business and</u>	
<u>Industry</u>	13
<u>Other Risks</u>	18
<u>Item 1B</u>	
<u>Unresolved Staff</u>	
<u>Comments</u>	20
<u>Item 2</u>	
<u>Properties</u>	20
<u>Item 3</u>	
<u>Legal</u>	
<u>Proceedings</u>	21
<u>Item 4</u>	
<u>Submission of Matters to a Vote of Security</u>	
<u> Holders</u>	22
<u>Additional Part I Information – Executive Officers of the Registrant</u>	22
<u>PART II</u>	
<u>Item 5</u>	
<u>Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer</u>	
<u>Purchases of Equity Securities</u>	24
<u>Item 6</u>	
<u>Selected Financial</u>	
<u>Data</u>	27
<u>Item 7</u>	
<u>Management’s Discussion and Analysis of Financial Condition and Results of</u>	
<u>Operations</u>	28
<u>Forward-Looking</u>	
<u>Statements</u>	29
<u>Critical Accounting</u>	
<u>Policies</u>	32

	<u>Overview</u>	39
	<u>Results of Operations</u>	42
	<u>Financial Condition</u>	53
	<u>Market Risk</u>	63
	<u>Impact of Recent Accounting Pronouncements</u>	63
<u>Item 7A</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	63
<u>Item 8</u>	<u>Financial Statements and Supplementary Data</u>	64
	<u>Management’s Report on Internal Control Over Financial Reporting</u>	64
	<u>Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting</u>	65
	<u>Report of Independent Registered Public Accounting Firm</u>	67
	<u>Consolidated Balance Sheets</u>	68
	<u>Consolidated Statements of Operations and Comprehensive Income</u>	69

Table of ContentsTABLE OF CONTENTS
(Continued)

	Page	
<u>Item 8</u>	<u>Financial Statements and Supplementary Data (Continued)</u>	
	<u>Consolidated Statements of Stockholders' Equity</u>	70
	<u>Consolidated Statements of Cash Flows</u>	71
	<u>Notes to Consolidated Financial Statements</u>	73
<u>Item 9</u>	<u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>	123
<u>Item 9A</u>	<u>Controls and Procedures</u>	123
<u>Item 9B</u>	<u>Other Information</u>	123
<u>PART III</u>		
<u>Item 10</u>	<u>Directors, Executive Officers, and Corporate Governance</u>	124
<u>Item 11</u>	<u>Executive Compensation</u>	124
<u>Item 12</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	124
<u>Item 13</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	125
<u>Item 14</u>	<u>Principal Accountant Fees and Services</u>	125
<u>PART IV</u>		
<u>Item 15</u>	<u>Exhibits and Financial Statement Schedules</u>	126
	<u>Signatures</u>	139
	<u>Exhibit Index</u>	140

Table of Contents

PART I

Item 1. Business

GENERAL

We are a multi-brand, multi-channel specialty apparel retailer with a leading market share in women's plus-size specialty apparel. Our Retail Stores segment operates retail stores and related E-commerce websites under the following distinct names: LANE BRYANT®, LANE BRYANT OUTLET®, FASHION BUG®, CATHERINES PLUS SIZES®, PETITE SOPHISTICATE®, and PETITE SOPHISTICATE OUTLET®. Our Direct-to-Consumer segment operates numerous apparel, accessories, footwear, and gift catalogs and related E-commerce websites through our Crosstown Traders business, which we acquired in June 2005. During the year ended February 2, 2008 ("Fiscal 2008") the sale of plus-size apparel represented approximately 74% of our total net sales. Through our multiple channels, fashion content, and broad merchandise assortments, we seek to appeal to customers from a broad range of socioeconomic, demographic, and cultural groups. As of February 2, 2008 we operated 2,409 stores in 48 states.

LANE BRYANT® is a widely recognized brand name in plus-size fashion. Through private labels such as VENEZIA®, CACIQUE®, and LANE BRYANT®, we offer fashionable and sophisticated apparel in plus-sizes 14 – 28, including intimate apparel, wear-to-work, and casual sportswear, as well as accessories. LANE BRYANT has a loyal customer base, generally ranging in age from 35 to 55 years old, which shops for fashionable merchandise in the moderate price range. Our 795 LANE BRYANT retail stores are located in 46 states, in a combination of destination malls, lifestyle centers, and strip malls, and average approximately 5,900 square feet. During Fiscal 2008 our LANE BRYANT website (lanebryant.com) averaged more than 2.4 million unique visitors per month and has an established on-line community.

In Fiscal 2006 we introduced the LANE BRYANT intimate apparel side-by-side store, which pairs LANE BRYANT's casual and wear-to-work sportswear assortments with an expanded line of CACIQUE intimates as well as additional national brands, presented in a double store-front. As a result of a successful testing period during Fiscal 2006, many of our LANE BRYANT retail store openings and relocations for Fiscal 2007 and Fiscal 2008 were in the new side-by-side format. This larger footprint of approximately 7,300 square feet per combined store compares with the full-line LANE BRYANT store footprint of approximately 5,700 square feet. As of February 2, 2008 we operated 108 stores (which are included in the 795 stores operated by LANE BRYANT) in the LANE BRYANT intimate apparel side-by-side format.

LANE BRYANT OUTLET® is the only national chain exclusively offering women's plus-size apparel in the outlet sales channel. Through our private labels and selected national brands we offer fashionable and sophisticated apparel in plus-sizes 14 – 28, including intimate apparel, wear-to-work, casual sportswear, and accessories, as well as footwear and social occasion apparel. As of February 2, 2008 we operated 101 LANE BRYANT OUTLET stores in 35 states throughout the country. LANE BRYANT OUTLET stores average approximately 5,900 square feet.

Table of Contents

FASHION BUG® stores specialize in selling a wide variety of plus-size, misses, junior, and girls apparel, accessories, intimate apparel, and footwear. FASHION BUG customers generally range in age from 20 to 49 years old and shop in the low-to-moderate price range. Our 989 FASHION BUG stores are located in 44 states, primarily in strip shopping centers, and average approximately 8,700 square feet. During Fiscal 2008 our FASHION BUG website (fashionbug.com) averaged more than 900,000 unique visitors per month.

CATHERINES PLUS SIZES® is particularly known for extended sizes (over size 28) and petite plus-sizes. CATHERINES offers classic apparel and accessories for wear-to-work and casual lifestyles. CATHERINES customers generally range in age from 40 to 65 years old, shop in the moderate price range, and are concerned with fit and value. Our 468 CATHERINES stores are located in 44 states, primarily in strip shopping centers, and average approximately 4,200 square feet. During Fiscal 2008 our CATHERINES website (catherines.com) averaged more than 463,000 unique visitors per month.

PETITE SOPHISTICATE OUTLET® is the only national chain exclusively offering women's petite-size apparel in the outlet sales channel. PETITE SOPHISTICATE OUTLET targets women 35 – 55 years old and offers traditional and contemporary apparel in casual and career assortments. We offer clothing tailored to women 4'11" – 5'4" who wear petite sizes 0 – 14. As of February 2, 2008 we operated 52 PETITE SOPHISTICATE OUTLET stores in 23 states throughout the country. These stores average approximately 2,700 square feet, and substantially all of the stores operate with a LANE BRYANT OUTLET store in side-by-side locations. These side-by-side locations average a combined total of approximately 9,200 square feet. The chain also has a marketing and informational website (petitesophisticate.com).

CROSTOWN TRADERS is a direct marketer of women's apparel, footwear, accessories, and specialty gifts. Crosstown Traders markets women's apparel through its OLD PUEBLO TRADERS®, BEDFORD FAIR LIFESTYLES®, WILLOW RIDGE®, LEW MAGRAM®, BROWNSTONE STUDIO®, INTIMATE APPEAL®, MONTEREY BAY CLOTHING COMPANY®, COWARD® SHOE, SHOETRADER™ and other catalog titles and related E-commerce sites, and markets food and specialty gift products through its FIGI'S® catalog and related E-commerce site. During Fiscal 2008 the LANE BRYANT catalog trademark, which had been licensed to a third party, reverted to us and we launched our LANE BRYANT WOMAN™ catalog. The LANE BRYANT WOMAN catalog offers clothing, footwear, and intimate apparel in an expanded range of plus sizes at a value price point. We also launched our related website (lanebryantcatalog.com) to complement the catalog launch. During Fiscal 2008 our Crosstown Traders websites collectively averaged approximately 777,000 unique visitors per month.

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

RETAIL STORES SEGMENT

Stores

Our 2,409 retail stores (as of February 2, 2008) are primarily located in suburban areas and small towns. Approximately 76% of these stores are located in strip shopping centers and lifestyle centers, with the remainder located in community and regional malls. The majority of our FASHION BUG, CATHERINES, and outlet stores are strip-center based. Over the past few years LANE BRYANT has expanded into strip and lifestyle centers, and has demonstrated success in such locations. The percentage of LANE BRYANT stores located in strip and lifestyle shopping centers has grown to approximately 44%, with the remaining stores located primarily in mall centers.

Table of Contents

We believe that our customers visit strip shopping centers frequently as a result of the tenant mix and convenience of strip shopping centers. Our long-term real estate strategy is to continue to increase the percentage of total stores in strip and lifestyle centers, primarily through growth at the LANE BRYANT brand. Availability of strip and lifestyle center retail space significantly outpaces mall expansion. In addition, we benefit in strip and lifestyle centers from substantially lower occupancy costs as compared to occupancy costs in malls.

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

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

	Year Ended	
February 2, 2008	February 3,	January 28,