

CHARMING SHOPPES INC

Form 10-Q

June 11, 2009

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

FORM 10-Q

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

For the quarterly period ended May 2, 2009

Or

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

For the transition period from _____ to _____

Commission File No. 000-07258

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

PENNSYLVANIA
(State or other jurisdiction of incorporation or
organization)

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

3750 STATE ROAD, BENSALEM, PA 19020
(Address of principal executive offices) (Zip
Code)

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

NOT APPLICABLE

(Former name, former address, and former fiscal year, if changed since last report)

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

Yes No

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

Yes No

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

Non-accelerated Filer

Accelerated Filer

Smaller Reporting Company

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

Yes No

The number of shares outstanding of the issuer's Common Stock (par value \$.10 per share) as of May 29, 2009 was 115,411,047 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands, except share amounts)	May 2, 2009	January 31, 2009 (As Adjusted)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 123,885	\$ 93,759
Available-for-sale securities	400	6,398
Accounts receivable, net of allowances of \$6,125 and \$6,018	8,021	33,300
Investment in asset-backed securities	86,998	94,453
Merchandise inventories	300,214	268,142
Deferred taxes	3,439	3,439
Prepayments and other	173,485	155,430
Total current assets	696,442	654,921
Property, equipment, and leasehold improvements – at cost	1,072,087	1,076,972
Less accumulated depreciation and amortization	707,519	693,796
Net property, equipment, and leasehold improvements	364,568	383,176
Trademarks and other intangible assets	187,184	187,365
Goodwill	23,436	23,436
Other assets	26,348	28,243
Total assets	\$ 1,297,978	\$ 1,277,141
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 145,815	\$ 99,520
Accrued expenses	155,293	166,631
Current portion – long-term debt	6,463	6,746
Total current liabilities	307,571	272,897
Deferred taxes	47,440	46,197
Other non-current liabilities	186,943	188,470
Long-term debt, net of debt discount of \$66,591 and \$72,913	223,986	232,722
Stockholders' equity		
Common Stock \$.10 par value:		
Authorized – 300,000,000 shares		
Issued – 153,890,388 shares and 153,482,368 shares	15,389	15,348
Additional paid-in capital	500,258	498,551

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Treasury stock at cost – 38,482,213 shares	(347,730)	(347,730)
Accumulated other comprehensive income	0	5
Retained earnings	364,121	370,681
Total stockholders' equity	532,038	536,855
Total liabilities and stockholders' equity	\$ 1,297,978	\$ 1,277,141

See Notes to Condensed Consolidated Financial Statements

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

(In thousands, except per share amounts)	Thirteen Weeks Ended	
	May 2, 2009	May 3, 2008 (As Adjusted)
Net sales	\$ 538,136	\$ 641,346
Cost of goods sold, buying, catalog, and occupancy expenses	372,599	447,183
Selling, general, and administrative expenses	158,102	186,795
Restructuring and other charges	8,705	3,611
Total operating expenses	539,406	637,589
Income/(loss) from operations	(1,270)	3,757
Other income	198	515
Gain on repurchase of 1.125% Senior Convertible Notes	4,251	0
Interest expense	(5,020)	(4,961)
Loss from continuing operations before income taxes	(1,841)	(689)
Income tax provision	4,720	260
Loss from continuing operations	(6,561)	(949)
Loss from discontinued operations, net of income tax benefit of \$10,074 in 2008	0	(45,894)
Net loss	(6,561)	(46,843)
Other comprehensive loss, net of tax		
Unrealized losses on available-for-sale securities, net of income tax benefit of \$15 in 2008	(5)	(25)
Comprehensive loss	\$ (6,566)	\$ (46,868)
Basic net loss per share:		
Loss from continuing operations	\$ (.06)	\$ (.01)
Loss from discontinued operations	(.00)	(.40)
Net loss	\$ (.06)	\$ (.41)
Diluted net loss per share:		
Loss from continuing operations	\$ (.06)	\$ (.01)
Loss from discontinued operations	(.00)	(.40)

Net loss	\$	(.06)	\$	(.41)
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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 2, 2009	May 3, 2008 (As Adjusted)
Operating activities		
Net loss	\$ (6,561)	\$ (46,843)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	20,524	27,096
Accretion of discount on 1.125% Senior Convertible Notes	2,884	2,684
Estimated loss on disposition of discontinued operations	0	45,251
Deferred income taxes	1,246	(2,022)
Stock-based compensation	1,710	2,898
Gain on repurchase of 1.125% Senior Convertible Notes	(4,251)	0
Write-down of deferred taxes related to stock-based compensation	0	(263)
Write-down of capital assets	3,828	1,919
Net loss from disposition of capital assets	143	558
Net loss/(gain) from securitization activities	1,225	(367)
Changes in operating assets and liabilities		
Accounts receivable, net	25,279	25,345
Merchandise inventories	(32,072)	(39,060)
Accounts payable	46,295	30,864
Prepayments and other	(11,547)	(3,314)
Accrued expenses and other	(13,464)	1,414
Net cash provided by operating activities	35,239	46,160
Investing activities		
Investment in capital assets	(4,702)	(22,014)
Gross purchases of securities	0	(12,636)
Proceeds from sales of securities	7,471	19,404
(Increase)/decrease in other assets	(449)	(36)
Net cash provided/(used) by investing activities	2,320	(15,282)
Financing activities		
Proceeds from long term borrowings	0	87
Repayments of long-term borrowings	(1,841)	(2,271)
Repurchase of 1.125% Senior Convertible Notes	(5,631)	0

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Payments of deferred financing costs	0	(45)
Purchases of treasury stock	0	(10,969)
Net proceeds from shares issued under employee stock plans	39	69
Net cash used by financing activities	(7,433)	(13,129)
Increase in cash and cash equivalents	30,126	17,749
Cash and cash equivalents, beginning of period	93,759	61,842
Cash and cash equivalents, end of period	\$ 123,885	\$ 79,591
Non-cash financing and investing activities		
Assets acquired through capital leases	\$ 0	\$ 1,793

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. Certain prior-year amounts in the condensed consolidated statements of cash flows have been reclassified to conform to the current-year presentation. 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 January 31, 2009 Annual Report on Form 10-K. The results of operations for the thirteen weeks ended May 2, 2009 and May 3, 2008 are not necessarily indicative of operating results for the full fiscal year.

As used in these notes, the term “Fiscal 2010” refers to our fiscal year ending January 30, 2010 and the term “Fiscal 2009” refers to our fiscal year ended January 31, 2009. The term “Fiscal 2010 First Quarter” refers to our fiscal quarter ended May 2, 2009 and the term “Fiscal 2009 First Quarter” refers to our fiscal quarter ended May 3, 2008. The term “Fiscal 2010 Second Quarter” refers to our fiscal quarter ending August 1, 2009, the term “Fiscal 2009 Third Quarter” refers to our fiscal quarter ended November 1, 2008, and the term “Fiscal 2009 Fourth Quarter” refers to our fiscal quarter ended January 31, 2009. The terms “the Company,” “we,” “us,” and “our” refer to Charming Shoppes, Inc. and, where applicable our consolidated subsidiaries.

Change in Accounting Principle

The accompanying condensed consolidated balance sheet as of January 31, 2009 and the condensed consolidated statement of operations and comprehensive income for the thirteen weeks ended May 3, 2008 have been adjusted to reflect the retrospective adoption as of February 1, 2009 of FASB Staff Position (“FSP”) APB 14-1 “Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlements).” Our 1.125% Senior Convertible Notes due May 2014 (the “1.125% Notes”) are within the scope of FSP APB 14-1. See “Note 4. Long-term Debt” below for further information related to our adoption of FSP APB 14-1.

In connection with the adoption of FSP APB 14-1 we identified an error related to the accounting for deferred taxes for a purchased call option which was entered into contemporaneously with the issuance of our 1.125% Notes in Fiscal 2008. Concurrent with the issuance of the Notes we also entered into a series of hedge transactions, which included the purchase of a call option with a cost of approximately \$90,500,000. The cost of the call option was accounted for as an equity transaction in our financial statements. For income tax purposes the cost of the call option is treated as original issue discount (“OID”) and amortized over the life of the Notes. We were recording the resulting tax benefit in our financial statements as an increase to additional paid-in capital, as the tax benefit was reported in our annual income tax returns. However, the treatment of the call option as OID for income tax purposes created a book-tax basis difference on the issuance date of the debt for which a deferred tax asset of approximately \$33,000,000 should have been recognized, with a corresponding increase to additional paid-in capital.

During Fiscal 2009, based on our evaluation of the realization of deferred tax assets and negative evidence provided by recent losses, we recognized a non-cash income tax provision to establish a full valuation allowance against our net

deferred tax assets. Accordingly, the understatement of deferred tax assets resulted in an understatement of the valuation allowance for deferred tax assets and the income tax provision in Fiscal 2009 of approximately \$30,000,000.

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

Note 1. Condensed Consolidated Financial Statements (Continued)

In evaluating these errors we considered the requirements in FASB Statement of Financial Accounting Standards (“SFAS”) No. 154, “Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3,” SEC Staff Accounting Bulletin No. 99, “Materiality,” and Accounting Principles Board (“APB”) Opinion No. 28, “Interim Financial Reporting.” We considered both the quantitative and qualitative factors in evaluating the materiality of the errors and concluded that the errors are not material to the Fiscal 2008 and Fiscal 2009 financial statements. Accordingly, we have not restated our previously issued financial statements to correct these errors. However, as discussed below, the correction of these errors has been considered when adjusting the historical financial statements for the retrospective application of FSP APB 14-1.

In accordance with FSP APB 14-1, which requires retrospective application in all periods presented, the 1.125% Notes are separated into their debt and equity components. The carrying amount of the liability component is determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component represented by the embedded conversion option is then determined by deducting the fair value of the liability component from the initial proceeds ascribed to the convertible debt instrument as a whole. Upon measuring the liability in accordance with FSP APB 14-1, we determined that the tax basis and book basis of the debt are substantially the same; therefore the effects of the aforementioned financial statement errors in Fiscal 2008 and 2009 related to deferred income taxes and income tax expense were substantially offset by the effects of adopting FSP APB 14-1.

Discontinued Operations

On April 25, 2008 we announced that our Board of Directors began exploring a broad range of operating and strategic alternatives for our non-core misses apparel catalog titles (collectively, “Crosstown Traders”) in order to provide a greater focus on our core brands and to enhance shareholder value. Crosstown Traders met the requirements of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” to be accounted for as held for sale. Accordingly, the results of operations of Crosstown Traders were reported as discontinued operations in our consolidated statements of operations as of the beginning of the Fiscal 2009 First Quarter. In August 2008 we entered into a definitive agreement to sell the Crosstown Traders non-core misses apparel catalogs and the sale was completed in September 2008. Crosstown Traders’ operations have been eliminated from our financial statements as of the date of sale.

We have also announced our plans to explore the sale of our FIGI’S® Gifts in Good Taste catalog business based in Wisconsin. The results of operations of FIGI’S are not reported as discontinued operations as they have not met the requirements of SFAS No. 144.

Results from discontinued operations for the thirteen weeks ended May 3, 2008 (as restated) were as follows:

(In thousands)

Net sales	\$ 64,679
Loss from discontinued operations	\$ (55,968)

Income tax benefit	10,074
Loss from discontinued operations, net of income tax benefit	\$ (45,894)

The loss from discontinued operations includes an estimated loss on disposition of \$39,170,000 (\$.34 per diluted share), net of a tax benefit of \$6,081,000.

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

Note 1. Condensed Consolidated Financial Statements (Continued)

The financial information for the Fiscal 2009 First Quarter included in these Notes to Condensed Consolidated Financial Statements reflects only the results of our continuing operations.

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 derives its revenues from sales through retail stores and store-related e-commerce sales under our LANE BRYANT® (including LANE BRYANT OUTLET®), FASHION BUG®, CATHERINES PLUS SIZES®, and PETITE SOPHISTICATE OUTLET® brands. We include sales and operating profit by brand in our Management’s Discussion and Analysis of Results of Operations in order to provide additional information for our Retail Stores segment.

Our catalog and catalog-related e-commerce operations, excluding discontinued operations, are separately reported under the Direct-to-Consumer segment. The Direct-to-Consumer segment derives its revenues from catalog sales and catalog-related e-commerce sales under our LANE BRYANT WOMAN® and FIGI’S titles and e-commerce sales under our SHOETRADER.COM® website. During Fiscal 2009 we decided to discontinue our LANE BRYANT WOMAN catalog and SHOETRADER.COM website, which we expect to complete by the end of the Fiscal 2010 Second Quarter. See “Discontinued Operations” above and “Note 10. Segment Reporting” below for further information regarding our discontinued operations and segment reporting.

Stock-based Compensation

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 11. Stock-Based Compensation Plans” in our January 31, 2009 Annual Report on Form 10-K.

Shares available for future grants under our stock-based compensation plans as of May 2, 2009:

2004 Stock Award and Incentive Plan	2,248,752
2003 Non-Employee Directors Compensation Plan	100,397
1994 Employee Stock Purchase Plan	712,512
1988 Key Employee Stock Option Plan	113,269

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

Note 1. Condensed Consolidated Financial Statements (Continued)

Stock option and stock appreciation rights activity for the thirteen weeks ended May 2, 2009:

	Option Shares	Average Option Price	Option Prices Per Share			Aggregate Intrinsic Value(1) (000's)
Outstanding at January 31, 2009	3,292,385	\$ 5.09	\$ 1.00	–	\$ 13.84	\$ 0
Granted – option price equal to market price	4,652,300	1.66	0.99	–	2.15	
Canceled/forfeited	(301,544)	4.53	1.00	–	6.81	
Exercised	(434)					