CHARMING SHOPPES INC
Form 10-K
April 04, 2007

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

FORM 10-K

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

For the fiscal year ended February 3, 2007

OR

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

For the transition period from _______________ to _____________

Commission File Number: 000-07258

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

PENNSYLVANIA (State or other jurisdiction of incorporation or organization)	**23-1721355** (I.R.S. Employer Identification No.)
450 WINKS LANE, BENSALEM, PA 19020 (Address of principal executive offices) (Zip Code)	**(215) 245-9100** (Registrant’s telephone number, including Area Code)

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

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

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

None

(Title of Class)

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

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

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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 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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Large Accelerated Filer x Accelerated Filer o Non-accelerated Filer o

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

The aggregate market value of the outstanding common stock of the registrant held by non-affiliates as of July 29, 2006 (the last day of the registrant's most recently completed second fiscal quarter), based on the closing price on July 28, 2006, was approximately $1,244,546,000.

As of March 27, 2007, 123,665,511 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 2007 annual shareholders meeting, which is expected to be filed within 120 days after the end of the fiscal year covered by this Annual Report.

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CHARMING SHOPPES, INC.
2006 FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

GENERAL

We are a leading 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 through the following distinct brands: LANE BRYANT®, FASHION BUG®, CATHERINES PLUS SIZES®, LANE BRYANT OUTLET™ 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 3, 2007 ("Fiscal 2007"), 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 3, 2007, we operated 2,378 stores in 48 states.

LANE BRYANT® is a widely recognized 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 25 to 45 years old, which shops for fashionable merchandise in the moderate price range. Primarily a mall-based destination store for the plus-size woman, LANE BRYANT operates 777 stores in 46 states that average approximately 5,800 square feet. During Fiscal 2007, our LANE BRYANT website (**lanebryant.com**) has averaged more than 2.3 million unique visitors per month and has an established on-line community.

During Fiscal 2006, LANE BRYANT introduced and tested a new store concept, the LANE BRYANT® intimate apparel side-by-side store. The new design 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 were in the new side-by-side format. This larger footprint of approximately 7,000 square feet per combined store compares with the full-line LANE BRYANT store footprint of approximately 5,800 square feet. During Fiscal 2007, we operated 44 stores (which are included in the 777 stores operated by LANE BRYANT) in the LANE BRYANT intimate apparel side-by-side format.

In December 2005, we announced plans to enter the outlet channel through the assumption of outlet store leases from Retail Brand Alliance, and to operate those locations under the name LANE BRYANT OUTLET. A majority of these locations had been operated as side-by-side locations selling more than one brand. Subsequently, in January 2006, we acquired the trademark and internet domain rights to the PETITE SOPHISTICATE® name. During Fiscal 2007, we opened 82 LANE BRYANT OUTLET stores, including 76 stores in locations that we assumed from Retail Brand Alliance and 3 existing LANE BRYANT stores that we converted to LANE BRYANT OUTLET stores. During Fiscal 2007, we also opened 45 PETITE SOPHISTICATE OUTLET stores, the majority of which are operating with a LANE BRYANT OUTLET store in side-by-side locations assumed from Retail Brand Alliance. These combined outlet locations average approximately 9,400 square feet.

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LANE BRYANT OUTLET™ is the only national chain exclusively offering women's plus-size apparel in the outlet sales channel, with 82 outlet store locations in 32 states throughout the country. Through our private labels, VENEZIA, CACIQUE, and LANE BRYANT, as well as 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. LANE BRYANT OUTLET stores average approximately 6,000 square feet.

PETITE SOPHISTICATE OUTLET™ is the only national chain exclusively offering women's petite-size apparel in the outlet sales channel, with 45 outlet store locations in 23 states throughout the country. PETITE SOPHISTICATE OUTLET targets women 35 - 55 years old and offers traditional, updated classic, and contemporary apparel in casual and career assortments. We offer clothing tailored to women 4'11" - 5'4" who wear petite sizes 0 - 14. PETITE SOPHISTICATE OUTLET stores average approximately 2,700 square feet. During Fiscal 2007, we launched a marketing and informational website (**petitesophisticate.com**).

FASHION BUG® stores specialize in selling a wide variety of plus-size, misses, and junior 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 1,009 FASHION BUG stores are located in 44 states, primarily in strip shopping centers, and average approximately 8,800 square feet. During Fiscal 2007, our FASHION BUG website (**fashionbug.com**) has averaged more than 800,000 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 when purchasing clothes. Our 465 CATHERINES stores are located in 44 states, primarily in strip shopping centers in the Southeast, Mid-Atlantic, and Eastern Central regions of the United States, and average approximately 4,200 square feet. During Fiscal 2007, our CATHERINES website (**catherines.com**) has averaged more than 400,000 unique visitors per month.

CROSSTOWN 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®, BEDFORD FAIR SHOESTYLES®, WILLOW RIDGE®, LEW MAGRAM®, BROWNSTONE STUDIO®, REGALIA®, INTIMATE APPEAL®, MONTEREY BAY CLOTHING COMPANY®, HOME ETC®, COWARD® SHOE, 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 2007, our Crosstown Traders websites have collectively averaged approximately 600,000 unique visitors per month. Crosstown Traders also operates two outlet stores.

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 18. SEGMENT REPORTING"** below.

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RETAIL STORES SEGMENT

Stores

Our 2,378 retail stores (as of February 3, 2007) are primarily located in suburban areas and small towns. Approximately 74% of these stores are located in strip shopping centers, with the remainder located in community and regional malls. The majority of our FASHION BUG, CATHERINES, and outlet stores are strip-center based. Most of our LANE BRYANT stores are in malls. Over the past few years, LANE BRYANT has expanded into strip and lifestyle centers, and has demonstrated success in such locations. Approximately 38% of our LANE BRYANT stores are currently located in strip and lifestyle shopping centers.

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 retail store growth plans are to expand both LANE BRYANT and CATHERINES into additional strip and lifestyle center locations. 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 relocate or remodel our stores as appropriate to convey a fresh and contemporary shopping environment. We frequently test and implement new store designs and fixture packages that are aimed at providing an effective merchandise presentation. We emphasize customer service, including the presence of helpful salespeople in the stores, layaway plans, 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	
	Feb. 3, 2007	**Jan. 28, 2006**	**Jan. 29, 2005**
Store Activity [1]:			
Number of stores open at beginning of period	2,236	2,221	2,227
Opened during period	198(2)	70	51
Closed during period	(56)	(55)	(57)
Number of stores open at end of period	2,378	2,236	2,221
Number of Stores Open at End of Period by Brand:			
FASHION BUG	1,009	1,025	1,028
LANE BRYANT	859(3)	748	722
CATHERINES	465	463	471
Other[4]	45	0	0
Number of stores open at end of period	2,378	2,236	2,221

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(1) Does not include 2 outlet stores in Fiscal 2007 and 3 outlet stores in Fiscal 2006 operated by Crosstown Traders, Inc.
(2) Includes 82 LANE BRYANT OUTLET stores and 45 PETITE SOPHISTICATE OUTLET stores.
(3) Includes 82 LANE BRYANT OUTLET stores.

(4) Includes PETITE SOPHISTICATE OUTLET stores.

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We continue to seek additional locations that meet our financial and operational objectives. We plan to open approximately 95-107 stores and close approximately 40-50 stores during the year ended February 2, 2008 ("Fiscal 2008"). Planned store activity by brand for Fiscal 2008 is as follows:

	Openings	Closings	Relocations
FASHION BUG	10	18-22	20-25
LANE BRYANT	65-75(1)	15-18(2)	45-50(3)
CATHERINES	10	7-10	10-15
Other(4)	10-12	0	0
Total	95-107	40-50	75-90

(1) Includes approximately 35 LANE BRYANT intimate apparel side-by-side stores and 15 LANE BRYANT OUTLET stores.
(2) Includes 1 LANE BRYANT OUTLET store.
(3) Includes approximately 32 conversions to LANE BRYANT Intimate Apparel side-by-side stores.
(4) Includes 5 PETITE SOPHISTICATE OUTLET stores and 5-7 full-line PETITE SOPHISTICATE stores.

All retail stores are operated under our direct management. Each store has a manager and an assistant manager or supervisor who is in daily operational control of the location. We also employ district managers, who travel to all stores in their district on a frequent basis, to supervise store operations. Each district manager has responsibility for an average of 12 stores. Regional managers, who report to a Vice President of Stores, supervise the district managers. Generally, we appoint store managers from the group of assistant managers and district managers from the group of store managers. We seek to motivate our store personnel through internal advancement and promotion, competitive wages, and various incentive, medical, and retirement plans. We centrally develop store operations, merchandising, and buying policies, and assign to individual store management the principal duties of display, selling, and reporting through point-of-sale terminals.

Merchandising and Buying

We employ a merchandising and buying strategy that is focused on providing an attractive selection of apparel and accessories that reflect the fashion preferences of the core customer for each of our retail store brands. Separate merchandise groups for each of our brands conduct merchandise purchasing using buyers supervised by one or more merchandise managers. We believe that specialization of buyers within our brands enhances the distinctiveness of our brands and their offerings. In addition, we use domestic and international fashion market guidance, fashion advisory services, proprietary design, and in-store and E-commerce testing to determine the optimal product assortments for each of our brands. We believe that this approach results in greater success in predicting customer preferences while reducing our inventory investment and risk. We also seek to maintain high quality standards with respect to merchandise fabrication, construction, and fit. Our merchandising and buying philosophy, coupled with enhancements in inventory management, helps facilitate the timely and orderly purchase and flow of merchandise. This enables our stores to offer fresh product assortments on a regular basis.

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We continually refine our merchandise assortments to reflect the needs and demands of our diverse customer groups and the demographics of each store location. At LANE BRYANT, we offer a combination of fashion basics, seasonal fashions, and high fashion in casual and wear-to-work merchandise, intimate apparel, and accessories. We strive to translate current trends into plus-sizes and to be first to market with our styles. At FASHION BUG, we offer a broad assortment of both casual and wear-to-work apparel, in plus, misses, and junior sizes as well as girls, at low-to-moderate prices. FASHION BUG's plus- and misses-size merchandise typically reflects established fashion trends and includes a broad offering of ready-to-wear apparel as well as footwear, accessories, intimate apparel, and seasonal items, such as outerwear. At CATHERINES, we offer a broad assortment of plus-size merchandise in classic styles designed to provide "head-to-toe" dressing for our customers. CATHERINES features casual and career sportswear, dresses, intimate apparel, suits, and accessories in a variety of plus-sizes, including petites and extended sizes. CATHERINES has developed a unique expertise in the fit, design, and manufacturing of extended sizes, making it one of the few retailers to emphasize these sizes.

LANE BRYANT OUTLET features product developed exclusively for our outlet stores, which includes updated key items and best-sellers from our full-line LANE BRYANT brand. Selected national brands and expanded categories, such as footwear and social occasion, are also offered at LANE BRYANT OUTLET. PETITE SOPHISTICATE OUTLET offers career and casual sportswear in petite sizes 0 - 14.

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

We employ a realistic pricing strategy for our stores that is aimed at setting the initial price markup of fashion merchandise in order to increase the percentage of sales at the original ticketed price. We believe this strategy has resulted in a greater degree of credibility with the customer. However, our pricing strategy typically does allow sufficient margin to permit merchandise discounts in order to stimulate customer purchases when necessary.

Our stores experience a normal seasonal sales pattern for the retail apparel industry, with peak sales occurring during the spring and Christmas seasons. We generally build inventory levels before these peak sales periods. To maintain current and fashionable inventory, we reduce the price of slow-moving merchandise throughout the year. Much of our merchandise is developed for one or more of our six seasons: spring, summer, summer-fall transitional, fall, holiday, and holiday-spring transitional. End-of-season sales are conducted with the objective of carrying a minimal amount of seasonal merchandise over from one season to another. Retail Stores segment sales for the four quarters of Fiscal 2007, as a percent of annual Retail Stores segment sales, were 23.8%, 25.4%, 23.3%, and 27.5%, respectively.

Marketing and Promotions

We use several types of advertising to stimulate retail store customer traffic. Primarily, we use targeted direct-mail advertising to preferred customers selected from a database of approximately 27.8 million proprietary credit card, third-party credit card, and cash customers who have purchased merchandise from us within the past three years. We may also use radio, television, and newspaper advertising and fashion shows to stimulate traffic at certain strategic times of the year. We also use pricing policies, displays, store promotions, and convenient store hours to attract customers. We maintain websites for our LANE BRYANT, FASHION BUG, CATHERINES, and PETITE SOPHISTICATE brands that provide information regarding current fashions and promotions. We believe that, with the planning and guidance of our specialized home-office personnel, each brand provides such displays and advertising as may be necessary to feature certain merchandise or certain promotional selling prices from time to time.

We offer our retail store customers various loyalty card programs. Customers who join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers generally join these programs by paying an annual membership fee. Additional information on our loyalty card programs is included in **"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; CRITICAL ACCOUNTING POLICIES; *Revenue Recognition*"** below.

figure® magazine, our periodic fashion and lifestyle magazine for women, features clothing and fashions from our brands. The magazine covers topics such as: beauty; health and fitness; home, food, and entertaining; relationships; and social and community issues. The magazine also advertises our Crosstown Traders catalogs. ***figure*** magazine is available by subscription, and is also sold in all of our stores and at selected newsstands and supermarkets, including certain national booksellers. Since its inception in August 2003, the magazine has grown to a per-issue circulation of more than 440,000 copies.

Sourcing

To meet the demands of our customers, we access both the domestic wholesale and overseas markets for our retail store merchandise purchases. This allows us to maintain flexible lead times, respond quickly to current fashion trends, and quickly replenish merchandise inventory as necessary. During Fiscal 2007, we purchased merchandise from approximately 760 suppliers and factories located throughout the world. We use our overseas sourcing operations, which generally require longer lead times, primarily to purchase fashion-basic merchandise for our stores. In Fiscal 2007, our overseas sourcing operations accounted for approximately 36% of retail store merchandise purchases. Overseas sourcing by brand, as a percent of merchandise purchases, was approximately 34% for FASHION BUG, 40% for LANE BRYANT, 26% for CATHERINES, and 54% for LANE BRYANT OUTLET and PETITE SOPHISTICATE OUTLET. In addition, during Fiscal 2007, we purchased a portion of LANE BRYANT merchandise from Mast Industries, Inc. ("Mast"). Mast, a contract manufacturer and apparel importer, is a wholly-owned subsidiary of Limited Brands, Inc. ("Limited Brands"). These purchases from Mast accounted for approximately 8% of our total retail store merchandise purchases and approximately 23% of merchandise purchases for LANE BRYANT during Fiscal 2007. No other vendor accounted for more than 2% of total retail store merchandise purchases during Fiscal 2007.

We pay for a majority of our merchandise purchases outside the United States on an open account basis. We pay for the remainder of our purchases outside the United States through corporate-issued letters of credit and, to a lesser extent, through bank-issued letters of credit where we are the importer of record. To date, we have not experienced difficulties in purchasing merchandise overseas or importing such merchandise into the United States. Should events such as political instability or a natural disaster result in a disruption of normal activities in any single country with which we do business, we believe that we would have adequate alternative sources of supply.

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Distribution and Logistics

We currently operate two distribution centers for our Retail Stores segment. For our FASHION BUG, LANE BRYANT OUTLET, and PETITE SOPHISTICATE OUTLET stores, we operate a distribution center in Greencastle, Indiana. Located on a 150-acre tract of land, this facility contains a building of approximately 1,000,000 square feet. We estimate that this facility has the capacity to service up to approximately 1,800 stores. For our LANE BRYANT and CATHERINES stores, we operate a distribution center in White Marsh, Maryland. Located on 29 acres of land, the White Marsh facility contains a building of approximately 393,000 square feet, which is currently designed to service up to approximately 1,600 stores.

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

Inventory and fulfillment activities for our store-related E-commerce operations are handled by a third-party warehouse facility in Indianapolis, Indiana. We utilize 150,000 square feet of space that is used for merchandise receipt, storage, picking, packing, shipping, and returns processing. A majority of the merchandise is received from our Greencastle and White Marsh distribution centers.

Our distribution and logistics operations provide adequate current capacity, and we continually evaluate our overall long-term distribution and logistics requirements for both our Retail Stores and our Direct-to-Consumer segments.

DIRECT-TO-CONSUMER SEGMENT

We established our Direct-to-Consumer segment in June 2005 with the acquisition of Crosstown Traders, Inc. Crosstown Traders operates multiple catalog titles and related websites, with the majority of revenues derived from the catalog sales of women's apparel, footwear, and accessories, of which plus-sizes are an important component. Crosstown Traders also derives revenues from the catalog sales of food and gifts, a substantial majority of which occur during the December holiday season. In addition to catalog and catalog-related E-commerce operations, Crosstown Traders operates two catalog outlet stores.

The acquisition of Crosstown Traders provides us with an infrastructure for the development and expansion of our Direct-to-Consumer segment, which includes our catalog and catalog-related E-commerce sales distribution channels. Subsequent to the acquisition, we launched additional catalog titles, including apparel, home, and footwear titles under the FASHION BUG and CATHERINES brands. We will continue to build infrastructure to prepare for the launch of the LANE BRYANT catalog in late Fiscal 2008 when the LANE BRYANT catalog trademark, currently licensed by a third party, reverts to us.

The Direct-to-Consumer segment provides an additional channel to serve our customers' lifestyle needs with targeted marketing media and merchandise offerings in a wide range of color and size selections not generally available in our retail stores. In addition, we believe that the mail order catalogs and catalog-related E-commerce serve as a cost efficient means of building brand awareness as well as testing market acceptance of new products and new brands.

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Merchandising and Buying

Generally, the initial sourcing of new merchandise for a catalog begins six to nine months before the catalog is mailed. We target each of our catalogs to its particular market by offering a focused assortment of merchandise designed to meet the needs and preferences of each catalog's customers. Through market research and ongoing testing of new products and concepts, we develop a separate merchandise strategy for each catalog, including appropriate merchandise assortments, price points, mailing plans, and product presentation. We seek to develop exclusive or private label products for a number of our catalogs on an ongoing basis to further differentiate each catalog's identity.

Our FIGI'S food and specialty gift catalog experiences a peak sales period during the December holiday season, with approximately 80% of its annual sales occurring during our fourth quarter. We generally build inventory before this peak sales period.

Marketing and Promotions

Our catalogs range in size from approximately 32 - 124 pages, with 4 - 12 editions per year depending on the seasonality and fashion content of the products offered. We may mail each edition several times each season with slight variations in format and content. We mailed approximately 235 million catalogs during Fiscal 2007, which was below our original catalog circulation plans. Our circulation strategy is focused on mailing to existing customers and acquiring new customers through targeted prospecting.

We use outside creative agencies or our own creative staff to develop the designs, layout, copy, feel, and theme of our catalogs. We have created E-commerce-enabled websites for each of our catalogs, which offer all of a particular catalog's merchandise and more extensive offerings than any single issue of a print catalog. Customers can request catalogs and place orders not only for website merchandise, but also for merchandise from any current print catalog already mailed. The website for each catalog is prominently promoted within each catalog.

We maintain all of our catalog, internet, retail customer, and transaction data in multi-channel customer databases. This cross-channel customer database contains detailed purchasing information and certain demographic information about our customers, E-mail addresses, and the names and addresses of individuals who have requested catalogs from us. This database enables us to analyze how our customers use our various channels to shop.

We continuously analyze our customers' responses to our catalog mailings and E-commerce promotions in order to understand our customers' profit contribution. We have developed our own customer selection criteria to segment our customer list according to many variables, allowing our marketing department to analyze each segment's buying patterns. We review the results of each of our catalog mailings. The results are used to further refine the frequency and selectivity of our catalog mailings in an effort to maximize response rates and profitability. We also analyze historical purchasing patterns of existing customers, including recency, frequency, and monetary activity, to assist in merchandising and customer targeting and to increase sales to existing customers.

We acquire lists of prospective customers by renting or exchanging lists with database cooperatives and other sources, including direct competitors. Our most productive prospects tend to come from customer lists of other women's apparel catalogs. We also rent our customer list to others, including direct competitors. In order to determine which prospective customers will receive a particular catalog mailing, we analyze available information concerning such prospects, including historical profit contribution for comparable customer segments and, to the extent possible, use the same type of statistical modeling techniques used to target mailings to our own customers.

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We strive to develop promotional formats that will stimulate customer purchases from our catalogs and websites. Successful promotional formats include different catalog wraps, multiple-unit purchase discounts, free shipping, and promotional tag lines such as “last chance” offers. We also market our E-commerce websites in our catalogs. This marketing channel has been the principal marketing mechanism to reach our E-commerce target audience.

Leveraging its experience in handling direct-to-consumer transactions, Crosstown Traders continues to refine its technology infrastructure and customer service processes to make catalog shopping as convenient as possible. We maintain toll free numbers, accessible 24 hours a day, seven days a week (except for major holidays), to accept orders and catalog requests, and to answer order and credit-account-related questions. We utilize an 850-seat call center network in multiple locations supported by integrated system platforms designed to provide uninterrupted services to our customers. Telephone calls are answered by knowledgeable call-center associates, who process customer orders, answer questions on merchandise and its availability, and identify opportunities for cross-selling additional merchandise. These customer service associates also assist customers in the selection of merchandise and can provide detailed information regarding size, color, fit, and other merchandise features. Many order taking, order status, and other service inquiry functions can also be conducted on Crosstown’s E-commerce sites, allowing customers to browse and shop at their own pace.

Our call-center associates enter order data into an online computerized system, which systematically updates its customer database and permits us to measure customer responses to our individual merchandise and catalog mailings. Much of the sales and inventory information is available to our buying staff on a real-time basis throughout the business day. We have achieved efficiencies in order processing and fulfillment, which permit the shipment of many orders the following business day.

Sourcing

We primarily use the domestic wholesale markets for our Direct-to-Consumer merchandise purchases. During Fiscal 2007, we purchased merchandise from approximately 1,100 suppliers and factories located throughout the United States. No single vendor accounted for more than 3% of total Direct-to-Consumer merchandise purchases during Fiscal 2007. During Fiscal 2007, we began shifting a portion of the sourcing for our Direct-to-Consumer segment from domestic markets to our international sourcing network, using third-party suppliers.

Distribution and Logistics

We operate several distribution centers and an 850-seat call center network supported by integrated systems platforms for our Direct-to-Consumer segment, which handle receiving, quality control inspection, and distribution directly to our Direct-to-Consumer catalog and E-commerce customers. A 288,000 square foot leased facility in Tucson, Arizona ships approximately 2,800,000 packages per year to customers of our OLD PUEBLO TRADERS, MONTEREY BAY CLOTHING COMPANY, INTIMATE APPEAL, HOME ETC, and REGALIA catalogs. A separate 108,000 square foot leased facility in Tucson, which became fully operational in the first quarter of Fiscal 2007, ships approximately 1,200,000 packages per year and services footwear for all catalogs and catalog-related E-commerce sites. A 240,000 square foot leased facility in Wilmington, North Carolina ships approximately 2,300,000 packages per year to customers of our BEDFORD FAIR, WILLOW RIDGE, BROWNSTONE STUDIO, and LEW MAGRAM catalogs. We own 125,000 square-feet of automated distribution center space in Marshfield, Wisconsin which serves as the main distribution area for our FIGI’S catalog and ships approximately 2,000,000 packages per year. A 122,000 square-foot leased facility in Stevens Point, Wisconsin and a 46,000 square-foot owned facility in Neillsville, Wisconsin also service FIGI’S.

Our distribution and logistics operations provide adequate current capacity, and we are continually evaluating our overall long-term distribution and logistics requirements for both our Retail Stores and our Direct-to-Consumer segments.

PROPRIETARY CREDIT PROGRAMS

We seek to encourage sales through the promotion of our proprietary credit cards. We believe that our credit cards act as promotional vehicles by engendering customer loyalty, creating a substantial base for targeted direct-mail promotion, and encouraging incremental sales. Our FASHION BUG, LANE BRYANT, CATHERINES, PETITE SOPHISTICATE, and Crosstown Traders brands each offer our customers the convenience of proprietary credit card programs.

Our FASHION BUG credit card program accounted for approximately 31% of FASHION BUG retail sales in Fiscal 2007, and has approximately 2.1 million active accounts. We control credit policies and service the FASHION BUG proprietary credit card file, and, through various agreements, we securitize and sell the credit card receivables generated by this program.

The LANE BRYANT credit card program accounted for approximately 29% of LANE BRYANT retail sales in Fiscal 2007, and has approximately 1.3 million active accounts. During Fiscal 2007, we used a third-party bank to finance and service the LANE BRYANT credit card program. This third-party bank provides new account approval, credit authorization, billing, and account collection services. Under a non-recourse agreement with the third-party bank, we are reimbursed with respect to sales generated by the credit cards. Our agreement with the third-party bank expires in October 2007. Upon termination of the agreement, we have the right to purchase the receivables allocated to the Lane Bryant retail stores under the agreement at book value from the third party.

Our CATHERINES credit card program accounted for approximately 33% of CATHERINES retail sales in Fiscal 2007, and has approximately 0.6 million active accounts. In Fiscal 2006, we purchased the CATHERINES credit card portfolio from the third-party bank that serviced the CATHERINES program. We control credit policies and service the CATHERINES proprietary credit card file, and, through various agreements, we securitize and sell the credit card receivables generated by this program.

We launched the PETITE SOPHISTICATE credit card during the third quarter of Fiscal 2007. This program accounted for approximately 14% of PETITE SOPHISTICATE OUTLET retail sales in Fiscal 2007, and has approximately 10 thousand active accounts. We control credit policies and service the PETITE SOPHISTICATE proprietary credit card file, and, through various agreements, we securitize and sell the credit card receivables generated by this program.

Our Crosstown Traders credit card program accounted for approximately 38% of Crosstown Traders apparel sales in Fiscal 2007, and has approximately 0.9 million active accounts. We control credit policies and service the Crosstown Traders proprietary credit card file, and, through various agreements, we securitize and sell the credit card receivables generated by this program.

In addition to our Crosstown Traders credit card program, FIGI'S, one of Crosstown Traders' non-apparel catalog brands, offers interest-free, three-payment credit terms over three months to its customers, with the first payment due on a defined date 30 to 60 days after a stated holiday.

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A more comprehensive description of our asset securitization process and our commitments under the third-party bank agreement for the LANE BRYANT credit card program is included in **“Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; FINANCIAL CONDITION; *Off-Balance-Sheet Arrangements*”** and **“Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements; NOTE 16. ASSET SECURITIZATION”** below.

COMPETITION

The women's specialty retail apparel and direct-to-consumer businesses are highly competitive, with numerous competitors, including individual and chain fashion specialty stores, department stores, discount stores, catalog retailers, and Internet-based retailers. We cannot reasonably estimate the number of our competitors due to the large number of women’s apparel and direct-to-consumer retailers. The primary elements of competition common to both our Retail Stores segment and our Direct-to-Consumer segment are merchandise style, size, selection, fit, quality, display, price, attractive website/catalog layout, efficient fulfillment of website and catalog mail orders, and personalized service to our customers. For our Retail Stores segment, store location, design, advertising, and promotion are also significant elements of competition.

EMPLOYEES

As of the end of Fiscal 2007, we employed approximately 30,000 associates, which included approximately 19,000 part-time employees. In addition, we hire a number of temporary employees during the December holiday season. Approximately 80 of our employees are represented by unions whose contracts are currently due to expire in August 2009. We believe that overall our relationship with these unions, and our employees in general, is satisfactory.

TRADEMARKS AND SERVICEMARKS

We own, or are in the process of obtaining, all rights to the trademarks and trade names we believe are necessary to conduct our business as presently operated. “FASHION BUG®”, “FASHION BUG PLUS®”, “FIGURE®”, “L.A. BLUES®”, “CATHERINES®”, “CATHERINES PLUS SIZES®”, “MAGGIE BARNES®”, “ANNA MAXWELL®”, “LIZ&ME®”, “SERENADA®”, “LANE BRYANT®”, “LANE BRYANT OUTLET™” “VENEZIA®”, “CACIQUE®”, “PETITE SOPHISTICATE®”, “PETITE SOPHISTICATE OUTLET™”, “OLD PUEBLO TRADERS®”, “BEDFORD FAIR LIFESTYLES®”, “BEDFORD FAIR SHOESTYLES®”, “WILLOW RIDGE®”, “LEW MAGRAM®”, “BROWNSTONE STUDIO®”, “REGALIA®”, “INTIMATE APPEAL®”, “MONTEREY BAY CLOTHING COMPANY®”, “HOME ETC®”, “COWARD®”, “FIGI’S®, and several other trademarks and servicemarks of lesser importance to us have been registered or are in the process of being registered with the United States Patent and Trademark Office and in other countries.

We also own the following Internet domain name registrations: **catherines.com, charming.com, charmingshoppes.com, fashionbug.com, fashionbugcard.com, fashionbugplus.com, figuremag.com, lanebryant.com, petitesophisticate.com, figis.com, bedfordfair.com, brownstonestudio.com, cowardshoe.com, intimateappeal.com, lewmagram.com, willowridgecatalog.com, oldpueblotraders.com, regaliaonline.com, shoetrader.com, shopthebay.com** and others of lesser importance.

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EXECUTIVE OFFICES

Charming Shoppes, Inc., was incorporated in Pennsylvania in 1969. Our principal offices are located at 450 Winks Lane, Bensalem, Pennsylvania 19020. Our telephone number is (215) 245-9100.

AVAILABLE INFORMATION

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

Item 1A. Risk Factors

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

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

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

Customer tastes and fashion trends are volatile and tend to change rapidly, particularly for women's apparel. Our success depends in part on our ability to effectively predict and respond to quickly changing fashion tastes and consumer demands, and to translate market trends into appropriate, saleable product offerings. If we are unable to successfully predict or respond to changing styles or trends and misjudge the market for our products or any new product lines, our sales will be lower and we may be faced with a substantial amount of unsold inventory or missed sales opportunities. In response, we may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory, which could have a material adverse effect on our business, financial condition, and results of operations.

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

The women's specialty retail apparel and direct-to-consumer markets are highly competitive. Our competitors include individual and chain fashion specialty stores, department stores, discount stores, catalog retailers, and Internet-based retailers. As a result of this competition, we are required to effectively market and competitively price our products to consumers in diverse markets, and we may experience pricing pressures, increased marketing expenditures, and loss of market share, which could have a material adverse effect on our business, financial condition, and results of operations. We believe that the principal bases upon which we compete are merchandise style, size, selection, fit, quality, display, price, attractive website/catalog layout, efficient fulfillment of website and catalog mail orders, and personalized service to our customers, as well as store location, design, advertising, and promotion. Other women's apparel and direct-to-consumer companies with greater financial resources, marketing capabilities, or brand recognition may enter the plus-size business. We cannot give assurance that we will be able to compete successfully against existing or future competitors.

A slowdown in the United States economy, an uncertain economic outlook, and escalating energy costs could lead to reduced consumer demand for our products in the future.

Consumer spending habits, including spending for our products, are affected by, among other things, prevailing economic conditions, levels of employment, salary levels, wage rates, availability of consumer credit, consumer confidence, and consumer perception of economic conditions. A general slowdown in the United States economy, an uncertain economic outlook, and escalating energy costs could adversely affect consumer spending habits and customer traffic, which could result in a reduction in our net sales. A prolonged economic downturn could have a material adverse effect on our business, financial condition, and results of operations.

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

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

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

Our business requires substantial investment in our inventory for a long period before sales occur. Consequently, we require significant amounts of working capital financing. We depend on the availability of credit to fund our working capital, including credit we receive from our suppliers and their agents, on our credit card securitization program, and on our revolving credit facility. If we are unable to obtain sufficient financing at an affordable cost, we might be unable to adequately merchandise our stores, E-commerce, or catalog businesses, which could have a material adverse effect on our business, financial condition, and results of operations.

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Our operating results fluctuate from season to season.

Our retail store and direct-to-consumer operations experience seasonal fluctuations in net sales and consequently in operating income, with peak sales occurring during the Easter, Labor Day, and Christmas seasons. In addition, extreme or unseasonable weather can affect our sales. Any decrease in net sales or margins during our peak selling periods, or in the availability of working capital needed in the months before these periods, could have a material adverse effect on our business, financial condition, and results of operations. We usually order merchandise in advance of peak selling periods and sometimes before new fashion trends are confirmed by customer purchases. We must carry a significant amount of inventory, including perishable products in certain of our direct-to-consumer businesses, before the peak selling periods. If we are not successful in selling our inventory, especially during our peak selling periods, we may be forced to rely on markdowns or promotional sales to dispose of the inventory or we may not be able to sell the inventory at all, which could have a material adverse effect on our business, financial condition, and results of operations.

We face challenges in managing our recent growth.

Our operating challenges and management responsibilities are increasing as we continue to grow and expand into new store formats and additional distribution channels. Successful growth will require that we continue to expand and improve our internal systems and our operations, including our distribution infrastructure.

Our business plan for our Retail Stores segment depends on our ability to open and operate new retail stores and to convert, where applicable, the formats of existing stores on a profitable basis. In addition, we will need to identify, hire, and retain a sufficient number of qualified personnel to work in our stores. During Fiscal 2007, we entered the outlet distribution channel and expanded the number of stores using a new double-store-front format.

We are also completing the integration of Crosstown Traders and our Direct-to-Consumer segment into our current operating structure. Growth in our Direct-to-Consumer segment is dependent on sufficient response rates to our catalogs and Internet websites and access to new customers, which may not occur. In addition, we plan to continue to build infrastructure in our Direct-to-Consumer segment to prepare for the launch of new catalogs, including the launch of the LANE BRYANT catalog in late Fiscal 2008 when the LANE BRYANT catalog trademark, currently licensed by a third party, reverts to us.

These objectives have created, and may continue to create, additional demands on our staff and on our operating systems. We cannot assure the successful implementation of our business plan for our Retail Stores and Direct-to-Consumer segments, or that we will achieve our objectives as quickly or as effectively as we hope.

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

Our success and our ability to execute our business strategy depend largely on the efforts and abilities of our Chief Executive Officer, Dorrit J. Bern, and her management team. The loss of services of one or more of our key personnel could have a material adverse effect on our business, as we may not be able to find suitable management personnel to replace departing executives on a timely basis. We do not maintain key-person life insurance policies with respect to any of our employees.

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

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

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

We operate distribution centers in Greencastle, Indiana, and Baltimore County, Maryland, and we operate catalog fulfillment centers in Tucson, Arizona; Marshfield, Wisconsin; Stevens Point, Wisconsin; and Wilmington, North Carolina. In addition, we use third-party freight consolidators and service providers in Indianapolis, Indiana; Abingdon, Maryland; Los Angeles, California; Miami, Florida; and North Bergen, New Jersey. Most of the merchandise we purchase is shipped directly to our distribution and fulfillment centers or freight consolidators, where it is prepared for shipment to the appropriate stores or to the customer. If any of our distribution centers, fulfillment centers, or freight consolidators were to shut down or lose significant capacity for any reason, the other locations may not be able to adequately support the resulting additional distribution demands, in part because of capacity constraints and in part because each location services a particular brand or brands. As a result, we could incur significantly higher costs and longer lead times associated with distributing our products to our stores or customers during the time it takes for us to reopen or replace the affected distribution center, fulfillment center, or freight consolidator.

Natural disasters, war, acts of terrorism or other armed conflict, or the threat of either on the United States or international economies may negatively impact the availability of merchandise and otherwise adversely impact our business.

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

Our inability to successfully manage customer service or fulfillment for our E-commerce websites or our catalog business could adversely impact our operating results.

Successful management of our E-commerce and catalog operations is dependent on our ability to maintain efficient and uninterrupted customer service and order fulfillment. 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. In addition, we may not be able to hire sufficient qualified associates to support our E-commerce or catalog operations during peak periods, especially during the December holiday season. The occurrence of one or more of these events could adversely affect our E-commerce or catalog businesses.

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We rely on foreign sources of production.

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

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

New initiatives could be proposed that would have an impact on the trading status of certain countries, and could include retaliatory duties or other trade sanctions that, if enacted, could increase the cost of products purchased from suppliers in such countries or restrict the importation of products from such countries. The future performance of our business will depend on our foreign suppliers and may be adversely affected by the factors listed above, all of which are beyond our control.

Issues of global workplace conditions may adversely affect our business.

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

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

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

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

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

OTHER RISKS

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

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

- classify our board into three classes, with one class being elected each year;
- do not permit cumulative voting;
- permit our board to issue "blank check" preferred stock without shareholder approval;
- require certain advance notice procedures with regard to the nomination of candidates for election as directors, other than nominations by or at the direction of our board;
- prohibit us from engaging in some types of business combinations with a holder of 10% or more of our voting securities without super-majority shareholder or board approval;
- prevent our directors from being removed without cause except upon super-majority shareholder approval; and
- prevent a holder of 20% or more of our common stock from taking certain actions without certain approvals.

We also have adopted a Shareholder Rights Plan. This plan may make it more difficult and more expensive to acquire us, and may discourage open market purchases of our common stock or a non-negotiated tender or exchange offer for such stock, and, accordingly, may limit a shareholder's ability to realize a premium over the market price of our common stock in connection with any such transaction.

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports. Our independent registered public accounting firm is also currently required to attest to whether or not our assessment is fairly stated in all material respects and to separately 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, or if our independent registered public accounting firm is unable to timely attest to our assessment, 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.

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

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

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We lease all our stores, with the exception of three stores that we own. Typically, store leases have initial terms of 5 to 20 years and generally contain provisions for co-tenancies, renewal options, additional rents based on a percentage of sales, and payment of real estate taxes and common area charges. In addition, we lease certain of our corporate office, distribution center, warehouse, and other administrative facilities. Additional information with respect to our real estate leases is included in **"Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements; NOTE 17. LEASES"** below.

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With respect to leased stores open as of February 3, 2007, the following table shows the number of store leases expiring during the calendar periods indicated, assuming the exercise of our renewal options:

Period	Number of Leases Expiring[(1)]
2007	174[(2)]
2008 - 2012	654
2013 - 2017	506
2018 - 2022	539
2023 - 2027	423
2028 - 2032	64
Thereafter	15

(1) Excludes 2 Crosstown Traders outlet stores.
(2) Includes 133 stores on month-to-month leases.

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

Size in Sq. Feet	Location	Leased/ Owned	Description
1,000,000	Greencastle, IN	Owned	FASHION BUG, LANE BRYANT OUTLET, and PETITE SOPHISTICATE OUTLET distribution center
393,000	White Marsh, MD	Owned	LANE BRYANT and CATHERINES distribution center
288,000	Tucson, AZ	Leased	Crosstown Traders distribution center
240,000	Wilmington, NC	Leased	Crosstown Traders distribution center
213,000	Memphis, TN	Owned	Warehouse facility (currently leased to a third party)
145,000	Bensalem, PA	Owned	Corporate technology center, outlet operations, and corporate administrative offices
142,000	Bensalem, PA	Leased	Corporate headquarters and FASHION BUG home office
135,000	Columbus, OH	Leased	LANE BRYANT home office
125,000	Marshfield, WI	Owned	Crosstown Traders distribution center
122,000	Stevens Point, WI	Leased	Crosstown Traders distribution and call centers
108,000	Tucson, AZ	Leased	Crosstown Traders distribution center
71,000	Marshfield, WI	Owned	Crosstown Traders warehouse
64,000	Marshfield, WI	Owned	Crosstown Traders administrative offices and call center

63,000	Memphis, TN	Owned	CATHERINES home office
52,000	Tucson, AZ	Leased	Crosstown Traders offices
46,000	Neillsville, WI	Owned	Crosstown Traders distribution center
40,000	Marshfield, WI	Owned	Crosstown Traders warehouse
36,000	Tucson, AZ	Leased	Crosstown Traders offices
30,000	Miami Township, OH	Leased	Spirit of America National Bank (our wholly-owned credit card bank subsidiary) and credit operations
23,000	Hong Kong, PRC	Owned	International sourcing offices
17,000	New York, NY	Leased	E-commerce operations
16,000	Marshfield, WI	Owned	Crosstown Traders manufacturing facility
15,000	Tucson, AZ	Leased	Crosstown Traders offices

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Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

Additional Part I Information - Our Executive Officers

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

Dorrit J. Bern, 56, has served as Chairman of the Board of Directors since January 1997. She has also served as President and Chief Executive Officer since September 1995. Ms. Bern's term as a Director expires in 2008.

Joseph M. Baron, 59, has served as Executive Vice President and Chief Operating Officer since 2002.

James G. Bloise, 63, has served as Executive Vice President - Supply Chain Management, Information Technology, and Shared Business Services since December 2005 and as Senior Vice President - Supply Chain Management from 2002 to December 2005.

Michel Bourlon, 47, has served as Executive Vice President - Sourcing since March 2004. Before that, he served as Managing Director of Eddie Bauer International (Hong Kong) Ltd., from September 1997 to February 2004.

Anthony A. DeSabato, 58, has served as Executive Vice President - Corporate and Labor Relations, and Business Ethics since July 2003. Before that, he served as Executive Vice President and Corporate Director of Human Resources since 1990, and he has been employed by us since 1987.

Eric M. Specter, 49, has served as Executive Vice President **-** Chief Financial Officer since January 1997, and he has been employed by us since 1983.

Colin D. Stern, 58, has served as Executive Vice President and General Counsel since 1990, and he has been employed by us since 1989. He has also served as Secretary since February 1998.

Gale H. Varma, 56, has served as Executive Vice President - Human Resources since July 2003. Before that, she served as Division Vice President - Human Resources and Ethics Officer for the Prudential Institutional Employee Benefits division of Prudential Financial Services, a division of Prudential Insurance Company of America, from September 1997 to April 2003.

John J. Sullivan, 60, has served as Vice President **-** Corporate Controller since October 1998.

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PART II

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

Our common stock is traded on the over-the-counter market and quoted on the NASDAQ National Market ("NASDAQ") under the symbol "CHRS," and is listed and traded on the Chicago Board Options Exchange ("CBOE") and Pacific Stock Exchange ("PCX") under the symbol "QSR." The following table sets forth the high and low sale prices for our common stock during the indicated periods, as reported by NASDAQ.

	Fiscal 2007		Fiscal 2006	
	High	Low	High	Low
1st Quarter	$ 15.18	$ 11.90	$ 9.03	$ 7.04
2nd Quarter	14.90	9.97	12.25	7.00
3rd Quarter	15.35	9.69	12.34	9.69
4th Quarter	15.57	12.30	14.07	10.86

The approximate number of holders of record of our common stock as of March 27, 2007 was 1,739. This number excludes individual stockholders holding stock under nominee security position listings.

We have not paid any dividends since 1995, and we do not expect to declare or pay any dividends on our common stock in the near 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 existing revolving credit facility allows the payment of dividends on our common stock subject to maintaining a minimum level of Excess Availability (as defined in the facility agreement) for 30 days before and immediately after the payment of such dividends. (See **"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; FINANCIAL CONDITION; Financing;** ***Long-term Debt and Equity Financing*****"** and **"Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT"** below).

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

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers:

Period	Total Number of Shares Purchased[1]	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]
October 29, 2006 through November 25, 2006	2,057	$	14.80	-	
November 26, 2006 through December 30, 2006	0		00.00	-	
December 31, 2006 through February 3, 2007	1,344		13.12	-	
Total	3,401	$	14.14	-	

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

(2(2) In Fiscal 1998, we publicly announced that our Board of Directors granted authority to repurchase up to 10,000,000 shares of our common stock. In Fiscal 2000, we publicly announced that our Board of Directors granted authority to repurchase up to an additional 10,000,000 shares of our common stock. In Fiscal 2003, the Board of Directors granted an additional authorization to repurchase 6,350,662 shares of common stock issued to Limited Brands in connection with our acquisition of LANE BRYANT. From Fiscal 1998 through Fiscal 2003, we repurchased a total of 21,370,993 shares of common stock, which included shares purchased on the open market as well as shares repurchased from Limited Brands. As of February 3, 2007, 4,979,669 shares of our common stock remain available for repurchase under these programs. Our 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 and immediately after such repurchase. As conditions may allow, we may from time to time acquire additional shares of our common stock under these programs. Such shares, if purchased, would be held as treasury shares. No shares were acquired under these programs during the fourteen weeks ended February 3, 2007. The repurchase programs have no expiration date.

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

The above chart was plotted using the following data:

	2/2/02	2/1/03	1/31/04	1/29/05	1/28/06	2/3/07
Charming Shoppes, Inc.	$ 100	$ 60	$ 105	$ 144	$ 225	$ 236
Russell 2000 Composite Index	100	138	144	154	186	208
Dow Jones U.S. Retailers - Apparel Index	100	87	116	140	160	193

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Item 6. Selected Financial Data

The following table presents selected financial data for each of our five fiscal years ended as of February 1, 2003 through February 3, 2007. The selected financial data is taken from our audited financial statements and should be read in conjunction with **"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations"** and the financial statements and accompanying notes included under **"Item 8. Financial Statements and Supplementary Data."**

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

				Year Ended						
		Feb. 3,		Jan. 28,		Jan. 29,		Jan. 31,		Feb. 1,
(Dollars in thousands, except per share amounts)		2007(1)(2)		2006(1)(3)		2005		2004		2003
Operating Statement Data:										
Net sales	$	3,067,517	$	2,755,725	$	2,334,736	$	2,288,363	$	2,413,356
Cost of goods sold, buying, catalog, and occupancy expenses		2,141,884		1,914,347		1,642,650		1,645,499		1,727,253
Selling, general, and administrative expenses		753,109		678,753		577,301		558,248		603,502
Expenses related to cost reduction plan		0		0		605(4)		11,534(4)		0
Restructuring charge (credit)		0		0		0		0		(4,813)(5)
Total operating expenses		2,894,993		2,593,100		2,220,556		2,215,281		2,325,942
Income from operations		172,524		162,625		114,180		73,082		87,414
Other income		8,345		7,687		3,098		2,050		2,328
Interest expense		(14,746)		(17,911)		(15,610)		(15,609)		(20,292)
Income before income taxes, minority interest, and cumulative effect of accounting changes		166,123		152,401		101,668		59,523		69,450
Income tax provision		57,200		53,010		37,142		21,623		27,117
Income before minority interest and cumulative effect of accounting changes		108,923		99,391		64,526		37,900		42,333
Minority interest in net loss of consolidated subsidiary		0		0		0		142		679
Cumulative effect of accounting changes, net of tax		0		0		0		0		(49,098)(6)
Net income (loss)	$	108,923	$	99,391	$	64,526	$	38,042	$	(6,086)
Basic net income (loss) per share:										
	$	.89	$	.83	$	.56	$	.34	$	.38

Before cumulative effect of accounting changes					
Net income (loss)	.89	.83	.56	.34	(.05)
Basic weighted average common shares outstanding	122,388	119,831	116,196	112,491	113,810
Diluted net income (loss) per share:					
Before cumulative effect of accounting changes	$ .81	$ .76	$ .52	$ .33	$ .36
Net income (loss)	.81	.76	.52	.33	(.01)
Diluted weighted average common shares and equivalents outstanding	139,763	137,064	133,174	128,558	130,937

(Table continued on next page)

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

			Year Ended		
(Dollars in thousands)	**Feb. 3, 2007(1)(2)**	**Jan. 28, 2006(1)**	**Jan. 29, 2005**	**Jan. 31, 2004**	**Feb. 1, 2003**
Balance Sheet Data:					
Total assets	$ 1,710,942	$ 1,572,583	$ 1,303,771	$ 1,173,070	$ 1,139,564
Current portion - long-term debt	10,887	14,765	16,419	17,278	12,595
Long-term debt	181,124	191,979	208,645	202,819	203,045
Working capital	443,101	344,229	413,989	266,178	190,797
Stockholders' equity	947,538	814,348	694,464	587,409	546,555
Performance Data:					
Including cumulative effect of accounting changes:					
Net return on average stockholders' equity	12.4%	13.2%	10.1%	6.7%	(1.1)%
Net return on average total assets	6.6	6.9	5.2	3.3	(0.5)
Before cumulative effect of accounting changes:					
Net return on average stockholders' equity	12.4%	13.2%	10.1%	6.7%	7.6%
Net return on average total assets	6.6	6.9	5.2	3.3	3.7

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(1) Includes the results of operations of Crosstown Traders, Inc. from the date of acquisition (June 2, 2005).

(2) Fiscal 2007 consisted of 53 weeks.

(3) Certain prior-year amounts have been reclassified to conform to the current-year presentation.

(4) In March 2003, we announced a cost reduction plan designed to take advantage of the centralization of corporate administrative services and to realize certain efficiencies, in order to improve profitability. Costs incurred in connection with the plan during Fiscal 2004 included $2,980,000 of workforce reduction costs, $3,691,000 of lease termination and related costs, $4,195,000 of accelerated depreciation (a non-cash charge), and $668,000 of other facility closure costs. The cost reduction plan was substantially completed during Fiscal 2004. During Fiscal 2005, we revised the estimated sublease income on our Hollywood, Florida credit facility, which was closed in connection with the plan, and recognized an additional $605,000 of lease termination costs.

(5) In January 2002, our Board of Directors approved a restructuring plan that included the closing of our THE ANSWER/ADDED DIMENSIONS chain of 77 stores; the conversion of approximately 20% of the ADDED DIMENSIONS stores to CATHERINES stores; the closing of 130 under-performing FASHION BUG stores; and the conversion of 44 FASHION BUG stores to LANE BRYANT stores. This restructuring plan resulted in a pre-tax charge of $37,708,000 in Fiscal 2002. We completed the restructuring plan by the end of Fiscal 2003, and recognized a pre-tax restructuring credit of $4,813,000, primarily as a result of favorable negotiations of lease terminations.

(6) In Fiscal 2003, we fully adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with the transition provisions of SFAS No. 142, we tested goodwill related to our CATHERINES

acquisition for impairment, and recorded a write-down of $43,975,000 to reduce the carrying value of the goodwill to its estimated fair value. In addition, we recognized a charge of $5,123,000, net of income taxes of $2,758,000, in connection with the adoption of FASB Emerging Issues Task Force ("EITF") Issue 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." This charge represents a reduction in inventory cost for the cumulative effect of cash received from vendors as of the beginning of Fiscal 2003.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the financial statements and accompanying notes appearing elsewhere in this report. As used in this report, the terms "Fiscal 2007," "Fiscal 2006," and "Fiscal 2005," refer to our fiscal years ended February 3, 2007, January 28, 2006, and January 29, 2005, respectively. Fiscal 2007 consisted of 53 weeks, while Fiscal 2006 and Fiscal 2005 each consisted of 52 weeks. The term "Fiscal 2008" refers to our fiscal year which will end on February 2, 2008. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, our consolidatec subsidiaries.

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, financing needs or plans, and plans for future operations, as well as assumptions relating to the foregoing. The words "expect," "should," "project," "estimate," "predict," "anticipate," "plan," "believes," and similar expres also intended to identify forward-looking statements. 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. 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.

Factors that could cause our actual results of operations or financial condition to differ from those described in this report include, but are not necessarily limited to, the following, which are discussed in more detail in **"Item 1A. Risk Factors,"** above:

Our business is dependent upon our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors, which we may not be able to successfully accomplish in the future.

A slowdown in the United States economy, an uncertain economic outlook, and escalating energy costs could lead to reduced consumer demand for our products in the future.

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.

We may be unable to successfully integrate the operations of Crosstown Traders, Inc. ("Crosstown Traders") with the operations of Charming Shoppes, Inc. In addition, we cannot assure the successful implementation of our business plan for Crosstown Traders, including the successful launch of our LANE BRYANT catalog.

We cannot assure the successful implementation of our business plans for entry into the outlet store distribution channel and expansion of our CACIQUE product line through new store formats.

We cannot assure the successful implementation of our business plan for increased profitability and growth in our Retail Stores or Direct-to-Consumer segments.

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

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We depend on key personnel, particularly our Chief Executive Officer, Dorrit J. Bern, and we may not be able to retain or replace these employees or recruit additional qualified personnel.

We depend on our distribution and fulfillment centers and third-party freight consolidators and service providers, and could incur significantly higher costs and 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.

We depend on the availability of credit for our working capital needs, including credit we receive from our suppliers and their agents, and on our credit card securitization facilities. If we were unable to obtain sufficient financing at an affordable cost, our ability to merchandise our stores, E-commerce, or catalog businesses would be adversely affected.

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

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 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.

We may be unable to obtain adequate insurance for our operations at a reasonable cost.

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

We may be unable to hire and retain a sufficient number of suitable sales associates at our stores. In addition, 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 or other employee benefits could cause us to incur additional wage and benefit costs, which could adversely affect our results of operations.

Our manufacturers may be unable to manufacture and deliver merchandise to us in a timely manner or to meet our quality standards.

Our Retail Stores segment sales are dependent 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.

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.

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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 may be unable to manage significant increases in certain costs vital to catalog operations, including postage, paper, and acquisition of prospects, which could adversely affect our results of operations.

Response rates to our catalogs and access to new customers could decline, which would adversely affect our net sales and results of operations.

We may be unable to successfully implement our plan to improve merchandise assortments in our Retail Stores or Direct-to-Consumer segments.

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

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

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 currently required to attest to whether or not our assessment is fairly stated in all material respects and to separately 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, or if our independent registered public accounting firm is unable to timely attest to our assessment, 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.

OVERVIEW

In Fiscal 2007, our diluted earnings per share increased by 7% to $0.81 and our consolidated net sales increased by 11% to $3.068 billion from $2.756 billion in Fiscal 2006. The increase in consolidated net sales was driven by (i) the inclusion of the sales of Crosstown Traders, Inc. (“Crosstown Traders”), which we acquired on June 2, 2005, for the entire Fiscal 2007 period, (ii) sales from new LANE BRYANT, LANE BRYANT OUTLET, and PETITE SOPHISTICATE OUTLET stores opened during Fiscal 2007, (iii) an increase in comparable store sales at our LANE BRYANT and CATHERINES brands, (iv) increases in store-related E-commerce sales at all of our retail store brands, and (v) an additional week of operations in Fiscal 2007. With the acquisition of Crosstown Traders, we operate in two segments: Retail Stores and Direct-to-Consumer. Our Retail Stores segment operates through our LANE BRYANT (including LANE BRYANT OUTLET), FASHION BUG, CATHERINES PLUS SIZES, and PETITE SOPHISTICATE OUTLET stores and store-related E-commerce. Our Direct-to-Consumer segment includes catalog and catalog-related E-commerce.

In our Retail Stores segment, net sales increased 7.5% during Fiscal 2007 as compared to Fiscal 2006. Sales from new stores (including outlet store sales), an increase in comparable store sales, increased E-commerce sales at all brands, and an additional week of operations in Fiscal 2007 contributed to the increase in consolidated Retail Stores segment net sales. Comparable store sales are based on equivalent 52-week and 13-week periods and are not affected by the additional week of operations in Fiscal 2007.

For Fiscal 2007, LANE BRYANT achieved a 1% increase in comparable store sales as compared to a 4% increase in Fiscal 2006. For the Fiscal 2007 fourth quarter, LANE BRYANT experienced a 3% decrease in comparable store sales, as compared to an increase of 10% in the Fiscal 2006 fourth quarter. Compared to a strong performance in the Fiscal 2006 fourth quarter, LANE BRYANT experienced decreases in both average dollar sale per transaction and traffic levels in the Fiscal 2007 fourth quarter. In addition, LANE BRYANT experienced a sharp downtrend in sales of premium denim products in response to changing fashion trends in the Fiscal 2007 fourth quarter as compared to the prior-year period. The decrease in comparable store sales was offset by new store sales (including outlet store sales), as well as an increase in E-commerce sales.

Our CATHERINES stores achieved a 4% comparable store sales increase in Fiscal 2007 as compared to a 10% increase in Fiscal 2006. For the Fiscal 2007 fourth quarter, CATHERINES achieved a 2% increase in comparable store sales, as compared to an increase of 19% for the Fiscal 2006 fourth quarter. CATHERINES' strong performance during Fiscal 2006 continued into Fiscal 2007, with significant increases in traffic, the number of transactions per store, and E-commerce sales as compared to the prior-year period.

At FASHION BUG, comparable store sales decreased 1% in Fiscal 2007, as compared to flat comparable store sales in Fiscal 2006. FASHION BUG experienced a 1% decrease in comparable store sales in the Fiscal 2007 fourth quarter, as compared to a 1% increase in the Fiscal 2006 fourth quarter. Sales from the additional week of operations in Fiscal 2007 and an increase in E-commerce sales were partially offset by the decrease in comparable store sales and a decrease in the number of open stores.

Store-related E-commerce sales for our three brands increased from approximately 2.0% of total sales in Fiscal 2006 to approximately 3.0% of total sales in Fiscal 2007. Demand in the E-commerce channel continues to outpace the growth in our retail stores. We have dedicated, and will continue to dedicate, more of our resources to meet the growth in this channel. For Fiscal 2008, we expect our store-related E-commerce sales to increase to more than 4.0 percent of consolidated net sales, and we see opportunities to continue to expand our product offerings into additional categories, such as hard-to-find sizes. This will allow us to offer a greater variety of merchandise categories than those currently offered in our stores.

Total net sales for the Direct-to-Consumer segment were $428 million for Fiscal 2007, as compared to $299 million for Fiscal 2006 from the date of acquisition of Crosstown Traders on June 2, 2005. The Direct-to-Consumer segment performed below our sales plan for Fiscal 2007 as a result of reduced response rates from our core customers to our apparel catalog offerings. The disruption caused by the consolidation of our catalog merchandise operations into Tucson, Arizona during Fiscal 2007 had a greater-than-anticipated negative impact on Crosstown's apparel catalog operations. As a result, we reduced our catalog prospecting and circulation levels in order to reduce advertising expenditures during the period. We expect to maintain or slightly increase our prospecting and circulation levels in Fiscal 2008.

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For the fourth quarter of Fiscal 2007, total net sales for the Direct-to-Consumer segment were $148 million, as compared to total net sales of $156 million for the fourth quarter of Fiscal 2006. A significant amount of fourth quarter sales were derived from our FIGI'S catalog, which markets food and specialty gift products and does a substantial portion of its business during the December holiday season. Sales from the FIGI'S catalog for the Fiscal 2007 fourth quarter were in line with our sales plan, while sales from our apparel catalogs were below plan for the reasons discussed above.

The apparel industry is highly competitive and is continuously faced with new and existing competitors seeking areas of growth to expand their businesses. Our strategy focuses on increasing our market share in the growing plus-size women's apparel market through our Retail Stores and Direct-to-Consumer segments. Americans continue to gain weight in all age groups, with an estimate of more than 60% of American adults being overweight *(Source: American Obesity Association: Obesity in the U.S. Fact Sheet)* and half of American women wearing size 14 or larger *(Source: NPD Group)*. We offer plus-size women's apparel through multiple channels to a broad range of age groups, with varied fashion tastes and income levels. By continuing to focus on the plus-size market, we believe that we are well-positioned to meet the demands of this growing demographic. In addition to allowing us to expand our multi-channel strategy for our retail store brands, the acquisition of Crosstown Traders provides us with the expertise and infrastructure necessary to service the LANE BRYANT catalog business when the LANE BRYANT catalog trademark reverts back to us in late Fiscal 2008.

We view the growth in our store base and direct-to-consumer channels as an opportunity for us to maintain and increase our market share. We continue to pursue ways to increase our relevance to our customer, and believe that, through offering multiple shopping channels for our customers and other factors such as our expertise in plus-size fit and our ***figure*** magazine (a leading plus-size fashion and lifestyle magazine), we continue to differentiate ourselves from our competitors.

We plan to continue the expansion of our market position in the women's plus-size specialty apparel market. These plans include several strategic initiatives, which are described below:

- Continued expansion of our side-by-side LANE BRYANT intimate apparel store concept, which we successfully tested during Fiscal 2006 and implemented in Fiscal 2007. This concept 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. During Fiscal 2007, we operated 44 stores in the side-by-side format, including 18 stores that were relocated or remodeled. During Fiscal 2008, we plan to open approximately 60 new LANE BRYANT stores, including 35 stores in the new side-by-side format.

- In Fiscal 2007, we entered the outlet store channel through the assumption of outlet store leases from Retail Brand Alliance and the opening of 82 LANE BRYANT OUTLET stores and 45 PETITE SOPHISTICATE OUTLET stores, many of which are operating as side-by-side stores with LANE BRYANT OUTLET stores. This channel, which we expected would incur an operating loss during Fiscal 2007, performed above-plan, was profitable during the fourth quarter, and broke even for Fiscal 2007. During Fiscal 2008, we plan to open approximately 15 new LANE BRYANT OUTLET stores (including 3 conversions from LANE BRYANT stores), 5 new PETITE SOPHISTICATE OUTLET stores, and 5-7 new full-line PETITE SOPHISTICATE stores.

- In our Direct-to-Consumer segment, we will focus on building infrastructure to prepare for the launch of the LANE BRYANT catalog, as well as improving the performance of our core apparel group catalogs. The LANE BRYANT catalog trademark, currently licensed by a third party, will revert to us in late Fiscal 2008.

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- In addition, we are planning for continued growth in E-commerce and cross-channel selling tools, and exploring opportunities for international expansion.

CRITICAL ACCOUNTING POLICIES

We have prepared the financial statements and accompanying notes included elsewhere in this report in conformity with accounting principles generally accepted in the United States. 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. Historically, actual results have not differed materially from those determined using required estimates. Our significant accounting policies are described in the notes accompanying the financial statements included elsewhere in this report. However, we consider the following accounting policies and related assumptions to be more critical to, and involve the most significant management judgments and estimates in, the preparation of our financial statements and accompanying notes.

Revenue Recognition

We recognize revenue in accordance with SEC Codification of Staff Accounting Bulletins Topic 13, *"Revenue Recognition."* Our revenues from merchandise sales are net of sales discounts, returns, and allowances and exclude sales tax. We record a reserve for estimated future sales returns based on an analysis of actual returns and we defer recognition of layaway sales to the date of delivery. A change in our actual rates of sales returns and layaway sales experience would affect the level of revenue recognized.

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

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 generally join these programs by paying an annual membership fee. We recognize revenue from these loyalty programs 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. Costs we incur in connection with administering these programs are recognized in cost of goods sold as incurred.

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

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Accounts Receivable

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

Inventories

We value our merchandise inventories at the lower of cost or market, using the retail inventory method (average cost basis), for our Retail Stores and Direct-to-Consumer segment inventories. Under the retail inventory method, we adjust the valuation of inventories at cost, and the resulting gross margins, in proportion to markdowns and shrinkage on our retail inventories. Our use of the retail inventory method results in valuing inventories at the lower of cost or market if markdowns are currently taken as a reduction of the retail value of inventories. Our estimation of markdowns involves certain management judgments and estimates which significantly affect the ending inventory valuation at cost, as well as the resulting gross margins. Our failure to properly estimate markdowns currently could result in an overstatement or understatement of inventory cost under the lower of cost or market principle.

At the end of Fiscal 2007, Fiscal 2006, and Fiscal 2005, in addition to markdowns that had been recorded in inventory, an additional $9.9 million, $8.6 million, and $9.5 million, respectively, of markdowns, representing markdowns not yet taken on aged inventory, were recorded in order to properly reflect inventory at the lower of cost or market. In accordance with the provisions of Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") Issue No. 02-16 (see ***"Accounting for Cash Consideration Received From a Vendor"*** below), as of February 3, 2007, January 28, 2006, and January 29, 2005, $8.8 million, $9.3 million, and $6.5 million, respectively, of cash received from vendors was deferred into inventory to be recognized as inventory is sold.

Deferred Catalog Advertising Costs

We accumulate all direct costs incurred in the development, production, and circulation of our direct-mail catalogs on our consolidated balance sheet until such time as the related catalog is mailed. These capitalized costs are subsequently amortized as a component of cost of goods sold, buying, catalog, and occupancy expenses over the expected sales realization cycle, generally within one to six months. Our initial estimation of the expected sales realization cycle for a particular catalog merchandise offering is based on, among other possible considerations, our historical sales and sell-through experience with similar catalog merchandise offerings, our understanding of then-prevailing fashion trends and influences, our assessment of prevailing economic conditions, and various competitive factors. We continually track our subsequent sales realization, compile customer feedback for indications of future performance, reassess the marketplace, compare our findings to our previous estimate, and adjust our amortization accordingly. A significant change in our expected sales and sell-through experience could have a material impact on the rate of amortization of deferred catalog advertising costs.

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

We evaluate the recoverability of our property, plant, and equipment and amortizable intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* Under SFAS No. 144, we are required to assess our long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amounts of long-lived assets may not be recoverable. We consider historical performance and estimated future results in our evaluation of potential impairment, and compare the carrying amount of the asset to the estimated future undiscounted cash flows expected to result from the use of the asset. If the estimated future undiscounted cash flows are less than the carrying amount of the asset, we write down the asset to its estimated fair value and recognize an impairment loss. Our estimate of fair value is generally based on either appraised value or the present value of future cash flows, based on a number of assumptions and estimates.

We test our goodwill and our indefinite-lived intangible assets in accordance with the provisions of SFAS No. 142, *"Goodwill and Other Intangible Assets."* We re-evaluate goodwill and other intangible assets for impairment at least annually or more frequently if there is an indication of possible impairment. We performed this annual review during the fourth quarters of Fiscal 2007, Fiscal 2006, and Fiscal 2005 and determined that there has been no impairment of these assets.

If actual experience were to differ materially from the assumptions, estimates, and projections used to determine useful lives or the valuation of property, plant, equipment, or intangible assets, a write-down for impairment of the carrying value of the assets, or acceleration of depreciation or amortization of the assets, could result. Such a write-down or acceleration of depreciation or amortization could have an adverse impact on our reported results of operations.

Acquisitions - Purchase Price Allocation

We account for acquisitions in accordance with the provisions of SFAS No. 141, *"Business Combinations."* We assign to all identifiable assets acquired (including intangible assets), and to all identifiable liabilities assumed, a portion of the cost of the acquired company equal to the estimated fair value of such assets and liabilities at the date of acquisition. We record the excess of the cost of the acquired company over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed, if any, as goodwill. We make the initial purchase price allocation based on the evaluation of information and estimates available at the date of the financial statements. As final information regarding the fair value of assets acquired and liabilities assumed is evaluated and estimates are refined, we make appropriate adjustments to the amounts allocated to those assets and liabilities and make corresponding changes to the amount allocated to goodwill. We use all available information to make these fair value determinations and, for major business acquisitions, typically engage an outside appraisal firm to assist in the fair value determination of the acquired long-lived assets. We have, if necessary, up to one year after the closing date of an acquisition to finish these fair value determinations and finalize the purchase price allocation.

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Asset Securitization

Asset securitization primarily involves the sale of proprietary credit card receivables to a special-purpose entity, which in turn transfers the receivables to a separate and distinct qualified special-purpose entity ("QSPE"). The QSPE's assets and liabilities are not consolidated in our balance sheet and the receivables transferred to the QSPEs are isolated for purposes of the securitization program. We use asset securitization to fund the credit card receivables generated by our FASHION BUG, CATHERINES, PETITE SOPHISTICATE, and CROSSTOWN TRADERS proprietary credit card programs. See **"Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 16. ASSET SECURITIZATION"** below for additional discussion of our asset securitization facility.

In accordance with SFAS No. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,"* we record a beneficial interest, referred to as the interest-only strip ("I/O strip"), in the estimated present value of cash flows we expect to receive over the period the receivables are outstanding. In addition to the I/O strip, we recognize a servicing liability, since the servicing fees we expect to receive from the securitizations do not provide adequate compensation for servicing the receivables. The servicing liability represents the present value of the excess of the costs of servicing over the servicing fees we expect to receive, and is recorded at estimated fair value. We use the same discount rate and estimated life assumptions in valuing the I/O strip and the servicing liability. We amortize the I/O strip and the servicing liability on a straight-line basis over the expected life of the credit card receivables.

We use certain key valuation assumptions related to the average life of the receivables sold and anticipated credit losses, as well as an appropriate market discount rate, in determining the estimated value of the I/O strip and the servicing liability. We estimate the values for these assumptions using historical data, the impact of the current economic environment on the performance of the receivables sold, and the impact of the potential volatility of the current market for similar instruments in assessing the fair value of the retained interests. Changes in the average life of the receivables sold, discount rate, and credit-loss percentage could cause actual results to differ materially from the estimates, and changes in circumstances could result in significant future changes to the assumptions currently being used.

The following table presents the decrease in our I/O strip receivable that would result from hypothetical adverse changes of 10% and 20% in the assumptions used to determine the fair value of the I/O strip:

(In millions)	**10% Change**	**20% Change**
Assumption:		
Payment rate	$ 1.1	$ 2.1
Residual cash flows discount rate	0.1	0.1
Credit loss percentage	0.9	1.7

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Costs Associated With Exit or Disposal Activities

In accordance with the provisions of SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities,"* we recognize liabilities for costs associated with an exit or disposal activity when the liabilities are incurred. Commitment to a plan, by itself, does not create an obligation that meets the definition of a liability. We recognize severance pay over time rather than "up front" if the benefit arrangement requires employees to render future service beyond a "minimum retention period." The liability for severance pay is recognized as employees render service over the future service period, even if the benefit formula used to calculate an employee's termination benefit is based on length of service. We use fair value for the initial measurement of liabilities associated with exit or disposal activities. The provisions of SFAS No. 146 result in the deferral of recognition of certain costs for restructuring plans from the date of commitment to such a plan to the date that costs are incurred under the plan.

Accounting for Cash Consideration Received From a Vendor

EITF Issue 02-16, *"Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor,"* addresses the accounting for cash consideration received from a vendor, including both a reseller of the vendor's products and an entity that purchases the vendor's products from a reseller. In accordance with the provisions of EITF Issue 02-16, as of February 3, 2007 and January 28 2006 we deferred $8.8 million and $9.3 million, respectively, of cash received from vendors into inventory. We will recognize these amounts as a reduction of cost of goods sold as the inventory is sold. We defer the recognition of cash received from vendors during interim periods in order to better match the recognition of the cash consideration to the period the inventory is sold.

Stock-Based Compensation

Through Fiscal 2006, we accounted for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board ("APB") Opinion No. 25, *"Accounting for Stock Issued to Employees,"* as permitted by SFAS No. 123, *"Accounting for Stock-Based Compensation."* We recorded compensation expense for restricted stock and restricted stock unit awards and for stock options with an exercise price less than the market price of our common stock at the date of grant, based on the difference between the market price and the exercise price of the option at the date of grant. The compensation expense was recognized on a straight-line basis over the vesting period of each award or option. We did not recognize compensation expense for options having an exercise price equal to the market price on the date of grant or for shares purchased under our Employee Stock Purchase Plan.

We disclosed, as pro forma information, compensation expense for all stock options, restricted stock awards, and restricted stock unit awards based on an estimated fair value of the option or award. In accordance with SFAS No. 123, we used the Black-Scholes pricing model to estimate the fair value of stock options. The Black-Scholes model required estimates or assumptions as to the dividend yield and price volatility of the underlying stock, the expected life of the option, and a relevant risk-free interest rate. Our use of different option-pricing models and different estimates or assumptions could have resulted in materially different estimates of compensation expense under the fair value method.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *"Share-Based Payment"* ("SFAS No. 123R"), a revision of SFAS No. 123. Under SFAS No. 123R, we are required to recognize the fair value of stock-based payments as compensation expense in our financial statements beginning in Fiscal 2007. Pro forma disclosures are no longer permitted.

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We elected to adopt SFAS No. 123R on the modified prospective method and, accordingly, prior periods have not been restated. We have provided pro forma disclosure of stock-based compensation determined in accordance with SFAS No. 123, as previously disclosed, for the comparable prior-year periods. Stock-based compensation cost recognized in Fiscal 2007 includes (i) compensation cost for all stock-based awards granted prior to the beginning of Fiscal 2007 but not fully vested as of the beginning of Fiscal 2007, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123, and (ii) compensation cost for all stock-based awards granted subsequent to the beginning of Fiscal 2007, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. The impact of the change from using actual forfeitures to determine compensation expense under the intrinsic value method to using estimated forfeitures in accordance with the provisions of SFAS No. 123R was immaterial. Current grants of stock-based compensation consist primarily of restricted stock and restricted stock unit awards.

Under SFAS No. 123R, we will continue to use the Black-Scholes valuation model to estimate the fair value of stock options, using assumptions consistent with our pro forma disclosures under SFAS No. 123, and straight-line amortization of stock-based compensation. We elected to calculate the initial pool of excess tax benefits related to stock-based compensation and the related presentation of excess tax benefits in our consolidated statements of cash flows in accordance with the provisions of paragraph 81 of SFAS No. 123R.

Adoption of SFAS No. 123R generally results in the recognition of additional stock-based compensation in the financial statements as compared to use of the intrinsic value method. However, beginning in Fiscal 2005, we changed the composition of our stock-based compensation awards to include primarily restricted stock and restricted stock unit awards, which generally yield the same compensation expense under both the intrinsic value method and SFAS No. 123R. In addition, we did not have significant unvested stock options as of the beginning of Fiscal 2007. Accordingly, the adoption of SFAS No. 123R did not have a material incremental impact on our income before taxes and net income, or on our basic or diluted net income per share.

Under the provisions of SFAS No. 123R, we are required to present gross excess tax benefits related to stock-based compensation as cash flows from financing activities in our statements of cash flows instead of as cash flows from operating activities as previously required. Write-offs of deferred tax assets related to an excess of stock-based compensation recognized in the financial statements over amounts deductible for tax purposes will continue to be reflected as cash flows used by operating activities. Net cash used by financing activities for Fiscal 2007 includes $5.1 million of excess tax benefits related to stock-based compensation that would have been classified as a cash inflow in net cash provided by operating activities if we had not adopted the provisions of SFAS No. 123R.

See **"Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies; *Stock-based Compensation*"** below for further information on our stock-based compensation expense for Fiscal 2007 and for pro forma disclosures under SFAS No. 123 for the comparable prior-year periods. Total stock-based compensation not yet recognized, related to the non-vested portion of stock options and awards outstanding, was $16.0 million as of February 3, 2007. The weighted-average period over which we expect to recognize this compensation is approximately 2.7 years.

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Insurance Liabilities

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

Operating Leases

We lease substantially all of our store properties as well as certain of our other facilities, and account for our store leases in accordance with SFAS No. 13, *"Accounting for Leases."* A majority of our store leases contain lease options that we can unilaterally exercise. The lease term we use for such operating leases includes lease option renewal periods only in instances in which the failure to exercise such options would result in an economic penalty for us and exercise of the renewal option is therefore reasonably assured at the lease inception date. Store leasehold improvement assets are depreciated over the shorter of their useful life or the lease term, as determined above.

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

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RESULTS OF OPERATIONS

Financial Summary

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

	Percentage of Net Sales[1][2]			Percentage Increase (Decrease) From Prior Year[2]	
	Fiscal 2007[3]	Fiscal 2006	Fiscal 2005	Fiscal 2007-2006[3]	Fiscal 2006-2005
Net sales	100.0%	100.0%	100.0%	11.3%	18.0%
Cost of goods sold, buying, catalog, and occupancy expenses	69.8	69.5	70.4	11.9	16.5
Selling, general, and administrative expenses	24.6	24.6	24.7	11.0	17.6
Income from operations	5.6	5.9	4.9	6.1	42.4
Other income	0.3	0.3	0.1	8.6	148.1
Interest expense	0.5	0.6	0.7	(17.7)	14.7
Income tax provision	1.9	1.9	1.6	7.9	42.7
Net income	3.6	3.6	2.8	9.6	54.0

(1) Results may not add due to rounding.
(2) Includes the results of operations of Crosstown Traders, Inc. from the date of acquisition on June 2, 2005.
(3) Fiscal 2007 consisted of 53 weeks.

The following table shows our net sales by store brand:

(In millions)	Year Ended February 3, 2007[1] Fiscal Year	Fourth Quarter	Year Ended January 28, 2006 Fiscal Year	Fourth Quarter	Year Ended January 29, 2005 Fiscal Year	Fourth Quarter
FASHION BUG	$ 1,058.3	$ 269.1	$ 1,049.0	$ 258.6	$ 1,043.8	$ 255.0
LANE BRYANT[2]	1,202.3	357.1	1,057.4	299.8	974.6	260.1
CATHERINES	367.7	91.5	346.2	83.0	312.1	70.4
Other retail stores[3]	8.1	6.2	0.0	0.0	0.0	0.0
Total Retail Stores segment sales	2,636.4	723.9	2,452.6	641.4	2,330.5	585.5
Total Direct-to-Consumer segment sales[4]	427.8	148.2	298.9	155.8	0.0	0.0
Corporate and other[5]	3.3	1.9	4.2	2.4	4.2	2.5
Total net sales	$ 3,067.5	$ 874.0	$ 2,755.7	$ 799.6	$ 2,334.7	$ 588.0

(1) Fiscal Year 2007 and Fourth Quarter 2007 consisted of 53 weeks and 14 weeks, respectively.

(2) Fiscal 2007 includes LANE BRYANT OUTLET stores.
(3) Includes PETITE SOPHISTICATE OUTLET stores.
(4) Includes the results of operations of Crosstown Traders, Inc. from the date of acquisition on June 2, 2005.
(5) Revenue related to loyalty card fees.

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

-	Year Ended February 3, 2007[(1)]		Year Ended January 28, 2006	
	Fiscal Year	Fourth Quarter	Fiscal Year	Fourth Quarter
Retail Stores segment				
Increase (decrease) in comparable store sales:[(2)]				
Consolidated retail stores	1%	(1)%	3%	7%
FASHION BUG	(1)	(1)	0	1
LANE BRYANT	1	(3)	4	10
CATHERINES	4	2	10	19
Sales from new stores as a percentage of consolidated prior-period net sales:[(3)]				
FASHION BUG	1	1	1	2
LANE BRYANT[(4)]	6	7	3	4
CATHERINES	1	0	1	1
Other retail stores[(5)]	0	1	--	--
Prior-period sales from closed stores as a percentage of consolidated prior-period net sales:				
FASHION BUG	(1)	(1)	(1)	(1)
LANE BRYANT	(2)	(2)	(1)	(1)
CATHERINES	(0)	(0)	(1)	(1)
Increase in Retail Stores segment sales	7	13	5	10
Direct-to-Consumer segment				
Increase (decrease) in Direct-to-Consumer segment sales	-- [(6)]	(5)	--	--
Increase in consolidated net sales	11%	9%	18%	36%

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(1) Fiscal Year 2007 and Fourth Quarter 2007 consisted of 53 weeks and 14 weeks, respectively. Comparable store sales and changes in sales from new stores and closed stores are based on equivalent 52-week and 13-week periods. The increase in Retail Stores segment sales, increase (decrease) in Direct-to-Consumer segment sales, and increase in consolidated net sales are based on the 53-week and 14-week periods for Fiscal 2007 and the 52-week and 13-week periods for Fiscal 2006.
(2) "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 E-commerce sales, are excluded from the calculation of comparable store sales.

(3) Includes incremental Retail Stores segment E-commerce sales.

(4) Includes LANE BRYANT OUTLET stores.

(5) Includes PETITE SOPHISTICATE OUTLET stores.

(6) Comparison is not meaningful, as prior-year period includes sales from Crosstown Traders, Inc. from the date of acquisition on June 2, 2005 (approximately 34 weeks).

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The following table sets forth information with respect to store activity for Fiscal 2007 and planned store activity for Fiscal 2008:

	FASHION BUG	LANE BRYANT	CATHERINES	Other[1]	Total
Fiscal 2007:[2]					
Stores at January 28, 2006	1,025	748	463	0	2,236
Stores opened	10	135[3]	8	45	198
Stores closed	(26)	(24)	(6)	(0)	(56)
Net change in stores	(16)	111	2	45	142