Prepared Remarks – Charming Shoppes, Inc. Second Quarter Fiscal Year 2011 Earnings Conference Call – September 1, 2011

Gayle Coolick:

Good morning everyone, and thank you all for joining us today.

Today's discussion will contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning the Company's operations, performance, and financial condition. Such forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those indicated. Such risks and uncertainties may include, but are not limited to: the failure to successfully execute our business plans could result in lower than planned sales and profitability, the failure to realize the benefits from the operation of our credit card program by our third-party provider, the impact of changes in laws and regulations governing credit cards could limit the availability of, or increase the cost of, credit to our customers, the failure to enhance the Company's merchandise and marketing and accurately predict fashion trends, customer preferences and other fashion-related factors, the failure of growth in the women's plus apparel market, the failure to continue receiving financing at an affordable cost through the availability of credit we receive from our bankers, suppliers and their agents, the failure to effectively implement our planned store closing plans, the failure to continue receiving accurate and compliant e-commerce and third-party processing services, the failure to achieve improvement in the Company's competitive position, the failure to maintain efficient and uninterrupted order-taking and fulfillment in our e-commerce and direct-to-consumer businesses, extreme or unseasonable weather conditions, economic downturns, escalation of energy and transportation costs, adverse changes in the costs or availability of fabrics and raw materials, a weakness in overall consumer demand, the failure to find suitable store locations, increases in wage rates, the ability to hire and train associates, trade and security restrictions and political or financial instability in countries where goods are manufactured, the failure of our vendors to deliver quality and timely shipments in compliance with applicable laws and regulations, the interruption of merchandise flow from the Company's centralized distribution facilities and third-party distribution providers, inadequate systems capacity, inability to protect trademarks or other intellectual property, competitive pressures, and the adverse effects of natural disasters, war, acts of terrorism or threats of either, or other armed conflict, on the United States and international economies. These, and other risks and uncertainties, are detailed in the Company's filings with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other Company filings with the Securities and Exchange Commission. Charming Shoppes assumes no duty to update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

Our quarterly income statement, along with our balance sheet and cash flow statement, are provided with today's press release. Also, a GAAP to non-GAAP reconciliation of certain financial measures are provided in today's release and on our corporate website. This morning, we also filed our quarterly report on Form 10-Q with the SEC.

With us today are Anthony M. Romano, our President and Chief Executive Officer, and Eric M. Specter, Executive Vice President and Chief Financial Officer of Charming Shoppes. Tony?

<u>Anthony M. Romano, President and Chief Executive Officer</u>
Good Morning, everyone. Thank you for investing your time with us today.

Before we present our customary review of our results for the quarter, I would like to step back and share my perspective on the progress we have made, and how very different Charming Shoppes is today.

Rewinding to just a year ago, our assortments lacked the proper fashion component, we were not focused adequately on our customer, and our inventory levels were inflated and not properly balanced. We were consuming cash, and the modest comps we posted were primarily achieved through deep discounting.

Today, the Company has made considerable progress and is in a better position. Our customer has favorably received our product offerings as evidenced through improved full price selling, along with higher conversion rates and average unit retail prices. Inventories are in a much cleaner position, are more productive, and are consistently delivering improvements in the gross margin. Notwithstanding the expense reductions related to shuttered stores, expense levels have decreased and leveraged. Year to date, our Adjusted EBITDA has already exceeded last year's results. We are generating strong free cash flow, and are in a net cash position.

And yet, despite being pleased with our year-to-date results and our considerable progress, we recognize that we still have much to do.

For example, we have made excellent progress in the productivity of our seasonal inventory, and have achieved solid performance from our year-round component. However, additional opportunities remain to improve our turns and gross margins through a better, more balanced inventory mix by reducing and rationalizing our year-round assortments to invest more in fashion product, and improve the depth of buys of more wear-now relevant transitional offerings.

With that, let's move forward with our quarterly report.

For the second quarter, we achieved an 80% increase in Adjusted EBITDA to $18.5 million. We elevated the taste level of our Spring and Summer inventory assortments, particularly in tops which carried a greater proportion of novelty and fashion. These assortments resonated more strongly with our customer and drove faster full price sell-throughs at higher gross margins across all brands. We improved conversion rates, average unit retails and average dollar sales compared to the prior year. We oversold our plan in May and June; however, July sales were negatively impacted by reduced levels of Summer clearance inventory.

Our disciplined inventory management resulted in 5% lower inventory at cost on a comparable store basis at the end of the quarter as compared to a year ago, and has led to better inventory productivity. Our business plans included significantly reduced levels of Summer clearance merchandise. This contributed to our gross margin improvement of 120 basis points, which was primarily driven by a 370 basis point improvement at Fashion Bug. As a result, traffic and transactions decreased, although somewhat more than we had planned.

We experienced lower operating expenses in marketing, store operating and occupancy expenses, which drove leverage of 90 basis points. Eric will provide more detail on expenses and overall operating results momentarily.

We continued to strengthen our balance sheet and generated $47.0 million in cash during the quarter, ending the period with total cash of $227.4 million. We also renewed a $200 million senior secured revolving credit facility with a five-year maturity on more favorable terms.

I am pleased to report that our increase in Adjusted EBITDA to $18.5 million was driven by improved year-over-year operating performance at each of our brands, which I would now like to review.

Overall, the season was marked by novelty, color and prints, and the categories that performed well at all of our brands included fashion tops, jackets, skirts, and intimate apparel.

Let's start with our Flagship Brand, Lane Bryant –
In the quarter, Lane Bryant drove $251.5 million in net sales and Adjusted EBITDA of $22.4 million or 8.9% of net sales. Adjusted EBITDA improved $9.7 million and the Adjusted EBITDA margin improved by 380 basis points compared to the prior year. The improvement was driven by incremental gross profit dollars on slightly higher sales, decreased selling expenses, and leverage on expenses from comparable store sales increases. The gross margin increased by 60 basis points, principally driven by improved margins at our Cacique intimate apparel business. Conversely, slightly higher than planned promotional activity more than offset decreases in traffic. Lane Bryant's comparable store sales for the quarter increased 3%, compared to an increase of 1% in the year ago period, and e-commerce sales at lanebryant.com increased by 20% and represented 11% of total brand sales.

Regarding product, intimates continued to shine, led by our fashion components. Denim performed well, with strength in novelty core styles and designer offerings. Our Dress business had solid increases, and was driven by an improved assortment and supported by incremental marketing efforts. Swimwear increased nicely, benefitting from continuing size and fit improvements.

Fashion Bug

Our Fashion Bug brand achieved strong increases in conversion, Average Unit Retails, and Average Dollar Sales. A 370 basis point increase in the gross margin was driven by a more compelling product offering, fewer clearance units and improved buying and better allocation of size ranges.

The improved merchandise strategy includes a layer of faster, trendier items in our assortment. Key merchandising category wins were in novelty Knit Tops, Shorts, Jackets and Skirts. The Spring assortment reflected appropriate fashion trends across the assortment. Also, our featured outfitting presentations were well received, with unit sell throughs improving significantly over the prior year.

Additionally, we expect the rollout of our Loop 18 juniors plus business to drive incremental sales, as we now anniversary the re-introduction of the junior business. This new concept is offered only in junior sizes 9 to 27, and continues to gain positive attention from our customer base. Loop 18 is now in 439 stores nationwide and online at loop18.com.

As we have sought to achieve more productive and profitable transactions, our disciplined inventory management led to reduced Summer clearance merchandise units during the quarter, which contributed to a meaningful gross margin improvement of 370 basis points.

In the quarter, Fashion Bug drove $161.4 million in net sales. Adjusted EBITDA improved by $5.2 million or 57% to $14.3 million or 8.9% of net sales, a 390 basis point improvement compared to the prior year. Fashion Bug's same store sales comp for the quarter decreased 3%, related to lower traffic, compared to an increase of 3% in the year ago period, and e-commerce sales at fashionbug.com increased by 3%.

Catherines –

Catherines has created an improved mix of product, including a shift to more novelty, with less depth, as planned, in core product. Gross margin expanded by 130 basis points during the quarter, as a result of continued disciplined inventory management and reduced clearance activity compared to the year ago period.

Key merchandising category wins included Knits, driven by novelty tops, mega T's and knit sets. Our Intimates business remains strong, and was supported by our semi-annual event in June.

In the quarter, Catherines drove $79.9 million in net sales and Adjusted EBITDA of $7.6 million or 9.5% of net sales. Adjusted EBITDA improved by 29% or $1.7 million, and the Adjusted EBITDA margin increased by 210 basis points compared to the prior year. Our Catherines same store sales comp for the quarter increased by 2% compared to a flat comp in the prior year period, and was held back a bit by lower traffic levels. E-commerce sales at catherines.com increased by 23%. The combination of our new Added Dimensions line of higher priced wear to work product, coupled with less store-wide and more product-specific promotions, decreased markdowns, and disciplined inventory management resulted in increased average unit retail prices and a 130 basis point improvement in the gross margin.

Charming Direct -

Our internet revenue across all three brands for the quarter was $35.6 million, reflecting a 17% increase versus last year. Our e-commerce channel drove 7% of total retail brand sales versus last year's 6%. During the second quarter, we increased the number of online-only promotions across all of our brands which resulted in increased traffic for all of the brands over prior year levels.

Additionally, Lane Bryant experienced improved online conversion rates, with strong results in our Cacique Intimate apparel offerings.

Now, Eric Specter, our Chief Financial Officer, will review our financial results, liquidity, and operating performance.

Eric M. Specter, Executive Vice President and Chief Financial Officer

Thank you. Tony.

Net sales for the quarter were $499.2 million, compared to $517.6 in the year-ago period. Our 1% increase in comparable store sales and a 17% increase in e-commerce sales was offset by the impact of operating 155 fewer stores than in the year ago period.

We achieved gross profit of $245.9 million in the quarter, an increase of 120 basis points in the gross margin. Results were primarily driven by incremental gross profit dollars at Lane Bryant and Catherines, and solid gross margin improvement at all of our brands.

Total operating expenses, excluding restructuring and other charges, decreased $13.9 million to $241.9 million or 48.5% of sales in the quarter, compared to $255.8 million or 49.4% of sales in the same quarter last year. We experienced lower expenses across many categories, including marketing and store operating expenses, as well as decreased expenses related to the operation of fewer stores and continuing benefits from lease negotiations. We achieved a higher penetration in the usage of our private label credit cards across all brands, resulting in increased income from our card program, which offsets selling, general and administrative expense.

Adjusted EBITDA was $18.5 million in the quarter, an improvement of $8.2 million or 170 basis points to 3.7%, compared to 2.0% in the year ago period.

Income from operations, excluding restructuring and other charges, was $4.0 million or 0.8% of sales in the quarter. This compares to a loss from operations of $(6.7) million or 1.3% of sales for the prior-year period, which excludes restructuring charges.

Net loss on a GAAP basis was $(1.9) million, 0.4% of sales, or $(0.02) per diluted share for the quarter, compared to net loss on a GAAP basis of $(8.6) million, 1.7% of sales, or $(0.07) per diluted share in the second quarter of the prior year.

On a non-GAAP basis, net loss per diluted share was $(0.01), compared to net loss per diluted share of $(0.09) in the second quarter of the prior year. Both periods' results on a non-GAAP basis exclude restructuring and other charges, and the prior year period excludes a gain on the repurchase of debt. The reconciliation for non-GAAP income per diluted share is included in today's press release, as well as on our corporate website.

The tax provision continues to reflect the impact of a valuation allowance recorded against net deferred tax assets and primarily represents state and foreign income taxes payable, required deferred taxes, and changes in the liability for unrecognized tax benefits.

I'd now like to comment on our balance sheet and liquidity.

During July, we entered into a $200 million senior secured revolving credit facility on more favorable terms. It replaces our $225 million senior secured revolving credit facility and provides for committed revolving credit availability through July 14, 2016. The facility includes an option allowing us to increase our credit facility to an amount not in excess of $300 million based on certain terms and conditions. It may be used for working capital and other general corporate purposes and up to $100 million of the $200 million facility may be used for letters of credit.

Our liquidity remains at healthy levels, and we continue to be in a net cash position at the end of the period. We have improved working capital and generated free cash flow. During the second quarter, our cash position increased by $47.0 million compared to the end of the year-ago quarter. During the first half of the year, our cash position increased by $109.9 million, primarily as a result of our improved operating results, strong inventory management, improved sell-through of our seasonal merchandise at each of our brands, and seasonal collections of accounts receivable from our direct-to-consumer food and gifts business.

We continue to manage inventories tightly. Our comparable store inventories decreased by 5% on a cost basis at the end of the second quarter, with Spring inventories down low-to-mid teens. As we enter the second half, our Fall inventory is down in both dollars and units, according to plan, and as compared to the year-ago period. We will continue our disciplined inventory management as we enter the third quarter and have planned improved inventory turns as compared to the prior year.

As we reported last quarter, we are rationalizing our store base and accordingly, we remain on track to close approximately 240 unprofitable stores in 2011. More than half of these stores are at Fashion Bug. These 240 stores generated negative Adjusted EBITDA of approximately $6 million in 2010. The majority of these stores have natural lease expirations in 2011. Lease termination costs for the current fiscal year are projected to be approximately $4 million. 114 stores closed year to date, including 60 stores at our Fashion Bug brand.

Our capital expenditures for the quarter were approximately $5.7 million, and are expected to be approximately $37 - $39 million, net of landlord allowances, for the year. This capital is to be deployed, after satisfying our return on investment criteria, for approximately 6-8 new store openings and 10-13 relocations at Lane Bryant and Lane Bryant Outlet, store remodels and refurbishments, and to fund fixtures for new merchandise assortments.

Depreciation and amortization for the quarter was $14.5 million, a 14%

reduction compared to $16.9 million in the year ago period. The decrease is primarily related to operating fewer stores compared to the prior year. Our projections for depreciation and amortization for fiscal year 2011 are approximately $55 million.

Thank you, and I'll now turn the call back over to Tony.

<u>Anthony M. Romano, President and Chief Executive Officer</u>

Thank you, Eric.

Looking to the Fall, we have a number of initiatives planned.

In September, Lane Bryant will officially launch its "Technology Just Got Sexy" campaign, including the revolutionary "Tighter Tummy Technology" line of trousers and jeans. Known as T3, our new trousers and jeans have an exclusive built-in mesh control panel that flattens the tummy and slenderizes the silhouette. T-3 will provide our customer with a flattering yet forgiving fit and provide her with the confidence to know that her curves are sexy.

Related to the T3 launch, on September 8th, Lane Bryant will help celebrate the third annual Fashion's Night Out sponsored by VOGUE, the Council of Fashion Designers of America and the City of New York. We will host a special event at our Fulton Street store to kick off our "Technology Just Got Sexy" marketing campaign.

On the digital front, on September 12th, we will unveil Fashion Genius, the next generation of our new online shopping solution. In just three minutes, and with no measurements required, this breakthrough fit technology will guide our customer through a simple survey that identifies her unique body shape and style preferences, matching her to a world of plus-size fashions that are ideal for her curves and signature style. Coupled with our June launch of our outfitting tool, which allows customers to "drag and drop" items onto a stage where she can see all of the items assembled into a single outfit, Fashion Genius will provide our customers with a revolutionary solution that is not currently available to her missy size friends or at any other plus apparel retailer.

In addition, at the beginning of October, our e-commerce sites will begin selling internationally to customers in 90 countries. For added convenience to our international customers, all orders will be inclusive of duty, Value Added Tax and customs clearance with no surprise C.O.D. charges.

In summary, each of our brands has improved year over year by providing more fashionable, trend-right assortments, coupled with disciplined inventory management, gross margin expansion and leveraging of operating expenses. Our journey calls for delivering great product at a compelling value for our customer and a growing investment for our shareholders season after season. Further, we have strengthened our balance sheet and have positioned ourselves to compete aggressively in a very challenging macro-economic environment.

Thank you all very much for your continued interest in and support of Charming Shoppes. We'd like to thank you again for joining the call today. Have a great day, a wonderful Labor Day holiday, and please be in touch with any follow up questions on our quarter.