WORLD WRESTLING ENTERTAINMENTINC
Form 10-Q
July 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______

Commission file number 001-16131

WORLD WRESTLING ENTERTAINMENT, INC.

(Exact name of Registrant as specified in its charter)

Delaware	04-2693383
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1241 East Main Street

Stamford, CT 06902

(203) 352-8600

(Address, including zip code, and telephone number, including area code,

of Registrant's principal executive offices)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At July 24, 2018 the number of shares outstanding of the Registrant's Class A common stock, par value $.01 per share, was 43,369,510 and the number of shares outstanding of the Registrant's Class B common stock, par value $.01 per share, was 34,609,438.

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WORLD WRESTLING ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	$ 281,542	$ 214,586	$ 469,263	$ 403,030
Operating expenses	198,891	158,034	318,952	289,418
Marketing and selling expenses	29,697	21,530	49,593	42,128
General and administrative expenses	24,925	17,950	44,600	43,555
Depreciation and amortization	6,815	6,377	13,154	13,245
Operating income	21,214	10,695	42,964	14,684
Interest expense	4,734	3,639	8,247	7,165
Loss on equity investment	3,000	—	3,000	—
Investment income, net	1,374	736	2,884	1,597
Other income (expense), net	(350)	(17)	(45)	47
Income before income taxes	14,504	7,775	34,556	9,163
Provision for income taxes	4,559	2,690	9,776	3,190
Net income	$ 9,945	$ 5,085	$ 24,780	$ 5,973
Earnings per share: basic	$ 0.13	$ 0.07	$ 0.32	$ 0.08
Earnings per share: diluted	$ 0.11	$ 0.06	$ 0.29	$ 0.08
Weighted average common shares outstanding:				
Basic	77,158	76,455	77,150	76,448
Diluted	87,100	78,563	85,227	78,374
Dividends declared per common share (Class A and B)	$ 0.12	$ 0.12	$ 0.24	$ 0.24

See accompanying notes to consolidated financial statements.

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WORLD WRESTLING ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 9,945	$ 5,085	$ 24,780	$ 5,973
Other comprehensive income (loss):				
Foreign currency translation adjustments	(159)	32	(364)	77
Unrealized holding losses on available-for-sale debt securities (net of tax benefit of $13 and $15, and $201 and $37, respectively)	(43)	(25)	(638)	(61)
Total other comprehensive (loss) income	(202)	7	(1,002)	16
Comprehensive income	$ 9,743	$ 5,092	$ 23,778	$ 5,989

See accompanying notes to consolidated financial statements.

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WORLD WRESTLING ENTERTAINMENT, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	As of June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 154,796	$ 137,700
Short-term investments, net	186,754	159,744
Accounts receivable (net of allowance for doubtful accounts and returns of $1,889 and $3,035, respectively)	83,077	65,245
Inventory	8,592	8,332
Prepaid expenses and other current assets	24,815	19,961
Total current assets	458,034	390,982
PROPERTY AND EQUIPMENT, NET	130,096	131,325
FEATURE FILM PRODUCTION ASSETS, NET	19,332	22,300
TELEVISION PRODUCTION ASSETS, NET	8,161	7,292
INVESTMENT SECURITIES	24,284	27,367
NON-CURRENT DEFERRED INCOME TAX ASSETS	16,177	18,984
OTHER ASSETS, NET	12,794	16,257
TOTAL ASSETS	$ 668,878	$ 614,507
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 5,028	$ 4,638
Convertible debt	180,442	—
Accounts payable and accrued expenses	89,911	77,738
Deferred income	66,563	55,818
Total current liabilities	341,944	138,194
LONG-TERM DEBT	28,262	30,958
CONVERTIBLE DEBT	—	177,900
NON-CURRENT INCOME TAX LIABILITIES	492	519
NON-CURRENT DEFERRED INCOME	5,321	13,977
Total liabilities	376,019	361,548
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		

Class A common stock: ($.01 par value; 180,000,000 shares authorized; 42,549,880 and 42,498,452 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively)	426	425
Class B convertible common stock: ($.01 par value; 60,000,000 shares authorized; 34,609,438 and 34,609,438 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively)	346	346
Additional paid-in capital	446,771	422,208
Accumulated other comprehensive income	1,369	2,371
Accumulated deficit	(156,053)	(172,391)
Total stockholders’ equity	292,859	252,959
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 668,878	$ 614,507

See accompanying notes to consolidated financial statements.

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WORLD WRESTLING ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Stock Class A Shares	Amount	Class B Shares	Amount	Additional Paid - in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance, December 31, 2017	42,498	$ 425	34,609	$ 346	$ 422,208	$ 2,371	$ (172,391)	$ 252,959
Cumulative effect of adopting ASC 606	—	—	—	—	—	—	10,086	10,086
Net income	—	—	—	—	—	—	24,780	24,780
Other comprehensive income	—	—	—	—	—	(1,002)	—	(1,002)
Stock issuances, net	52	1	—	—	758	—	—	759
Cash dividends declared	—	—	—	—	11	—	(18,528)	(18,517)
Stock-based compensation	—	—	—	—	22,532	—	—	22,532
Other	—	—	—	—	1,262	—	—	1,262
Balance, June 30, 2018	42,550	$ 426	34,609	$ 346	$ 446,771	$ 1,369	$ (156,053)	$ 292,859

See accompanying notes to consolidated financial statements.

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WORLD WRESTLING ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2018	2017
OPERATING ACTIVITIES:		
Net income	$ 24,780	$ 5,973
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and impairments of feature film production assets	3,525	5,803
Amortization of television production assets	12,818	10,721
Depreciation and amortization	16,615	16,605
Loss on equity investment	3,000	—
Services provided in exchange for equity instruments	(1,656)	(1,394)
Other amortization	3,111	3,161
Stock-based compensation	22,532	12,782
Benefit from deferred income taxes	(124)	(12)
Other non-cash adjustments	2,145	416
Cash (used in)/provided by changes in operating assets and liabilities:		
Accounts receivable	(7,167)	(2,588)
Inventory	(260)	(1,844)
Prepaid expenses and other assets	(5,253)	(5,432)
Feature film production assets	(620)	(7,783)
Television production assets	(14,416)	(7,621)
Accounts payable, accrued expenses and other liabilities	6,371	(9,087)
Deferred income	11,350	(5,904)
Net cash provided by operating activities	76,751	13,796
INVESTING ACTIVITIES:		
Purchases of property and equipment and other assets	(12,220)	(12,462)
Purchases of short-term investments	(64,544)	(88,696)
Proceeds from sales and maturities of short-term investments	36,173	13,660
Purchase of investment securities	—	(116)
Other	1,000	—
Net cash used in investing activities	(39,591)	(87,614)
FINANCING ACTIVITIES:		
Repayment of long-term debt	(2,306)	(2,580)

Dividends paid	(18,517)	(18,349)
Proceeds from borrowings under credit facilities	—	1,383
Proceeds from borrowings on convertible notes, net of issuance costs	—	14,534
Proceeds from issuance of warrants	—	1,460
Purchase of convertible note hedge	—	(2,558)
Taxes paid related to net settlement upon vesting of equity awards	(131)	(56)
Proceeds from issuance of stock	890	823
Net cash used in financing activities	(20,064)	(5,343)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,096	(79,161)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	137,700	211,976
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 154,796	$ 132,815
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Purchases of property and equipment recorded in accounts payable and accrued expenses (See Note 12)	$ 3,636	$ 1,993

See accompanying notes to consolidated financial statements.

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WORLD WRESTLING ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share data)

(Unaudited)

1. Basis of Presentation and Business Description

The accompanying consolidated financial statements include the accounts of WWE. “WWE” refers to World Wrestling Entertainment, Inc. and its subsidiaries, unless the context otherwise requires. References to “we,” “us,” “our” and the “Company” refer to WWE. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated financial statements are unaudited. All adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations, and cash flows at the dates and for the periods presented have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year. All intercompany balances are eliminated in consolidation.

Certain information and note disclosures normally included in annual financial statements have been condensed or omitted from these interim financial statements; these financial statements should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2017.

We are an integrated media and entertainment company, principally engaged in the production and distribution of content through various channels, including our premium over-the-top WWE Network, content rights agreements, pay-per-view event programming, filmed entertainment, live events, licensing of various WWE themed products, and the sale of consumer products featuring our brands. Our operations are organized around the following principal activities:

Media:

- The Media segment reflects the production and monetization of long-form and short-form video content across various platforms, including WWE Network, pay television, digital and social media, as well as filmed entertainment. Across these platforms, revenues principally consist of content rights fees, subscriptions to WWE Network, and advertising and sponsorships.

Live Events:

- Live events provide ongoing content for our media platforms. Live Event segment revenues consist primarily of ticket sales, including primary and secondary distribution, as well as the sale of travel packages associated with the Company’s global live events.

Consumer Products:

- The Consumer Products segment engages in the merchandising of WWE branded products, such as video games, toys and apparel, through licensing arrangements and direct-to-consumer sales. Revenues principally consist of royalties and licensee fees related to WWE branded products, and sales of merchandise distributed at our live events and through eCommerce platforms.

In our prior reports filed with the Securities Exchange Commission ("SEC") through fiscal year 2017, we presented ten reportable segments consisting of Network, Television, Home Entertainment, Digital Media, Live Events, Licensing, Venue Merchandise, WWEShop, WWE Studios and Corporate and Other. Effective January 1, 2018, we present three reportable segments consisting of our Media, Live Events and Consumer Products segments as described above. See Note 3, Segment Information, for further details on our reportable segments.

In connection with the revisions to its reportable segments, the Company revised certain expense captions presented on the Consolidated Statements of Operations. Previously, we presented Cost of revenues and Selling, general and administrative expenses. Effective in 2018, we present Operating expenses, Marketing and selling expenses and General and administrative expenses. See Note 2, Significant Accounting Policies, for further details.

Regarding the segment presentation and expense caption revisions noted above, information presented for the three and six months ended June 30, 2017 included in the Consolidated Financial Statements herein and elsewhere in this Quarterly Report has been revised to conform to the current period presentation. Such revisions have no impact on our consolidated financial condition, results of operations or cash flows for the periods presented.

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WORLD WRESTLING ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share data)

(Unaudited)

2. Significant Accounting Policies

Our significant accounting policies are detailed in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements within our Annual Report on Form 10-K for the year ended December 31, 2017. Refer to Note 4, Revenues, for revisions made to our revenue recognition policies resulting from our adoption of the new revenue recognition standard starting in 2018. The new revenue recognition standard primarily impacted the timing of our consumer product licensing and film distribution revenues where the Company had previously recorded revenues on a lag upon the receipt of licensing royalty statements and film participation statements. In addition to revising our policies for licensing and film distribution revenues, conforming wording changes were made to certain of our revenue recognition policies to align with the language in the new revenue recognition standard.

We also amended our income tax policy to specify the Company's accounting treatment of taxes on Global Intangible Low-taxed Income ("GILTI") provisions of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The Company has elected to recognize the tax on GILTI as a period expense in the period the tax is incurred. Under this policy, we have not provided deferred taxes related to temporary differences that upon their reversal will affect the amount of income subject to GILTI in the period.

Operating Expenses

Operating expenses consist of our production costs associated with developing our content, costs associated with operating our WWE Network, venue rental and related costs associated with the staging of our live events, compensation costs for our talent, and material and related costs associated with our consumer product merchandise sales. In addition, operating expenses include certain business operating support function costs, including our talent development, data analytics, data engineering, business strategy and real estate and facilities functions, as these activities directly support the operations of our segments.

Included within Operating expenses are the following:

	Three Months Ended June 30,	Six Months Ended June 30,

	2018	2017	2018	2017
Amortization and impairment of feature film assets	$ 1,314	$ 3,072	$ 3,525	$ 5,803
Amortization of television production assets	9,669	5,105	12,818	10,721
Amortization of WWE Network content delivery and technology assets	1,884	1,691	3,458	3,355
Total amortization and impairment included in operating expenses	$ 12,867	$ 9,868	$ 19,801	$ 19,879

Costs to produce our live event programming are expensed when the event is first broadcast, and are not included in the amortization table noted above.

Marketing and Selling Expenses

Marketing and selling expenses consist of costs associated with the promotion and marketing of our services and products. These expenses include sponsorship and advertising costs, and the costs associated with our sales and marketing functions, creative services functions and our international offices.

General and Administrative Expenses

General and administrative expenses include costs associated with our corporate administrative functions, including finance, investor relations, community relations, corporate communications, information technology, legal, human resources and our Board of Directors. The Company does not allocate these costs to its business segments, as they do not directly relate to revenue generating activities.

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WORLD WRESTLING ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share data)

(Unaudited)

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-07, “Compensation – Stock Compensation (Topic 718) Improvements to Nonemployee Share-Based Accounting.” The new guidance expands the scope of Topic 718, Compensation – Stock Compensation (which currently only includes share-based payments to employees and non-employee directors) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The new guidance supersedes Subtopic 505-50, Equity – Equity-Based payments to Non-Employees. The new guidance is effective for fiscal years beginning after December 15, 2018 (fiscal 2019 for the Company), including interim periods within that fiscal year, with early adoption permitted. The Company has elected to early adopt the new guidance as of June 30, 2018. Since the Company does not currently have any share-based payment awards to nonemployees, the early adoption of the guidance had no impact on our consolidated financial statements. The Company will apply the guidance prospectively.

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” that gives entities the option to reclassify to retained earnings tax effects related to items in accumulated other comprehensive income that the FASB refers to as having been stranded in accumulated other comprehensive income as a result of the enactment of the Tax Act. The new guidance also includes disclosure requirements regarding an entity’s accounting policy for releasing income tax effects from accumulated other comprehensive income. The new guidance is effective for fiscal years beginning after December 15, 2018 (fiscal 2019 for the Company), including interim periods within those years. Early adoption is permitted in any interim period and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company has elected to early adopt the new guidance during the first quarter of 2018 and elected not to reclassify any stranded tax effects due to the insignificance of the amount remaining in accumulated other comprehensive income. Therefore, the adoption of the new guidance had no impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718) Scope of Modification Accounting,” which provides guidance on the various types of changes which would trigger modification accounting for share-based payment awards. In summary, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The amendments are applied prospectively to awards modified on or after the adoption date. The new guidance was adopted on January 1, 2018 with no impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805) Clarifying the Definition of a Business.” The amendments in this ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017. The new standard is applied prospectively to transactions occurring on or after the adoption date and no disclosures are required at transition. The new guidance was adopted on January 1, 2018 with no impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments,” which addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017. The amendments in the ASU should be applied using a retrospective transition method to each period presented. The new guidance was adopted on January 1, 2018 and did not impact current period or prior period presented cash flow statements and had no impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” which will supersede the existing guidance for lease accounting. This new standard will require lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The new standard requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The new guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, which for the Company will be effective for the fiscal year beginning January 1, 2019. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. While we are evaluating the impact that the new guidance will have on our consolidated financial statements, we currently expect a gross-up of our consolidated balance sheet as we recognize right of use assets

WORLD WRESTLING ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share data)

(Unaudited)

and lease liabilities. The extent of such gross-up remains to be determined once we complete a review of our existing lease contracts (we are primarily a lessee) and service contracts, which may contain embedded leases.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," as amended by ASU No. 2018-03, "Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," issued in February 2018. The new guidance requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income (other than those accounted for under equity method of accounting). Under the new guidance, entities will no longer be able to recognize unrealized holding gains and losses on equity securities classified today as available-for-sale in other comprehensive income. The Company's current available-for-sale securities are invested primarily in debt securities which are not subject to the new guidance, therefore, we will continue to record any unrealized gains or losses on these available-for-sale debt securities through accumulated other comprehensive income. The new guidance also no longer allows the use of the cost method of accounting for equity securities without readily determinable fair values. However, for equity investments without readily determinable fair values, entities may elect a measurement alternative to fair value that will allow those investments to be recorded at cost, less impairment, and adjusted for subsequent observable price changes. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The new guidance was adopted on January 1, 2018 and the Company has elected to use the measurement alternative to measure our equity investments without readily determinable fair values and this guidance was applied prospectively. For the three and six months ended June 30, 2018, there were no observable price change events that were completed related to our equity investments without readily determinable fair values. During the first quarter of 2018, the FASB provided clarifying guidance on the application of ASU 2016-01 through the issuance of ASU No. 2018-03. Among other things, the amendment clarifies that the adjustments made under the measurement alternative are intended to reflect the fair value of the security as of the date that the observable transaction for a similar security took place. The amendment also clarifies that an entity measuring an equity security using the measurement alternative may change its measurement approach to a fair valuation method in accordance with Topic 820, Fair Value Measurement, through an irrevocable election that would apply to that security and all identical or similar investments of the same issuer. ASU No. 2018-03 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018 with early adoption permitted so long as ASU No. 2016-01 has been adopted. The Company has elected to early adopt the clarifying amendments in ASU No. 2018-03 as of January 1, 2018 and will apply the clarifying amendments to all interim periods within 2018. The adoption of the clarifying amendments had no impact to our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This standard supersedes the revenue recognition requirements in ASC 605, "Revenue Recognition," and most industry-specific guidance. The standard requires an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to receive in exchange for goods or services. During 2016, the FASB issued additional interpretive guidance relating to the standard which covered the topics of principal versus agent considerations and identifying performance obligations and licensing. The standard along with the subsequent clarifications issued are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. The new revenue guidance under Topic 606 was adopted on January 1, 2018 using the modified retrospective transition method. Under this transition method, we recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings on January 1, 2018. The comparative information presented has not been restated and continues to be reported under the accounting standards in effect for those periods. See Note 4, Revenues, for further details.

3. Segment Information

In the first quarter of 2018, the Company revised its reportable segments to better reflect the way the Company now manages its business, including resource allocation and assessment. Over the past several years, the Company has evolved its business model, with an increasing share of revenue coming from the monetization of the Company's video content across digital and direct-to-consumer platforms. As the business model evolved, management's analysis of its business segment results and the decisions on resource allocations to its business segments also changed. These changes necessitated a change in the Company's segment reporting to align with management's operational view. To reflect management's revised perspective, as discussed in Note 1, effective on January 1, 2018, the Company now classifies its operations into three reportable segments: Media, Live Events and Consumer Products. Segment information is prepared on the same basis that our chief operating decision maker manages the segments, evaluates financial results, and makes key operating decisions.

Additionally, as part of the segment changes, certain business support functions including sales and marketing, our international offices, talent development and other business support functions previously reported in our Corporate and Other segment are now allocated to the three reportable segments based primarily on a percentage of revenue contribution. The remaining unallocated corporate

WORLD WRESTLING ENTERTAINMENT, INC.

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(In thousands, except share data)

(Unaudited)

expenses largely relate to corporate functions such as finance, legal, human resources, facilities and information technology. The Company does not allocate these costs to its business segments, as they do not directly relate to revenue generating activities. These unallocated corporate expenses will be shown, as applicable, as a reconciling item in tables where segment and consolidated results are both shown. Revenues from transactions between our operating segments are not material.

Beginning in the first quarter of 2018, the Company also changed its primary measure of segment performance from operating income before depreciation and amortization ("OIBDA") to Adjusted OIBDA. The Company defines Adjusted OIBDA as operating income before depreciation and amortization, excluding stock-based compensation, certain impairment charges and other non-recurring material items. Adjusted OIBDA includes amortization expenses directly related to our revenue generating activities, including feature film and television production asset amortization, as well as the amortization of costs related to content delivery and technology assets utilized for our WWE Network. The Company believes the presentation of Adjusted OIBDA is relevant and useful for investors because it allows investors to view our segment performance in the same manner as the primary method used by management to evaluate segment performance and make decisions about allocating resources. Additionally, we believe that Adjusted OIBDA provides a meaningful representation of operating cash flows generated by our segments, and is a primary measure used by media investors, analysts and peers for comparative purposes. The Company revised its financial information and disclosures for prior periods to reflect the segment disclosures as if the current measure of segment performance, Adjusted OIBDA, had been in effect throughout the periods presented.

We do not disclose assets by segment information. In general, assets of the Company are leveraged across its reportable segments and we do not provide assets by segment information to our chief operating decision maker, as that information is not typically used in the determination of resource allocation and assessing business performance of each reportable segment.

The following tables present summarized financial information for each of the Company's reportable segments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues:				

Media	$ 202,635	$ 137,176	$ 336,008	$ 258,418
Live Events	52,315	52,837	83,085	84,933
Consumer Products	26,592	24,573	50,170	59,679
Total net revenues	$ 281,542	$ 214,586	$ 469,263	$ 403,030
Adjusted OIBDA:				
Media	$ 44,569	$ 17,772	$ 88,138	$ 42,909
Live Events	14,733	17,707	18,338	22,163
Consumer Products	6,877	6,270	13,746	21,479
Corporate	(22,691)	(17,426)	(41,572)	(37,092)
Total Adjusted OIBDA	$ 43,488	$ 24,323	$ 78,650	$ 49,459

Reconciliation of Total Operating Income to Total Adjusted OIBDA

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total operating income	$ 21,214	$ 10,695	$ 42,964	$ 14,684
Depreciation and amortization	6,815	6,377	13,154	13,245
Stock-based compensation	15,459	6,167	22,532	12,782
Other adjustments (1)	—	1,084	—	8,748
Total Adjusted OIBDA	$ 43,488	$ 24,323	$ 78,650	$ 49,459

(1) Other adjustments for the three months ended June 30, 2017 include $1,084 of certain impairment charges related to our feature films. Other adjustments for the six months ended June 30, 2017 include $5,586 of non-recurring legal matters and other contractual obligations, and $3,162 of certain impairment charges related to our feature films.

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4. Revenues

Adoption of ASC Topic 606, “Revenue from Contracts with Customers”

On January 1, 2018, the Company adopted the new revenue recognition standard pursuant to ASC Topic 606 to all contracts using the modified retrospective method. The most significant impact relates to the acceleration in the timing of revenue recognition of our consumer product licensing and film distribution revenues. The licensing and film distribution revenues historically have not comprised a significant percentage of total consolidated revenues. In 2017, 2016 and 2015, total consumer product licensing and film distribution revenues represented 8.8%, 8.1% and 8.5% of total consolidated revenues, respectively. Prior to the adoption of the new revenue standard in 2018, we recorded revenues from our consumer product licensing arrangements and film distribution arrangements on a lag upon the receipt of statements from the licensee and/or film distributor. Under the new revenue recognition standard, revenues are recorded based on best estimates available in the period of sales or usage. Financial statements presented for the reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts presented are not adjusted and continue to be reported in accordance with our historical accounting under ASC Topic 605, Revenue Recognition. We do not expect the adoption of the new revenue standard to have a material impact to our annual consolidated financial statements on an ongoing basis, however, it will likely impact the revenues recorded in a specific quarter as compared to previously reported periods due to the lag reporting that was previously used in our consumer product licensing and film distribution arrangements.

Under the modified retrospective transition method, we recorded a net cumulative effect adjustment of $10,086 as an increase to opening retained earnings as of January 1, 2018. The cumulative effect impact of adopting Topic 606 related primarily to our consumer product licensing revenues.

The impact to our Consolidated Statements of Operations for the three months ended June 30, 2018 as a result of applying ASC Topic 606 was an increase to our Net revenues, Operating expenses and Operating income of $1,826, $311 and $1,515, respectively. The impact to our Consolidated Statements of Operations for the six months ended June 30, 2018 as a result of applying ASC Topic 606 was a decrease to our Net revenues, Operating expenses and Operating income of $8,482, $2,796 and $5,686, respectively. The impact to our Consolidated Balance Sheet as of June 30, 2018 as a result of applying ASC Topic 606 was a decrease to our accumulated deficit and total liabilities of $5,735 and $935, respectively, and an increase to total assets of $4,800.

Revenue Recognition Policies

Under ASC Topic 606, a majority of our sales revenue continues to be recognized when products are shipped or as services are performed and was not materially impacted by the adoption of the new revenue recognition standard. Revenues are generally recognized when control of the promised goods or services is transferred to our customers either at a point in time or over time, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Most of our contracts have one performance obligation and all consideration is allocated to that performance obligation. Our revenues do not include material amounts of variable consideration. The variable consideration contained in our contracts relate primarily to sales or usage-based royalties earned on consumer product licensing contracts. The variability related to these sales or usage-based royalties will be resolved in the periods when the licensee generates sales related to the intellectual property license. As it relates to our Consumer Products segment, the Company accounts for shipping and handling activities as fulfillment activities.

We derive our revenues principally from the following sources: (i) content rights fees associated with the distribution of WWE’s media content, (ii) subscriptions to WWE Network, (iii) fees for viewing our pay-per-view programming, (iv) feature film distribution, (v) advertising and sponsorship sales, (vi) live event ticket sales, (vii) consumer product licensing royalties from the sale by third-party licensees of WWE branded merchandise, (viii) direct-to-consumer sales of merchandise at our live event venues, and (ix) direct-to-consumer sales of our merchandise through eCommerce platforms. The below describes our revenue recognition policies in further detail for each major revenue source of the Company.

· Content rights fees:

Rights fees received from distributors of our programming, both domestically and internationally, are recorded when the program (functional intellectual property) has been delivered and control has been transferred to the distributor and the license period has begun. Any advance payments received from the distributors are deferred upon collection and recognized into revenue as content is delivered. Our typical distribution agreement is between one and five years in length and frequently provides for contractual increases over its term.

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· WWE Network Subscriptions:
Revenues from the sale of subscriptions to WWE Network are recognized ratably over each paid monthly membership period. Deferred revenues consist of subscription fees billed to members that have not been recognized and gift memberships that have not been redeemed.

· Pay-per-view programming:
Revenues from our pay-per-view programming are recorded when the event is aired/performed and are based upon our initial estimate of the number of buys achieved. This initial estimate is based on preliminary buy information received from our pay-per-view distributors. These estimates are updated each reporting period based on the latest information available.

· Feature film distribution:
We partner with distributors to co-distribute our films. In these arrangements, the third-party distribution partners control the distribution and marketing of our co-distributed films, and as a result, we recognize revenue on a net basis after the third-party distributor recoups distribution fees and expenses. An estimate of film distribution revenues is recorded in the period the films are exploited and exhibited based on best available information and final adjustments to the estimated amounts are recorded when final statements are received. The estimates are derived from the best available recent information of film performance from our distributors and represents the most likely amount of revenues expected. In certain arrangements, where worldwide film rights and interests are licensed in perpetuity to third-party distribution partners, we recognize revenue upon delivery and transfer of control of the completed film to the third-party.

· Advertising and sponsorships:
Through our sponsorship packages, we offer advertisers a full range of our promotional vehicles, including online and print advertising, on-air announcements and special appearances by our Superstars. We allocate the transaction price to all performance obligations contained within a sponsorship and advertising arrangement based upon their relative standalone selling price. Standalone selling prices are determined generally based on a rate card used to determine pricing for individual components. Revenues are recognized as each performance obligation is satisfied, which generally occurs when the sponsorship and advertising is aired, exhibited, performed or played on the applicable WWE platform. We are generally the principal in our advertising and sponsorship arrangements because we control the advertising and sponsorship inventory before it is transferred to our customers. Our control is evidenced by our sole ability to monetize the advertising and sponsorship inventory and being primarily responsible to our customers.

· Live event ticket sales:
Revenues from our live event ticket sales are recognized upon the occurrence of the related live event.

· Consumer product licensing royalties:

Licensing revenues consist principally of royalties or license fees related to various WWE themed products, such as video games, toys and apparel, which are created using WWE brands and marks (symbolic intellectual property). Revenues from our licensed products are recognized in the period of the underlying product sales based on estimates from licensees and adjustments to the estimated amounts are recorded when final statements are received. The estimates are derived from the best available recent information from our licensees of underlying sales performance and represents the most likely amount of revenues expected. Any upfront license fees or minimum guarantees received from the licensee are deferred upon collection and recognized into revenue over the contract term as the amounts are earned.

· Direct-to-consumer venue merchandise sales:

Direct-to-consumer merchandise sales consist of sales of merchandise at our live events. Revenues are recognized at the point of sale, as control is transferred to the customer.

· Direct-to-consumer eCommerce sales:

Direct-to-consumer eCommerce revenues consist of sales of merchandise on our websites, including through our WWEShop Internet storefront and on distribution platforms, including Amazon. Revenues are recognized at a point in time, as control is transferred to the customer upon shipment.

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Payment Terms

Our revenues do not include material amounts of variable consideration, other than the sale or usage-based royalties earned related to our consumer product licensing and certain other content rights contracts. Our payment terms vary by the type of products or services offered, and may be subject to contractual payment terms, which may include advance payment requirements. The time between invoicing and when payment is due is not significant, generally within 30 to 60 days. We have elected the practical expedient to not adjust the total consideration within a contract to reflect a financing component when the duration of the financing is one year or less. Our contracts do not generally include a significant financing component. Our contracts with customers do not generally result in significant obligations associated with returns, refunds or warranties.

Disaggregated Revenues

The following table presents our revenues disaggregated by primary revenue sources. Sales and usage-based taxes are excluded from revenues.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues:				
Media Segment:				
Network (including pay-per-view)	$ 56,248	$ 52,060	$ 103,000	$ 97,450
Core content rights fees (1)	66,173	60,124	131,678	119,309
Advertising and sponsorships	19,541	13,101	31,773	22,482
Other (2)	60,673	11,891	69,557	19,177
Total Media Segment net revenues	202,635	137,176	336,008	258,418
Live Events Segment:				
North American ticket sales	33,483	35,858	63,285	65,922
International ticket sales	13,533	12,416	13,533	13,925
Advertising and sponsorships	968	691	1,120	1,060
Other (3)	4,331	3,872	5,147	4,026
Total Live Events Segment net revenues	52,315	52,837	83,085	84,933
Consumer Products Segment:				

Consumer product licensing	10,782	9,391	20,049	29,488
eCommerce	8,058	8,387	16,518	16,308
Venue merchandise	7,752	6,795	13,603	13,883
Total Consumer Products Segment net revenues	26,592	24,573	50,170	59,679
Total net revenues	$ 281,542	$ 214,586	$ 469,263	$ 403,030

(1) Core content rights fees consist primarily of licensing revenues earned from the distribution of our flagship programs, Raw and SmackDown Live, through global broadcast, pay television and digital platforms.
(2) Other revenues within our Media segment reflect revenues earned from the distribution of other content, including, but not limited to, scripted, reality and other in-ring programming, as well as theatrical and direct-to-home video releases.
(3) Other revenues within our Live Events segment primarily consists of the sale of travel packages associated with the Company's global live events and commissions earned through secondary ticketing.

Except for our WWE Network subscriptions revenues, which are recorded over time during the subscription term and our consumer product licensing revenues which are recorded over time during the licensing period, our other revenue streams identified in the table above are generally recognized at a point-in-time when the performance obligations are satisfied.

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Remaining Performance Obligations

As of June 30, 2018, for contracts greater than one year, the aggregate amount of the transaction price allocated to remaining performance obligations is $3,461,994, comprised of our multi-year content distribution, consumer product licensing and sponsorship contracts. We will recognize rights fees related to our multi-year content distribution contracts as content is delivered to the distributors during the periods 2018 through 2028. We will recognize the revenues associated with the minimum guarantees on our multi-year consumer product licensing arrangements by the end of the licensing periods, which range from 2018 through 2022. For our multi-year sponsorship arrangements, we will recognize sponsorship revenues as the sponsorship obligations are satisfied during the periods 2018 through 2021. The transaction price related to these future obligations do not include any variable consideration, which generally consists of sales or usage-based royalties earned on consumer product licensing and certain other content rights contracts. The variability related to these sales or usage-based royalties will be resolved in the periods when the licensee generates sales related to the intellectual property license.

Contract Assets and Contract Liabilities (Deferred Revenues)

A contract asset results when goods or services have been transferred to the customer, but payment is contingent upon a future event, other than the passage of time (i.e. type of unbilled receivable). The Company does not have any material unbilled receivables, therefore, does not have any contract assets, only accounts receivable as disclosed on the face of our consolidated balance sheet.

We record deferred revenues (also referred to as contract liabilities under Topic 606) when cash payments are received or due in advance of our performance. Our deferred revenue balance primarily relates to advance payments received related to our content distribution rights agreements, our consumer product licensing agreements, and our sponsorship and advertising arrangements. The Company’s deferred revenue (i.e. contract liabilities) as of June 30, 2018 and December 31, 2017 is reported on the face of our Consolidated Balance Sheets.

The increase in the deferred revenue balance for the six months ended June 30, 2018 of $2,089 is primarily driven by cash payments received or due in advance of satisfying our performance obligations.

Contract Costs (Costs of Obtaining a Contract)

Except for certain multi-year television content arrangements, we generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within Marking and selling expenses within our Consolidated Statements of Operations. Capitalized commission fees of $2,577 and $2,242 at June 30, 2018 and December 31, 2017, respectively, relate primarily to incremental costs of obtaining our long-term television content arrangements and these costs are being amortized over the duration of the underlying content agreements on a straight-line basis to marketing and selling expense. The amount of amortization was $345 and $320, and $666 and $641 for the three and six months ended June 30, 2018 and 2017, respectively, and there was no impairment in relation to the costs capitalized.

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5. Earnings Per Share

For purposes of calculating basic and diluted earnings per share, we used the following weighted average common shares outstanding (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 9,945	$ 5,085	$ 24,780	$ 5,973
Weighted average basic common shares outstanding	77,158	76,455	77,150	76,448
Dilutive effect of restricted and performance stock units	2,360	2,105	2,180	1,920
Dilutive effect of convertible debt instruments	7,576	—	5,887	—
Dilutive effect of employee share purchase plan	6	3	10	6
Weighted average dilutive common shares outstanding	87,100	78,563	85,227	78,374
Earnings per share:				
Basic	$ 0.13	$ 0.07	$ 0.32	$ 0.08
Diluted	$ 0.11	$ 0.06	$ 0.29	$ 0.08
Anti-dilutive shares (excluded from per-share calculations):				
Net shares received on purchased call of convertible debt hedge	4,383	—	3,642	—
Outstanding restricted and performance stock units	341	—	682	2

Effect of Convertible Notes and Related Convertible Note Hedge and Warrants

In connection with the issuance of the Convertible Notes, the Company entered into Convertible Note Hedge and Warrant transactions as described further in Note 13, Convertible Debt. The collective impact of the Convertible Note Hedge and Warrants effectively eliminates any economic dilution that may occur from the actual conversion of the Convertible Notes between the conversion price of $24.91 per share and the strike price of the Warrants of $31.89 per share.

The denominator of our diluted earnings per share calculation for the three and six months ended June 30, 2018 includes the effect of additional shares of common stock issued using the treasury stock method since the average price of our common stock exceeded the conversion price of the Convertible Notes of $24.91 per share. In addition, the denominator of our diluted earnings per share calculation for the three and six months ended June 30, 2018 includes the additional shares issued related to the Warrants using the treasury stock method since the average price of our common stock exceeded the strike price of the Warrants of $31.89 per share. The dilution from the Convertible Notes and Warrants had a $0.01 impact on diluted earnings per share for the three and six months ended June 30, 2018. There was no impact on diluted earnings per share during the three and six months ended June 30, 2017. Prior to actual conversion, the Convertible Note Hedges are not considered for purposes of the calculation of diluted earnings per share, as their effect would be anti-dilutive.

6. Stock-based Compensation

Our 2016 Omnibus Incentive Plan (the “2016 Plan”) provides for the grant of incentive or non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards and performance awards to eligible participants as determined by the Compensation Committee of the Board of Directors. Awards may be granted as incentives and rewards to encourage officers, employees, consultants, advisors and independent contractors of the Company and its affiliates and to non-employee directors of the Company to participate in our long-term success.

Stock-based compensation costs, which includes costs related to RSUs, PSUs, PSU-TSRs and the Company's qualified employee stock purchase plan, totaled $15,459 and $6,167, and $22,532 and $12,782 for the three and six months ended June 30, 2018 and 2017, respectively.

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Restricted Stock Units

The Company grants restricted stock units ("RSUs") to officers and employees under the 2016 Plan. Stock-based compensation costs associated with our RSUs are determined using the fair market value of the Company's common stock on the date of the grant. These costs are recognized over the requisite service period using the graded vesting method, net of estimated forfeitures. RSUs have a service requirement typically over a three and one-half year vesting schedule and vest in equal annual installments. We estimate forfeitures based on historical trends when recognizing compensation expense and adjust the estimate of forfeitures when they are expected to differ or as forfeitures occur. Unvested RSUs accrue dividend equivalents at the same rate as are paid on our shares of Class A common stock. The dividend equivalents are subject to the same vesting schedule as the underlying RSUs.

The following table summarizes the RSU activity during the six months ended June 30, 2018:

	Units	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2018	477,792	$ 18.33
Granted	182,354	$ 36.23
Vested	(10,556)	$ 18.67
Forfeited	(26,059)	$ 23.72
Dividend equivalents	3,240	$ 23.24
Unvested at June 30, 2018	626,771	$ 23.34

Performance Stock Units

The Company grants performance stock units ("PSUs") to officers and employees under the 2016 Plan. Stock-based compensation costs associated with our PSUs are initially determined using the fair market value of the Company's common stock on the date the awards are approved by our Compensation Committee (service inception date). The vesting of these PSUs are subject to certain performance conditions and a service requirement of typically three and one-half years. Until the performance conditions are met, stock compensation costs associated with these PSUs are re-measured each reporting period based upon the fair market value of the Company's common stock and the estimated performance attainment on the reporting date. The ultimate number of PSUs that are issued to an employee is the result of the actual performance of the Company at the end of the performance period compared to the performance conditions. Stock compensation costs for our PSUs are recognized over the requisite service period using the graded vesting method, net of estimated forfeitures. We estimate forfeitures based on historical trends when recognizing compensation expense and adjust the estimate of forfeitures when they are expected to differ or as forfeitures occur. Unvested PSUs accrue dividend equivalents once the performance conditions are met at the same rate as are paid on our shares of Class A common stock. The dividend equivalents are subject to the same vesting schedule as the underlying PSUs.

The following table summarizes the PSU activity during the six months ended June 30, 2018:

	Units	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2018	2,053,931	$ 21.37
Granted	369,996	$ 72.82
Achievement adjustment	100,753	$ 33.84
Forfeited	(86,876)	$ 42.82
Dividend equivalents	10,701	$ 22.63
Unvested at June 30, 2018	2,448,505	$ 29.58

During the six months ended June 30, 2018, we granted 369,996 PSUs, which are subject to certain performance conditions.

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During the year ended December 31, 2017, we granted 550,460 PSUs, which were subject to performance conditions. During the first quarter of 2018, it was determined that the performance conditions related to these PSUs were exceeded, which resulted in an increase of 100,753 PSUs in 2018 relating to the initial 2017 PSU grant.

Performance Stock Units with a Market Condition Tied to Relative Total Shareholder Return

During the first quarter of 2018, the Compensation Committee approved certain agreements to grant PSUs with a market condition (“PSU-TSRs”) where vesting is conditioned upon the total shareholder return performance of the Company’s stock relative to the performance of a peer group over five distinct performance periods from 2018 through 2024. The grant date fair value of the award was calculated using a Monte-Carlo simulation model which factors in the number of awards to be earned based on the achievement of the market condition. This model simulates the various stock price movements of the Company and peer group companies using certain assumptions, including the stock price of WWE and those of the peer group, stock price volatility, the risk-free interest rate, correlation coefficients, and expected dividend yield. The grant date fair value of the award totaled $16,168 and is being amortized as compensation cost over the requisite service period using the graded vesting method from March 2018 through July 2024.

The following table summarizes the PSU-TSR activity during the six months ended June 30, 2018:

	Units	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2018	—	$ —
Granted	340,971	$ 47.42
Unvested at June 30, 2018	340,971	$ 47.42

7. Property and Equipment

Property and equipment consisted of the following:

	As of June 30, 2018	December 31, 2017
Land, buildings and improvements	$ 135,748	$ 134,052
Equipment	106,321	98,245
Corporate aircraft	31,277	31,277
Vehicles	905	905
	274,251	264,479
Less: accumulated depreciation and amortization	(144,155)	(133,154)
Total	$ 130,096	$ 131,325

Depreciation expense for property and equipment totaled $6,623 and $5,937, and $12,724 and $12,366 for the three and six months ended June 30, 2018 and 2017, respectively.

During the three months ended June 30, 2018, we recorded a non-cash abandonment charge of $1,693 to write off the carrying value of internal use software that we deemed will no longer be used by the Company and had no further alternative use. This charge is included as a component of Operating expenses on the Consolidated Statements of Operations and included within our Media segment results.

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8. Feature Film Production Assets, Net

Feature film production assets consisted of the following:

	As of June 30, 2018	December 31, 2017
In release	$ 13,851	$ 15,869
Completed but not released	1,063	2,211
In production	3,984	3,107
In development	434	1,113
Total	$ 19,332	$ 22,300

Approximately 31% of “In release” film production assets are estimated to be amortized over the next 12 months, and approximately 63% of “In release” film production assets are estimated to be amortized over the next three years. We anticipate amortizing approximately 80% of our "In release" film production assets within four years as we receive revenues associated with television distribution of our licensed films. During the three and six months ended June 30, 2018 and 2017, we amortized $466 and $1,988, and $1,308 and $2,641, respectively, of feature film production assets.

We currently have two films designated as “Completed but not released” and have two films “In production.” We also have capitalized certain script development costs and pre-production costs for various other film projects designated as “In development.” Capitalized script development costs are evaluated at each reporting period for impairment and to determine if a project is deemed to be abandoned. During the three and six months ended June 30, 2018, we expensed $285 and $729, respectively, related to previously capitalized development costs related to abandoned projects. We did not incur any comparable expenses during the three and six months ended June 30, 2017.

Unamortized feature film production assets are evaluated for impairment each reporting period. We review and revise estimates of ultimate revenue and participation costs at each reporting period to reflect the most current information available. If estimates for a film’s ultimate revenue and/or costs are revised and indicate a significant decline in a film’s profitability or if events or circumstances change that indicate we should assess whether the fair value of a film is less than its unamortized film costs, we calculate the film's estimated fair value using a discounted cash flows model. If fair value is less than unamortized cost, the film asset is written down to fair value.

We recorded impairment charges of $563 and $1,084, and $1,488 and $3,162 related to our feature films during the three and six months ended June 30, 2018 and 2017, respectively. These impairment charges represent the excess of the recorded net carrying value over the estimated fair value.

9. Television Production Assets, Net

Television production assets consisted of the following:

	As of June 30, 2018	December 31, 2017
In release	$ 3,932	$ 3,765
In production	4,229	3,527
Total	$ 8,161	$ 7,292

Television production assets consist primarily of non-live event episodic television series we have produced for distribution through a variety of platforms including on our WWE Network. Amounts capitalized include development costs, production costs, production overhead and employee salaries. Costs to produce episodic programming for television or distribution on WWE Network are amortized in the proportion that revenues bear to management's estimates of the ultimate revenue expected to be recognized from exploitation, exhibition or sale.

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Amortization of television production assets consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
WWE Network programming	$ 4,827	$ 510	$ 5,058	$ 3,119
Television programming	4,842	4,595	7,760	7,602
Total	$ 9,669	$ 5,105	$ 12,818	$ 10,721

Costs to produce our live event programming are expensed when the event is first broadcast, and are not included in the capitalized costs or amortization tables noted above.

Unamortized television production assets are evaluated for impairment each reporting period. If conditions indicate a potential impairment, and the estimated future cash flows are not sufficient to recover the unamortized asset, the asset is written down to fair value. In addition, if we determine that a program will not likely air, we will expense the remaining unamortized asset. During the three and six months ended June 30, 2018 and 2017, we did not record any impairments related to our television production assets.

10. Investment Securities and Short-Term Investments

Investment Securities

Included within Investment Securities are the following:

	As of June 30, 2018	December 31, 2017
Equity method investment	$ 14,581	$ 14,664
Equity investments without readily determinable fair values	9,703	12,703
Total investment securities	$ 24,284	$ 27,367

Equity Method Investment

In March 2015, WWE and Authentic Brands Group (“ABG”) formed a joint venture to re-launch an apparel and lifestyle brand, Tapout (the "Brand"). ABG agreed to contribute certain intangible assets for the Brand, licensing contracts, systems, and other administrative functions to Tapout. The Company agreed to contribute promotional and marketing services related to the venture for a period of at least five years in exchange for a 50% interest in the profits and losses and voting interest in Tapout. The Company valued its initial investment of $13,800 based on the fair value of the existing licensing contracts contributed by ABG. To the extent that Tapout records income or losses, we record our share proportionate to our ownership percentage, and any dividends received reduce the carrying amount of the investment. Net equity method earnings from Tapout are included as a component of Investment income, net on the Consolidated Statements of Operations. Net dividends received from Tapout are reflected on the Consolidated Statements of Cash Flows within Net cash provided by operating activities. The Company did not record any impairment charges related to our investment in Tapout during the three and six months ended June 30, 2018 and 2017.

The following table presents the net equity method earnings from Tapout and net dividends received from Tapout for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net equity method earnings from Tapout	$ 322	$ 190	$ 701	$ 645
Net dividends received from Tapout	(441)	(315)	(784)	(668)
Equity in earnings of affiliate, net of dividends received	$ (119)	$ (125)	$ (83)	$ (23)

As promotional services are provided to Tapout, we record revenue and reduce the existing service obligation. During the three and six months ended June 30, 2018 and 2017, we recorded revenues of $889 and $672, and $1,656 and $1,394, respectively, related to

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our fulfillment of our promotional services obligation to Tapout. The remaining service obligation as of June 30, 2018 was $4,101, and was included in Deferred Income and Non-Current Deferred Income for $2,760 and $1,341, respectively.

Our known maximum exposure to loss approximates the remaining service obligation to Tapout, which was $4,101 as of June 30, 2018. Creditors of Tapout do not have recourse against the general credit of the Company.

Equity Investments Without Readily Determinable Fair Values

We evaluate our equity investments without readily determinable fair values for impairment if factors indicate that a significant decrease in value has occurred. Beginning in 2018, the Company prospectively adopted a new accounting standard on the accounting for equity investments that do not have readily determinable fair values. Refer to Note 2, Significant Accounting Policies – Recent Accounting Pronouncements, for further details. Under the new standard, the Company has elected to use the measurement alternative to fair value that will allow these investments to be recorded at cost, less impairment, and adjusted for subsequent observable price changes. During the second quarter of 2018, the Company recorded an impairment charge of $3,000 on our investment in a mobile video publishing business for the excess of the carrying value over its estimated fair value resulting from going concern issues of the underlying investee company. This charge is reflected in Loss on equity investment in our Consolidated Statements of Operations for the three and six months ended June 30, 2018. The Company did not record any impairment charges on our other equity investments without readily determinable fair values during the three and six months ended June 30, 2018 and 2017. In addition, there were no observable price change events that were completed during the three and six months ended June 30, 2018.

Short-Term Investments

Short-term investments measured at fair value consisted of the following:

	As of June 30, 2018				As of December 31, 2017			
		Gross Unrealized				Gross Unrealized		
	Amortized Cost	Gain	(Loss)	Fair Value	Amortized Cost	Gain	(Loss)	Fair Value

U.S. Treasury securities $ 63,167 an">

Retail Stores segment				
Increase (decrease) in comparable store sales(1) :				
Consolidated retail stores	(10)%	(3)%	(11)%	(2)%
FASHION BUG	(9)	(1)	(11)	(1)
LANE BRYANT	(11)	(5)	(11)	(3)
CATHERINES	(12)	(2)	(14)	1
Sales from new stores as a percentage of total consolidated prior-period sales(2):				
FASHION BUG	1	1	0	1
LANE BRYANT(3)	4	8	2	8
CATHERINES	0	1	0	1
Other retail stores(4)	0	1	0	1
Prior-period sales from closed stores as a percentage of total consolidated prior-period sales:				
FASHION BUG	(2)	(2)	(2)	(2)
LANE BRYANT	(3)	(3)	(3)	(3)
CATHERINES	(0)	(1)	(0)	(1)
Increase/(decrease) in Retail Stores segment sales	(9)	2	(10)	6
Direct-to-Consumer segment				
Increase in Direct-to-Consumer segment sales	340(5)	16	221(5)	15
Increase/(decrease) in consolidated total net sales	(7)	(9)	(7)	(7)

(1) "Comparable store sales" is not a measure that has been defined under generally accepted accounting principles. The method of calculating comparable store sales varies across the retail industry and, therefore, our calculation of comparable store sales is not necessarily comparable to similarly-titled measures reported by other companies. We define comparable store sales as sales from stores operating in both the current and prior-year periods. New stores are added to the comparable store sales base 13 months after their open date. Sales from stores that are relocated within the same mall or strip-center, remodeled, or have a legal square footage change of less than 20% are included in the calculation of comparable store sales. Sales from stores that are relocated outside the existing mall or strip-center, or have a legal square footage change of 20% or more, are excluded from the calculation of comparable store sales until 13 months after the relocated store is opened. Stores that are temporarily closed for a period of 4 weeks or more are excluded from the calculation of comparable store sales for the applicable periods in the year of closure and the subsequent year. Non-store sales, such as catalog and internet sales, are excluded from the calculation of comparable store sales.

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

(3) Includes LANE BRYANT OUTLET stores.
(4) Includes PETITE SOPHISTICATE and PETITE SOPHISTICATE OUTLET stores.
(5) Primarily due to LANE BRYANT WOMAN catalog which began operations in the Fiscal 2008 Fourth Quarter.

The following table shows details of our consolidated income from operations:

(In millions)	Thirteen Weeks Ended August 2, 2008	Thirteen Weeks Ended August 4, 2007	Twenty-six Weeks Ended August 2, 2008	Twenty-six Weeks Ended August 4, 2007
Income from operations				
FASHION BUG	$ 20.8	$ 31.6	$ 27.6	$ 50.7
LANE BRYANT	8.7	26.1	38.4	65.6
CATHERINES	5.5	9.6	12.6	26.5
Other retail stores(1)	0.3	0.0	(0.3)	(0.1)
Total Retail Stores segment	35.3	67.3	78.3	142.7
Total Direct-to-Consumer segment	(5.6)	(2.4)	(9.8)	(3.2)
Corporate and other	(34.9)	(32.0)	(69.9)	(63.2)
Total income/(loss) from operations	$ (5.2)	$ 32.9	$ (1.4)	$ 76.3

(1) Includes PETITE SOPHISTICATE stores, which began operations in October 2007, and PETITE SOPHISTICATE OUTLET stores, which began operations in September 2006.

The following table sets forth information with respect to our year-to-date retail store activity for Fiscal 2009 and planned store activity for all of Fiscal 2009:

	FASHION BUG	LANE BRYANT	CATHERINES	Other(1)	Total
Fiscal 2009 Year-to-Date:					
Stores at February 2, 2008	989	896	468	56	2,409
Stores opened	5	24(2)	5	3	37
Stores closed(3)	(65)	(12)	(10)	(0)	(87)
Net change in stores	(60)	12	(5)	3	(50)
Stores at August 2, 2008	929	908	463	59	2,359
Stores relocated during period	9	22	6	0	37
Fiscal 2009:					
Planned store openings	6	31-35(4)	6-7	4(5)	47-52
Planned store closings(6)	105-108	39-46	12	4(7)	160-170
Planned store relocations	9-12	36-39(8)	4-5	0	49-56

(1) Includes PETITE SOPHISTICATE and PETITE SOPHISTICATE OUTLET stores.
(2) Includes 4 LANE BRYANT OUTLET stores.
(3) Includes 59 FASHION BUG, 9 CATHERINES, 9 LANE BRYANT, and 1 LANE BRYANT OUTLET stores closed as part of the streamlining initiatives announced in February 2008.
(4) Includes approximately 11-13 LANE BRYANT intimate apparel side-by-side stores and 6-8 LANE BRYANT OUTLET stores.
(5) PETITE SOPHISTICATE OUTLET stores.

(6) Includes approximately 150 under-performing stores to be closed as part of the streamlining initiatives announced in February 2008.
(7) PETITE SOPHISTICATE stores.
(8) Includes approximately 13-16 conversions to LANE BRYANT intimate apparel side-by-side stores.

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Comparison of Thirteen Weeks Ended August 2, 2008 and August 4, 2007

Net Sales

Consolidated Net Sales

The decrease in consolidated net sales in the Fiscal 2009 Second Quarter as compared to the Fiscal 2008 Second Quarter was primarily a result of decreases in net sales from each of the brands in our Retail Stores segment driven by negative comparable store sales and the closing of 78 under-performing stores during the first half of fiscal 2009 as part of our previously announced initiatives (see “OVERVIEW” above). These decreases were partially offset by net sales from our new LANE BRYANT WOMAN catalog, launched during the latter half of Fiscal 2008, which is included in our Direct-to-Consumer segment.

Retail Stores Segment Net Sales

Comparable store sales for the Fiscal 2009 Second Quarter decreased at each of our Retail Stores brands as compared to the Fiscal 2008 Second Quarter. Net sales for all of our brands continued to be negatively impacted by reduced traffic levels and weak consumer spending that we experienced during the latter half of Fiscal 2008 and the Fiscal 2009 First Quarter as well as the closing of the under-performing stores. The average number of transactions per store decreased for each of our brands, while the average dollar sale per transaction increased for our outlet stores, were flat for LANE BRYANT and FASHION BUG stores, and decreased for our CATHERINES stores. We operated 2,359 stores as of August 2, 2008 as compared to 2,411 stores as of August 4, 2007.

We offer various loyalty card programs to our Retail Stores segment customers (see “Notes to Condensed Consolidated Financial Statements; Note 6. Customer Loyalty Card Programs” above). During each of the Fiscal 2009 Second Quarter and Fiscal 2008 Second Quarter we recognized revenues of $5.3 million in connection with our loyalty card programs. As of November 2007 we began offering a loyalty program in connection with the issuance of our new LANE BRYANT proprietary credit card. Cardholders earn points for purchases using the credit card, which may be redeemed for merchandise coupons upon the accumulation of a specified number of points. No membership fees are charged in connection with this program.

Direct-to-Consumer Segment Net Sales

The increase in net sales from our Direct-to-Consumer segment was primarily attributable to sales from our LANE BRYANT WOMAN catalog and website, launched in the latter half of Fiscal 2008, and an increase in sales from our FIGI’S catalog.

Cost of Goods Sold, Buying, Catalog, and Occupancy

Consolidated Cost of Goods Sold, Buying, Catalog, and Occupancy

Consolidated cost of goods sold, buying, catalog, and occupancy expenses increased as a percentage of consolidated net sales in the Fiscal 2009 Second Quarter as compared to the Fiscal 2008 Second Quarter primarily as a result of negative leverage on buying and occupancy expenses from the decrease in comparable store sales and an increase in catalog advertising expenses. However, total consolidated cost of goods sold, buying, and occupancy expenses decreased in dollar amount as compared to the prior-year period as a result of our expense reduction initiatives, including the closing of the under-performing stores, which are discussed in the “OVERVIEW” above. Consolidated cost of goods sold increased 1.3% as a percentage of consolidated net sales as a result of increased promotional activity during the current-year period to drive traffic and liquidate seasonal merchandise. Consolidated buying, catalog, and occupancy expenses increased 1.9% as a percentage of consolidated net sales.

Although consolidated buying and occupancy expenses increased as a percentage of sales, they decreased in dollar amount primarily as a result of the closing of under-performing stores during the first half of Fiscal 2009 and our expense reduction initiatives as discussed in the "OVERVIEW" above, as well as other store-related occupancy savings. Consolidated occupancy expenses for the Fiscal 2009 Second Quarter include a gain on the sale of our Memphis, Tennessee distribution center of approximately $1.8 million. Catalog advertising expenses increased in the Fiscal 2009 Second Quarter as compared to the prior-year period as a result of the start-up of our LANE BRYANT WOMAN catalog launched in the latter half of Fiscal 2008.

Cost of goods sold includes merchandise costs net of discounts and allowances; freight; inventory shrinkage; shipping and handling costs associated with our Direct-to-Consumer and E-commerce businesses; and amortization of direct-response advertising costs for our Direct-to-Consumer business. Net merchandise costs and freight are capitalized as inventory costs. Cost of goods sold for our Direct-to-Consumer segment includes catalog advertising and fulfillment costs, which are significant expenses for catalog operations, and are therefore generally higher as a percentage of net sales than cost of goods sold for our Retail Stores segment. Conversely, the Direct-to-Consumer segment incurs lower levels of buying and occupancy costs.

Buying expenses include payroll, payroll-related costs, and operating expenses for our buying departments, warehouses, and fulfillment centers. Occupancy expenses include rent; real estate taxes; insurance; common area maintenance; utilities; maintenance; and depreciation for our stores, warehouse and fulfillment center facilities, and equipment. Buying, catalog, and occupancy costs are treated as period costs and are not capitalized as part of inventory.

Retail Stores Segment Cost of Goods Sold, Buying, and Occupancy

For our Retail Stores segment, cost of goods sold, buying, and occupancy expenses as a percentage of net sales were 3.3% higher in the Fiscal 2009 Second Quarter as compared to the Fiscal 2008 Second Quarter. The merchandise margin in our Retail Stores segment decreased in the current-year period as compared to the prior-year period as a result of the increase in promotional markdowns. Although buying and occupancy expenses for our Retail Stores segment were 1.5% higher as a percentage of net sales, primarily as a result of negative leverage from the decrease in comparable store sales, expense dollars decreased as a result of the closing of the under-performing stores and expense reduction initiatives discussed above,

Direct-to-Consumer Segment Cost of Goods Sold, Buying, Catalog, and Occupancy

The 20.2% increase in cost of goods sold, buying, catalog, and occupancy expenses as a percentage of net sales for our Direct-to-Consumer segment resulted primarily from higher-than-normal catalog advertising expenses incurred in connection with the start-up of our LANE BRYANT WOMAN catalog which was launched in the latter half of Fiscal 2008.

Selling, General, and Administrative

Consolidated Selling, General, and Administrative

Consolidated selling, general, and administrative expenses for the Fiscal 2009 Second Quarter decreased in dollar amount from the prior-year period and were unchanged as a percentage of consolidated net sales. The decrease in expense dollars from the prior-year period was primarily attributable to our expense reduction initiatives discussed above. During the Fiscal 2009 Second Quarter we recognized $2.1 million of expenses in connection with advisory and legal fees relating to a proxy contest which was settled in May 2008.

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Retail Stores Segment Selling, General, and Administrative

Selling, general, and administrative expenses for the Retail Stores segment as a percentage of net sales increased 1.3% for FASHION BUG, 2.4% for CATHERINES, and 0.1% for LANE BRYANT. Although selling, general and administrative expenses increased as a percentage of net sales, primarily as a result of the lack of leverage on selling expenses from the decrease in comparable store sales, they decreased in dollar amount at each of our brands. The decrease in expense dollars from the prior-year period was primarily a result of the closing of the under-performing stores and expense reduction initiatives discussed above.

Direct-to-Consumer Segment Selling, General, and Administrative

Selling, general, and administrative expenses as a percentage of net sales decreased 42.0% for our Direct-to-Consumer segment, primarily as a result of new sales from our LANE BRYANT WOMAN catalog and related E-commerce website, which began operations during the latter half of Fiscal 2008.

Restructuring and Other Charges

In November 2007 we announced our plan to relocate our CATHERINES operations located in Memphis, Tennessee to our corporate headquarters in Bensalem, Pennsylvania in conjunction with the consolidation of a number of our operating functions and in February 2008 we announced additional cost-saving and streamlining initiatives as discussed in the "OVERVIEW" above. During the Fiscal 2009 Second Quarter we recognized pre-tax charges of approximately $5.3 million for lease termination and relocation costs related to these programs and approximately $0.3 million of non-cash pre-tax charges for write-downs of assets related to under-performing stores we expect to close. We anticipate that the execution of the new organizational structure and cost-saving initiatives will result in approximately $28 million of annualized expense savings, primarily in the areas of non-store payroll, elimination of losses from under-performing stores, and occupancy costs.

During the Fiscal 2009 Second Quarter we recognized $9.3 million of severance costs in connection with the resignation of our former Chief Executive Officer, Dorrit J. Bern, in July 2008 (see "RECENT DEVELOPMENTS" above).

Income Tax Provision

Our income tax benefit for the Fiscal 2009 Second Quarter was $2.9 million on a loss from continuing operations before taxes of $6.6 million as compared to a tax provision of $13.0 million on income from continuing operations before taxes of $33.9 million for the Fiscal 2008 Second Quarter. The Fiscal 2009 Second Quarter income tax benefit was favorably impacted by the receipt of non-taxable life insurance proceeds and adjustments to certain state tax accruals, partially offset by an unfavorable increase in our liability for unrecognized tax benefits, interest, and penalties in accordance with FIN No. 48. We adopted the provisions of FASB Interpretation No. 48 as of the beginning of Fiscal 2008.

Discontinued Operations

Discontinued operations consist of the results of operations of the non-core misses catalog titles operated under our Crosstown Traders brand (see "Notes to Condensed Consolidated Financial Statements; Note 1. Condensed Consolidated Financial Statements; Discontinued Operations" above).

Comparison of Twenty-six Weeks Ended August 2, 2008 and August 4, 2007

Net Sales

Consolidated Net Sales

The decrease in consolidated net sales in the first half of Fiscal 2009 as compared to the first half of Fiscal 2008 was primarily a result of decreases in net sales from each of the brands in our Retail Stores segment driven by negative comparable store sales and the closing of 78 under-performing stores during the first half of Fiscal 2009 as part of our previously announced initiatives (see "OVERVIEW" above). These decreases were partially offset by net sales from our new LANE BRYANT WOMAN catalog, launched during the latter half of Fiscal 2008, which is included in our Direct-to-Consumer segment.

Retail Stores Segment Net Sales

Comparable store sales for the first half of Fiscal 2009 decreased at each of our Retail Stores brands as compared to the first half of Fiscal 2008. Net sales for all of our brands continued to be negatively impacted by reduced traffic levels and weak consumer spending that we experienced during the latter half of Fiscal 2008, as well as the closing of the under-performing stores. The average number of transactions per store decreased for each of our brands, while the average dollar sale per transaction increased for our outlet stores, were flat for LANE BRYANT and FASHION BUG stores, and decreased for our CATHERINES stores.

During the first half of Fiscal 2009 we recognized revenues of $10.4 million in connection with our loyalty card programs as compared to revenues of $11.0 million during the first half of Fiscal 2008.

Direct-to-Consumer Segment Net Sales

The increase in net sales from our Direct-to-Consumer segment was primarily attributable to sales from our LANE BRYANT WOMAN catalog and website launched in the latter half of Fiscal 2008 and an increase in sales from our FIGI'S catalog.

Cost of Goods Sold, Buying, Catalog, and Occupancy

Consolidated Cost of Goods Sold, Buying, Catalog, and Occupancy

Consolidated cost of goods sold, buying, catalog, and occupancy expenses increased 2.5% as a percentage of consolidated net sales in the first half of Fiscal 2009 as compared to the first half of Fiscal 2008. The increase resulted primarily from negative leverage on buying and occupancy expenses from the decrease in comparable store sales and an increase in catalog advertising expenses. However, total consolidated cost of goods sold, buying, catalog, and occupancy expense decreased in dollar amount as compared to the prior-year period as a result of our expense reduction initiatives, including the closing of the under-performing stores, which are discussed in the "OVERVIEW" above. Consolidated cost of goods sold as a percentage of consolidated net sales was comparable to the prior-year period. Consolidated buying, catalog, and occupancy expenses increased 2.5% as a percentage of consolidated net sales primarily as a result of negative leverage from the decrease in comparable store sales.

Although consolidated buying and occupancy expenses increased as a percentage of sales, they decreased in dollar amount primarily as a result of the closing of under-performing stores during the first half of Fiscal 2009 and our expense reduction initiatives, as well as other store-related occupancy savings, as discussed in the quarterly comparisons above. Consolidated occupancy expenses for the first half of Fiscal 2009 include a gain on the sale of our Memphis, Tennessee distribution center of approximately $1.8 million. Catalog advertising expenses increased as compared to the prior-year period as a result of the start-up of our LANE BRYANT WOMAN catalog launched in the latter half of Fiscal 2008.

Cost of goods sold includes merchandise costs net of discounts and allowances; freight; inventory shrinkage; shipping and handling costs associated with our Direct-to-Consumer and E-commerce businesses; and amortization of direct-response advertising costs for our Direct-to-Consumer business. Net merchandise costs and freight are capitalized as inventory costs. Cost of goods sold for our Direct-to-Consumer segment includes catalog advertising and fulfillment costs, which are significant expenses for catalog operations, and are therefore generally higher as a percentage of net sales than cost of goods sold for our Retail Stores segment. Conversely, the Direct-to-Consumer segment incurs lower levels of buying and occupancy costs.

Buying expenses include payroll, payroll-related costs, and operating expenses for our buying departments, warehouses, and fulfillment centers. Occupancy expenses include rent; real estate taxes; insurance; common area maintenance; utilities; maintenance; and depreciation for our stores, warehouse and fulfillment center facilities, and equipment. Buying, catalog, and occupancy costs are treated as period costs and are not capitalized as part of inventory.

Retail Stores Segment Cost of Goods Sold, Buying, and Occupancy

For our Retail Stores segment, cost of goods sold, buying, and occupancy expenses increased 2.5% as a percentage of net sales in the first half of Fiscal 2009 as compared to the first half of Fiscal 2008. The merchandise margin in our Retail Stores segment declined in the first half of Fiscal 2009 as compared to the first half of Fiscal 2008 primarily as a result of increased promotional activity during the current-year period to drive traffic and liquidate seasonal merchandise. Although buying and occupancy expenses were 1.8% higher as a percentage of net sales in the current-year period as compared to the prior-year period, primarily as a result of negative leverage from the decrease in comparable store sales, expense dollars decreased as a result of the closing of the under-performing stores and our expense reduction initiatives.

Direct-to-Consumer Segment Cost of Goods Sold, Buying, Catalog, and Occupancy

The 24.3% increase in cost of goods sold, buying, catalog, and occupancy expenses as a percentage of net sales for our Direct-to-Consumer segment resulted primarily from higher-than-normal catalog advertising expenses incurred in connection with the start-up of our LANE BRYANT WOMAN catalog which was launched the latter half of Fiscal 2008.

Selling, General, and Administrative

Consolidated Selling, General, and Administrative

Although consolidated selling, general, and administrative expenses increased 1.7% as a percentage of consolidated net sales, primarily as a result of negative leverage on selling costs from the decrease in consolidated net sales, they decreased in dollar amount from the prior-year period. The decrease in expense dollars was primarily attributable to our expense reduction initiatives. During the first half of Fiscal 2009 we recognized $5.9 million of expenses in connection with advisory and legal fees relating to a proxy contest which was settled in May 2008.

Retail Stores Segment Selling, General, and Administrative

Selling, general, and administrative expenses for the Retail Stores segment as a percentage of net sales increased 2.1% for FASHION BUG, 2.9% for CATHERINES, and 0.9% for LANE BRYANT. Although selling, general and administrative expenses increased as a percentage of net sales, primarily reflecting the lack of leverage on selling expenses at each of the brands as a result of the decrease in comparable store sales, they decreased in dollar amount from the prior-year period at each of our brands. The decrease in expense dollars from the prior-year period was primarily a result of the closing of the under-performing stores and expense reduction initiatives discussed above.

Direct-to-Consumer Segment Selling, General, and Administrative

Selling, general, and administrative expenses as a percentage of net sales decreased 25.1% for our Direct-to-Consumer segment, primarily as a result of new sales from our LANE BRYANT WOMAN catalog and related E-commerce website, which began operations during the latter half of Fiscal 2008.

Restructuring and Other Charges

As discussed in the overview and quarterly analysis above, we relocated our CATHERINES operations in conjunction with the consolidation of a number of our operating functions and began to implement additional cost-saving and streamlining initiatives announced in February 2008. During the first half of Fiscal 2009 we recognized pre-tax charges of approximately $7.0 million for lease termination, severance, retention, and relocation costs. In addition, we recognized approximately $2.2 million of non-cash pre-tax charges for write-downs of assets related to under-performing stores we expect to close and accelerated depreciation related to the closing of our Memphis facility.

During the first half of Fiscal 2009 we recognized $9.3 million of severance costs in connection with the resignation of our former Chief Executive Officer, Dorrit J. Bern, in July 2008 (see “RECENT DEVELOPMENTS” above).

Income Tax Provision

Our income tax benefit for the first half of Fiscal 2009 was $1.6 million on a loss from continuing operations before taxes of $4.7 million as compared to a tax provision of $27.9 million on income from continuing operations before taxes of $75.3 million for the first half of Fiscal 2008. The unfavorable impact of the increase in our liability for unrecognized tax benefits, interest, and penalties in accordance with FIN No. 48 was partially offset by the receipt of non-taxable life insurance proceeds and adjustments to certain state tax accruals. We adopted the provisions of FASB Interpretation No. 48 as of the beginning of Fiscal 2008.

Discontinued Operations

Discontinued operations consist of the results of operations of the non-core misses catalog titles operated under our Crosstown Traders brand (see “Notes to Condensed Consolidated Financial Statements; Note 1. Condensed Consolidated Financial Statements; Discontinued Operations” above). Discontinued operations for the first half of Fiscal 2009 include an estimated after-tax loss from the planned disposal of the discontinued operations of $26.9 million.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of working capital are cash flow from operations, our proprietary credit card receivables securitization agreements, our investment portfolio, and our revolving credit facility. The following table highlights certain information related to our liquidity and capital resources:

(Dollars in millions)	August 2, 2008	February 2, 2008
Cash and cash equivalents	$ 131.3	$ 61.3
Available-for-sale securities	$ 6.4	$ 13.4
Working capital	$ 466.3	$ 495.3

Current ratio	2.2	2.4
Long-term debt to equity ratio	46.1%	41.9%

Our net cash provided by operating activities decreased to $111.5 million for the first half of Fiscal 2009 from $158.1 million for the first half of Fiscal 2008, primarily as a result of a $50.4 million decrease in income from continuing operations. Our net investment in inventories decreased $21.9 million in the current-year period as compared to the prior-year period as a result of our continued efforts to reduce inventory levels. On a same-store basis, inventories decreased 6% as of August 2, 2008 as compared to August 4, 2007.

Capital Expenditures

Our gross capital expenditures, excluding construction allowances received from landlords, were $38.5 million during the first half of Fiscal 2009 as compared to $74.0 million for the first half of Fiscal 2008. Construction allowances received from landlords were $22.2 million for the current-year period as compared to $26.9 million for the prior-year period.

As part of our streamlining initiatives announced in February 2008, we plan to significantly reduce capital expenditures for new store development, store relocations, and corporate technology during Fiscal 2009 in response to the current difficult economic environment. We plan to open approximately 45-50 new stores in Fiscal 2009 as compared to 103 new stores in Fiscal 2008, and anticipate that our Fiscal 2009 gross capital expenditures will be approximately $79 million before construction allowances received from landlords as compared to gross capital expenditures of $137.7 million for Fiscal 2008. We expect that approximately 80% of our Fiscal 2009 gross capital expenditures before construction allowances will support store development, including openings, relocations, and store improvements, with the remainder of the expenditures to be primarily for information technology and improvements to our distribution centers. We expect to finance these capital expenditures primarily through internally-generated funds and to a lesser extent through capital lease financing.

Debt, Lease, and Purchase Commitments

The financial table in “PART II; Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; FINANCIAL CONDITION; Debt, Lease, and Purchase Commitments” in our Annual Report on Form 10-K for the fiscal year ended February 2, 2008 does not include our liability for future benefits payable to former executive employees under split-dollar life insurance agreements that we have recorded in accordance with our adoption of EITF Issue No. 06-4 (see “Notes to Condensed Consolidated Financial Statements; Note 13. Impact of Recent Accounting Pronouncements” above). As a result of the adoption of EITF Issue No. 06-4, we recognized a $13.7 million increase in our split-dollar life insurance benefits payable through a cumulative effect adjustment as of February 3, 2008. We recognized $1.6 million of the increase as a current liability (due in less than 1 year) and the remaining $12.1 million as a long-term liability.

Repurchases of Common Stock

During the Fiscal 2009 First Quarter we repurchased an aggregate total of 0.5 million shares of common stock for $2.6 million under a $200 million share repurchase program announced in November 2007 and 1.5 million shares of common stock for $8.3 million under a prior authorization from our Board of Directors. We did not repurchase any shares of common stock during the Fiscal 2009 Second Quarter. 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. See “PART II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds” below for additional information regarding the share-repurchase program announced in November 2007.

Dividends

We have not paid any dividends since 1995, and we do not expect to declare or pay any dividends on our common stock in the foreseeable future. The payment of future dividends is within the discretion of our Board of Directors and will depend upon our future earnings, if any; our capital requirements; our financial condition; and other relevant factors. Our 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.

Off-Balance-Sheet Financing

Asset Securitization Program

Our asset securitization program 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, LANE BRYANT, CATHERINES, PETITE SOPHISTICATE, and Crosstown Traders proprietary credit card programs. Additional information regarding our asset securitization facility is included in "Notes to Condensed Consolidated Financial Statements; Note 9. Asset Securitization" above; under the caption "MARKET RISK" below; and in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; CRITICAL ACCOUNTING POLICIES; Asset Securitization" and "Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; NOTE 17. ASSET SECURITIZATION" of our February 2, 2008 Annual Report on Form 10-K.

As of August 2, 2008, we had the following securitization facilities outstanding:

(Dollars in millions)	Series 1999-2	Series 2004-VFC	Series 2004-1	2005-RPA(1)	Series 2007-1
Date of facility	May 1999	January 2004	August 2004	May 2005	October 2007
Type of facility	Conduit	Conduit	Term	Conduit	Term
Maximum funding	$50.0	$50.0	$180.0	$55.0	$320.0
Funding as of August 2, 2008	$44.0	$0.0	$180.0	$39.0	$320.0
First scheduled principal payment	Not applicable	Not applicable	April 2009	Not applicable	April 2012
Expected final principal payment	Not applicable(2)	Not applicable(2)	March 2010	Not applicable(2)	March 2013
Next renewal date	March 2009	January 2009	Not applicable	May 2009	Not applicable

(1) Receivables Purchase Agreement (for the Crosstown Traders catalog proprietary credit card receivables program).
(2) Series 1999-2 and Series 2004-VFC have scheduled final payment dates that occur in the twelfth month following the month in which the series begins amortizing. These series and 2005-RPA begin amortizing on the next renewal date subject to the further extension of the renewal date as a result of renewal of the purchase commitment..

In May 2008 the Series 2002-1 facility completed its scheduled amortization, which had begun in August 2007 in accordance with its scheduled terms, and is no longer an outstanding series.

We securitized $455.7 million of private label credit card receivables in the first half of Fiscal 2009 and had $584.9 million of securitized credit card receivables outstanding as of August 2, 2008. We held certificates and retained interests in our securitizations of $109.3 million as of August 2, 2008 that are generally subordinated in right of payment to certificates issued by the QSPEs to third-party investors. Our obligation to repurchase receivables sold to the QSPEs is limited to those receivables that at the time of their transfer fail to meet the QSPE's eligibility standards under normal representations and warranties. To date, our repurchases of receivables pursuant to this obligation have been insignificant.

CSRC, Charming Shoppes Seller, Inc., and Catalog Seller LLC, our consolidated wholly owned indirect subsidiaries, are separate special-purpose entities ("SPEs") created for the securitization program. Our investment in asset-backed securities as of August 2, 2008 included $51.5 million of QSPE certificates, an interest-only ("I/O") strip of $23.5 million, and other retained interests of $34.3 million. These assets are first and foremost available to satisfy the claims of the respective creditors of these separate corporate entities, including certain claims of investors in the QSPEs.

Additionally, with respect to certain Trust Certificates, if either the Trust or Charming Shoppes, Inc. does not meet certain financial performance standards, the Trust is obligated to reallocate to third-party investors holding certain certificates issued by the Trust, collections in an amount up to $9.45 million that otherwise would be available to CSRC. The result of this reallocation is to increase CSRC's retained interest in the Trust by the same amount, with the third-party investor retaining an economic interest in the certificates. Subsequent to such a transfer occurring, and upon certain conditions being met, these same investors are required to repurchase these interests when the financial performance standards are again satisfied. Our net loss for the third quarter of Fiscal 2008 resulted in the requirement to begin the reallocation of collections as discussed above and $9.45 million of collections were fully transferred as of February 2, 2008. The requirement for the reallocation of these collections will cease and such investors would be required to repurchase such interests upon our announcement of a quarter with net income and the fulfillment of such conditions. With the exception of the requirement to reallocate collections of $9.45 million that were fully transferred as of February 2, 2008, the Trust was in compliance with its financial performance standards as of August 2, 2008, including all financial performance standards related to the performance of the underlying receivables.

In addition to the above, we could be affected by certain other events that would cause the QSPEs to hold proceeds of receivables, which would otherwise be available to be paid to us with respect to our subordinated interests, within the QSPEs as additional enhancement. For example, if we or the QSPEs do not meet certain financial performance standards, a credit enhancement condition would occur and the QSPEs would be required to retain amounts otherwise payable to us. In addition, the failure to satisfy certain financial performance standards could further cause the QSPEs to stop using collections on QSPE assets to purchase new receivables and would require such collections to be used to repay investors on a prescribed basis as provided in the securitization agreements. If this were to occur, it could result in our having insufficient liquidity; however, we believe we would have sufficient notice to seek alternative forms of financing through other third-party providers although we cannot provide assurance in that regard. As of August 2, 2008 we and the QSPEs were in compliance with the applicable financial performance standards referred to in this paragraph.

Amounts placed into enhancement accounts, if any, that are not required for payment to other certificate holders will be available to us at the termination of the securitization series. We have no obligation to directly fund the enhancement account of the QSPEs, other than for breaches of customary representations, warranties, and covenants and for customary indemnities. These representations, warranties, covenants, and indemnities do not protect the QSPEs or investors in the QSPEs against credit-related losses on the receivables. The providers of the credit enhancements and QSPE investors have no other recourse to us.

As these credit card receivables securitizations reach maturity, we plan to obtain funding for our proprietary credit card programs through additional securitizations, including annual renewal of our conduit facilities. However, we can give no assurance that we will be successful in securing financing through either replacement securitizations or other sources of replacement financing.

These securitization agreements are intended to improve our overall liquidity by providing sources of funding for our proprietary credit card receivables. The agreements provide that we will continue to service the credit card receivables and control credit policies. This control allows us, absent certain adverse events, to fund continued credit card receivable growth and to provide the appropriate customer service and collection activities. Accordingly, our relationship with our credit card customers is not affected by these agreements.

Benefits from Operating Our Proprietary Credit Card Programs

We manage our proprietary credit card programs primarily to enhance customer loyalty and to allow us to integrate our direct-mail marketing strategy when communicating with our core customers. We also earn revenue from operating the credit card programs. As discussed above, we utilize asset securitization as the primary funding source for our proprietary credit card receivables programs. As a result, our primary source of benefits is derived from the distribution of net excess spread revenue from our QSPEs.

The transfer of credit card receivables under our asset securitization program is without recourse and we account for the program in accordance with SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” Under SFAS No. 140, our benefit from the credit card receivables represents primarily the net excess spread revenues we receive from monthly securitization distributions associated with the collections on managed outstanding receivables. We recognize on an accrual basis these net excess spread revenues, which generally represent finance charge revenues in excess of securitization funding costs, net credit card charge-offs, and the securitization servicing fee. Finance charge revenues include finance charges and fees assessed to the credit card customers. Net credit card charge-offs represent gross monthly charge-offs on customer accounts less recoveries on accounts previously charged-off. For purposes of the table provided below, we also include any collection agency costs associated with recoveries as part of the net excess spread revenues from credit card receivables.

In addition to the actual net excess spread revenues described above we record our beneficial interest in the Trust as an “interest-only strip” (“I/O strip”), which represents the estimated present value of cash flows we expect to receive over the estimated period the receivables are outstanding. In addition to the I/O strip we recognize a servicing liability, which 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.

The benefits from operating our proprietary credit card programs also include other revenues generated from the programs. These other net revenues include revenue from additional products and services that customers may purchase with their credit cards, including debt cancellation protection, fee-based loyalty program revenues, and net commissions from third-party products that customers may buy through their credit cards. Other credit card revenues also include interest income earned on funds invested in the credit entities. The credit contribution is net of expenses associated with operating the program. These expenses include the costs to originate, bill, collect, and operate the credit card programs. Except for net fees associated with the fee-based loyalty programs that we include in net sales, we include the net credit contribution as a reduction of selling, general, and administrative expenses in our consolidated statements of operations and comprehensive income.

Further details of our net credit contribution are as follows:

(In millions)	Thirteen Weeks Ended August 2, 2008	Thirteen Weeks Ended August 4, 2007	Twenty-six Weeks Ended August 2, 2008	Twenty-six Weeks Ended August 4, 2007
Net securitization excess spread revenues	$ 26.3	$ 18.5	$ 49.6	$ 34.0
Net additions to the I/O strip and servicing liability	(0.3)	0.8	0.1	1.1
Other credit card revenues, net(1)	2.5	2.3	5.8	5.6
Total credit card revenues	28.5	21.6	55.5	40.7

Less total credit card program expenses		17.0		11.9		35.0		23.8
Total credit contribution	$	11.5	$	9.7	$	20.5	$	16.9

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

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(In millions)	Thirteen Weeks Ended August 2, 2008	Thirteen Weeks Ended August 4, 2007	Twenty-six Weeks Ended August 2, 2008	Twenty-six Weeks Ended August 4, 2007
Average managed receivables outstanding	$ 591.9	$ 372.0	$ 588.6	$ 364.1
Ending managed receivables outstanding	$ 584.9	$ 367.5	$ 584.9	$ 367.5

Operating Leases

We lease substantially all of our operating stores under non-cancelable operating lease agreements. Additional details on these leases, including minimum lease commitments, are included in “Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 18. Leases” of our Annual Report on Form 10-K for the fiscal year ended February 2, 2008.

FINANCING

Revolving Credit Facility

Our revolving credit facility agreement provides for a revolving credit facility with a maximum availability of $375 million, subject to certain limitations as defined in the facility agreement, and provides that up to $300 million of the facility may be used for letters of credit. In addition, we may request, subject to compliance with certain conditions, additional revolving credit commitments up to an aggregate maximum availability of $500 million. The agreement expires on July 28, 2010. We had an aggregate total of $1.7 million of unamortized deferred debt acquisition costs related to the facility as of August 2, 2008, which we are amortizing on a straight-line basis over the life of the facility as interest expense.

The facility includes provisions for customary representations and warranties and affirmative covenants, and includes customary negative covenants providing for certain limitations on, among other things, sales of assets; indebtedness; loans, advances and investments; acquisitions; guarantees; and dividends and redemptions. In addition, the facility agreement provides that if “Excess Availability” falls below 10% of the “Borrowing Base,” through high levels of borrowing or letter of credit issuance for example, we may be required to maintain a minimum “Fixed Charge Coverage Ratio” (terms in quotation marks in this paragraph and the following paragraph are defined in the facility agreement). The facility is secured by our general assets, except for assets related to our credit card securitization facilities, real property, equipment, the assets of our non-U.S. subsidiaries, and certain other assets. As of August 2, 2008 the “Excess Availability” under the facility was $306.7 million, or 95.1% of the “Borrowing Base.” As of August 2, 2008, we were not in violation of any of the covenants included in the facility.

The interest rate on borrowings under the facility is Prime for Prime Rate Loans, and LIBOR as adjusted for the “Reserve Percentage” plus 1.0% to 1.5% per annum for Eurodollar Rate Loans. The applicable rate is determined monthly, based on our average “Excess Availability.” As of August 2, 2008, the applicable rates under the facility were 5.00% for Prime Rate Loans and 3.71% (LIBOR plus 1%) for Eurodollar Rate Loans. There were no borrowings outstanding under the facility as of August 2, 2008.

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Long-term Debt

On April 30, 2007 we issued $250.0 million in aggregate principal amount of 1.125% Senior Convertible Notes due May 1, 2014 (the “1.125% Notes”) in a private offering for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. On May 11, 2007 the initial purchasers of the 1.125% Notes exercised their over-allotment option and purchased an additional $25.0 million in principal amount of notes. The 1.125% Notes were issued at par, and interest is payable semiannually in arrears on May 1 and November 1, beginning November 1, 2007. The 1.125% Notes will mature on May 1, 2014, unless earlier repurchased by us or converted.

We received proceeds of approximately $268.1 million from the issuance, net of underwriting fees of approximately $6.9 million. The underwriting fees, as well as additional transaction costs of $0.8 million incurred in connection with the issuance of the 1.125% Notes, are included in “Other assets,” and amortized to interest expense on an effective interest rate basis over the remaining life of the notes.

On April 30, 2007 we called for the redemption on June 4, 2007 of our $149.999 million outstanding aggregate principal amount of 4.75% Senior Convertible Notes due June 1, 2012 (the “4.75% Notes”). The holders of the 4.75% Notes had the option to convert their notes into shares of our common stock at a conversion price of $9.88 per share until the close of business on June 1, 2007. As of June 4, 2007, the holders of $149.956 million principal amount of the 4.75% Notes had exercised their right to convert their notes into an aggregate of 15.146 million shares of our common stock and the remaining notes were redeemed for $43 thousand. In addition, we paid $392 thousand in lieu of fractional shares.

Additional information regarding our long-term borrowings is included in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Part II, Item 8. Financial Statements and Supplementary Data; Notes to Consolidated Financial Statements; Note 8. Long-term Debt” of our Annual Report on Form 10-K for the fiscal year ended February 2, 2008.

In Fiscal 2009 we plan to continue to utilize our combined financial resources to fund our inventory and inventory-related purchases, catalog advertising and marketing initiatives, and our store development and infrastructure strategies. We believe our cash on-hand, securitization facilities, and borrowing facilities will provide adequate liquidity for our business operations and growth opportunities during Fiscal 2009. However, our liquidity is affected by many factors, including some that are based on normal operations and some that are related to our industry and the economy. We may seek, as we believe appropriate, additional debt or equity financing to provide capital for corporate purposes or to fund strategic business opportunities. At this time, we cannot determine the timing or amount of such potential capital requirements, which will depend on a number of factors, including demand for our merchandise, industry conditions, competitive factors, the condition of financial markets, and the nature and size of strategic business opportunities that we may elect to pursue.

MARKET RISK

We manage our FASHION BUG, LANE BRYANT, CATHERINES, PETITE SOPHISTICATE, and Crosstown Traders proprietary credit card programs through various operating entities that we own. The primary activity of these entities is to service the balances of our proprietary credit card receivables portfolio that we sell under credit card securitization facilities. Under the securitization facilities we can be exposed to fluctuations in interest rates to the extent that the interest rates charged to our customers vary from the rates paid on certificates issued by the QSPEs.

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The finance charges on most of our proprietary credit card accounts are billed using a floating rate index (the Prime Rate), subject to a floor and limited by legal maximums. The certificates issued under the securitization facilities include both floating- and fixed-interest-rate certificates. The floating-rate certificates are based on an index of either one-month LIBOR or the commercial paper rate, depending on the issuance. Consequently, we have basis risk exposure with respect to credit cards billed using a floating-rate index to the extent that the movement of the floating-rate index on the certificates varies from the movement of the Prime Rate. Additionally, as of August 2, 2008 the floating finance charge rate on the floating-rate indexed credit cards was below the contractual floor rate, thus exposing us to interest-rate risk with respect to these credit cards for the portion of certificates that are funded at floating rates.

As a result of the Trust entering into a series of fixed-rate interest rate swap agreements with respect to $335.8 million of floating-rate certificates, entering into an interest-rate cap with respect to an additional $28.8 million of floating-rate certificates, and $86.1 million of certificates being issued at fixed rates we have significantly reduced the exposure of floating-rate certificates outstanding to interest-rate risk. To the extent that short-term interest rates were to increase by one percentage point on a pro-rated basis by the end of Fiscal 2009, an increase of approximately $326 thousand in selling, general, and administrative expenses would result.

As of May 3, 2008, there were no borrowings outstanding under our revolving credit facility. Future borrowings made under the facility, if any, could be exposed to variable interest rates.

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

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

See “Item 1. Notes To Condensed Consolidated Financial Statements (Unaudited); Note 13. Impact of Recent Accounting Pronouncements” above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; MARKET RISK,” above.

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

On April 25, 2008 we announced that our Board of Directors began exploring a broad range of operating and strategic alternatives for our non-core misses apparel catalog titles in order to provide a greater focus on our core brands and to enhance shareholder value. As of August 2, 2008 we were holding our non-core misses apparel catalog titles for sale. On August 25, 2008 (subsequent to the end of the period covered by this Report on Form 10-Q) we announced that we have entered into a definitive agreement to sell our non-core misses apparel catalogs (see "PART I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; RECENT DEVELOPMENTS" above). We cannot assure the successful consummation of our expected sale of our non-core misses apparel catalog titles.

Our Form 10-K for the fiscal year ended February 2, 2008 included disclosure of the following risk factor:

Changes to existing accounting rules or the adoption of new rules could have an adverse effect on our reported results of operations. The Financial Accounting Standards Board ("FASB") has issued a proposed FASB Staff Position ("FSP") that, if adopted, would apply to any convertible debt instrument that may be settled in whole or in part with cash upon conversion, which would include our 1.125% Senior Convertible Notes due May 2014. If the proposed FSP is approved in 2008 we would be required to adopt the proposal as of February 1, 2009 (the beginning of Fiscal 2010), with retrospective application to financial statements for periods prior to the date of adoption. As compared to our current accounting for the 1.125% Notes, adoption of the proposal would reduce long-term debt, increase stockholders' equity, and reduce net income and earnings per share. Adoption of the proposal would not affect our cash flows.

In May 2008 the FASB issued FASB Staff Position ("FSP") APB 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlements)," which will change the accounting treatment for convertible securities that the issuer may settle fully or partially in cash. See "Part I Item 1. Notes To Condensed Consolidated Financial Statements (Unaudited); Note 13. Impact of Recent Accounting Pronouncements" above for further information with respect to FSP APB 14-1.

Our Form 10-K for the fiscal year ended February 2, 2008 also included disclosure of the following risk factor:

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.

On July 9, 2008 we announced that Dorrit J. Bern tendered her resignation as President, Chief Executive Officer and a Director of the Company. As a result of the resignation and certain other changes in our management team, we are updating this risk factor as follows:

Our success and our ability to execute our business strategy depend largely on the efforts and abilities of our executive officers and their management teams. We also must motivate employees to remain focused on our strategies and goals, particularly during a period of changing leadership for the Company and a number of our operating divisions. The inability to find a suitable permanent replacement for our Chief Executive Officer within a reasonable time period, as well as management personnel to replace departing executives, could have a material adverse effect on our business. We do not maintain key-person life insurance policies with respect to any of our employees.

Other than the above, we have not become aware of any material changes since February 2, 2008 in the risk factors previously disclosed in “Part I; Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended February 2, 2008. See also “Part I; Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; FORWARD-LOOKING STATEMENTS” and “RECENT DEVELOPMENTS” above.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs(2)
May 4, 2008 through May 31, 2008	1,449(1)	$ 5.23	–	
June 1, 2008 through July 5, 2008	8,260(1)	5.40	–	
July 6, 2008 through August 2, 2008	77,295(1)	4.71	–	
Total	87,004	$ 4.78	–	(2)

(1) Shares withheld for the payment of payroll taxes on employee stock awards that vested during the period.
(2) On November 8, 2007 we publicly announced that our Board of Directors granted authority to repurchase shares of our common stock up to an aggregate value of $200 million. Shares may be purchased in the open market or through privately-negotiated transactions, as market conditions allow. As of February 2, 2008 no shares had been purchased under this plan. During the period from February 3, 2008 through May 3, 2008 we repurchased a total of 505,406 shares of stock ($5.21 average price paid per share) in the open market under this program. During the period from May 4, 2008 through August 2, 2008 no shares were purchased under this plan. As of August 2,

2008, $197,364,592 was available for future repurchases under this program. This repurchase program has no expiration date.

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

Our reconvened Annual Meeting of Shareholders (“the Meeting”) was held on June 26, 2008.

As disclosed in our Proxy Statement filed on May 23, 2008 pursuant to Section 14 of the Securities Exchange Act of 1934 (the “Proxy Statement”), Dorrit J. Bern and Alan Rosskamm were nominated for reelection and Arnaud Ajdler and Michael C. Appel were nominated for election to serve three-year terms as Class C Directors, and Richard W. Bennet III and Michael Goldstein were nominated for election to serve three-year terms as Class B Directors. As a result of the approval of a proposal to amend our Restated Articles of Incorporation and By-laws to declassify our Board of Directors (see below), all members of our Board of Directors, including the Class B and Class C Directors nominated and elected at the Meeting, will serve one-year terms until our 2009 Annual Meeting of Shareholders.

The holders of 103,432,957 shares of our Common Stock, representing 91.3% of the total number of shares outstanding as of the close of business on March 28, 2008 (the record date fixed by our Board of Directors), were present in person or by proxy at the Annual Meeting. The following table indicates the number of votes cast in favor of election and the number of votes withheld with respect to each of the Directors nominated:

Name	Votes For	Votes Withheld
Dorrit J. Bern	99,252,383	4,180,574
Alan Rosskamm	99,759,959	3,672,998
Arnaud Ajdler	102,805,593	627,364
Michael C. Appel	102,860,795	572,162
Richard W. Bennet III	102,745,328	687,629
Michael Goldstein	102,722,833	710,124

On July 9, 2008 Dorrit J. Bern tendered her resignation as President, Chief Executive Officer, and Director of Charming Shoppes, Inc. (see “Part I; Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; “RECENT DEVELOPMENTS” above).

A proposal to re-approve the material terms of the performance goals under the 2003 Incentive Compensation Plan to preserve the deductibility of compensation payments in accordance with Section 162(m) of the Internal Revenue Code was approved, with 93,068,908 votes for, 1,120,504 votes against, 36,192 abstentions, and 9,207,353 broker non-votes.

A proposal to amend our Restated Articles of Incorporation to eliminate the approval requirements for business combinations with interested shareholders was approved, with 102,583,193 votes for, 801,382 votes against, and 48,379 abstentions.

A proposal to amend our Restated Articles of Incorporation and By-laws to declassify our Board of Directors was approved, with 103,025,699 votes for, 350,070 votes against, and 57,184 abstentions. As a result of approval of this proposal, all members of our Board of Directors, including the Class B and Class C Directors elected at the Meeting, will serve one-year terms until our 2009 Annual Meeting of Shareholders. The incumbent Class A and Class B

Directors' terms will also be shortened to one year, and all of our Directors will stand for re-election at our 2009 Annual Meeting of Shareholders.

A proposal to ratify the appointment of Ernst & Young LLP as our independent auditors for our fiscal year ending January 31, 2009 was approved, with 103,154,483 votes for, 247,996 votes against, and 30,477 abstentions.

Information regarding a settlement agreement between Charming Shoppes, Inc. and The Charming Shoppes Full Value Committee terminating a proxy contest and related litigation in connection with the Meeting is included under the caption "RECENT DEVELOPMENTS" in the Proxy Statement and is incorporated herein by reference.

Item 6. Exhibits

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

2.1 Stock Purchase Agreement dated May 19, 2005 by and among Chestnut Acquisition Sub, Inc., Crosstown Traders, Inc., the Securityholders of Crosstown Traders, Inc. whose names are set forth on the signature pages thereto, and J.P. Morgan Partners (BHCA), L.P., as the Sellers' Representative, incorporated by reference to Form 8-K of the Registrant dated June 2, 2005, filed on June 8, 2005. (Exhibit 2.1).
3.1 Restated Articles of Incorporation.
3.2 Bylaws, as Amended and Restated through July 10, 2008.
4.1 Indenture between the Company and Wells Fargo Bank, National Association, dated as of April 30, 2007, incorporated by reference to Form 8-K of the Registrant dated April 30, 2007, filed on May 3, 2007. (Exhibit 4.1).
4.2 Form of 1.125% Senior Convertible Note due 2012 (included in Exhibit 4.1).
10.1 Form of Time-Based Restricted Stock Units Agreement for Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.1).
10.2 Form of Time-Based Stock Appreciation Rights Agreement for Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.2).
10.3 Form of Time-Based Restricted Stock Units Agreement for Other Executive Officers, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.3).
10.4 Form of Time-Based Stock Appreciation Rights Agreement for Other Executive Officers, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.4).
10.5 Form of Performance-Based Restricted Stock Units Agreement for Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.5).
10.6 Form of Performance-Based Stock Appreciation Rights Agreement for Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.6).
10.7 Form of Additional Time-Based Restricted Stock Units Agreement for Other Executive Officers, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.7).
10.8 Form of Additional Time-Based Stock Appreciation Rights Agreement for Other Executive Officers, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.8).
10.9 Form of Performance-Based EBITDA Stock Appreciation Rights Agreement, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.9).
10.10 Form of Stock Appreciation Rights Agreement for Alan Rosskamm.

10.11	Amendment, dated as of May 15, 2008, to Amended and Restated Receivables Purchase Agreement dated as of June 2, 2005, by and among Catalog Receivables LLC as seller; Spirit of America, Inc. as servicer; Sheffield Receivables Corporation as Purchaser; and Barclays Bank PLC as administrator for the Purchaser, incorporated by reference to Form 10-Q of the Registrant dated May 3, 2008, filed on June 6, 2008. (Exhibit 10.10).
10.12	Letter Agreement, dated as of June 20, 2008, to Certificate Purchase Agreement, dated as of May 28, 1999, as amended, among Charming Shoppes Receivables Corp., as Seller and Class B Purchaser; Spirit of America, Inc., as Servicer; Clipper Receivables Company, LLC, as Class A Purchaser; and State Street Global Markets, LLC, as Administrator for the Class A Purchaser.
10.13	Charming Shoppes, Inc. 2003 Non-Employee Directors Compensation Plan, Amended and Restated, Effective May 7, 2008, incorporated by reference to Form 10-Q of the Registrant dated May 3, 2008, filed on June 6, 2008. (Exhibit 10.12).
10.14	Charming Shoppes, Inc. Annual Incentive Program – Fiscal 2009, as amended and restated March 27, 2008, incorporated by reference to Form 10-Q of the Registrant dated May 3, 2008, filed on June 6, 2008. (Exhibit 10.13).
10.15	Settlement Agreement by and between Charming Shoppes, Inc. and The Charming Shoppes Full Value Committee dated as of May 8, 2008, incorporated by reference to Form 8-K of the Registrant dated May 8, 2008, filed on May 9, 2008. (Exhibit 10.1).
10.16	Separation Agreement, dated July 8, 2008, by and between Charming Shoppes, Inc. and Dorrit J. Bern.
31.1	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CHARMING SHOPPES, INC.
(Registrant)

Date: September 4, 2008

/S/ ALAN ROSSKAMM
Alan Rosskamm
Chairman of the Board
Interim Chief Executive Officer

Date: September 4, 2008

/S/ ERIC M. SPECTER
Eric M. Specter
Executive Vice President
Chief Financial Officer

Exhibit Index

Exhibit No.	Item
2.1	Stock Purchase Agreement dated May 19, 2005 by and among Chestnut Acquisition Sub, Inc., Crosstown Traders, Inc., the Securityholders of Crosstown Traders, Inc. whose names are set forth on the signature pages thereto, and J.P. Morgan Partners (BHCA), L.P., as the Sellers' Representative, incorporated by reference to Form 8-K of the Registrant dated June 2, 2005, filed on June 8, 2005. (Exhibit 2.1).
3.1	Restated Articles of Incorporation.
3.2	Bylaws, as Amended and Restated through July 10, 2008.
4.1	Indenture between the Company and Wells Fargo Bank, National Association, dated as of April 30, 2007, incorporated by reference to Form 8-K of the Registrant dated April 30, 2007, filed on May 3, 2007. (Exhibit 4.1).
4.2	Form of 1.125% Senior Convertible Note due 2012 (included in Exhibit 4.1).
10.1	Form of Time-Based Restricted Stock Units Agreement for Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.1).
10.2	Form of Time-Based Stock Appreciation Rights Agreement for Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.2).
10.3	Form of Time-Based Restricted Stock Units Agreement for Other Executive Officers, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.3).
10.4	Form of Time-Based Stock Appreciation Rights Agreement for Other Executive Officers, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.4).
10.5	Form of Performance-Based Restricted Stock Units Agreement for Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.5).
10.6	Form of Performance-Based Stock Appreciation Rights Agreement for Dorrit J. Bern, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.6).
10.7	Form of Additional Time-Based Restricted Stock Units Agreement for Other Executive Officers, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.7).
10.8	Form of Additional Time-Based Stock Appreciation Rights Agreement for Other Executive Officers, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.8).
10.9	Form of Performance-Based EBITDA Stock Appreciation Rights Agreement, incorporated by reference to Form 8-K of the Registrant dated April 1, 2008, filed on April 7, 2008. (Exhibit 10.9).
10.10	Form of Stock Appreciation Rights Agreement for Alan Rosskamm.

10.11	Amendment, dated as of May 15, 2008, to Amended and Restated Receivables Purchase Agreement dated as of June 2, 2005, by and among Catalog Receivables LLC as seller; Spirit of America, Inc. as servicer; Sheffield Receivables Corporation as Purchaser; and Barclays Bank PLC as administrator for the Purchaser, incorporated by reference to Form 10-Q of the Registrant dated May 3, 2008, filed on June 6, 2008. (Exhibit 10.10).
10.12	Letter Agreement, dated as of June 20, 2008, to Certificate Purchase Agreement, dated as of May 28, 1999, as amended, among Charming Shoppes Receivables Corp., as Seller and Class B Purchaser; Spirit of America, Inc., as Servicer; Clipper Receivables Company, LLC, as Class A Purchaser; and State Street Global Markets, LLC, as Administrator for the Class A Purchaser.
10.13	Charming Shoppes, Inc. 2003 Non-Employee Directors Compensation Plan, Amended and Restated, Effective May 7, 2008, incorporated by reference to Form 10-Q of the Registrant dated May 3, 2008, filed on June 6, 2008. (Exhibit 10.12).
10.14	Charming Shoppes, Inc. Annual Incentive Program – Fiscal 2009, as amended and restated March 27, 2008, incorporated by reference to Form 10-Q of the Registrant dated May 3, 2008, filed on June 6, 2008. (Exhibit 10.13).
10.15	Settlement Agreement by and between Charming Shoppes, Inc. and The Charming Shoppes Full Value Committee dated as of May 8, 2008, incorporated by reference to Form 8-K of the Registrant dated May 8, 2008, filed on May 9, 2008. (Exhibit 10.1).
10.16	Separation Agreement, dated July 8, 2008, by and between Charming Shoppes, Inc. and Dorrit J. Bern.
31.1	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.