GLOBAL INDUSTRIES LTD
Form 10-Q
August 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from __________ to __________

Commission File Number: 0-21086

Global Industries, Ltd.

(Exact name of registrant as specified in its charter)

Louisiana	**72-1212563**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8000 Global Drive Carlyss, Louisiana	**70665**
(Address of principal executive offices)	(Zip Code)

(337) 583-5000

(Registrant s telephone number, including area code)

None

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

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

YES þ NO o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

YES o NO þ

The number of shares of the registrant s common stock outstanding as of August 2, 2011, was 115,953,817.

Global Industries, Ltd.
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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GLOBAL INDUSTRIES, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30 2011 *(Unaudited)*	December 31 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 186,675	$ 349,609
Restricted cash	27,952	4,297
Marketable securities	22,763	
Accounts receivable net of allowance of $1,048 for 2011 and $2,767 for 2010	62,529	40,693
Unbilled work on uncompleted contracts	86,119	56,152
Contract costs incurred not yet recognized	14,959	15,052
Deferred income taxes	3,130	4,610
Assets held for sale	1,510	16,719
Prepaid expenses and other	27,950	34,099
Total current assets	433,587	521,231
Property and Equipment, net	822,929	784,719
Other Assets		
Marketable securities long-term	7,173	
Accounts receivable long-term	8,687	8,679
Deferred charges, net	22,761	20,429
Other	10,752	8,683
Total other assets	49,373	37,791
Total	$ 1,305,889	$ 1,343,741
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Current maturities of long term debt	$ 3,960	$ 3,960
Accounts payable	142,750	109,394
Employee-related liabilities	19,263	17,935
Income taxes payable	20,823	26,618
Accrued anticipated contract losses	292	5,782
Other accrued liabilities	21,456	31,721
Total current liabilities	208,544	195,410
Long-Term Debt	302,180	299,405
Deferred Income Taxes	52,517	49,995

Other Liabilities	21,322	18,242
Commitments and Contingencies		
Shareholders Equity		
Common stock, $0.01 par value, 250,000 shares authorized, and 115,950 and 115,504 shares issued at June 30, 2011 and December 31, 2010, respectively	1,160	1,155
Additional paid-in capital	415,983	414,895
Retained earnings	311,650	372,768
Accumulated other comprehensive loss	(8,822)	(8,770)
Shareholders equity Global Industries, Ltd.	719,971	780,048
Noncontrolling interest	1,355	641
Total equity	721,326	780,689
Total	$ 1,305,889	$ 1,343,741

See Notes to Condensed Consolidated Financial Statements.

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GLOBAL INDUSTRIES, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Revenues	$ 132,904	$ 121,768	$ 202,921	$ 228,579
Cost of operations	140,214	114,585	231,036	225,645
Gross profit (loss)	(7,310)	7,183	(28,115)	2,934
Loss (gain) on asset disposals and impairments	2,254	10,214	(7,025)	10,788
Selling, general and administrative expenses	16,893	17,395	33,833	34,939
Operating income (loss)	(26,457)	(20,426)	(54,923)	(42,793)
Interest income	734	492	1,209	733
Interest expense	(2,448)	(1,756)	(4,983)	(4,659)
Other income (expense), net	223	(579)	1,029	(1,006)
Income (loss) before taxes	(27,948)	(22,269)	(57,668)	(47,725)
Income tax expense (benefit)	(1,102)	(23,675)	2,736	(27,773)
Net income (loss)	(26,846)	1,406	(60,404)	(19,952)
Less: Net income attributable to noncontrolling interest	346		714	
Net income (loss) attributable to Global Industries, Ltd.	$ (27,192)	$ 1,406	$ (61,118)	$ (19,952)
Earnings (Loss) Per Common Share				
Basic	$ (0.24)	$ 0.01	$ (0.54)	$ (0.18)
Diluted	$ (0.24)	$ 0.01	$ (0.54)	$ (0.18)
Weighted Average Common Shares Outstanding				
Basic	114,289	113,831	114,230	113,595
Diluted	114,289	114,126	114,230	113,595

See Notes to Condensed Consolidated Financial Statements.

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GLOBAL INDUSTRIES, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except share data)
(Unaudited)

	Common Stock		Additional Paid-In	Treasury	Accumulated Other Comprehensive	Retained	Shareholders Equity-Global Industries,	Non-controlling	Total
	Shares	**Amount**	**Capital**	**Stock**	**Loss**	**Earnings**	**Ltd.**	**Interest**	**Equity**
Balance at Dec. 31, 2010	115,503,971	$ 1,155	$ 414,895	$	$ (8,770)	$ 372,768	$ 780,048	$ 641	$ 780,689
Comprehensive income (loss):									
Net income (loss)						(61,118)	(61,118)	714	(60,404)
Unrealized loss on derivatives					(61)		(61)		(61)
Unrealized gain on marketable securities					9		9		9
Total comprehensive income (loss), net of tax					(52)	(61,118)	(61,170)	714	(60,456)
Amortization of unearned stock compensation			1,457				1,457		1,457
Restricted stock issues, net	437,353	5	140				145		145
Exercise of stock options	8,500		39				39		39
Tax effect of exercise of stock options			(548)				(548)		(548)
Balance at June 30, 2011	**115,949,824**	**$ 1,160**	**$ 415,983**	**$**	**$ (8,822)**	**$ 311,650**	**$ 719,971**	**$ 1,355**	**$ 721,326**

	Common Stock		Additional Paid-In	Treasury	Accumulated Other Comprehensive	Retained	Shareholders Equity-Global Industries,	Non-controlling	Total
	Shares	**Amount**	**Capital**	**Stock**	**Loss**	**Earnings**	**Ltd.**	**Interest**	**Equity**
Balance at Dec. 31, 2009	119,988,742	$ 1,200	$ 513,353	$ (105,038)	$ (8,446)	$ 468,430	$ 869,499	$	$ 869,499

Comprehensive income (loss):									
Net income (loss)						(19,952)	(19,952)		(19,952)
Unrealized loss on derivatives					(919)		(919)		(919)
Reclassification of unrealized loss on auction rate securities					83		83		83
Total comprehensive income (loss), net of tax					(836)	(19,952)	(20,788)		(20,788)
Amortization of unearned stock compensation			1,856				1,856		1,856
Restricted stock issues, net	1,252,211	12	3,032				3,044		3,044
Exercise of stock options	2,400		10				10		10
Tax effect of exercise of stock options			(296)				(296)		(296)
Retirement of treasury stock	(6,130,195)	(61)	(104,977)	105,038					
Balance at June 30, 2010	**115,113,158**	**$ 1,151**	**$ 412,978**	**$**	**$ (9,282)**	**$ 448,478**	**$ 853,325**	**$**	**$ 853,325**

See Notes to Condensed Consolidated Financial Statements.

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GLOBAL INDUSTRIES, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30	
	2011	**2010**
Cash Flows From Operating Activities		
Net income (loss)	$ (60,404)	$ (19,952)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and non-stock-based amortization	20,338	22,471
Stock-based compensation expense	2,546	5,483
Provision for/(Recovery of) doubtful accounts	(97)	1,212
Gain on sale or disposal of property and equipment	(12,492)	(146)
Derivative (gain) loss	369	834
Loss on asset impairments	5,468	10,934
Deferred income taxes	2,921	(22,728)
Other	10	561
Changes in operating assets and liabilities		
Accounts receivable, unbilled work, and contract costs	(48,023)	78,744
Prepaid expenses and other	3,596	(25,128)
Accounts payable, employee-related liabilities, and other accrued liabilities	24,019	(47,590)
Deferred dry-docking costs incurred	(7,698)	(2,186)
Net cash provided by (used in) operating activities	(69,447)	2,509
Cash Flows From Investing Activities		
Proceeds from the sale of assets	2,142	919
Advance deposits on asset sales		13,750
Additions to property and equipment	(40,536)	(104,851)
Sale of marketable securities		40,664
Purchase of marketable securities	(29,936)	
Decrease in (additions to) restricted cash	(23,655)	(4,131)
Net cash provided by (used in) investing activities	(91,985)	(53,649)
Cash Flows From Financing Activities		
Repayment of long-term debt	(1,980)	(1,980)
Payments on long-term payables for property and equipment acquisitions		(26,031)
Proceeds from sale of common stock, net	39	10
Repurchase of common stock	(974)	(607)
Additions to deferred charges	(149)	(563)
Net cash provided by (used in) financing activities	(3,064)	(29,171)

Effect of exchange rate changes on cash	1,562	183
Cash and cash equivalents		
Increase (decrease)	(162,934)	(80,128)
Beginning of period	349,609	344,855
End of period	$ 186,675	$ 264,727
Supplemental Disclosures		
Interest paid, net of amounts capitalized	$ 6,784	$ 3,153
Income tax payments (refunds), net	$ (5,735)	$ 3,562
Property and equipment additions included in accounts payable	$ 43,702	$ 27,252

See Notes to Condensed Consolidated Financial Statements.

GLOBAL INDUSTRIES, LTD.
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. ***General***

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Global Industries, Ltd. and its subsidiaries (Company, we, us, or our).

In the opinion of our management, all adjustments (such adjustments consisting of a normal and recurring nature) necessary for a fair presentation of the operating results for the interim periods presented have been included in the unaudited Condensed Consolidated Financial Statements. Operating results for the period ended June 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These financial statements should be read in conjunction with our audited Consolidated Financial Statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

All $ represent U.S. Dollars.

Recent Accounting Pronouncements

ASU No. 2010-06. In January 2010, the FASB issued ASU No. 2010-06 which amends ASC Topic 820, Fair Value Measurement, to add new disclosure requirements about recurring and nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance was effective for reporting periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures which were effective for reporting periods beginning after December 15, 2010. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

ASU No. 2011-04. In May 2011, the FASB issued ASU No. 2011-04 which amends ASC Topic 820, Fair Value Measurement, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). This guidance is largely consistent with existing fair value measurement principles in GAAP; however, it expands current disclosure requirements for fair value measurements and amends the application of certain fair value measurements. This guidance is effective for reporting periods beginning on or after December 15, 2011. We do not expect the adoption of this guidance to have a material impact on our condensed consolidated financial statements.

ASU No. 2011-05. In June 2011, the FASB issued ASU No. 2011-05 which amends ASC Topic 220, Comprehensive Income, to improve the comparability of comprehensive income presentation in financial statements prepared in accordance with GAAP and IFRS. This guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. This guidance is effective for reporting periods beginning after December 15, 2011. We do not expect the adoption of this guidance to have a material impact on our condensed consolidated financial statements.

2. ***Restricted Cash***

At June 30, 2011, we had restricted cash of $28.0 million. Of this amount, $24.7 million represents the cash collateral for the $24.1 million outstanding letters of credit and bank guarantees related to the February 2011 amendment of our Third Amended and Restated Credit Agreement, as amended (Revolving Credit Facility). We expect the period of restriction on this cash will not exceed twelve months based upon our operating and cash flow projections. This restricted cash is therefore classified as a current asset on the accompanying Condensed Consolidated Balance Sheets.

In addition, at June 30, 2011, we had $3.3 million of restricted cash for excess project funds denominated in Indian rupees in the Asia Pacific region and held at the Royal Bank of Scotland and Standard Chartered Bank. These funds can only be repatriated after the project accounts are audited and tax clearance obtained. We expect the period of restriction on this cash will not exceed twelve months and is therefore classified as a current asset on the Condensed Consolidated Balance Sheets.

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3. ***Marketable Securities***

The following table is a summary of our marketable securities as of June 30, 2011:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Municipal bonds	$ 7,780	$ 4	$	$ 7,784
Corporate bonds	7,266		(1)	7,265
US Government bonds	1,902			1,902
Commercial paper	12,974	11		12,985
Total	$ 29,922	$ 15	$ (1)	$ 29,936

Our investment in marketable securities is included in the following accounts on the Condensed Consolidated Balance Sheets:

	June 30 2011	December 31 2010
	(In thousands)	
Marketable securities	$ 22,763	$
Marketable securities long term	7,173	
Total	$ 29,936	$

Our investments in marketable securities are classified as available-for-sale and are carried at fair value with any unrealized gains and losses recorded in Other comprehensive income. All unrealized gains and losses as of June 30, 2011 are temporary. As of June 30, 2011, the contractual maturities of our marketable securities range from August 2011 to August 2012.

4. ***Derivatives***

We provide services in a number of countries throughout the world and, as a result, are exposed to changes in foreign currency exchange rates. Costs in some countries are incurred, in part, in currencies other than the applicable functional currency. We selectively use forward foreign currency contracts to manage our foreign currency exposure. Our outstanding forward foreign currency contracts at June 30, 2011 are used to hedge (i) cash flows for long-term charter payments on a multi-service vessel denominated in Norwegian kroners, (ii) certain purchase commitments related to the construction of the ***Global 1201*** in Singapore dollars, and (iii) a portion of the operating costs in the Asia Pacific region that are denominated in Singapore dollars.

The Norwegian kroner forward contracts have maturities extending until June 2012 and are accounted for as cash flow hedges with the effective portion of unrealized gains and losses recorded in Accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For the three and six months ended June 30, 2011, there was no ineffective portion of the hedging relationship for these forward contracts. As of June 30, 2011, there were $0.1 million in unrealized gains, net of taxes, in Accumulated other comprehensive income (loss) of which approximately $0.1 million is expected to be realized in earnings during the twelve months following June 30, 2011. As of June 30, 2011 and December 31, 2010, these contracts are included in Prepaid expenses and other on the Condensed Consolidated Balance Sheets, valued at

$0.2 million and $0.3 million, respectively. For the three and six months ended June 30, 2011, we recorded $0.5 million and $0.7 million, respectively, in gains related to these contracts which are included in Cost of operations on the Condensed Consolidated Statement of Operations. For the three and six months ended June 30, 2010, we recorded $0.1 million and $0.2 million, respectively, in gains which are included in Cost of operations on the Condensed Consolidated Statement of Operations.

In 2010 and 2011, we entered into forward contracts to purchase Singapore dollars to hedge certain purchase commitments related to the construction of the ***Global 1200*** and ***1201*** in Singapore dollars. In the first quarter of 2011, we entered into additional forward contracts to purchase 5.0 million Singapore dollars to hedge a portion of

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our operating expenses in the Asia Pacific region. We have not elected hedge treatment for these contracts. Consequently, changes in the fair value of these instruments are recorded in Other income (expense), net on the Condensed Consolidated Statement of Operations. For the three and six months ended June 30, 2011, we recorded losses of $0.5 million and $0.4 million, respectively, related to these contracts. For the three and six months ended June 30, 2010, we recorded $0.1 million in gains and $0.7 million in losses, respectively, related to these contracts. As of June 30, 2011 and December 31, 2010, these contracts are included in Prepaid expenses and other on the Condensed Consolidated Balance Sheets, valued at $0.1 million and $0.5 million, respectively.

See Note 5 for more information regarding the fair value calculation of our outstanding derivative instruments.

5. *Fair Value Measurements*

Fair value is defined in accounting guidance as the price that would be received to sell an asset or paid to transfer a liability (i.e. exit price) in an orderly transaction between market participants at the measurement date. This guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy for inputs is categorized into three levels based on the reliability of inputs as follows:

Level 1 Observable inputs such as quoted prices in active markets.

Level 2 Inputs (other than quoted prices in active markets) that are either directly or indirectly observable.

Level 3 Unobservable inputs which requires management s best estimate of what market participants would use in pricing the asset or liability.

Our financial instruments include cash and short-term investments, investments in marketable securities, accounts receivable, accounts payable, debt, and forward foreign currency contracts. Except as described below, the estimated fair value of such financial instruments at June 30, 2011 and December 31, 2010 approximates their carrying value as reflected in our Condensed Consolidated Balance Sheets.

Our debt consists of our United States Government Ship Financing Title XI bonds and our Senior Convertible Debentures due 2027 (the Senior Convertible Debentures). The fair value of the bonds, based on current market conditions and net present value calculations, as of June 30, 2011 and December 31, 2010, was approximately $69.8 million and $71.5 million, respectively. The fair value of the Senior Convertible Debentures, based on quoted market prices, as of June 30, 2011 and December 31, 2010 was $243.8 million and $232.5 million, respectively.

Assets measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations.

Fair Value Measurements at June 30, 2011

(In thousands)

Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash equivalents	$ 123,558	$ 123,558	$	$
Marketable securities	29,936	29,936		
Derivative contracts	341		341	
Total	$ 153,835	$ 153,494	$ 341	$

Fair Value Measurements at December 31, 2010

(In thousands)

Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash equivalents	$ 179,887	$ 179,887	$	$
Derivative contracts	804		804	

Total	$ 180,691	$ 179,887	$ 804	$

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Financial instruments classified as Level 2 in the fair value hierarchy represent our forward foreign currency contracts. These contracts are valued using the market approach which uses prices and other information generated by market transactions involving identical or comparable assets or liabilities.

Financial instruments classified as Level 3 in the fair value hierarchy represent our previous investment in auction rate securities and the related put option with UBS in which management used at least one significant unobservable input in the valuation model. Due to the lack of observable market quotes on our prior auction rate securities portfolio, we utilized a valuation model that relied on Level 3 inputs including market, tax status, credit quality, duration, recent market observations and overall capital market liquidity. The valuation of our auction rate securities was subject to uncertainties that were difficult to predict. Factors that may have impacted our valuation included changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity.

The following table presents a reconciliation of activity for such securities:

Changes in Level 3 Financial Instruments

(In thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Balance at beginning of period	$	$ 30,750	$	$ 41,847
Sales		(30,000)		(40,664)
Total gains or (losses):				
Realized losses included in other income (expense), net				(561)
Changes in net unrealized gain (losses) included in other comprehensive income				128
Balance at end of period	$	$ 750	$	$ 750

In the second quarter of 2011, we re-measured the fair value of all assets currently held for sale, including the ***Hercules*** reel, the ***Subtec 1***, and other equipment. In determining the fair value of these assets, we used a valuation model that relies on Level 3 inputs including market data of recent sales of similar assets, our prior experience in the sale of similar assets, and the price of third party offers for the assets. The carrying amount of these assets of $7.3 million was written down to their fair value of $1.8 million resulting in an impairment of $5.5 million, which was included in earnings for the second quarter of 2011. (See Note 7 for additional information regarding the impairment of these assets.)

6. *Receivables*

Our receivables are presented in the following balance sheet accounts: (1) Accounts receivable, (2) Accounts receivable long term, (3) Unbilled work on uncompleted contracts, and (4) Contract costs incurred not yet recognized. Accounts receivable are stated at net realizable value, and the allowances for uncollectible accounts were $1.0 million and $2.8 million at June 30, 2011 and December 31, 2010, respectively. Accounts receivable at June 30, 2011 and December 31, 2010 included $0.6 million and $0.6 million, respectively, of retainage, which represents the short-term portion of amounts not immediately collectible due to contractually specified requirements. Accounts receivable long term at June 30, 2011 and December 31, 2010 represented amounts related to retainage that were not expected to be collected within the next twelve months.

Receivables also included claims and unapproved change orders of $14.3 million at June 30, 2011 and $16.7 million at December 31, 2010. These claims and change orders are amounts due for extra work and/or changes in the scope of work on certain projects.

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The costs and estimated earnings on uncompleted contracts are presented in the following table:

	June 30 2011	December 31 2010
	(In thousands)	
Costs incurred and recognized on uncompleted contracts	$ 353,741	$ 309,725
Estimated earnings	10,827	38,871
Costs and estimated earnings on uncompleted contracts	364,568	348,596
Less: Billings to date	(294,322)	(299,932)
	70,246	48,664
Plus: Accrued revenue[1]	15,873	7,488
Less: Advance billing on uncompleted contracts	(6,047)	(221)
	$ 80,072	$ 55,931
Included in accompanying balance sheets under the following captions:		
Unbilled work on uncompleted contracts	$ 86,119	$ 56,152
Other accrued liabilities	(6,047)	(221)
	$ 80,072	$ 55,931

(1) Accrued revenue represents unbilled accounts receivable related to work performed on projects for which the percentage of completion method is not applicable.

7. ***Asset Disposal and Impairments and Assets Held for Sale***

Due to escalating costs for dry-docking services, escalating repair and maintenance costs for aging vessels, increasing difficulty in obtaining certain replacement parts, declining marketability of certain vessels, and our strategic shift to deepwater vessels, we decided to forego dry-docking or refurbishment of certain vessels and to sell or permanently retire them from service. Consequently, we recognized gains and losses on the disposition of certain vessels, and non-cash impairment charges on the retirement of other vessels. Each asset was analyzed using an undiscounted cash flow analysis and valued at the lower of carrying value or net realizable value.

Net Gains and (Losses) on Asset Disposal consisted of the following:

	Three Months Ended June 30		Six Months Ended June 30	
Segment	**2011**	**2010**	**2011**	**2010**
	(In thousands)			
Construction and Installation	$ 3,561	$ (9)	$ 12,852(1)	$ 129
Other Offshore Services	(236)	17	(248)	17
Corporate	(112)		(112)	
	$ 3,213	$ 8	$ 12,492	$ 146

(1) Proceeds from the sale of a derrick lay barge (DLB) were received in 2010 and formal transfer of title occurred in 2011.

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Losses on Asset Impairments consisted of the following:

Segment	Description of Asset	Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
		(In thousands)			
Construction and Installation	One OSV and other equipment in 2011 & 2010	$ 5,467	$ 9,127	$ 5,467	$ 9,127
Other Offshore Services	Two DSVs and other equipment		1,095		1,807
		$ 5,467	$ 10,222	$ 5,467	$ 10,934

Assets Held for Sale consisted of the following:

Segment	Description of Asset	June 30 2011	Description of Asset	December 31 2010
		(In thousands)		(In thousands)
Construction and Installation	One OSV and other equipment	$ 1,510	One DLB, one OSV and other equipment	$ 14,469
Corporate	None		Airplane	2,250
		$ 1,510		$ 16,719

In accordance with accounting guidance, long-lived assets held for sale are carried at the lower of the asset s carrying value or net realizable value and depreciation ceases.

8. ***Property and Equipment***

The components of property and equipment, at cost, and the related accumulated depreciation are as follows:

	June 30 2011	December 31 2010
	(In thousands)	
Land	$ 6,322	$ 6,322
Facilities and equipment	237,623	153,695
Marine vessels	479,414	285,113
Construction in progress	304,308	531,765
Total property and equipment	1,027,667	976,895
Less: Accumulated depreciation	(204,738)	(192,176)
Property and equipment, net	$ 822,929	$ 784,719

Expenditures for property and equipment and items that substantially increase the useful lives of existing assets are capitalized at cost and depreciated. Routine expenditures for repairs and maintenance are expensed as incurred. We capitalized $4.0 million and $4.5 million of interest costs for the three months ended June 30, 2011 and 2010, respectively. We capitalized $8.4 million and $8.9 million of interest costs for the six months ended June 30, 2011 and 2010, respectively. Except for major construction vessels that are depreciated on the units-of-production (UOP) method over estimated vessel operating days, depreciation is provided utilizing the straight-line method over the estimated useful lives of the assets. The UOP method is based on vessel utilization days and more closely correlates depreciation expense to vessel revenue. In addition, the UOP method provides for a minimum depreciation floor in periods with nominal vessel use. In general, if we applied only a straight-line depreciation method instead of the UOP method, less depreciation expense would be recorded in periods of high utilization and revenues, and more depreciation expense would be recorded in periods of low vessel utilization and revenues.

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9. ***Deferred Dry-Docking Costs***

We utilize the deferral method to capitalize vessel dry-docking costs and to amortize the costs to the next dry-docking. Such capitalized costs include regulatory required steel replacement, direct costs for vessel mobilization and demobilization, and rental of dry-docking facilities and services. Crew costs may also be capitalized when employees perform all or a part of the required dry-docking. Any repair and maintenance costs incurred during the dry-docking period are expensed.

The table below presents dry-docking costs incurred and amortization for all periods presented:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
	(In thousands)		*(In thousands)*	
Net book value at beginning of period	$ 15,675	$ 38,487	$ 13,609	$ 41,825
Additions for the period	3,315		7,698	2,186
Reclassifications to assets held for sale		(399)		(1,688)
Amortization expense for the period	(2,224)	(3,965)	(4,541)	(8,200)
Net book value at end of period	$ 16,766	$ 34,123	$ 16,766	$ 34,123

The book value of our deferred dry-docking costs as of June 30, 2011 and December 31, 2010 are included in Deferred charges, net on the Condensed Consolidated Balance Sheets.

10. ***Long-Term Debt***

The components of long-term debt are as follows:

	June 30 2011	**December 31 2010**
	(In thousands)	
Senior Convertible Debentures due 2027, 2.75%		
Principal amount of debt component	$ 325,000	$ 325,000
Less: Unamortized debt discount	(74,300)	(79,055)
Carrying amount of debt component	250,700	245,945
Title XI Bonds due 2025, 7.71%	55,440	57,420
Total long-term debt	306,140	303,365
Less: Current maturities	3,960	3,960
Long-term debt less current maturities	$ 302,180	$ 299,405

Senior Convertible Debentures

Our convertible debt was separated into debt and equity components when our Senior Convertible Debentures were issued and a value was assigned to each. The value assigned to the debt component is the estimated fair value of similar debentures without the conversion feature. The difference between the debenture cash proceeds and this estimated fair value was recorded as debt discount and is being amortized to interest expense over the 10-year period ending August 1, 2017. This is the earliest date that holders of the Senior Convertible Debentures may require us to repurchase all or part of their Senior Convertible Debentures for cash.

The Senior Convertible Debentures are convertible into cash, and if applicable, into shares of our common stock, or under certain circumstances and at our election, solely into our common stock, based on a conversion rate of 28.1821

shares per $1,000 principal amount of Senior Convertible Debentures, which represents an initial conversion price of $35.48 per share. As of June 30, 2011 and December 31, 2010, the Senior Convertible Debentures if-converted value does not exceed the Senior Convertible Debentures principal of $325 million.

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The equity component of our Senior Convertible Debentures is comprised of the following:

	June 30 2011	December 31 2010
	(In thousands)	
Debt discount on issuance	$ 107,261	$ 107,261
Less: Issuance costs	2,249	2,249
Deferred income tax	36,772	36,772
Carrying amount of equity component	$ 68,240	$ 68,240

The interest expense for our Senior Convertible Debentures is comprised of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Contractual interest coupon, 2.75%	$ 2,234	$ 2,234	$ 4,468	$ 4,468
Amortization of debt discount	2,391	2,222	4,754	4,417
Total Debentures interest expense	$ 4,625	$ 4,456	$ 9,222	$ 8,885
Effective interest rate	7.5%	7.5%	7.5%	7.5%

Revolving Credit Facility

Our Revolving Credit Facility, which matures on October 18, 2012, provides a borrowing capacity of up to $150.0 million. As of June 30, 2011, we had no borrowings against the facility and $24.1 million of letters of credit outstanding thereunder. Due to the sale of vessels mortgaged under the Revolving Credit Facility, our effective maximum borrowing capacity was $134.1 million as of June 30, 2011, with credit availability of $110.0 million.

On February 24, 2011, we amended our Revolving Credit Facility. The amendment allows us, at our option, to choose to cash collateralize our letter of credit exposure when covenant compliance, as defined in the Revolving Credit Facility, is not possible and thereby achieve compliance. During periods of cash collateralization, no borrowings, letters of credit, or bank guarantees unsecured by cash are permitted. Our current financial projections indicated that we were not expected to meet the financial covenants of the Revolving Credit Facility as of June 30, 2011. Consequently, we have cash collateralized our outstanding letters of credit in order to achieve compliance and are currently unable to borrow under the Revolving Credit Facility.

Our Revolving Credit Facility has a customary cross default provision triggered by a default of any of our other indebtedness, the aggregate principal amount of which is in excess of $5 million.

We also have a $6.0 million short-term credit facility at one of our foreign locations. At June 30, 2011, we had $1.6 million of letters of credit outstanding and $4.4 million of credit availability under this particular credit facility.

11. *Commitments and Contingencies*

Commitments

Construction and Purchases in Progress The estimated cost to complete capital expenditure projects in progress at June 30, 2011 was approximately $96.7 million, of which $54.8 million is obligated through contractual commitments. The total estimated cost primarily represents expenditures for construction of the ***Global 1201***, our second new generation derrick/pipelay vessel. This amount includes aggregate commitments of 20.9 million Singapore dollars (or $16.9 million as of June 30, 2011) and 1.3 million Euros (or $1.9 million as of June 30, 2011). We have entered into forward contracts to purchase 7.5 million Singapore dollars to hedge certain of these purchase

commitments. (See Note 4 for additional information related to our forward foreign currency contracts.)

Off Balance Sheet Arrangements In the normal course of our business activities, and pursuant to agreements or upon obtaining such agreements to perform construction services, we provide guarantees, performance, bid, and payment bonds, and letters of credit to customers, vendors, and other parties. At June 30, 2011, the aggregate

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amount of these outstanding bonds was $28.5 million, which are scheduled to expire between July 2011 and July 2012, and the aggregate amount of these outstanding letters of credit was $24.1 million, which are due to expire between July 2011 and March 2014.

Contingencies

During the fourth quarter of 2007, we received a payroll tax assessment for the years 2005 through 2007 from the Nigerian Revenue Department valued at $18.0 million based on the exchange rate of the Nigerian naira as of June 30, 2011. The assessment alleges that certain expatriate employees, working on projects in Nigeria, were subject to personal income taxes, which were not paid to the government. We filed a formal objection to the assessment on November 12, 2007. We do not believe these employees are subject to the personal income tax assessed; however, based on past practices of the Nigerian Revenue Department, we believe this matter will ultimately have to be resolved by litigation. We do not expect the ultimate resolution to have a material adverse effect on our future financial position, operating results, or cash flows.

During 2008, we received an additional assessment from the Nigerian Revenue Department valued at $36.9 million based on the exchange rate for the Nigerian naira as of June 30, 2011 for tax withholding related to third party service providers. The assessment alleges that taxes were not withheld from third party service providers for the years 2002 through 2006 and remitted to the Nigerian government. We have filed an objection to the assessment. We do not expect the ultimate resolution to have a material adverse effect on our future financial position, operating results, or cash flows.

During the third quarter of 2009, we received a tax assessment from the Mexican Revenue Department in the amount of $5.9 million related to the 2003 tax year. The assessment alleges that chartered vessels should be treated as equipment leases and subject to tax at a rate of 10%. We have engaged outside counsel to assist us in this matter and have filed an appeal in the Mexican court system. We await disposition of that appeal. We do not expect the ultimate resolution to have a material adverse effect on our future financial position, operating results, or cash flows; however, if the Mexican Revenue Department prevails in its assessment, we could be exposed to similar liabilities for each of the tax years beginning with 2004 through the current year.

We have one unresolved issue related to an Algerian tax assessment received by us on February 21, 2007. The remaining amount in dispute is approximately $10.4 million of alleged value added tax for the years 2004 and 2005. We are contractually indemnified by our client for the full amount of the assessment that remains in dispute. We continue to engage outside tax counsel to assist us in resolving the tax assessment.

During the first quarter of 2011, we received corporate tax demands from the Indian Revenue Department related to tax years 2005 through 2009 in the aggregate amount of $4.5 million (net of taxes paid). The assessments allege that taxable income was understated because certain tax provisions available to the marine construction industry were not applicable. We have engaged outside tax counsel to assist us with the tax demands and have filed objections to the assessments. We do not expect the ultimate resolution to have a material adverse affect on our future financial position, operating results, or cash flows.

During the first quarter of 2011, we also received tax demands for tax withholding on foreign vendors from the Indian Revenue Department in the aggregate amount of $4.4 million (net of taxes paid) related to tax years 2007 through 2009. The assessments allege that taxes were not paid at the proper rate of tax and additional tax is due. We have engaged outside tax counsel to assist us with the tax demands and have filed objections to the assessments. We do not expect the ultimate resolution to have a material adverse affect on our future financial position, operating results, or cash flows.

Investigations and Litigation

We are involved in various legal proceedings and potential claims that arise in the ordinary course of business, primarily involving claims for personal injury under the General Maritime Laws of the United States and Jones Act as a result of alleged negligence. We believe that the outcome of all such proceedings, even if determined adversely, would not have a material adverse effect on our business or financial condition.

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12. ***Comprehensive Income***

Other Comprehensive Income The differences between net income (loss) and comprehensive income (loss) for each of the comparable periods presented are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
	(In thousands)			
Net income (loss)	$ (26,846)	$ 1,406	$ (60,404)	$ (19,952)
Unrealized net gain (loss) on derivatives	(86)	(994)	(95)	(1,414)
Unrealized net gain (loss) on marketable securities	14		14	
Reclassification of loss on auction rate securities				83
Deferred tax benefit (expense)	26	348	29	495
Comprehensive income (loss)	(26,892)	760	(60,456)	(20,788)
Less: Comprehensive income attributable to noncontrolling interest	346		714	
Comprehensive income (loss) attributable to Global Industries, Ltd.	$ (27,238)	$ 760	$ (61,170)	$ (20,788)

Accumulated Other Comprehensive Income (Loss) A roll-forward of the amounts included in accumulated other comprehensive income (loss), net of taxes, is shown below.

	Cumulative Foreign Currency Translation Adjustment	Forward Foreign Currency Contracts	Marketable Securities	Accumulated Other Comprehensive Income (Loss)
	(In thousands)			
Balance at December 31, 2010	$ (8,978)	$ 208	$	$ (8,770)
Change in value		(734)	9	(725)
Reclassification to earnings		673		673
Balance at June 30, 2011	$ (8,978)	$ 147	$ 9	$ (8,822)

The amount of cumulative foreign currency translation adjustment included in accumulated other comprehensive income (loss) relates to prior translations of subsidiaries whose functional currency was not the U.S. dollar. The amount of gain (loss) on forward foreign currency contracts included in accumulated other comprehensive income (loss) hedges our exposure to changes in Norwegian kroners for commitments of a long-term vessel charter. The amount of gain (loss) on marketable securities relates to the difference in the fair value and the amortized cost of the investments.

13. ***Stock-Based Compensation***

We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant date fair value of those awards. The table below sets forth the total amount of stock-based compensation expense for the three and six months ended June 30, 2011 and 2010.

	Three Months Ended	Six Months Ended

	June 30		June 30	
	2011	**2010**	**2011**	**2010**
	(In thousands)			
Stock-based compensation expense				
Stock options	$	$ 120	$ 265	$ 225
Time-based restricted stock	925	1,210	1,559	4,343
Performance shares and units	502	659	722	915
Total stock-based compensation expense	$ 1,427	$ 1,989	$ 2,546	$ 5,483

The table below sets forth the number of shares that vested during the three and six months ended June 30, 2011 and 2010.

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Restricted shares	8,000	42,300	236,267	236,292
Stock awards with immediate vesting granted to managerial employees	32,500	43,700	32,500	403,700
Stock awards with immediate vesting granted to our directors pursuant to the Non-Employee Director Compensation Policy	39,609	33,384	68,013	62,240
Total shares	80,109	119,384	336,780	702,232

14. ***Other Income (Expense), net***
Components of other income (expense), net are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	(In thousands)			
Foreign exchange rate gain (loss)	$ (37)	$ (761)	$ 93	$ 130
Derivative contract gain (loss)	194	145	336	(654)
Loss on sale of auction rate securities				(561)
Penalties on past due taxes	(489)	(20)	(280)	(65)
Other	555	57	880	144
Total	$ 223	$ (579)	$ 1,029	$ (1,006)

15. ***Income Taxes***
Our effective tax rate for the three and six months ended June 30, 2011 was 3.9% and (4.7)%, respectively, compared to 106.3% and 58.2%, respectively, for the three and six months ended June 30, 2010. In the second quarter of 2011, we booked a valuation allowance related to certain foreign tax credit carryforwards. Consequently, the tax benefit on our loss before taxes resulted in a lower rate than the U.S. statutory rate of 35%.

16. ***Earnings Per Share***
Basic earnings per share (EPS) is computed by dividing earnings (loss) attributable to common shareholders during the period by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is computed by dividing net income (loss) attributable to common shareholders during the period by the weighted average number of shares of common stock that would have been outstanding assuming the issuance of potentially dilutive shares of common stock as if such shares were outstanding during the reporting period, net of shares assumed to be repurchased using the treasury stock method. The dilutive effect of stock options and performance units is based on the treasury stock method. The dilutive effect of non-vested restricted stock awards is based on the more dilutive of the treasury stock method or the two-class method assuming a reallocation of undistributed earnings to common shareholders after considering the dilutive effect of potential shares of common stock other than the non-vested shares of restricted stock.

In accordance with current accounting guidance, certain instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to participate in computing earnings per share under the two-class method. Our non-vested restricted stock awards contain nonforfeitable rights to dividends and consequently are included in the computation of basic earnings per share under the two-class method.

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The following table presents information necessary to calculate earnings (loss) per share of common stock for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Basic EPS:				
Net income (loss) attributable to Global Industries, Ltd.	$ (27,192)	$ 1,406	$ (61,118)	$ (19,952)
Less earnings attributable to shareholders of non-vested restricted stock		(15)		
Earnings (loss) attributable to common shareholders	$ (27,192)	$ 1,391	$ (61,118)	$ (19,952)
Weighted-average number of common shares outstanding basic	114,289	113,831	114,230	113,595
Basic earnings (loss) per common share	$ (0.24)	$ 0.01	$ (0.54)	$ (0.18)
Diluted EPS:				
Earnings (loss) attributable to common shareholders basic	$ (27,192)	$ 1,391	$ (61,118)	$ (19,952)
Adjustment to earnings (loss) attributable to common shareholders for redistribution to shareholders of non-vested restricted stock				
Adjusted earnings (loss) attributable to common shareholders diluted	$ (27,192)	$ 1,391	$ (61,118)	$ (19,952)
Weighted average number of common shares outstanding basic	114,289	113,831	114,230	113,595
Dilutive effect of potential common shares:				
Stock options		20		
Performance units		275		
Weighted-average number of common shares outstanding diluted	114,289	114,126	114,230	113,595
Diluted net income (loss) per common share	$ (0.24)	$ 0.01	$ (0.54)	$ (0.18)

Anti-dilutive shares primarily represent options where the strike price was in excess of the average market price of our common stock for the period reported and are excluded from the computation of diluted earnings per share. All potentially dilutive shares of common stock were excluded for the three and six months ended June 30, 2011 and for the six months ended June 30, 2010 as the net losses result in such shares being anti-dilutive. Excluded anti-dilutive shares totaled 1.6 million and 1.7 million for the three months ended June 30, 2011 and 2010, respectively. Excluded anti-dilutive shares totaled 1.6 million and 2.0 million for the six months ended June 30, 2011 and 2010, respectively. The net settlement premium obligation on the Senior Convertible Debentures was not included in the dilutive earnings per share calculation for the three or six months ended June 30, 2011 and 2010 because the conversion price of the

Senior Convertible Debentures was in excess of our common stock price.

17. *Segment Information*

In 2010, we began transitioning the operations of our company from a regional structure to a more centralized structure that focuses on global opportunities for our vessels. As a result, effective January 1, 2011, we have restructured our reporting segments from geographic regions to two new project segments: Construction and Installation and Other Offshore Services. Project work performed on a fixed-price or unit-price basis, where we take

responsibility for managing a project scope that may include material procurement or third-party subcontractors and includes a substantial project management effort, will be reported in the Construction and Installation segment. These projects have a risk of loss due to productivity. Our diving operations and day-rate, time and materials, or cost plus projects, will be reported in the Other Offshore Services segment. The risk of loss on these projects is minimal. These changes have been reflected as retrospective changes to the financial information for the three and six months ended June 30, 2010 presented below. These changes did not affect our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, or Condensed Consolidated Statements of Cash Flows.
The following table presents information about the profit (or loss) for the three and six months ended June 30, 2011 and 2010 of each of our reportable segments:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
	(In thousands)			
Total segment revenues				
Construction and Installation	$ 106,889	$ 77,961	$ 161,141	$ 153,065
Other Offshore Services	26,015	43,807	41,780	75,514
Consolidated revenues	$ 132,904	$ 121,768	$ 202,921	$ 228,579
Income (loss) before taxes				
Construction and Installation	$ (18,290)	$ (8,886)	$ (32,006)	$ (23,158)
Other Offshore Services	(3,099)	(6,455)	(12,656)	(8,267)
Corporate	(6,559)	(6,928)	(13,006)	(16,300)
Consolidated income (loss) before taxes	$ (27,948)	$ (22,269)	$ (57,668)	$ (47,725)

The following table presents information about the assets of each of our reportable segments as of June 30, 2011 and December 31, 2010.

	June 30 2011	December 31 2010
	(In thousands)	
Segment assets at period end		
Construction and Installation	$ 865,660	$ 780,786
Other Offshore Services	106,907	113,129
Corporate	333,322	449,826
Consolidated segment assets at period end	$ 1,305,889	$ 1,343,741

18. *Related Party Transactions*
Mr. William J. Doré, our founder, is also a beneficial owner of more than 5% of our outstanding common stock. Our obligations under the retirement and consulting agreement, as amended, with him were fulfilled in the second quarter of 2011. Pursuant to the terms of the agreement, we recorded expense of $33,333 and $133,333 for services provided for the three and six months ended June 30, 2011, respectively. We recorded expense of $100,000 and $200,000 for services provided for the three and six months ended June 30, 2010, respectively. We also recorded expenses of

$5,234 and $16,800 for the six months ended June 30, 2011 and 2010, respectively, for use of Mr. Doré s hunting lodge related to business development trips.

19. ***Noncontrolling Interest***

Global International Vessels, Ltd. (GIV), a private limited company incorporated under the laws of the Cayman Islands, is a wholly owned subsidiary of the company. On August 10, 2010, GIV sold 60,000 ordinary shares (30 percent) of KGL Ltd. (KGL), its wholly owned subsidiary incorporated under the laws of Labuan, to Selecta Flow (M) Sdn. Bhd. (SF), incorporated under the laws of Malaysia. SF s 30% share of the net income of KGL is reported as Net income attributable to noncontrolling interest on our Condensed Consolidated Statement of

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Operations. SF s 30% share in the equity of KGL is reported as Noncontrolling interest in the Equity section of our Condensed Consolidated Balance Sheet. (See Note 21 for further disclosure.)

20. ***Relocation and Severance Plan***

In May 2010, the decision was made to centralize certain of our company s critical functions in Houston, Texas. In an effort to improve alignment and project execution, we decided to centralize certain critical operational functions, including project management; engineering; operations and fleet management; marketing and business development; supply chain management; health, safety, and environmental; and human resources. Many of these functions were performed at our offices located in Carlyss, Louisiana and Houston, Texas.

On September 1, 2010, we announced our plan to consolidate operations in several of these functions and to relocate 21 employees from our office in Carlyss to Houston. Pursuant to the terms of the plan, we have paid or will pay all qualifying relocation costs for those employees who have accepted the relocation offer. The relocation was substantially completed in the second quarter of 2011.

Employment for certain employees who were not offered relocation packages or who declined the relocation offer was terminated. The effective termination date of the majority of the affected employees was March 31, 2011. Termination benefits were, or will be, paid to the affected employees in accordance with our existing severance policy. Those employees who remain through the transition will receive an additional one-time termination benefit.

The following table presents the total expenses incurred under the relocation and severance plan by reporting segment, which were included in Cost of operations and Selling, general, and administrative expenses on the Condensed Consolidated Statement of Operations for the respective periods.

	Construction and Installation	Other Offshore Services	Corporate	Total
		(In thousands)		
Relocation Costs:				
Costs incurred or charged to expense for the year ended December 31, 2010	$ 616	$ 24	$ 308	$ 948
Costs incurred or charged to expense for the six months ended June 30, 2011	95		25	120
Total relocation costs as of June 30, 2011	$ 711	$ 24	$ 333	$ 1,068
One-time termination benefits:				
Costs incurred or charged to expense for the year ended December 31, 2010	$ 23	$	8	31
Costs incurred or charged to expense for the six months ended June 30, 2011	(1)			(1)
Total one-time termination benefits as of June 30, 2011	$ 22	$	$ 8	$ 30

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A roll-forward of the accrued liability, which is included in Employee-related liabilities on the Condensed Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010, is presented in the following table:

	Relocation Costs	One-time termination benefits
	(In thousands)	
Balance at December 31, 2010	$ 874	$ 31
Costs incurred or charged to expense	120	(1)
Costs paid or settled	(963)	(3)
Balance at June 30, 2011	$ 31	$ 27

21. ***Subsequent Events***

On July 1, 2011, GIV purchased from SF, its current Malaysian partner, SF s 60,000 ordinary shares (30% interest) in KGL and SF s 300,000 ordinary shares (40% interest) in Global Offshore (Malaysia) Sdn. Bhd. (GOM), the Company s Malaysian operating entity. Concurrently with this transaction, GIV sold 40% of both KGL and GOM to Puncak Oil and Gas Sdn. Bhd. (Puncak), a division of Puncak Niaga Holdings Bhd., for combined consideration of $23.6 million. In connection with the transactions, Puncak was granted a one-year option to purchase the remaining 60% interest in KGL and GOM for additional consideration of $35.4 million.

Pursuant to the terms of the share sale agreements, certain participatory rights have been granted to Puncak. Consequently, the entities will no longer be consolidated in the financial statements of Global Industries, Ltd. Beginning with the third quarter of 2011, our share in the earnings of these two companies will be presented as a single line item on the Condensed Consolidated Statement of Operations as Equity in Earnings of Unconsolidated Affiliate.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

We are including the following discussion to inform our existing and potential shareholders generally of some of the risks and uncertainties that can affect us and to take advantage of the safe harbor protection for forward-looking statements that applicable federal securities laws afford.

From time to time, our management or persons acting on our behalf make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Exchange Act), and Section 21E of the Securities Exchange Act of 1934, as amended, to inform existing and potential shareholders about us. These statements may include projections and estimates concerning the timing and success of specific projects and our future backlog, revenues, income and capital expenditures. Forward-looking statements are generally accompanied by words such as estimate, project, predict, believe, expect, anticipate, plan, goal or other words that convey the u future events or outcomes. In addition, sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

In addition, various statements in this Quarterly Report on Form 10-Q, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. In this Quarterly Report, forward-looking statements appear in Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations , in the notes to our condensed consolidated financial statements in Part I, Item 1, and elsewhere. These forward-looking statements speak only as of the date of this report; we disclaim any obligation to update these statements unless required by law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

the level of capital expenditures in the oil and gas industry;

the level of offshore drilling activity;

fluctuations in the prices of or demand for oil and gas;

risks inherent in doing business abroad;

the economic and regulatory impact of the Macondo well incident in the U.S. Gulf of Mexico;

operating hazards related to working offshore;

our dependence on significant customers;

possible construction delays or cost overruns, within or outside our control, related to construction projects;

our ability to attract and retain skilled workers;

environmental matters;

changes in laws and regulations;

the effects of resolving claims and variation orders;

adverse outcomes from legal and regulatory proceedings;

- our ability to obtain surety bonds, letters of credit and financing;
- the availability of capital resources;
- our ability to obtain new project awards and utilize our new vessels;
- delays or cancellation of projects included in backlog;
- general economic and business conditions and industry trends;
- our ability to comply with covenants in our credit agreements and other debt instruments and availability, terms and deployment of capital; and
- foreign exchange, currency, and interest rate fluctuations.

We believe the items we have outlined above are important factors that could cause actual results to differ materially from those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail elsewhere in this report or in our other public filings. These factors are not necessarily all the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report or in our other public filings could also have material adverse effects on the actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable laws and regulations. We advise our security holders that they should (1) be aware that other factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution and

common sense when considering our forward-looking statements. For more detailed information regarding risks, see the discussion of risk factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010.
The following discussion presents management s discussion and analysis of our financial condition and results of operations and should be read in conjunction with the condensed consolidated financial statements and related notes for the period ended June 30, 2011.

Results of Operations

General

We are a leading offshore construction company offering a comprehensive and integrated range of marine construction and support services in the North America, Latin America, Asia Pacific, and Middle East regions. As a result of our transition to a centralized operational organization focusing on the deployment of our assets on worldwide, rather than regional, projects, we have restructured our reporting segments. The two new reporting segments will better reflect the two principal activities of our business:

- **Construction and Installation**, which includes project work performed on a fixed-rate or unit-price basis where we take responsibility for managing a project scope that may include material procurement or third-party subcontractors and includes a substantial project management effort; and

- **Other Offshore Services**, which includes diving operations and day-rate, time and materials, or cost plus projects.

Our results of operations are measured in terms of revenues, gross profit, and gross profit as a percentage of revenues (margins) and are principally driven by three factors: (1) our level of construction, installation, and other offshore service activity (activity), (2) pricing, which can be affected by contract mix (pricing), and (3) operating efficiency on any particular construction project (productivity).

The level of our offshore construction activity in any given period has a significant impact on our results of operations. Our results of operations depend heavily upon our ability to obtain, in a very competitive environment, a sufficient quantity of offshore construction contracts with sufficient gross profit margins to recover the fixed costs associated with our offshore construction business. The offshore construction business is capital and personnel intensive, and as a practical matter, many of our costs, including the wages of skilled workers, are effectively fixed in the short run regardless of whether or not our vessels are being utilized in productive service. In general, as activity increases, a greater proportion of these fixed costs are recovered through operating revenues; consequently, gross profit and margins increase. Conversely, as activity decreases, our revenues decline, but our costs do not decline proportionally, thereby constricting our gross profit and margins. Our activity level can be affected by changes in demand due to economic or other conditions in the oil and gas exploration industry, seasonal conditions in certain geographical areas, and our ability to win the bidding for available jobs.

Construction and Installation Services

Most of our construction and installation revenues are earned through international contracts which are generally larger, more complex, and of longer duration than our typical domestic contracts. Most of these international contracts require a significant amount of working capital, are generally bid on a lump-sum basis, and are secured by a letter of credit or performance bond. Operating cash flows may be negatively impacted during periods of escalating activity due to the substantial amounts of cash required to initiate these projects and the normal delays between our cash expenditures and cash receipts from the customer. Additionally, lump-sum contracts for construction and installation services are inherently risky and are subject to many unforeseen circumstances and events that may affect productivity and thus, profitability. When productivity decreases with no offsetting decrease in costs or increases in revenues, our contract margins erode compared to our bid margins. In general, we traditionally bear a larger share of project related risks during periods of weak demand for our services and a smaller share of risks during periods of high demand for our services. Consequently, our revenues and margins from construction and installation services are subject to a high degree of variability, even as compared to other businesses in the offshore energy industry.

Other Offshore Services

Most of our revenues from other offshore services are the result of short-term work, involve numerous smaller contracts, and are usually based on a day-rate charge. Financial risks associated with these types of contracts are

normally limited due to their short-term and non-lump sum nature. However, some contracts for other offshore services, especially those that utilize dive support vessels (DSVs), may involve longer-term commitments that extend from the exploration, design, and

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installation phases of a field throughout its useful life by providing IRM (inspection, repair and maintenance) services. The financial risks which are associated with these commitments remain low in comparison with our construction and installation activities due to the day-rate structure of the contracts. Revenues and margins from our other offshore activities tend to be more consistent than those from our construction and installation activities.

Quarter Ended June 30, 2011 Compared to Quarter Ended June 30, 2010

	Three months ended June 30				
	2011		2010		
	(Thousands)	% of Revenue	(Thousands)	% of Revenue	% Change (Unfavorable)
Revenues	$ 132,904	100.0%	$ 121,768	100.0%	9.1%
Cost of operations	140,214	105.5	114,585	94.1	(22.4)
Gross profit (loss)	**(7,310)**	**5.5**	**7,183**	**5.9**	**(201.8)**
Loss (gain) on asset disposals and impairments	2,254	1.7	10,214	8.4	77.9
Selling, general and administrative expenses	16,893	12.7	17,395	14.3	2.9
Operating income (loss)	**(26,457)**	**19.9**	**(20,426)**	**16.8**	**(29.5)**
Interest income	734	0.5	492	0.4	49.2
Interest expense	(2,448)	1.8	(1,756)	1.4	(39.4)
Other income (expense), net	223	0.2	(579)	0.5	138.5
Income (loss) before income taxes	**(27,948)**	**21.0**	**(22,269)**	**18.3**	**(25.5)**
Income tax expense (benefit)	(1,102)	0.8	(23,675)	19.5	(95.3)
Net income (loss)	**(26,846)**	**20.2**	**1,406**	**1.2**	**n/m**
Net income attributable to noncontrolling interest	346	0.3			n/m
Net income (loss) attributable to Global Industries, Ltd.	$ **(27,192)**	**20.5%**	**$ 1,406**	**1.2%**	**n/m**

n/m=not meaningful

Revenues Revenues increased by 9% to $132.9 million for the second quarter of 2011, compared to $121.8 million for the second quarter of 2010. This increase was primarily due to higher project activity in our Construction and Installation segment, partially offset by lower project activity in our Other Offshore Services segment. For a detailed discussion of revenues and income before taxes for each reporting segment, see Segment Information below.

Gross Profit (Loss) Gross loss for the second quarter of 2011 was $7.3 million, compared to gross profit of $7.2 million for the second quarter of 2010. This change was primarily due to lower project margins attributable to lower overall pricing. Higher non-recovered vessel costs also negatively affected the margins as the ***Global 1200*** was fully in service in 2011 and startup costs for the ***Global 1201*** were incurred in the second quarter of 2011, compared to minimal costs related to the ***Global 1200*** in the second quarter of 2010.

Loss (Gain) on Asset Disposals and Impairments Loss on asset disposals and impairments, net of gains, was $2.3 million, for the second quarter of 2011, compared to $10.2 million for the second quarter of 2010. In the second

quarter of 2011, we recorded impairments of $5.5 million on the re-measurement of the fair value of our assets currently held for sale, including the ***Hercules*** reel, the ***Subtec 1***, and other equipment. In addition, we recorded a $3.6 million gain on the sale of equipment on the ***Titan II*** as a result of the termination of its lease. In comparison, in the second quarter of 2010 we recorded impairments of $5.0 million on the ***Hercules*** reel upon its reclassification to assets held for sale and $5.2 million on the revaluation of the ***Subtec 1*** and other equipment*,* assets previously held for sale.

Selling, General and Administrative Expenses Selling, general and administrative expenses decreased by $0.5 million to $16.9 million for the second quarter of 2011, compared to $17.4 million for the second quarter of 2010, primarily due to decreases of $1.0 million in equity compensation and $0.3 million in letter of credit fees. Partially offsetting these decreases were increased costs of $0.3 million for travel and $0.5 million for legal and other professional fees.

Interest Income Interest income increased by $0.2 million to $0.7 million for the second quarter of 2011, compared to the second quarter of 2010, primarily due to higher interest rates and interest received in the second quarter of 2011 on a loan to a non-affiliated third party.

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Interest Expense Interest expense increased by $0.6 million to $2.4 million for the second quarter of 2011, compared to $1.8 million for the second quarter of 2010, primarily due to a reduction in capitalized interest. Capitalized interest for the second quarter of 2011 was $4.0 million compared to $4.5 million for the second quarter of 2010 primarily due to the placement in service of the ***Global 1200*** in February 2011. In addition, the second quarter of 2010 benefitted from the reversal of $0.3 million of accrued interest as a result of a settlement of an uncertain tax position in a foreign jurisdiction.

Other Income (Expense), net Other income, net was $0.2 million for the second quarter of 2011 compared to other expense, net of $0.6 million for the second quarter of 2010. In the second quarter of 2011, we recognized $0.2 million in gains related to foreign currency exchange transactions. In comparison, in the second quarter of 2010, we recognized a $0.6 million loss related to foreign currency exchange transactions.

Income Taxes Our effective tax rate for the second quarter of 2011 was 3.9% compared to 106.3% for the second quarter of 2010. The decrease in our effective tax rate was primarily due to a valuation allowance recorded on certain foreign tax credits in the second quarter of 2011. The change in the tax rate from 16.1% in the first quarter of 2010 to 58.2% for the six months ended June 30, 2010 resulted in a cumulative tax benefit adjustment of $10.5 million, which had created a tax benefit in the second quarter of 2010 that exceeded the loss before taxes.

Segment Information The following sections discuss the results of operations for each of our reportable segments for the quarters ended June 30, 2011 and 2010.

Construction and Installation

Revenues were $106.9 million for the second quarter of 2011, compared to $78.0 million for the second quarter of 2010. The increase of $28.9 million was primarily due to higher project activity in the Asia Pacific/Middle East region, partially offset by lower project activity elsewhere. Activity during the second quarter of 2011 consisted of seven projects two in Mexico, three in the U.S. Gulf of Mexico, one in Malaysia, and one in the United Arab Emirates (UAE). In comparison, the activity during the second quarter of 2010 consisted of eight projects four in the U.S. Gulf of Mexico, one in Malaysia, one in Mexico, one in Brazil, and the start of the second season of work on one in Indonesia. While the overall number of projects decreased in 2011 compared to 2010, the level of work volume increased. Loss before taxes was $18.3 million for the second quarter of 2011 compared to $8.9 million for the second quarter of 2010. This decrease of $9.4 million was primarily due to (i) lower project margins attributable to lower overall pricing and (ii) higher non-recovered vessel costs primarily related to the ***Global 1200***, which was placed in service in the first quarter of 2011, and the startup costs related to the ***Global 1201***. In the second quarter of 2011, we recorded impairments of $5.5 million upon the re-measurement of the fair value of assets currently held for sale and a gain of $3.6 million on the sale of equipment on the ***Titan II***, compared to impairments of $9.1 million on assets previously held for sale in the second quarter of 2010.

Other Offshore Services

Revenues were $26.0 million for the second quarter of 2011 compared to $43.8 million for the second quarter of 2010. The decrease of $17.8 million was primarily due to lower project activity. Loss before taxes was $3.1 million for the second quarter of 2011 compared to $6.5 million for the second quarter of 2010. This improvement of $3.4 million was primarily due to lower non-recovered vessel costs. In the second quarter of 2010, vessels assigned to the Construction and Installation segment were predominately used on Other Offshore Services projects and were charged a portion of the under-recovery costs.

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Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

	Six months ended June 30				
	2011		2010		
	(Thousands)	% of Revenue	(Thousands)	% of Revenue	% Change (Unfavorable)
Revenues	$ 202,921	100.0%	$ 228,579	100.0%	(11.2)%
Cost of operations	231,036	113.9	225,645	98.7	(2.4)
Gross profit (loss)	**(28,115)**	**13.9**	**2,934**	**1.3**	**n/m**
Loss (gain) on asset disposals and impairments	(7,025)	3.5	10,788	4.7	165.1
Selling, general and administrative expenses	33,833	16.7	34,939	15.3	3.2
Operating income (loss)	**(54,923)**	**27.1**	**(42,793)**	**18.7**	**(28.3)**
Interest income	1,209	0.6	733	0.3	64.9
Interest expense	(4,983)	2.4	(4,659)	2.0	(7.0)
Other income (expense), net	1,029	0.5	(1,006)	0.5	202.3
Income (loss) before income taxes	**(57,668)**	**28.4**	**(47,725)**	**20.9**	**(20.8)**
Income tax expense (benefits)	2,736	1.4	(27,773)	12.2	(109.9)
Net income (loss)	**(60,404)**	**29.8**	**(19,952)**	**8.7**	**(202.7)**
Net income attributable to noncontrolling interest	714	0.3			n/m
Net income (loss) attributable to Global Industries, Ltd.	$ **(61,118)**	**30.1%**	**$ (19,952)**	**8.7%**	**(206.3)%**

n/m=not meaningful

Revenues Revenues decreased by 11% to $202.9 million for the six months ended June 30, 2011, compared to $228.6 for the six months ended June 30, 2010. This decrease was primarily due to lower activity in our Other Offshore Services segment, partially offset by slightly higher activity in our Construction and Installation segment. For a detailed discussion of revenues and income before taxes for each reporting segment, see Segment Information below.

Gross Profit (Loss) Gross loss for the six months ended June 30, 2011 was $28.1 million, compared to gross profit of $2.9 million for the six months ended June 30, 2010. This $31.0 million decrease was primarily due to lower project margins attributable to lower pricing and higher non-recovered vessel costs primarily attributable to the ***Global 1200*** and ***Global 1201***. The ***Global 1200*** was placed in service in February 2011 with only one project in 2011 and we incurred startup costs related to the ***Global 1201*** in the second quarter of 2011. During the first six months of 2011, we settled a disputed liability of $2.9 million related to costs on past projects for $0. This settlement partially offsets the lower project margins for 2011.

Loss (Gain) on Asset Disposals and Impairments Gain on asset disposals and impairments, net of losses, was $7.0 million, for the six months ended June 30, 2011, compared to loss on asset disposals and impairments, net of gains, of $10.8 million for the six months ended June 30, 2010. During the six months ended June 30, 2011, we recorded gains of $9.3 million on the sale of the ***Cherokee***, a DLB, and $3.6 million on the sale of equipment on the

Titan II as a result of the termination of its lease. In addition, we recorded impairments of $5.5 million upon the re-measurement of fair value of our Assets held for sale. In comparison, during the six months ended June 30, 2010, we recorded impairments of $5.0 million on the ***Hercules*** reel and $0.7 million on two DSVs, the ***Sea Cat*** and ***Sea Fox***, upon classification of these vessels to Assets held for sale. In addition, we recorded impairments of $5.2 million on the ***Subtec 1*** and other equipment, upon our ongoing evaluation of these assets which were held for sale.

Selling, General and Administrative Expenses Selling, general and administrative expenses decreased by $1.1 million to $33.8 million for the six months ended June 30, 2011, compared to $34.9 million for the six months ended June 30, 2010, primarily due to a $3.0 million decrease in equity compensation. Partially offsetting this decrease were increased labor costs of $1.1 million primarily related to increases in our business development, estimating, information technology, and financial functions and termination allowances related to a reduction in force in Mexico. In addition, our legal and professional fees were $1.1 million higher during the six months that ended June 30, 2011. The first six months of 2010 benefitted from a $0.5 million reimbursement of legal fees from our insurance providers.

Interest Income Interest income increased by $0.5 million to $1.2 million for the six months ended June 30, 2011, compared to $0.7 million for the six months ended June 30, 2010, primarily due to higher interest rates and interest received during the six months ended June 30, 2011 on a loan to a non-affiliated third party.

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Interest Expense Interest expense increased by $0.3 million to $5.0 million for the six months ended June 30, 2011, compared to $4.7 million for the six months ended June 30, 2010, primarily due to a reduction in capitalized interest, partially offset by increased interest on uncertain tax positions. Capitalized interest for the six months ended June 30, 2011 was $8.4 million compared to $8.9 million for the six months ended June 30, 2010 primarily due to the placement in service of the ***Global 1200*** in February 2011.

Other Income (Expense), net Other income, net was $1.0 million for the six months ended June 30, 2011 compared to other expense, net of $1.0 million for the six months ended June 30, 2010. During the six months ended June 30, 2011, we recognized $0.4 million in gains related to foreign currency exchange transactions and $0.6 million in sales of scrap and other miscellaneous materials. In comparison, we recognized a $0.5 million loss on the sale of auction rate securities and a $0.5 million loss related to foreign currency exchange transactions during the six months ended June 30, 2010.

Income Taxes Our effective tax rate for the six months ended June 30, 2011 was (4.7)% as compared to 58.2% for the six months ended June 30, 2010. In 2010, we had losses in high tax jurisdictions that were tax benefitted partially offset by income in low tax jurisdictions. In 2011, we have losses in tax jurisdictions that could not be benefitted and we also recorded a valuation allowance on certain foreign tax credit carryforwards.

Segment Information The following sections discuss the results of operations for each of our reportable segments for the six months ended June 30, 2011 and 2010.

Construction and Installation

Revenues were $161.1 million for the six months ended June 30, 2011 compared to $153.1 million for the six months ended June 30, 2010. The increase of $8.0 million was primarily due to higher project activity in the Asia Pacific/Middle East region. Loss before taxes was $32.0 million for the six months ended June 30, 2011 compared to $23.2 million for the six months ended June 30, 2010. This increase in loss before taxes of $8.8 million was primarily due to lower project margins attributable to lower pricing and higher non-recovered vessel costs primarily attributable to the ***Global 1200*** and ***Global 1201***. During the first six months of 2011, the ***Global 1200*** was placed in service with only one project and we incurred $2.0 million in startup costs related to the ***Global 1201***. In addition, we recorded total additional losses of $4.7 million on the L59 project in Mexico and the DPE project in UAE due to increased costs. These losses were more than offset by the $7.8 million improvement on the L58 project in Mexico and the settlement of a disputed liability of $2.6 million related to costs on past projects. In addition, we recorded a $9.3 million gain on the sale of the ***Cherokee*** and a $3.6 million gain on the sale of the equipment on the ***Titan II*** as a result of the termination of its lease. These gains were partially offset by the $5.5 million impairment on the revaluation of our Assets held for sale. The first six months of 2010 were positively affected by the favorable settlement of change orders of $4.5 million on the Berri and Qatif project in Saudi Arabia.

Other Offshore Services

Revenues were $41.8 million for the six months ended June 30, 2011 compared to $75.5 million for the six months ended June 30, 2010. The decrease of $33.7 million was primarily due to lower project activity and decreased vessel utilization. Loss before taxes was $12.7 million for the six months ended June 30, 2011 compared to $8.3 million for the six months ended June 30, 2010. This increase in loss before taxes of $4.4 million was primarily attributable to lower project activity. During the first six months of 2011, higher non-recovered vessel costs due to decreased vessel utilization attributable to lower project activity were partially offset by the settlement of a disputed liability of $0.3 million related to costs on past projects.

Vessel Utilization

The following table summarizes the worldwide utilization of our major construction vessels and multi-service vessels for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Major construction vessels	32.9%	25.7%	22.3%	21.2%
Multi-service vessels	50.7	53.2	45.1	54.7
Combined utilization	40.0	34.2	31.3	31.5

Utilization is calculated by dividing the total number of days vessels are assigned to project-related work by the total number of calendar days that the vessels were in service for the period. DSVs, cargo/launch barges, ancillary supply vessels and short-term chartered project-specific construction vessels are excluded from the utilization calculation. We frequently use chartered anchor handling tugs, DSVs, and, from time to time, construction vessels in our operations. In our international operations, changes in utilization rarely impact revenues but can have an inverse relationship to changes in profitability.

Industry and Business Outlook

Since the economic downturn that began in 2008, demand in our industry has remained low. Supply in the offshore construction industry continues to exceed demand on a worldwide basis. The ratio of bids to available vessels is creating pricing pressures among competitors and is causing contractors to accept lower prices for services. In addition, activity in the U.S. Gulf of Mexico has not returned to normal levels following the Macondo well incident in April 2010 and we cannot predict the future impact this incident will have on our operations. Bid activity is increasing for projects in 2012 and beyond, but we continue to expect weak demand for our services throughout 2011.

During 2011, our focus will include successful execution of our projects, successful integration of the ***Global 1200*** and ***1201*** into our fleet, building additional backlog, retaining and/or hiring key personnel, and cash conservation. We continue to pursue new work; however, we have not yet been successful in obtaining new project awards sufficient for the size of our existing operations. To the extent that we are not successful in building sufficient backlog, further cost cutting and cash conservation measures could be required, including closing offices, stacking idle vessels, asset sales and reducing our work force further.

As of June 30, 2011, our backlog totaled approximately $201.3 million ($193.6 million for construction and installation projects and $7.7 million for other offshore service projects) compared to $247.2 million ($216.9 million for construction and installation projects and $30.3 million for other offshore service projects) as of June 30, 2010. Of the total backlog, $149.2 million is scheduled to be performed in 2011. The amount of our backlog for other offshore service projects is not a reliable indicator of the level of demand for our services due to the prevalence of short-term contractual arrangements in that segment.

Liquidity and Capital Resources

Cash Flow

Cash and cash equivalents as of June 30, 2011, were $186.7 million compared to $349.6 million as of December 31, 2010, a decrease of $162.9 million. The primary uses of cash during the six months ended June 30, 2011 were funding of operating activities, capital projects, purchase of marketable securities, and increases in restricted cash requirements related to the cash collateralization of our outstanding letters of credit.

Operating activities used $69.4 million of net cash during the six months ended June 30, 2011, compared to providing $2.5 million of net cash during the six months ended June 30, 2010. This increase in net cash used in operating activities reflects a net loss from operations and an increase in working capital. Changes in operating assets and liabilities used $28.1 million during the six months ended June 30, 2011, compared to providing $3.8 million during the six months ended June 30, 2010. Contributing to the decrease in changes in operating assets and liabilities were increases in accounts receivable, partially offset by increases in accounts payable.

Investing activities used $92.0 million of net cash during the six months ended June 30, 2011, compared to $53.6 million during the six months ended June 30, 2010. During the six months ended June 30, 2011, we used $40.5 million to purchase property and equipment, $29.9 million to purchase marketable securities and $23.7 million to meet cash collateralization requirements related to our Revolving Credit Facility as discussed below. In comparison, during the six months ended June 30, 2010, we used $104.9 million to purchase property and equipment, partially offset by cash provided from the sale of marketable securities of $40.7 million and advance deposits received on the sale of assets of $13.8 million.

Financing activities used $3.1 million of net cash during the six months ended June 30, 2011, compared to $29.2 million during the six months ended June 30, 2010. During the six months ended June 30, 2011, we used $2.0 million to pay down long-term debt. In comparison, during the six months ended June 30, 2010, we used $26.0 million to pay long-term payables related to the purchase of property and equipment.

Contractual Obligations

The information below summarizes the contractual obligations as of June 30, 2011 primarily for the ***Global 1200*** and ***1201***, which represent contractual agreements with third party service providers to procure material, equipment and services for the construction and/or operation of these vessels. The actual timing of a significant portion of these expenditures will vary based on the completion of various construction milestones, which are generally beyond our control.

		(In thousands)
Less than 1 year	$	62,235
1 to 3 years		1,507
Total	$	63,742

Liquidity Risk

Our Revolving Credit Facility provides a borrowing capacity of up to $150.0 million. As of June 30, 2011, we had no borrowings against the facility and $24.1 million of letters of credit outstanding thereunder. Due to the sale of vessels mortgaged under the Revolving Credit Facility, the effective maximum borrowing capacity under the Revolving Credit Facility was reduced.

On February 24, 2011, we amended our Revolving Credit Facility. The amendment allows us, at our option, to choose to cash collateralize our letter of credit exposure when covenant compliance, as defined in the Revolving Credit Facility, is not possible and thereby achieve compliance. During periods of cash collateralization, no borrowings, letters of credit, or bank guarantees unsecured by cash are permitted. As of June 30, 2011, we did not meet the financial covenants of the Revolving Credit Facility. Consequently, we have cash collateralized our outstanding letters of credit in order to achieve compliance and are currently unable to borrow under the Revolving Credit Facility.

Liquidity Outlook

Our liquidity position could affect our ability to bid on and accept projects, particularly where the project requires a letter of credit, which could have a material adverse effect on our future results. Further, a significant amount of our expected operating cash flows is based upon projects which have been identified, but not yet awarded. If we are not successful in converting a sufficient number of our bids into project awards, we may have insufficient liquidity to meet all working capital needs and may have to postpone or cancel capital expenditures and/or take other actions to reduce expenses, including closing offices, stacking idle vessels, selling assets, and further reducing our workforce. Moreover, our current financial projections indicate that we will continue to be required to cash collateralize our letters of credit exposure to comply with the terms of our Revolving Credit Facility. However, throughout 2011, we expect that balances of cash and cash equivalents, supplemented by cash generated from operations, will be sufficient to fund operations (including increases in working capital required to fund any increases in activity levels), scheduled debt retirement, and currently planned capital expenditures, including any requirement to cash collateralize letters of credit.

Capital expenditures for the remainder of 2011 are expected to be between $90 million and $100 million. This range includes expenditures for the ***Global 1201***, including capitalized interest related thereto, two new saturation diving systems, and various vessel upgrades. In addition, we will continue to evaluate the divesture of assets and vessel acquisitions as we deem appropriate.

Our long-term liquidity will ultimately be determined by our ability to earn operating profits which are sufficient to cover our fixed costs, including scheduled principal and interest payments on debt. Our ability to earn operating profits in the long run

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will be determined by, among other things, the sustained viability of the oil and gas energy industry, commodity price expectations for crude oil and natural gas, the competitive environment of the markets in which we operate, and our ability to win bids and manage awarded projects to successful completion.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Due to the international nature of our business operations and the interest rate fluctuation, we are exposed to certain risks associated with changes in foreign currency exchange rates and interest rates.

Interest Rate Risk

We are exposed to changes in interest rates with respect to our investments in cash equivalents and marketable securities. Our investments consist primarily of corporate and municipal bonds, commercial paper, bank certificates of deposit, money market funds, and fixed deposits. These investments are subject to changes in short-term interest rates. We invest in high grade investments with a credit rating of AA-/Aa3 or better, with a main objective of preserving capital. A 0.25% increase or decrease in the average interest rate of our cash equivalents and marketable securities at June 30, 2011 would have an approximate $0.6 million impact on our pre-tax annualized interest income.

Foreign Currency Risk

As of June 30, 2011, our contractual obligations under a long-term vessel charter will require the use of approximately 71.9 million Norwegian kroners (or $13.3 million as of June 30, 2011) over the next year. We have hedged 66.2 million of our non-cancelable Norwegian kroner commitments related to this charter, and consequently, gains and losses from forward foreign currency contracts will be substantially offset by gains and losses from the underlying commitment. A 1% increase in the value of the Norwegian kroner at June 30, 2011 would have a negligible impact on the dollar value of the remaining 5.7 million unhedged commitments.

As of June 30, 2011, we were committed to purchase certain equipment which will require the use of 1.3 million Euros (or $1.9 million as of June 30, 2011) over the next year. A 1% increase in the value of the Euro at June 30, 2011 would have a negligible impact on the dollar value of these commitments.

The estimated cost to complete capital expenditure projects in progress at June 30, 2011 will require an aggregate commitment of 20.9 million Singapore dollars (or $16.9 million as of June 30, 2011). We have entered into forward contracts to purchase 7.5 million Singapore dollars to hedge certain purchase commitments related to the construction of the ***Global 1201***. A 1% increase in the value of the Singapore dollar at June 30, 2011 will increase the dollar value of the remaining 13.4 million unhedged commitments by approximately $0.1 million.

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Item 4. Controls and Procedures.

As of the end of the period covered by this report, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures. These disclosure controls and procedures are designed to provide us with a reasonable assurance that all of the information required to be disclosed by us in periodic reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed and maintained to ensure that all of the information required to be disclosed by us in reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow those persons to make timely decisions regarding required disclosure.

Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that material information relating to our Company is made known to management on a timely basis. The Chief Executive Officer and Chief Financial Officer noted no material weaknesses in the design or operation of the internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that are likely to adversely affect the ability to record, process, summarize, and report financial information. There have been no changes in internal control over financial reporting that occurred during the last fiscal quarter that have materially affected or are reasonably likely to materially affect internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth under the heading Investigations and Litigation in Note 11, Commitments and Contingencies, to our condensed consolidated financial statements included in this Quarterly Report is incorporated by reference into this Item 1.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition, or future results of operations.

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

The following table details our purchases of equity securities during the second quarter of 2011.

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
April 1, 2011 April 30, 2011	8,597	$ 9.63	
May 1, 2011 May 31, 2011	9,314	5.68	
June 1, 2011 June 30, 2011	529	5.37	
Total	18,440	7.51	

(1) Represents the surrender of shares of common stock to satisfy payments for withholding taxes in connection with stock grants or the vesting of restricted stock issued to employees under shareholder approved equity incentive plans.

Item 6. Exhibits.

3.1	Amended and Restated Articles of Incorporation of registrant, incorporated by reference to Appendix A of registrant s Definitive Schedule 14A filed April 7, 2010.
3.2	Bylaws of registrant, as amended through October 31, 2007, incorporated by reference to Exhibit 3.2 to the registrant s Form 10-K filed March 2, 2009.
* 31.1	Section 302 Certification of CEO, John B. Reed
* 31.2	Section 302 Certification of CFO, C. Andrew Smith
** 32.1	Section 906 Certification of CEO, John B. Reed
** 32.2	Section 906 Certification of CFO, C. Andrew Smith
** 101.INS	XBRL Instance Document
** 101.SCH	XBRL Taxonomy Extension Schema Document
** 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
** 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
** 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
** 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Included with this filing

** Furnished herewith

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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, thereto duly authorized.

GLOBAL INDUSTRIES, LTD.

By: /s/ C. Andrew Smith
C. Andrew Smith
Senior Vice President and
Chief Financial Officer

By: /s/ Trudy P. McConnaughhay
Trudy P. McConnaughhay
Vice President and Corporate Controller
(Principal Accounting Officer)

August 5, 2011

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e="DISPLAY: inline; FONT-SIZE: 12pt; FONT-FAMILY: times new roman;">Sale of common stock warrants[2]

Sale of common stock warrants[2]	49,050
Purchase of common stock call options[2]	(82,250)
Stock-based compensation expense	2,924
Excess tax benefits related to stock-based compensation	636
Unrealized losses on available-for-sale securities, net of tax	(3)
Total stockholders' equity, end of period	$ 807,720

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(1) See ***"Note 8. Income Taxes"*** below.

(2) See ***"Note 4. Short-term Borrowings and Long-term Debt"*** above.

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

Note 6. Customer Loyalty Card Programs

We offer our customers various loyalty card programs. Customers that join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers generally join these programs by paying an annual membership fee. We recognize revenue from these loyalty programs as sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. We recognize costs in connection with administering these programs as cost of goods sold when incurred. During the thirteen weeks ended May 5, 2007 and April 29, 2006, we recognized revenues of $5,702,000 and $4,070,000, respectively, in connection with our loyalty card programs.

Note 7. Net Income Per Share

	Thirteen Weeks Ended	
(In thousands, except per share amounts)	**May 5, 2007**	**April 29, 2006**
Basic weighted average common shares outstanding	123,003	121,813
Dilutive effect of assumed conversion of 4.75% Senior Convertible Notes	15,182	15,182
Dilutive effect of stock options and awards	1,753	2,432
Diluted weighted average common shares and equivalents outstanding	139,938	139,427
Net income	$ 26,298	$ 32,061
Decrease in interest expense from assumed conversion of 4.75% Senior Convertible Notes, net of income taxes	1,128	1,128
Net income used to determine diluted net income per share	$ 27,426	$ 33,189
Options with weighted average exercise price greater than market price, excluded from computation of net income per share:		
Number of shares	1	0
Weighted average exercise price per share	$ 13.84	$ 0.00

Our 1.125% Notes have no impact on our diluted net income per share until the price of our common stock exceeds the conversion price of $15.379 per share because we expect to settle the principal amount of the 1.125% Notes in cash upon conversion. The call options are not considered for purposes of the diluted net income per share calculation as their effect would be anti-dilutive. Should the price of our common stock exceed $21.607 per share, we would also include the dilutive effect of the additional potential shares that may be issued related to the warrants, using the treasury stock method. See **"Note 4. Short-term Borrowings and Long-term Debt"** above and **"Note 12. Subsequent**

Events" below for further information regarding the 1.125% Notes and related call options and warrants. and the conversion of our 4.75% Notes.

Note 8. Income Taxes

The effective income tax rate was 35.8% for the thirteen weeks ended May 5, 2007, as compared to 35.7% for the thirteen weeks ended April 29, 2006.

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, *"Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109."* FIN No. 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, expanded disclosures regarding tax uncertainties, and transition.

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

Note 8. Income Taxes (Continued)

FIN No. 48 applies to all tax positions related to income taxes subject to SFAS No. 109, *"Accounting for Income Taxes."* Under FIN No. 48, recognition of a tax benefit occurs when a tax position is more-likely-than-not to be sustained upon examination, based solely on its technical merits. The recognized benefit is measured as the largest amount of benefit which is more-likely-than-not to be realized on ultimate settlement, based on a cumulative probability basis. A tax position failing to qualify for initial recognition is recognized in the first interim period in which it meets the FIN No. 48 recognition standard, or is resolved through negotiation, litigation, or upon expiration of the statute of limitations. De-recognition of a previously recognized tax position would occur if it is subsequently determined that the tax position no longer meets the more-likely-than-not threshold of being sustained. Differences between amounts recognized in balance sheets prior to the adoption of FIN No. 48 and amounts reported after adoption (except for items not recognized in earnings) are accounted for as a cumulative effect adjustment to retained earnings as of the date of adoption of FIN No. 48, if material.

We adopted the provisions of FIN No. 48 effective as of February 4, 2007. In accordance with FIN No. 48, we recognized a cumulative effect adjustment of $4,998,000, increasing our liability for unrecognized tax benefits, interest, and penalties and reducing the February 4, 2007 balance of retained earnings.

As of February 4, 2007, we had $44,203,000 of gross unrecognized tax benefits. If recognized, the portion of the liabilities for gross unrecognized tax benefits that would decrease our provision for income taxes and increase our net income is $15,106,000. We record interest and penalties related to unrecognized tax benefits in income tax expense. As of the date of adoption of FIN No. 48, we had accrued interest and penalties of $7,412,000. During the Fiscal 2008 First Quarter, there was no material change in either the unrecognized tax benefits or accrued interest and penalties. We do not expect that any of the previously unrecognized tax benefits or interest and penalties will materially increase or decrease within the next 12 months.

Our U.S. Federal income tax returns for Fiscal 2004 and beyond remain subject to examination by the U.S. Internal Revenue Service ("IRS"). The IRS is not currently examining any of our tax returns. We file returns in numerous state jurisdictions, with varying statutes of limitations. Our state tax returns for Fiscal 2003 and beyond, depending upon the jurisdiction, remain subject to examination. The statute of limitations on a limited number of returns for years prior to Fiscal 2003 has been extended by agreement between us and the particular state jurisdiction. The earliest year still subject to examination by state tax authorities is Fiscal 1999.

Note 9. Asset Securitization

Our FASHION BUG, CATHERINES, and PETITE SOPHISTICATE proprietary credit card receivables are originated by Spirit of America National Bank (the "Bank"), our wholly-owned credit card bank, which transfers its interest in the receivables to the Charming Shoppes Master Trust (the "Trust") through a separate and distinct special-purpose entity. The Trust is an unconsolidated qualified special-purpose entity ("QSPE"). Through Fiscal 2007, our Crosstown Traders apparel-related catalog proprietary credit card receivables, which we securitized subsequent to our acquisition of Crosstown Traders, were originated in a non-bank program by Crosstown Traders. Crosstown

Traders transferred its interest in the receivables to Catalog Receivables LLC, a separate and distinct unconsolidated QSPE, through a separate and distinct special-purpose entity. On February 5, 2007, the Bank acquired the account relationships of the Crosstown Traders catalog proprietary credit cards and all subsequent new receivables are originations of the Bank. This acquisition did not cause a change in the securitization entities used by the Crosstown Traders proprietary credit card program.

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

Note 9. Asset Securitization (Continued)

The QSPEs can sell interests in these receivables on a revolving basis for a specified term. At the end of the revolving period, an amortization period begins during which the QSPEs make principal payments to the parties that have entered into the securitization agreement with the QSPEs. All assets of the QSPEs (including the receivables) are isolated and support the securities issued by those entities. Our asset securitization program is more fully described in **"Item 8. Financial Statements and Supplementary Data; Note 16. Asset Securitization"** in our February 3, 2007 Annual Report on Form 10-K.

Note 10. Segment Reporting

We operate and report in two segments, Retail Stores and Direct-to-Consumer. We determine our operating segments based on the way our chief operating decision-makers review our results of operations. We also consider the similarity of economic characteristics, production processes, and operations in aggregating our operating segments. Accordingly, we have aggregated our retail stores and store-related E-commerce operations into a single reporting segment (the "Retail Stores" segment). Our catalog and catalog-related E-commerce operations are separately reported under the Direct-to-Consumer segment.

The accounting policies of the segments are generally the same as those described in **"Item 8. Financial Statements and Supplementary Data; Note 1. Summary of Significant Accounting Policies"** in our February 3, 2007 Annual Report on Form 10-K. Our chief operating decision-makers evaluate the performance of our operating segments based on a measure of their contribution to operations, which consists of net sales less the cost of merchandise sold and certain directly identifiable and allocable operating costs. We do not allocate certain corporate costs, such as shared service costs, information systems support costs, and insurance costs to our Retail Stores or Direct-to-Consumer segments. For our Retail Stores segment, operating costs consist primarily of store selling, buying, and occupancy costs. For our Direct-to-Consumer segment, operating costs consist primarily of catalog development, production, and circulation costs, E-commerce advertising costs, and order processing costs. Other costs that are currently allocated to the segments include warehousing costs.

Corporate and Other includes unallocated general and administrative costs, shared service center costs, insurance costs, information systems support costs, corporate depreciation and amortization, corporate occupancy costs, the results of our proprietary credit card operations, and other non-routine charges. Operating contribution for the Retail Stores and Direct-to-Consumer segments less Corporate and Other net expenses equals income before interest and taxes.

Operating segment assets are those directly used in, or allocable to, that segment's operations. For the Retail Stores segment, operating assets consist primarily of inventories; the net book value of store facilities; and goodwill and intangible assets. For the Direct-to-Consumer segment, operating assets consist primarily of trade receivables; inventories; deferred advertising costs; the net book value of catalog operating facilities; and goodwill and intangible assets. Corporate and Other assets include corporate cash and cash equivalents; the net book value of corporate facilities; deferred income taxes; and other corporate long-lived assets.

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

Note 10. Segment Reporting (Continued)

Selected financial information for our operations by reportable segment and a reconciliation of the information by segment to our consolidated totals is as follows:

(In thousands)	Retail Stores	Direct-to-Consumer	Corporate and Other	Consolidated
Thirteen weeks ended May 5, 2007[(1)]				
Net sales	$ 685,522	$ 98,372	$ 818	$ 784,712
Depreciation and amortization	12,361	56	10,327	22,744
Income before interest and taxes	74,030	1,490	(31,295)	44,225
Interest expense			(3,263)	(3,263)
Income tax provision			(14,664)	(14,664)
Net income	74,030	1,490	(49,222)	26,298
Capital expenditures	29,834	127	7,550	37,511
Thirteen weeks ended April 29, 2006				
Net sales	$ 627,404	$ 107,405	$ 113	$ 734,922
Depreciation and amortization	11,094	32	9,032	20,158
Income before interest and taxes	75,213	5,326	(26,589)	53,950
Interest expense			(4,124)	(4,124)
Income tax provision			(17,765)	(17,765)
Net income	75,213	5,326	(48,478)	32,061
Capital expenditures	15,413	28	8,413	23,854

(1) Retail Stores segment includes 82 LANE BRYANT OUTLET stores and 45 PETITE SOPHISTICATE OUTLET stores opened in the second half of Fiscal 2007.

Note 11. Impact of Recent Accounting Pronouncements

In March 2006, the FASB issued SFAS No. 156, *"Accounting and Servicing of Financial Assets – an amendment of FASB Statement No. 140."* SFAS No. 156 amends SFAS No. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,"* with respect to the accounting for separately recognized servicing assets and liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract under certain situations, including a

transfer of the servicer's financial assets that meets the requirements for sale accounting.

SFAS No. 156 requires the servicer to initially measure all separately recognized servicing assets and liabilities at fair value, if practicable. Subsequent to initial recognition of the servicing assets or liabilities, the servicer can choose either of two methods for subsequent measurement of the servicing assets or liabilities:

- Amortization method – Amortize the servicing assets or liabilities in proportion to, and over the period of, estimated net servicing income or loss and assess the assets or liabilities for impairment or increased obligation based on fair value at each reporting date.
- Fair value measurement method – Measure the servicing assets or liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur.

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

Note 11. Impact of Recent Accounting Pronouncements (Continued)

SFAS No. 156 also requires separate presentation of servicing assets and liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and liabilities.

We adopted the provisions of SFAS No. 156 prospectively, effective as of the beginning of Fiscal 2008. The adoption of SFAS No. 156 did not have a material effect on our financial condition or results of operations.

In June 2006, the FASB ratified the consensus of EITF Issue No. 06-3, *"How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)."* EITF Issue No. 06-3 provides that gross or net presentation is an accounting policy decision that is dependent on the type of tax, and that similar taxes are to be presented in a consistent manner. The provisions of EITF Issue No. 06-3 are effective as of the beginning of Fiscal 2008. Our accounting policy is, and has been, to present taxes within the scope of EITF Issue No. 06-3 on a net basis. Our adoption of EITF Issue No. 06-3 did not result in a change in our accounting policy and, accordingly, had no effect on our results of operations.

In July 2006, the FASB issued FIN No. 48, *"Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109."* FIN No. 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, expanded disclosures regarding tax uncertainties, and transition.

We adopted the provisions of FIN No. 48 effective as of the beginning of Fiscal 2008 (see **"Note 8. Income Taxes"** above).

In September 2006, the FASB ratified the consensus of EITF Issue No. 06-4, *"Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Agreements."* EITF Issue No. 06-4 addresses accounting for separate agreements that split life insurance policy benefits between an employer and an employee. EITF Issue No. 06-4 requires employers to recognize a liability for future benefits payable to the employee under such agreements. The effect of applying the provisions of Issue No. 06-4 should be recognized either through a change in accounting principle by a cumulative-effect adjustment to equity or through the retrospective application to all prior periods. The provisions of EITF Issue No. 06-4 will be effective for fiscal years beginning after December 15, 2007, with earlier application permitted. We are currently analyzing the impact of adoption of EITF Issue No. 06-4, and have not yet determined the impact, if any, of adoption on our consolidated financial position or results of operations.

In September 2006, the FASB ratified the consensus of EITF Issue No. 06-5, *"Accounting for Purchases of Life Insurance – Determining the Amount That Could be Realized in Accordance with FASB Technical Bulletin 85-4."* EITF Issue No. 06-5 requires a policyholder to consider any additional amounts included in the contractual terms of a life insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract. Policyholders should determine the amount that could be realized under the life insurance contract

assuming the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). Any amount that is ultimately realized by the policyholder upon the assumed surrender of the final policy (or final certificate in a group policy) shall be included in the amount that could be realized under the insurance contract. The effect of applying the provisions of Issue No. 06-5 should be recognized either through a change in accounting principle by a cumulative-effect adjustment to equity or through the retrospective application to all prior periods.

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

Note 11. Impact of Recent Accounting Pronouncements (Continued)

We adopted the provisions of EITF Issue No. 06-5 effective as of the beginning of Fiscal 2008. The adoption of EITF Issue No. 06-5 did not have a material effect on our financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements."* SFAS No. 157 provides a single definition of fair value, along with a framework for measuring it, and requires additional disclosure about using fair value to measure assets and liabilities. SFAS No. 157 emphasizes that fair value measurement is market-based, not entity-specific, and establishes a fair value hierarchy which places the highest priority on the use of quoted prices in active markets to determine fair value. It also requires, among other things, that entities are to include their own credit standing when measuring their liabilities at fair value.

We will be required to adopt the provisions of SFAS No. 157 prospectively, effective as of the beginning of Fiscal 2009. We are evaluating the impact that adoption of SFAS No. 157 would have on our financial condition or results of operations.

Note 12. Subsequent Events

Exercise of Over-allotment Option for 1.125%Notes

On May 11, 2007 (subsequent to the end of the Fiscal 2008 First Quarter), the initial purchasers of our 1.125% Notes exercised their over-allotment option and purchased an additional $25,000,000 in aggregate principal amount of the notes. See **"Note 4. Short-term Borrowings and Long-Term Debt"** above for further details on the issuance of the notes. We received proceeds of approximately $24,375,000 from the exercise of the over-allotment option, and incurred additional underwriting fees of approximately $625,000. The additional underwriting fees, as well as additional transaction costs incurred in connection with the issuance of the 1.125% Notes, will be recorded in "Other assets," and will be amortized to interest expense on an effective interest rate basis over the remaining life of the notes to maturity.

As a result of the exercise of the over-allotment option, the number of shares of our common stock that we are allowed to purchase under the call options acquired in connection with the transaction increased from approximately 16,256,000 shares to approximately 17,881,000 shares, and the cost of the call options to us increased from $82,250,000 to $90,475,000.

In addition, as a result of the exercise of the over-allotment option, the number of shares of our common stock that may be purchased from us under the warrants sold in connection with the transaction increased from approximately 17,069,000 shares to approximately 18,775,000 shares, and the cash proceeds from the sale of these warrants increased from $49,050,000 to $53,955,000.

The incremental cost of the call options ($8,225,000) and the incremental proceeds from the sale of warrants ($4,905,000) related to the exercise of the over-allotment option will be recorded as a net reduction of additional

paid-in capital in the Fiscal 2008 Second Quarter. We used a portion of the net proceeds from the exercise of the over-allotment to pay the net cost of the call options and warrants, and we expect to use the remaining proceeds to repurchase shares of our common stock or for general corporate purposes.

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

Note 12. Subsequent Events (Continued)

Redemption of 4.75% Notes

On April 30, 2007, we called for redemption on June 4, 2007 our $149,999,000 outstanding aggregate principal amount of 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 $149,956,000 principal amount of the 4.75% Notes had exercised their right to convert their notes into an aggregate of 15,145,556 shares of our common stock and the remaining notes were redeemed for cash. In addition, we paid $391,000 in lieu of fractional shares. In anticipation of the conversion of the 4.75% Notes, we repurchased 10,315,000 shares of our common stock with $131,102,000 of the proceeds from the issuance of our 1.125% Notes during the Fiscal 2008 First Quarter (see **"Note 4. Short-term Borrowings and Long-term Debt"** above).

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes included in Item 1 of this report. It should also be read in conjunction with the management's discussion and analysis of financial condition and results of operations, financial statements, and accompanying notes appearing in our Annual Report on Form 10-K for the fiscal year ended February 3, 2007. As used in this management's discussion and analysis, the terms "Fiscal 2008" and "Fiscal 2007" refer to our fiscal year ending February 2, 2008 and our fiscal year ended February 3, 2007, respectively. The terms "Fiscal 2008 First Quarter" and "Fiscal 2007 First Quarter" refer to the thirteen weeks ended May 5, 2007 and April 29, 2006, respectively. The term "Fiscal 2007 Second Quarter" refers to the thirteen weeks ended July 29, 2006. The terms "the Company," "we," "us," and "our" refer to Charming Shoppes, Inc. and, where applicable, our consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

With the exception of historical information, the matters contained in the following analysis and elsewhere in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, projections of revenues, income or loss, cost reductions, capital expenditures, liquidity, financing needs or plans, and plans for future operations, as well as assumptions relating to the foregoing. The words "expect," "should," "project," "estimate," "predict," "anticipate," "plan," "believes," and similar expres also intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, some of which we cannot predict or quantify. Future events and actual results, performance, and achievements could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. We assume no obligation to update or revise any forward-looking statement to reflect actual results or changes in, or additions to, the factors affecting such forward-looking statements.

Factors that could cause our actual results of operations or financial condition to differ from those described in this report include, but are not necessarily limited to, the following:

- Our business is dependent upon our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors, which we may not be able to successfully accomplish in the future.
- A slowdown in the United States economy, an uncertain economic outlook, and escalating energy costs could lead to reduced consumer demand for our products in the future.
- The women's specialty retail apparel and direct-to-consumer markets are highly competitive and we may be unable to compete successfully against existing or future competitors.
- We may be unable to successfully integrate the operations of Crosstown Traders, Inc. ("Crosstown Traders") with the operations of Charming Shoppes, Inc. In addition, we cannot assure the successful implementation of our business plan for Crosstown Traders, including the successful launch of our LANE BRYANT catalog.
- We cannot assure the successful implementation of our business plans for entry into the outlet store distribution channel and expansion of our CACIQUE® product line through new store formats.
- We cannot assure the successful implementation of our business plan for increased profitability and growth in our Retail Stores or Direct-to-Consumer segments.
-

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

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

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- We depend on our distribution and fulfillment centers and third-party freight consolidators and service providers, and could incur significantly higher costs and longer lead times associated with distributing our products to our stores and shipping our products to our E-commerce and catalog customers if operations at any of these locations were to be disrupted for any reason.

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

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

- We rely significantly on foreign sources of production and face a variety of risks generally associated with doing business in foreign markets and importing merchandise from abroad. Such risks include (but are not necessarily limited to) political instability; imposition of, or changes in, duties or quotas; trade restrictions; increased security requirements applicable to imports; delays in shipping; increased costs of transportation; and issues relating to compliance with domestic or international labor standards.

- Our Retail Stores and Direct-to-Consumer segments experience seasonal fluctuations in net sales and operating income. Any decrease in sales or margins during our peak sales periods, or in the availability of working capital during the months preceding such periods, could have a material adverse effect on our business. In addition, extreme or unseasonable weather conditions may have a negative impact on our sales.

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

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

- We may be unable to hire and retain a sufficient number of suitable sales associates at our stores. In addition, we are subject to the Fair Labor Standards Act and various state and Federal laws and regulations governing such matters as minimum wages, exempt status classification, overtime, and employee benefits. Changes in Federal or state laws or regulations regarding minimum wages or other employee benefits could cause us to incur additional wage and benefit costs, which could adversely affect our results of operations.

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

- Our Retail Stores segment sales are dependent upon a high volume of traffic in the strip centers and malls in which our stores are located, and our future retail store growth is dependent upon the availability of suitable locations for new stores.

- Inadequate systems capacity, a disruption or slowdown in telecommunications services, changes in technology, changes in government regulations, systems issues, security breaches, a failure to integrate order management systems, or customer privacy issues could result in reduced sales or increases in operating expenses as a result of our efforts or our inability to remedy such issues.

- Successful operation of our E-commerce websites and our catalog business is dependent on our ability to maintain efficient and uninterrupted customer service and fulfillment operations.

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

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

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

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

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

- Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include our assessment of the effectiveness of our internal control over financial reporting in our annual reports. Our independent registered public accounting firm is also currently required to attest to whether or not our assessment is fairly stated in all material respects and to separately report on whether or not they believe that we maintained, in all material respects, effective internal control over financial reporting. If we are unable to maintain effective internal control over financial reporting, or if our independent registered public accounting firm is unable to timely attest to our assessment, we could be subject to regulatory sanctions and a possible loss of public confidence in the reliability of our financial reporting. Such a failure could result in our inability to provide timely and/or reliable financial information and could adversely affect our business.

- The holders of our 1.125% Senior Convertible Notes due May 1, 2014 (the "1.125% Notes") could require us to repurchase the principal amount of the notes for cash before maturity of the notes upon the occurrence of a "Fundamental Change," as defined in the indenture relating to the 1.125% Notes. Such a repurchase would require significant amounts of cash and could adversely affect our financial condition.

- The Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force ("EITF") is currently reviewing the accounting for convertible debt instruments with terms similar to our 1.125% Notes. The EITF is considering a requirement to allocate a portion of the debt to the embedded conversion feature, thereby creating an original issue discount on the carrying value of the debt portion of the instrument. This original issue discount would subsequently be amortized as interest expense over the term of the instrument, resulting in an increase in reported interest expense. Implementation of such a change would not affect our cash flows.

CRITICAL ACCOUNTING POLICIES

We have prepared the financial statements and accompanying notes included in Item 1 of this report in conformity with United States generally accepted accounting principles. This requires us to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. These estimates and assumptions are based on historical experience, analysis of current trends, and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions.

We periodically reevaluate our accounting policies, assumptions, and estimates and make adjustments when facts and circumstances warrant. Historically, actual results have not differed materially from those determined using required estimates. Our critical accounting policies are discussed in the management's discussion and analysis of financial condition and results of operations and notes accompanying the consolidated financial statements that appear in our Annual Report on Form 10-K for the fiscal year ended February 3, 2007. Except as disclosed below and in the

financial statements and accompanying notes included in Item 1 of this report, there were no material changes in, or additions to, our critical accounting policies or in the assumptions or estimates we used to prepare the financial information appearing in this report.

Senior Convertible Notes

On April 30, 2007, we issued $250.0 million in aggregate principal amount of our 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 (subsequent to the end of the Fiscal 2008 First Quarter), the initial purchasers of the 1.125% Notes exercised their over-allotment option and purchased an additional $25.0 million in aggregate principal amount of the notes. See **"Notes to Condensed Consolidated Financial Statements; Note 4. Short-term Borrowings and Long-term Debt"** and **"Note 12. Subsequent Events"** above for further details of the transaction. We include the costs related to the transaction in "Other assets," and are amortizing them to interest expense on an effective interest rate basis over the life of the notes to maturity.

We accounted for the issuance of the 1.125% Notes in accordance with the guidance in EITF Issue 90-19, *"Convertible Bonds with Issuer Option to Settle for Cash upon Conversion"* and EITF Issue 00-19, *"Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."* Accordingly, we have recorded the 1.125% Notes as long-term debt in our condensed consolidated balance sheet as of May 5, 2007.

Concurrently with the issuance of the 1.125% Notes, we entered into privately negotiated common stock call options with affiliates of the initial purchasers. The call options expire on May 1, 2014, and must be net-share settled. The call options are intended to reduce the potential dilution to our common stock upon conversion of the 1.125% Notes by effectively increasing the initial conversion price. In addition, we sold warrants to affiliates of certain of the initial purchasers whereby they have the option to purchase shares of our common stock. The warrants expire on various dates from July 30, 2014 through December 18, 2014. The warrants must be net-share settled.

Paragraph 11(a) of SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities,"* provides that contracts issued or held by an entity that are both (1) indexed to the entity's own common stock and (2) classified in stockholders' equity in its statement of financial position are not considered to be derivative instruments under SFAS No. 133 if the provisions of EITF Issue 00-19 are met.

We accounted for the call options and warrants in accordance with the guidance in EITF Issue 00-19. The call options and warrants meet the requirements of EITF Issue 00-19 to be accounted for as equity instruments. Accordingly, the cost of the call options and the proceeds from the sale of the warrants are included in additional paid-in capital in our accompanying condensed consolidated balance sheet as of May 5, 2007.

We will be required to monitor the 1.125% Notes, call options, and warrants for compliance with the provisions of EITF Issue 00-19 and paragraph 11(a) of SFAS No. 133 on a quarterly basis. Should the issuance of the 1.125% Notes, the purchase of the call options, or the sale of the warrants fail to qualify under the provisions of EITF Issue 00-19 or paragraph 11(a) of SFAS No. 133, we would be required to recognize derivative instruments in connection with the transaction, include the effects of the transaction in assets or liabilities instead of equity, and recognize changes in the fair values of the assets or liabilities as they occur in consolidated net income until the provisions of EITF Issue 00-19 and paragraph 11(a) of SFAS No. 133 are met.

In accordance with SFAS No. 128, *Earnings Per Share,"* the 1.125% Notes will have no impact on our diluted net income per share until the price of our common stock exceeds the conversion price of $15.379 per share because the principal amount of the 1.125% Notes will be settled in cash upon conversion. Prior to conversion, we will include the effect of the additional shares that may be issued if our common stock price exceeds $15.379 per share using the treasury stock method. For the first $1.00 by which the price of our common stock exceeds $15.379 per share, there would be dilution of approximately 1.1 million shares. Further increases in the share price would result in additional dilution at a declining rate, such that a price of $21.607 per share would result in cumulative dilution of approximately 5.2 million shares. Should the stock price exceed $21.607 per share, we would also include the dilutive effect of the additional potential shares that may be issued related to the warrants, using the treasury stock method. The 1.125% Notes and warrants would have a combined dilutive effect such that, for the first $1.00 by which the stock price exceeds $21.607 per share, there would be cumulative dilution of approximately 6.6 million shares prior to conversion. Further increases in the share price would result in additional dilution at a declining rate.

The call options are not considered for purposes of the diluted net income per share calculation as their effect would be anti-dilutive. Upon conversion of the 1.125% Notes, the call options will serve to neutralize the dilutive effect of the notes up to a stock price of $21.607 per share. For the first $1.00 by which the stock price exceeds $21.607 per share, the call options would reduce the cumulative dilution of approximately 6.6 million shares in the example above to approximately 0.8 million shares upon conversion of the notes.

The preceding calculations assume the exercise of the over-allotment option and assume that the average price of our common stock exceeds the respective conversion prices during the period for which diluted net income per share is calculated, and exclude any potential adjustments to the conversion ratio provided under the terms of the 1.125% Notes.

Income Taxes

We adopted the provisions of FASB Interpretation ("FIN") No. 48, *"Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109"* effective as of February 4, 2007 (see **"Notes to Condensed Consolidated Financial Statements; Note 8. Income Taxes"** above). FIN No. 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, expanded disclosures regarding tax uncertainties, and transition.

In accordance with FIN No. 48, we recognized a cumulative effect adjustment of $5.0 million, increasing our liability for unrecognized tax benefits, interest, and penalties and reducing the February 4, 2007 balance of retained earnings.

As of February 4, 2007, we had approximately $44.2 million of gross unrecognized tax benefits. If recognized, the portion of the liabilities for gross unrecognized tax benefits that would decrease our provision for income taxes and increase our net income is approximately $15.1 million. We record interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of the date of adoption of FIN No. 48, we had accrued interest and penalties of approximately $7.4 million. During the Fiscal 2008 First Quarter, there was no significant change in either the unrecognized tax benefits or accrued interest and penalties. We do not expect that any of the previously unrecognized tax benefits or interest and penalties will materially increase or decrease within the next 12 months.

Our U.S. Federal income tax returns for Fiscal 2004 and beyond remain subject to examination by the U.S. Internal Revenue Service ("IRS"). The IRS is not currently examining any of our tax returns. We file returns in numerous state jurisdictions, with varying statutes of limitations. Our state tax returns for Fiscal 2003 and beyond, depending upon the jurisdiction, remain subject to examination. The statute of limitations on a limited number of returns for years prior to Fiscal 2003 has been extended by agreement between us and the particular state jurisdiction. The earliest year

still subject to examination by state tax authorities is Fiscal 1999.

RECENT DEVELOPMENTS

On April 30, 2007, we issued $250.0 million in aggregate principal amount of our 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 (subsequent to the end of the Fiscal 2008 First Quarter), the initial purchasers of the 1.125% Notes exercised their over-allotment option and purchased an additional $25.0 million in aggregate principal amount of the notes.

Concurrently with the issuance of the 1.125% Notes, we entered into privately negotiated common stock call options with affiliates of the initial purchasers. The call options expire on May 1, 2014, and must be net-share settled. The call options are intended to reduce the potential dilution to our common stock upon conversion of the 1.125% Notes by effectively increasing the initial conversion price. In addition, we sold warrants to affiliates of certain of the initial purchasers whereby they have the option to purchase shares of our common stock. The warrants expire on various dates from July 30, 2014 through December 18, 2014. The warrants must be net-share settled. We used $36.5 million of the net proceeds from the issuance of the 1.125% Notes to pay the net cost of the call options and warrants.

On April 30, 2007, we called for redemption on June 4, 2007 our $149.999 million outstanding aggregate principal amount of 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 cash. In addition, we paid $391 thousand in lieu of fractional shares. In anticipation of the conversion of the 4.75% Notes, we repurchased 10.3 million shares of our common stock with $131.1 million of the proceeds from the issuance of our 1.125% Notes during the Fiscal 2008 First Quarter.

See **"Notes to Condensed Consolidated Financial Statements; Note 4. Short-term Borrowings and Long-term Debt"** and **"Note 12. Subsequent Events"** above for further details of the transactions.

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RESULTS OF OPERATIONS

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

	Thirteen Weeks Ended[1]		Percentage Change From Prior Period
	May 5, 2007	April 29, 2006	
Net sales	100.0%	100.0%	6.8%
Cost of goods sold, buying, catalog, and occupancy expenses	69.6	68.2	9.0
Selling, general, and administrative expenses	24.9	24.7	7.8
Income from operations	5.5	7.1	(18.1)
Other income	0.2	0.2	(14.0)
Interest expense	0.4	0.6	(20.9)
Income tax provision	1.9	2.4	(17.5)
Net income	3.4	4.4	(18.0)

(1) Results may not add due to rounding.

The following table shows details of our consolidated total net sales:

(In millions)	Thirteen Weeks Ended May 5, 2007	Thirteen Weeks Ended April 29, 2006
FASHION BUG	$ 257.7	$ 255.9
LANE BRYANT[1]	322.4	277.0
CATHERINES	100.6	94.5
Other retail stores[2]	4.8	0.0
Total Retail Stores segment sales	685.5	627.4
Total Direct-to-Consumer segment sales	98.4	107.4
Corporate and other[3]	0.8	0.1
Total net sales	$ 784.7	$ 734.9

(1) Includes LANE BRYANT OUTLET stores in the thirteen weeks ended May 5, 2007.

(2) Includes PETITE SOPHISTICATE OUTLET stores in the thirteen weeks ended May 5, 2007.

(3) Primarily revenue related to loyalty card fees.

The following table shows information related to the change in our consolidated total net sales:

	Thirteen Weeks Ended	
	May 5, 2007	**April 29, 2006**
Retail Stores segment		
Increase (decrease) in comparable store sales[1] :		
Consolidated retail stores	0%	1%
FASHION BUG	(2)	(1)
LANE BRYANT	0	2
CATHERINES	5	5
Sales from new stores as a percentage of total consolidated prior-period sales[2]:		
FASHION BUG	1	2
LANE BRYANT[3]	9	4
CATHERINES	1	1
Other retail stores[4]	1	—
Prior-period sales from closed stores as a percentage of total consolidated prior-period sales:		
FASHION BUG	(1)	(1)
LANE BRYANT	(2)	(1)
CATHERINES	(0)	(1)
Increase in Retail Stores segment sales	9	4
Direct-to-Consumer segment		
Decrease in Direct-to-Consumer segment sales	(8)	—
Increase in consolidated total net sales	7	22[5]

———————————

(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 OUTLET stores.

(5) The increase in consolidated total net sales for the thirteen weeks ended April 29, 2006 includes an 18% increase as a result of the acquisition of Crosstown Traders, Inc. on June 2, 2005.

The following table sets forth information with respect to our year-to-date retail store activity for Fiscal 2008 and planned store activity for all of Fiscal 2008:

	FASHION BUG	LANE BRYANT	CATHERINES	Other[1]	Total
Fiscal 2008 Year-to-Date[2]:					
Stores at February 3, 2007	1,009	859	465	45	2,378
Stores opened	5	24(3)	2	1	32
Stores closed	(6)	(6)	(2)	(0)	(14)
Net change in stores	(1)	18	0	1	18
Stores at May 5, 2007	1,008	877	465	46	2,396
Stores relocated during period	6	10	5	0	21
Fiscal 2008:					
Planned store openings	10	65-75(4)	10	10(5)	95-107
Planned store closings	18-22	15-18(6)	7-10	0	40-50
Planned store relocations	20-25	45-50(7)	10-15	0	75-90

(1) Includes PETITE SOPHISTICATE OUTLET stores.

(2) Excludes 2 Crosstown Traders outlet stores that are included in our Direct-to-Consumer segment.

(3) Includes 5 LANE BRYANT OUTLET stores.

(4) Includes approximately 35 LANE BRYANT intimate apparel side-by-side stores and 15 LANE BRYANT OUTLET stores.

(5) Includes 5 PETITE SOPHISTICATE OUTLET stores and 5 full-line PETITE SOPHISTICATE stores.

(6) Includes 1 LANE BRYANT OUTLET store.

(7) Includes approximately 32 conversions to LANE BRYANT intimate apparel side-by-side stores.

Comparison of Thirteen Weeks Ended May 5, 2007 and April 29, 2006

Net Sales

The increase in consolidated net sales in the Fiscal 2008 First Quarter as compared to the Fiscal 2007 First Quarter was a result of increases in net sales from each of the brands in our Retail Stores segment, partially offset by a decrease in net sales from our Direct-to-Consumer segment. The increase in the Retail Stores segment's net sales was

primarily a result of sales from new LANE BRYANT, LANE BRYANT OUTLET and PETITE SOPHISTICATE OUTLET stores opened during late Fiscal 2007 and the Fiscal 2008 First Quarter, an increase in comparable retail store sales at our CATHERINES brand, and increases in E-commerce sales at all of our Retail Stores brands. The Retail Stores segment's comparable net sales for the Fiscal 2008 First Quarter were flat as compared to the Fiscal 2007 First Quarter, and were in line with our plan for the quarter. The Retail Stores segment's net sales for the Fiscal 2008 First Quarter for all of our brands were negatively impacted by unseasonably cold weather during the period. The decrease in net sales from our Direct-to-Consumer segment was primarily attributable to below-plan performance in our apparel-related catalogs, which resulted from a decline in response rates from both our core customer and prospecting mailing lists, as discussed below. We operated 2,396 stores in our Retail Stores segment as of May 7, 2007, as compared to 2,241 stores as of April 29, 2006.

Total net sales for the LANE BRYANT brand increased as a result of sales from new stores (including LANE BRYANT OUTLET stores) and an increase in store-related E-commerce sales. The increase in LANE BRYANT net sales was below our plan for the period. LANE BRYANT experienced a decrease in the average number of transactions per store and the average dollar sale per transaction in the current-year quarter as compared to the prior-year quarter. Traffic levels decreased as compared to the prior-year quarter.

Total net sales for the FASHION BUG brand increased slightly as compared to the prior-year quarter. The increase in FASHION BUG net sales was in line with our plan for the period. Sales from new stores and an increase in store-related E-commerce sales were partially offset by a decrease in comparable store sales and a decrease in sales as a result of closed stores. Store traffic levels and the average number of transactions per store decreased from the prior-year quarter, while the average dollar sale per transaction increased as compared to the prior-year quarter.

Total net sales for the CATHERINES brand increased as a result of increases in comparable retail store sales and store-related E-commerce sales, and were above our plan for the period. CATHERINES' strong performance during Fiscal 2007 continued into the Fiscal 2008 First Quarter, with an increase in the average dollar sale per transaction partially offset by a decrease in traffic levels and a slight decrease in the average number of transactions per store as compared to the prior-year quarter.

Total net sales for the Direct-to-Consumer segment decreased as compared to the prior-year quarter as a result of reduced response rates to our apparel catalog offerings. The consolidation of our catalog operations into our Tucson operations and the resulting loss of personnel and disruption had a greater-than-anticipated negative impact on operations and sales during Fiscal 2007. As a result, we reduced our catalog prospecting and circulation levels during the last six months of Fiscal 2007 in order to reduce advertising expenditures. The negative impact continued into the Fiscal 2008 First Quarter, and we expect it to continue into the Fiscal 2008 Second Quarter. We have made a series of management changes, including the appointment of a new president for Crosstown Traders, which are intended to address these issues.

We offer various loyalty card programs to our Retail Stores segment customers. Customers who join these programs are entitled to various benefits, including discounts and rebates on purchases during the membership period. Customers generally join these programs by paying an annual membership fee. We recognize revenue on these loyalty programs as sales over the life of the membership period based on when the customer earns the benefits and when the fee is no longer refundable. Costs we incur in connection with administering these programs are recognized in cost of goods sold as incurred. During the Fiscal 2008 First Quarter and Fiscal 2007 First Quarter, we recognized revenues of $5.7 million and $4.1 million, respectively, in connection with our loyalty card programs.

Cost of Goods Sold, Buying, Catalog, and Occupancy

The increase in consolidated cost of goods sold, buying, and occupancy expenses as a percentage of consolidated net sales from the Fiscal 2007 First Quarter to the Fiscal 2008 First Quarter was primarily as a result of reduced merchandise margins for both our Retail Stores and Direct-to-Consumer segments. The reduced merchandise margin in our Retail Stores segment was primarily as a result of increased promotional pricing related to unseasonable weather during the Fiscal 2008 First Quarter. The reduced merchandise margin in our Direct-to-Consumer segment was primarily as a result of the lack of leverage on catalog advertising costs from reduced sales for our apparel-related catalogs. Consolidated cost of goods sold increased 1.3% as a percentage of consolidated net sales, while consolidated buying and occupancy expenses increased 0.1% as a percentage of consolidated net sales.

For our Retail Stores segment, cost of goods sold, buying, and occupancy expenses as a percentage of net sales were 1.4% higher in the Fiscal 2008 First Quarter as compared to the Fiscal 2007 First Quarter. Merchandise margins were negatively affected by increased promotional activities as a result of unseasonable weather during the Fiscal 2008

First Quarter. In addition, our LANE BRYANT brand entered the current-year quarter with excess holiday inventories, and experienced a higher-than-planned level of markdowns to exit the season. Buying and occupancy expenses for the Retail Stores segment, as a percentage of net sales, were 0.1% lower in the Fiscal 2008 First Quarter as compared to the Fiscal 2007 First Quarter.

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. Catalog advertising and fulfillment costs as a percentage of net sales increased in the Fiscal 2008 First Quarter as compared to the Fiscal 2007 First Quarter as a result of the lack of leverage from reduced sales from this segment. Conversely, the Direct-to-Consumer segment incurs lower levels of buying and occupancy costs, which resulted in a favorable impact on consolidated buying and occupancy expenses as a percentage of consolidated net sales in the current-year period.

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.

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.

Selling, General, and Administrative

Consolidated selling, general, and administrative expenses increased slightly as a percentage of consolidated net sales, as we continued to focus on controlling operating expenses. Leverage from the increase in Retail Stores net sales and an improvement in general and administrative expenses as a percent of net sales in the Direct-to-Consumer segment were offset by an increase in corporate benefits costs and other administrative expenses.

Income Tax Provision

The effective income tax rate was 35.8% for the Fiscal 2008 First Quarter as compared to 35.7% for the Fiscal 2007 First Quarter. We adopted the provisions of FASB Interpretation No. 48 as of the beginning of the Fiscal 2008 First Quarter (see **"CRITICAL ACCOUNTING POLICIES; *Income Taxes*"** above).

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. In addition, our cash and cash equivalents increased during the Fiscal 2008 First Quarter as a result of long-term debt financing, as discussed further in **"FINANCING; *Long-term debt*"** below. The following table highlights certain information related to our liquidity and capital resources:

(Dollars in millions)	**May 5, 2007**	**February 3, 2007**
Cash and cash equivalents	$ 240.9	$ 143.8
Available-for-sale securities	0.3	2.0
Working capital	$ 417.8	$ 460.6
Current ratio	1.8	2.2
Long-term debt to equity ratio	34.6%	19.1%

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Our net cash provided by operating activities increased to $60.2 million for the first quarter of Fiscal 2008 from $58.9 million for the first quarter of Fiscal 2007. A $5.8 million decrease in net income and a $3.6 million decrease in the net change in accounts receivable from our FIGI'S Direct-to-Consumer catalog were offset by the favorable impact from the timing of payments of deferred, prepaid, and accrued expenses. Our net investment in inventories decreased $0.9 million in the first quarter of Fiscal 2008 as compared to the first quarter of Fiscal 2007 as a result of our continued management of inventory levels. Excluding incremental inventory purchased for our outlet business, inventories at the end of the Fiscal 2008 First Quarter were consistent with the end of the Fiscal 2007 First Quarter. On a same-store basis, inventories increased 5% as of the end of the Fiscal 2008 First Quarter as compared to the end of the Fiscal 2007 First Quarter as a result of increases in spring and year-round product.

Capital Expenditures

Our gross capital expenditures, excluding construction allowances received from landlords, were $37.5 million during the first quarter of Fiscal 2008. Construction allowances received from landlords for the first quarter of Fiscal 2008 were $18.7 million. During Fiscal 2008, we continued our new store opening plan, primarily in our LANE BRYANT brand, which includes a new LANE BRYANT/CACIQUE side-by-side retail store concept, and in our outlet store channel. We also plan to continue to build our infrastructure for the launch of new catalog offerings, including the launch of the LANE BRYANT catalog in November 2007, as well as further improvement and expansion of our E-commerce operations.

For all of Fiscal 2008, we anticipate incurring capital expenditures of approximately $160 – $165 million before construction allowances received from landlords. We expect that a majority of these capital expenditures will support store development, including openings, relocations, and store improvements. The remainder of the expenditures will primarily be for improvements to our information technology and corporate infrastructure. We expect to finance these additional capital expenditures primarily through internally-generated funds and capital lease financing.

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

Our FASHION BUG, CATHERINES, and PETITE SOPHISTICATE proprietary credit card receivables are originated by Spirit of America National Bank (the "Bank"), our wholly-owned credit card bank, which transfers its interest in the receivables to the Charming Shoppes Master Trust (the "Trust") through a special-purpose entity. The Trust is a separate and distinct unconsolidated qualified special-purpose entity ("QSPE"). Through Fiscal 2007, our Crosstown Traders catalog proprietary credit card receivables, which we securitized subsequent to our acquisition of Crosstown Traders, are originated in a non-bank program by Crosstown Traders. Crosstown Traders transferred its interest in the receivables to Catalog Receivables LLC, a separate and distinct unconsolidated QSPE, through a special-purpose entity. On February 5, 2007, the Bank acquired the account relationships of the Crosstown Traders catalog proprietary credit cards and all subsequent new receivables are originations of the Bank. These receivables continue to be sold and securitized through the Crosstown securitization program. This acquisition did not cause a change in the securitization entities used by the Crosstown Traders proprietary credit card program. The QSPEs can sell interests in these receivables on a revolving basis for a specified term. At the end of the revolving period, an

amortization period begins during which the QSPEs make principal payments to the parties that have entered into the securitization agreement with the QSPEs. The assets of the QSPEs (including the receivables) are isolated for purposes of the securitization program.

As of May 5, 2007, we had the following securitization facilities outstanding:

(Dollars in millions)	**Series 1999-2**	**Series 2002-1**	**Series 2004**	**Series 2004-1**	**2005-RPA[(1)]**
Date of facility	May 1999	November 2002	January 2004	August 2004	May 2005
Type of facility	Conduit	Term	Conduit	Term	Conduit
Maximum funding	$50.0	$100.0	$50.0	$180.0	$55.0
Funding as of May 5, 2007	$36.0	$100.0	$0.0	$180.0	$44.5
First scheduled principal payment	Not applicable	August 2007	Not applicable	April 2009	Not applicable
Expected final principal payment	Not applicable[(2)]	May 2008	Not applicable[(2)]	March 2010	Not applicable[(2)]
Renewal	Annual	Not applicable	Annual	Not applicable	Annual

(1) Receivables Purchase Agreement (for the Crosstown Traders catalog proprietary credit card receivables program).

(2) Series 1999-2 and Series 2004 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 generally begin amortizing 364 days after start of the purchase commitment by the series purchaser currently in effect.

As these credit card receivables securitizations reach maturity, we plan to obtain funding for the 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.

We securitized $151.5 million of private label credit card receivables in the first quarter of Fiscal 2008 and had $363.1 million of securitized credit card receivables outstanding as of May 5, 2007. We held certificates and retained interests in our securitizations of $61.6 million as of May 5, 2007, which 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.

Charming Shoppes Receivables Corp. ("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. As of May 5, 2007, our investment in asset-backed securities included $11.3 million of QSPE certificates, an I/O strip of $16.1 million, and other retained interests of $34.2 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. fails to meet certain financial performance standards, the Trust would be obligated to reallocate to third-party investors holding certain certificates issued by the Trust, collections in an amount up to $9.5 million that otherwise would be available to CSRC. The result of this reallocation would be to increase CSRC's retained interest in the Trust by the same amount. Subsequent to such a transfer occurring, and upon certain conditions being met, these same investors would be required to repurchase these interests. As of May 5, 2007, we

were in compliance with these performance standards and, as a result, there were no reallocated collections.

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 fail or the QSPEs fail to 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. As of May 5, 2007, the QSPEs were in compliance with all applicable financial performance standards. 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.

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.

We have a non-recourse agreement under which a third party provides a proprietary credit card sales accounts receivable funding facility for our LANE BRYANT retail and outlet stores. The facility expires in October 2007. Under this agreement, the third party reimburses us daily for sales generated by LANE BRYANT’s proprietary credit card accounts. Upon termination of this agreement, we have the right to purchase the receivables allocated to the LANE BRYANT stores under such agreement at book value from the third party. We currently plan to exercise our option to purchase the LANE BRYANT receivables upon the termination of the agreement. We estimate that the apportionment of receivables allocated to the accounts with respect to the LANE BRYANT retail stores will be approximately $200 million at termination. We anticipate that substantially all proceeds required for this purchase will be funded through the issuance of new securitization series through our off-balance-sheet securitization facilities.

Additional information regarding our asset securitization facility and our LANE BRYANT agreement 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 16. Asset Securitization”** of our Annual Report on Form 10-K for the fiscal year ended February 3, 2007, and under the caption **“MARKET RISK’** below.

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 17. Leases”** of our Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

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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. As of May 5, 2007, we had an aggregate total of $2.7 million of unamortized deferred debt acquisition costs related to the facility, 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. Under certain circumstances involving a decrease in “Excess Availability” (as defined in the facility agreement), we may be required to maintain a minimum “Fixed Charge Coverage Ratio” (as defined in the facility agreement). The facility is secured by our general assets, except for (i) assets related to our credit card securitization facilities, (ii) real property, (iii) equipment, (iv) the assets of our non-U.S. subsidiaries, and (v) certain other assets. As of May 5, 2007, 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 (as defined in the facility agreement) 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 defined in the facility agreement. As of May 5, 2007, the applicable rates under the facility were 8.25% for Prime Rate Loans and 6.32% (LIBOR plus 1%) for Eurodollar Rate Loans. There were no borrowings outstanding under the facility as of May 5, 2007.

Long-term Debt

On April 30, 2007, we issued $250.0 million principal amount of our 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. We received proceeds of approximately $243.7 million from the issuance, net of underwriting fees of approximately $6.3 million. The underwriting fees are included in “Other assets,” and we are amortizing them to interest expense on an effective interest rate basis over the life of the notes to maturity (seven years). 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 converted or repurchased by us.

The initial purchasers of the 1.125% Notes had the option to purchase up to an additional $25.0 million in principal amount of notes from us to cover over-allotments. On May 11, 2007 (subsequent to the end of the Fiscal 2008 First Quarter), the initial purchasers of the 1.125% Notes exercised their over-allotment option and purchased an additional $25.0 million in principal amount of the notes. We received proceeds of approximately $24.4 million from the exercise of the over-allotment option, and incurred additional underwriting fees of approximately $0.6 million. The additional underwriting fees, as well as additional transaction costs incurred in connection with the issuance of the 1.125% Notes, will be recorded in “Other assets,” and will be amortized to interest expense on an effective interest rate basis over the remaining life of the notes to maturity.

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Holders of the 1.125% Notes may convert their notes based on a conversion rate of 65.0233 shares of our common stock per $1,000 principal amount of notes (the equivalent of $15.379 per share), subject to adjustment upon certain events, only under the following circumstances as described in the Indenture for the 1.125% Notes: (1) during specified periods, if the price of our common stock reaches specified thresholds; (2) if the trading price of the 1.125% Notes is below a specified threshold; (3) at any time after November 15, 2013; or (4) upon the occurrence of certain corporate transactions.

Upon conversion, we intend to deliver an amount in cash equal to the lesser of the aggregate principal amount of notes to be converted and our total conversion obligation. If our conversion obligation exceeds the aggregate principal amount of the 1.125% Notes, we will deliver shares of our common stock in respect of the excess. However, we have the option, subject to the approval of our Board of Directors, to elect to satisfy our conversion obligation entirely in shares of our common stock. In connection with a "Fundamental Change" as defined in the Indenture, we also will deliver upon conversion of the notes additional shares of common stock as described in the Indenture. In addition, if we undergo a "Fundamental Change" before maturity of the 1.125% Notes, we may be required to repurchase for cash all or a portion of the 1.125% Notes at a repurchase price of 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest, including additional amounts, if any, up to but excluding the date of purchase. As of May 5, 2007, none of the conditions allowing holders of the 1.125% Notes to convert had been met.

We are required to file a shelf registration statement covering resales of the 1.125% Notes and the shares of our common stock issuable on conversion of the notes with the Securities and Exchange Commission ("SEC"). If we are not eligible to use an automatic shelf registration statement, we are required to use our reasonable efforts to cause the shelf registration statement to become effective no later than 210 days after the first date of original issuance of the notes. If we fail to meet these terms, we will be required to pay additional interest on the 1.125% Notes in an amount of up to 0.50% per annum. As of May 5, 2007, we expect to meet the terms of the registration requirements.

Concurrently with the issuance of the 1.125% Notes, we entered into privately negotiated common stock call options with affiliates of the initial purchasers. Including exercise of the over-allotment option, the call options allow us to purchase up to approximately 17.9 million shares of our common stock at an initial strike price of $15.379 per share. The call options expire on May 1, 2014 and must be net-share settled. The cost of the call options to us was approximately $90.5 million, including exercise of the over-allotment option.

In addition, we sold warrants to affiliates of certain of the initial purchasers whereby they have the option, after exercise of the over-allotment option, to purchase up to approximately 18.8 million shares of our common stock at an initial strike price of $21.607 per share. The warrants expire on various dates from July 30, 2014 through December 18, 2014 and must be net-share settled. We received approximately $54.0 million in cash proceeds from the sale of these warrants, including exercise of the over-allotment option.

The call options are intended to reduce the potential dilution to our common stock upon conversion of the 1.125% Notes by effectively increasing the initial conversion price of the notes to $21.607 per share, representing a 73.0% conversion premium over the closing price of our common stock on April 30, 2007 of $12.49 per share.

We used $36.5 million of the net proceeds from the issuance of the 1.125% Notes to pay the net cost of the call options and warrants. In addition, in anticipation of the conversion of our 4.75% Notes (see next paragraph), we repurchased 10.3 million shares of our common stock during the Fiscal 2008 First Quarter with $131.1 million of the proceeds from the issuance of the 1.125% Notes. We expect to use the remaining proceeds to repurchase additional shares of our common stock in the open market or in privately negotiated transactions as market conditions allow and for general corporate purposes.

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On April 30, 2007, we called for redemption on June 4, 2007 our $149.999 million outstanding aggregate principal amount of 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 cash. In addition, we paid $391 thousand in lieu of fractional shares. As a result of the redemption, we classified the 4.75% Notes as short-term borrowings in our accompanying condensed consolidated balance sheet as of May 5, 2007.

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. Short-term Borrowings and Long-term Debt"** of our Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

We believe that our capital resources and liquidity position are sufficient to support our current operations. Our requirements for working capital, capital expenditures, and repayment of debt and other obligations are expected to be funded from operations, supplemented as needed by short-term or long-term borrowings available under our credit facility, our proprietary credit card receivables securitization agreements, leases, and other available financing sources.

MARKET RISK

We manage our FASHION BUG, 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.

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 May 5, 2007, 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 as well as the fixed-rate credit cards for the portion of certificates that are funded at floating rates. However, as a result of the Trust entering into a series of fixed-rate interest rate swap agreements with respect to $161.1 million of Series 2004-1 certificates, and $89.5 million of Series 2002-1 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 by the end of Fiscal 2008, an increase of approximately $419 thousand in selling, general, and administrative expenses would result.

As of May 5, 2007, 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.

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IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

See **"Item 1. Notes To Condensed Consolidated Financial Statements (Unaudited); Note 11. 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.

Other than changes in internal control over how tax positions are measured, recognized, and disclosed pursuant to our adoption of Financial Accounting Standards Board Interpretation No. 48 *"Accounting for Uncertainty in Income Taxes,"*, 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.

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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 30, 2007, we issued $250.0 million 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. On May 11, 2007 (subsequent to the end of the period covered by this Report), the initial purchasers of the 1.125% Notes exercised their over-allotment option and purchased an additional $25.0 million in principal amount of the notes. The holders of the 1.125% Notes could require us to repurchase the principal amount of the notes for cash before maturity of the notes upon the occurrence of a "Fundamental Change," as defined in the indenture relating to the 1.125% Notes. Such a repurchase would require significant amounts of cash and could adversely affect our financial condition.

The Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") is currently reviewing the accounting for convertible debt instruments with terms similar to our 1.125% Notes. The EITF is considering a requirement to allocate a portion of the debt to the embedded conversion feature, thereby creating an original issue discount on the carrying value of the debt portion of the instrument. This original issue discount would subsequently be amortized as interest expense over the term of the instrument, resulting in an increase in reported interest expense. Implementation of such a change would not affect our cash flows.

Other than the above, we have not become aware of any material changes since February 3, 2007 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 3, 2007. See also **"Part I; Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; FORWARD-LOOKING STATEMENTS"** 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[3]	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs[3]
February 4, 2007 through March 3, 2007	10,478(1)	$ 12.79	—	—
March 4, 2007 through April 7, 2007	66,019(1)	12.05	—	—
April 8, 2007 through May 5, 2007	10,317,510(2)	12.71	—	—
Total	10,394,007	$ 12.71	—	—

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

(2) Includes 2,610 shares ($12.45 average price paid per share) withheld for the payment of payroll taxes on employee stock awards that vested during the period. Also includes 10,314,900 shares ($12.71 average price paid per share) purchased through negotiated transactions with institutional investors in anticipation of the exercise by holders of our 4.75% Senior Convertible Notes Due 2012 of their right to convert their notes to shares of our common stock as the result of our call for redemption on April 30, 2007 (see ***"PART 1. Item 1. Notes to Condensed Consolidated Financial Statements; Note 4. Short-term Borrowings and Long-term Debt"*** *and* ***"Note 12. Subsequent Events"*** *above).*

(3) In Fiscal 1998, we publicly announced that our Board of Directors granted authority to repurchase up to 10,000,000 shares of our common stock. In Fiscal 2000, we publicly announced that our Board of Directors granted authority to repurchase up to an additional 10,000,000 shares of our common stock. In Fiscal 2003, the Board of Directors granted an additional authorization to repurchase 6,350,662 shares of common stock issued to Limited Brands in connection with our acquisition of LANE BRYANT. From Fiscal 1998 through Fiscal 2003, pursuant to these authorizations, we repurchased a total of 21,370,993 shares of common stock, which included shares purchased on the open market as well as shares repurchased from Limited Brands. As of May 5, 2007, 4,979,669 shares of our common stock remain available for repurchase under these programs. Our revolving credit facility allows the repurchase of our common stock subject to maintaining a minimum level of Excess Availability (as defined in the facility agreement) immediately before and after such repurchase. As conditions may allow, we may from

time to time acquire additional shares of our common stock under these programs. Such shares, if purchased, would be held as treasury shares. No shares were acquired under these programs during the thirteen weeks ended May 5, 2007. The repurchase programs have no expiration date.

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, incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 29, 1994 (File No. 000-07258, Exhibit 3.1).

3.2 Bylaws, as Amended and Restated, incorporated by reference to Form 10-Q of the Registrant for the quarter ended July 31, 1999 (File No. 000-07258, Exhibit 3.2).

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 Registration Rights Agreement among the Company and Banc of America Securities LLC and J.P. Morgan Securities Inc., 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 10.1).

10.2 Convertible Bond Hedge Transaction Confirmation entered into by and between the Company and Bank of America, N.A., dated April 24, 2007, incorporated by reference to Form 8-K of the Registrant dated April 25, 2007, filed on May 1, 2007. (Exhibit 10.1).

10.3 Convertible Bond Hedge Transaction Confirmation entered into by and between the Company and JPMorgan Chase Bank, National Association, dated April 24, 2007, incorporated by reference to Form 8-K of the Registrant dated April 25, 2007, filed on May 1, 2007. (Exhibit 10.2).

10.4 Convertible Bond Hedge Transaction Confirmation entered into by and between the Company and Wachovia Bank, National Association, dated April 24, 2007, incorporated by reference to Form 8-K of the Registrant dated April 25, 2007, filed on May 1, 2007. (Exhibit 10.3).

10.5 Issuer Warrant Transaction Confirmation entered into by and between the Company and Bank of America, N.A., dated April 24, 2007, incorporated by reference to Form 8-K of the Registrant dated April 25, 2007, filed on May 1, 2007. (Exhibit 10.4).

10.6 Issuer Warrant Transaction Confirmation entered into by and between the Company and JPMorgan Chase Bank, National Association, dated April 24, 2007, incorporated by

reference to Form 8-K of the Registrant dated April 25, 2007, filed on May 1, 2007. (Exhibit 10.5).

10.7 Issuer Warrant Transaction Confirmation entered into by and between the Company and Wachovia Bank, National Association, dated April 24, 2007, incorporated by reference to Form 8-K of the Registrant dated April 25, 2007, filed on May 1, 2007. (Exhibit 10.6).

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: June 7, 2007

/S/ DORRIT J. BERN
Dorrit J. Bern
Chairman of the Board
President and Chief Executive Officer

Date: June 7, 2007

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

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