

CHICOS FAS INC  
Form 10-Q  
November 27, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the Quarter Ended:**  
**November 2, 2013**

**Commission File Number:**  
**001-16435**

**Chico s FAS, Inc.**

**(Exact name of registrant as specified in charter)**

**Florida**  
**(State of Incorporation)**

**59-2389435**  
**(I.R.S. Employer**

**Identification No.)**

Edgar Filing: CHICOS FAS INC - Form 10-Q

**11215 Metro Parkway, Fort Myers, Florida 33966**

**(Address of principal executive offices)**

**239-277-6200**

**(Registrant's telephone number, including area code)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At November 22, 2013, the registrant had 158,792,831 shares of Common Stock, \$0.01 par value per share, outstanding.

**Table of Contents**

**CHICO S FAS, INC. AND SUBSIDIARIES**

TABLE OF CONTENTS

**PART I Financial Information**

<i>Item 1.</i>	<u><i>Financial Statements:</i></u>	
	<u>Condensed Consolidated Statements of Income (Loss) for the Thirty-Nine and Thirteen Weeks Ended November 2, 2013 (Unaudited) and October 27, 2012 (Unaudited)</u>	3
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Thirty-Nine and Thirteen Weeks Ended November 2, 2013 (Unaudited) and October 27, 2012 (Unaudited)</u>	4
	<u>Condensed Consolidated Balance Sheets November 2, 2013 (Unaudited), February 2, 2013 and October 27, 2012 (Unaudited)</u>	5
	<u>Condensed Consolidated Statements of Cash Flows for the Thirty-Nine Weeks Ended November 2, 2013 (Unaudited ) and October 27, 2012 (Unaudited)</u>	6
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
<i>Item 2.</i>	<u><i>Management's Discussion and Analysis of Financial Condition and Results of Operations</i></u>	15
<i>Item 3.</i>	<u><i>Quantitative and Qualitative Disclosures About Market Risk</i></u>	23
<i>Item 4.</i>	<u><i>Controls and Procedures</i></u>	23
<b><u>PART II Other Information</u></b>		
<i>Item 1.</i>	<u><i>Legal Proceedings</i></u>	25
<i>Item 1A.</i>	<u><i>Risk Factors</i></u>	25
<i>Item 2.</i>	<u><i>Unregistered Sales of Equity Securities and Use of Proceeds</i></u>	25
<i>Item 6.</i>	<u><i>Exhibits</i></u>	26
	<u>Signatures</u>	27

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CHICO S FAS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)****(Unaudited)****(In thousands, except per share amounts)**

	<b>Thirty-Nine Weeks Ended</b>				<b>Thirteen Weeks Ended</b>			
	<b>November 2, 2013</b>		<b>October 27, 2012</b>		<b>November 2, 2013</b>		<b>October 27, 2012</b>	
	<b>Amount</b>	<b>% of Sales</b>	<b>Amount</b>	<b>% of Sales</b>	<b>Amount</b>	<b>% of Sales</b>	<b>Amount</b>	<b>% of Sales</b>
<b>Net sales:</b>								
Chico s/Soma Intimates	\$ 1,255,214	63.5%	\$ 1,251,632	64.9%	\$ 415,819	63.4%	\$ 411,671	64.6%
White House   Black Market	643,688	32.6%	583,473	30.2%	218,200	33.3%	197,248	31.0%
Boston Proper	76,902	3.9%	94,099	4.9%	21,560	3.3%	27,746	4.4%
<b>Total net sales</b>	<b>1,975,804</b>	<b>100.0%</b>	<b>1,929,204</b>	<b>100.0%</b>	<b>655,579</b>	<b>100.0%</b>	<b>636,665</b>	<b>100.0%</b>
Cost of goods sold	868,808	44.0%	824,132	42.7%	291,569	44.5%	272,369	42.8%
<b>Gross margin</b>	<b>1,106,996</b>	<b>56.0%</b>	<b>1,105,072</b>	<b>57.3%</b>	<b>364,010</b>	<b>55.5%</b>	<b>364,296</b>	<b>57.2%</b>
Selling, general and administrative expenses	899,689	45.5%	864,987	44.8%	308,528	47.1%	297,190	46.7%
Goodwill and trade name impairment charges	72,466	3.7%		0.0%	72,466	11.0%		0.0%
Acquisition and integration costs	914	0.0%	1,321	0.1%		0.0%	480	0.0%
<b>Income (loss) from operations</b>	<b>133,927</b>	<b>6.8%</b>	<b>238,764</b>	<b>12.4%</b>	<b>(16,984)</b>	<b>(2.6%)</b>	<b>66,626</b>	<b>10.5%</b>
Interest income, net	404	0.0%	633	0.0%	105	0.0%	231	0.0%
<b>Income (loss) before income taxes</b>	<b>134,331</b>	<b>6.8%</b>	<b>239,397</b>	<b>12.4%</b>	<b>(16,879)</b>	<b>(2.6%)</b>	<b>66,857</b>	<b>10.5%</b>
	68,100	3.4%	90,700	4.7%	11,600	1.7%	25,200	4.0%

Income tax  
provision

<b>Net income (loss)</b>	\$ 66,231	3.4%	\$ 148,697	7.7%	\$ (28,479)	(4.3%)	\$ 41,657	6.5%
--------------------------	-----------	------	------------	------	-------------	--------	-----------	------

**Per share data:**

Net income (loss)  
per common  
share-basic

\$ 0.41	\$ 0.89	\$ (0.18)	\$ 0.25
---------	---------	-----------	---------

Net income (loss)  
per common and  
common equivalent  
share diluted

\$ 0.41	\$ 0.89	\$ (0.18)	\$ 0.25
---------	---------	-----------	---------

Weighted average  
common shares  
outstanding basic

156,662	163,683	155,228	163,253
---------	---------	---------	---------

Weighted average  
common and  
common equivalent  
shares

157,604	164,754	155,228	164,411
---------	---------	---------	---------

Dividends declared  
per share

\$ 0.165	\$ 0.1575	\$	\$
----------	-----------	----	----

The accompanying notes are an integral part of these condensed consolidated statements.

Table of Contents**CHICOS FAS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)****(In thousands)**

	<b>Thirty-Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>	<b>November 2, 2013</b>	<b>October 27, 2012</b>
<b>Net income (loss)</b>	\$ 66,231	\$ 148,697	\$ (28,479)	\$ 41,657
Other comprehensive income (loss):				
Unrealized gains (losses) on marketable securities, net of taxes	(81)	(122)	70	(101)
Foreign currency translation adjustment, net of taxes	10		10	
<b>Comprehensive income (loss)</b>	\$ 66,160	\$ 148,575	\$ (28,399)	\$ 41,556

The accompanying notes are an integral part of these condensed consolidated statements.

**Table of Contents**

**CHICOS FAS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	November 2, 2013 (Unaudited)	February 2, 2013	October 27, 2012 (Unaudited)
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 52,524	\$ 56,859	\$ 79,102
Marketable securities, at fair value	197,235	272,499	292,393
Inventories	267,430	206,849	234,199
Prepaid expenses and other current assets	55,835	61,786	57,436
<b>Total Current Assets</b>	<b>573,024</b>	<b>597,993</b>	<b>663,130</b>
<b>Property and Equipment, net</b>	<b>635,284</b>	<b>608,120</b>	<b>591,346</b>
<b>Other Assets:</b>			
Goodwill	171,427	238,693	238,693
Other intangible assets, net	119,269	127,754	128,844
Other assets, net	9,252	8,068	6,787
<b>Total Other Assets</b>	<b>299,948</b>	<b>374,515</b>	<b>374,324</b>
	\$ 1,508,256	\$ 1,580,628	\$ 1,628,800
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 152,698	\$ 129,387	\$ 137,600
Other current liabilities	121,796	173,024	178,685
<b>Total Current Liabilities</b>	<b>274,494</b>	<b>302,411</b>	<b>316,285</b>
<b>Noncurrent Liabilities:</b>			
Deferred liabilities	143,991	132,374	132,574
Deferred taxes	53,338	52,644	49,626
<b>Total Noncurrent Liabilities</b>	<b>197,329</b>	<b>185,018</b>	<b>182,200</b>
<b>Stockholders Equity:</b>			
Preferred stock			
Common stock	1,588	1,628	1,663
Additional paid-in capital	372,325	348,775	338,703
Retained earnings	662,375	742,580	789,743

Edgar Filing: CHICOS FAS INC - Form 10-Q

Accumulated other comprehensive income	145	216	206
<b>Total Stockholders Equity</b>	1,036,433	1,093,199	1,130,315
	\$ 1,508,256	\$ 1,580,628	\$ 1,628,800

The accompanying notes are an integral part of these condensed consolidated statements.



Table of Contents**CHICOS FAS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	<b>Thirty-Nine Weeks Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>
<b>Cash Flows From Operating Activities:</b>		
Net income (loss)	\$ 66,231	\$ 148,697
Adjustments to reconcile net income to net cash provided by operating activities		
Goodwill and trade name impairment charges	72,466	
Depreciation and amortization	88,123	80,085
Deferred tax expense (benefit)	6,024	(7,809)
Stock-based compensation expense	19,542	18,931
Excess tax benefit from stock-based compensation	(1,281)	(6,757)
Deferred rent and lease credits	(13,299)	(12,130)
Loss on disposal and impairment of property and equipment	1,432	2,045
Changes in assets and liabilities:		
Inventories	(60,581)	(39,730)
Prepaid expenses and other assets	(1,775)	2,419
Accounts payable	23,311	37,205
Accrued and other liabilities	(25,087)	66,993
Net cash provided by operating activities	175,106	289,949
<b>Cash Flows From Investing Activities:</b>		
Decrease (increase) in marketable securities	75,183	(103,582)
Purchases of property and equipment, net	(113,376)	(119,922)
Net cash used in investing activities	(38,193)	(223,504)
<b>Cash Flows From Financing Activities:</b>		
Proceeds from issuance of common stock	10,176	14,277
Excess tax benefit from stock-based compensation	1,281	6,757
Dividends paid	(26,536)	(26,266)
Repurchase of common stock	(126,179)	(41,030)
Net cash used in financing activities	(141,258)	(46,262)
Effects of exchange rate changes on cash and cash equivalents	10	

Net (decrease) increase in cash and cash equivalents	(4,335)	20,183
<b>Cash and Cash Equivalents, Beginning of period</b>	<b>56,859</b>	<b>58,919</b>
<b>Cash and Cash Equivalents, End of period</b>	<b>\$ 52,524</b>	<b>\$ 79,102</b>

**Supplemental Disclosures of Cash Flow Information:**

Cash paid for interest	\$ 269	\$ 267
Cash paid for income taxes, net	\$ 62,162	\$ 68,080

The accompanying notes are an integral part of these condensed consolidated statements.

**Table of Contents**

**Chico's FAS, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**November 2, 2013**

**(Unaudited)**

**Note 1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Chico's FAS, Inc. and its wholly-owned subsidiaries (collectively, the Company) have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by accounting principles generally accepted in the U.S. (U.S. GAAP) for complete financial statements. In the opinion of management, such interim financial statements reflect all normal, recurring adjustments considered necessary to present fairly the consolidated financial position, the results of operations and cash flows for the interim periods presented. All significant intercompany balances and transactions have been eliminated in consolidation. For further information, refer to the consolidated financial statements and notes thereto for the fiscal year ended February 2, 2013, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 20, 2013.

As used in this report, all references to we, us, our, and the Company, refer to Chico's FAS, Inc. and all of its wholly-owned subsidiaries.

Our fiscal years end on the Saturday closest to January 31 and are designated by the calendar year in which the fiscal year commences. Operating results for the thirteen weeks and thirty-nine weeks ended November 2, 2013 are not necessarily indicative of the results that may be expected for the entire year.

**Note 2. New Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board (FASB) issued new disclosure guidance related to the reporting of amounts reclassified out of accumulated other comprehensive income (AOCI). This guidance requires an entity to disclose significant items reclassified out of AOCI to net income and the effect of these reclassifications on the respective line items in net income. This guidance is effective for reporting periods beginning after December 15, 2012. We adopted this guidance effective February 3, 2013 and its adoption did not have an impact on our consolidated results of operations, financial position or cash flows.

**Note 3. Stock-Based Compensation**

For the thirty-nine weeks ended November 2, 2013 and October 27, 2012, stock-based compensation expense was \$19.5 million and \$18.9 million, respectively. As of November 2, 2013, approximately 8.4 million shares remain available for future grants of equity awards under our 2012 Omnibus Stock and Incentive Plan.

**Table of Contents****Chico's FAS, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****November 2, 2013****(Unaudited)****Restricted Stock Awards**

Restricted stock activity for the thirty-nine weeks ended November 2, 2013 was as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested, beginning of period	3,066,264	\$ 13.27
Granted	2,182,270	16.95
Vested	(931,533)	13.72
Canceled	(300,021)	14.68
Unvested, end of period	4,016,980	15.06

Performance-based restricted stock activity for the thirty-nine weeks ended November 2, 2013 was as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested, beginning of period	34,444	\$ 13.69
Granted		
Vested	(17,222)	13.69
Canceled		
Unvested, end of period	17,222	13.69

**Performance-based Restricted Stock Units**

For the thirty-nine weeks ended November 2, 2013, we granted performance-based restricted stock units ( PSUs ), contingent upon the achievement of a Company-specific performance goal during fiscal 2013. Any units earned as a

result of the achievement of this goal will vest over 3 years from the date of grant and will be settled in shares of our common stock.

Performance-based restricted stock unit activity for the thirty-nine weeks ended November 2, 2013 was as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested, beginning of period	657,316	\$ 15.01
Granted	612,670	16.96
Vested	(124,449)	15.01
Canceled	(64,224)	15.87
Unvested, end of period	1,081,313	16.06

Table of Contents**Chico's FAS, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****November 2, 2013****(Unaudited)****Stock Option Awards**

For the thirty-nine weeks ended November 2, 2013 and October 27, 2012, we did not grant any stock options. In the years that we granted options, we used the Black-Scholes option-pricing model to value our stock options.

Stock option activity for the thirty-nine weeks ended November 2, 2013 was as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of period	3,851,830	\$ 15.91
Granted		
Exercised	(588,433)	12.89
Canceled or expired	(415,736)	24.05
Outstanding, end of period	2,847,661	15.35
Exercisable at November 2, 2013	2,396,921	\$ 15.77

**Note 4. Impairment Charges**

On September 19, 2011, we acquired all of the outstanding equity of Boston Proper, Inc. ( Boston Proper ), a privately held online and catalog retailer of distinctive women's apparel and accessories. Total cash consideration was approximately \$214 million. We allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated purchase price recorded as goodwill.

In the third quarter of 2013, due to recent sales declines in the Boston Proper catalog business due to the increasingly competitive direct-to-consumer environment and the impact of integration efforts and new initiatives, we determined that certain Boston Proper intangibles were impaired and recorded a goodwill impairment charge of \$67.3 million, reducing the carrying value of Boston Proper goodwill to \$74.6 million and an impairment charge related to the Boston Proper trade name of \$5.2 million pre-tax, reducing the carrying value of the Boston Proper trade name to \$46.0 million. The fiscal 2013 impact of the impairment charges is expected to be approximately \$71.4 million, or \$0.44 per diluted share, comprised of \$0.40 per diluted share in the third quarter and an additional \$0.04 per diluted share in the fourth quarter due to the timing of the tax treatment.

**Note 5. Earnings Per Share**

In accordance with accounting guidance, unvested share-based payment awards that include non-forfeitable rights to dividends, whether paid or unpaid, are considered participating securities. As a result, such awards are required to be included in the calculation of basic earnings per common share pursuant to the two-class method. For us, participating securities are comprised of unvested restricted stock awards.

Earnings per share ( EPS ) is determined using the two-class method, as it is more dilutive than the treasury stock method. Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the dilutive effect of potential common shares from securities such as stock options and PSUs.

Table of Contents**Chico's FAS, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****November 2, 2013****(Unaudited)**

The following table sets forth the computation of basic and diluted EPS shown on the face of the accompanying condensed consolidated statements of income (loss):

	<b>Thirty-Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>	<b>November 2, 2013</b>	<b>October 27, 2012</b>
	<b>(dollars in thousands)</b>			
<b>Numerator</b>				
Net income (loss)	\$ 66,231	\$ 148,697	\$ (28,479)	\$ 41,657
Net income and dividends declared allocated to unvested restricted stock	(1,785)	(2,730)		(789)
Net income (loss) available to common shareholders	\$ 64,446	\$ 145,967	\$ (28,479)	\$ 40,868
<b>Denominator</b>				
Weighted average common shares outstanding basic	156,661,641	163,682,768	155,227,618	163,253,220
Dilutive effect of stock options and PSUs outstanding	941,988	1,070,757		1,157,510
Weighted average common and common equivalent shares outstanding diluted	157,603,629	164,753,525	155,227,618	164,410,730
<b>Net income (loss) per common share:</b>				
Basic	\$ 0.41	\$ 0.89	\$ (0.18)	\$ 0.25
Diluted	\$ 0.41	\$ 0.89	\$ (0.18)	\$ 0.25



For the thirty-nine weeks ended November 2, 2013 and October 27, 2012, stock options representing 986,167 and 1,558,539 shares of common stock, respectively, were excluded from the computation of diluted EPS because they were antidilutive.

For the thirteen weeks ended November 2, 2013 and October 27, 2012, stock options representing 754,287 and 1,228,052 shares of common stock, respectively, were excluded from the computation of diluted EPS because they were antidilutive.

---

**Table of Contents**

**Chico s FAS, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**November 2, 2013**

**(Unaudited)**

**Note 6. Fair Value Measurements**

Our financial instruments consist of cash and cash equivalents, marketable securities, trade receivables and payables. The carrying values of these assets and liabilities approximate their fair value due to the short-term nature of the instruments.

Marketable securities are classified as available-for-sale and as of November 2, 2013 generally consist of corporate bonds, municipal bonds, and U.S. government and agency securities with \$113.3 million of securities with maturity dates within one year or less and \$83.9 million with maturity dates over one year and less than two years.

We consider all securities available-for-sale, including those with maturity dates beyond 12 months, and therefore classify these securities within current assets on the condensed consolidated balance sheets as they are available to support current operational liquidity needs. Marketable securities are carried at fair value, with the unrealized holding gains and losses, net of income taxes, reflected as a separate component of stockholders' equity until realized. For the purposes of computing realized and unrealized gains and losses, cost is determined on a specific identification basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Entities are required to use a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or; Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or; Inputs other than quoted prices that are observable for the asset or liability
- Level 3 Unobservable inputs for the asset or liability

We measure certain financial assets at fair value on a recurring basis, including our marketable securities, which are classified as available-for-sale securities, certain cash equivalents, specifically our money market accounts, and assets held in our non-qualified deferred compensation plan. The money market accounts are valued based on quoted market prices in active markets. Our marketable securities are generally valued based on other observable inputs for those securities (including market corroborated pricing or other models that utilize observable inputs such as interest rates and yield curves) based on information provided by independent third party pricing entities, except for U.S.

government securities which are valued based on quoted market prices in active markets. The investments in our non-qualified deferred compensation plan are valued using quoted market prices and are included in other assets on our consolidated balance sheets.

From time to time, we measure certain assets at fair value on a non-recurring basis, including evaluation of long-lived assets, goodwill and other intangible assets for impairment using company-specific assumptions which would fall within Level 3 of the fair value hierarchy. During the quarter ended November 2, 2013, we recorded a \$72.5 million pre-tax impairment charge related to assets measured at fair value on a non-recurring basis, comprised of \$67.3 million in Boston Proper goodwill impairment and \$5.2 million pre-tax related to the Boston Proper trade name.

**Table of Contents**

**Chico's FAS, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**November 2, 2013**

**(Unaudited)**

To assess the fair value of goodwill, we utilized both an income approach and a market approach. Inputs used to calculate the fair value based on the income approach primarily included estimated future cash flows for the catalog business, discounted at a rate that approximates a rate that would be used by a market participant. Inputs used to calculate the fair value based on the market approach included identifying multiples of sales and earnings based on guidelines for publicly traded companies and recent transactions.

To assess the fair value of the Boston Proper trade name, we utilized a relief from royalty approach. Inputs used to calculate the fair value of the trade name primarily included future sales projections for the catalog business, discounted at a rate that approximates a rate that would be used by a market participant and estimated royalty rate.

Fair value calculations contain significant judgments and estimates, which may differ from actual results due to, among other things, economic conditions, changes to the business model or changes in operating performance.

During the quarter ended November 2, 2013, we did not make any transfers between Level 1 and Level 2 financial assets. Furthermore, as of November 2, 2013, February 2, 2013 and October 27, 2012, we did not have any Level 3 financial assets. We conduct reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure.

Table of Contents

## Chico's FAS, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

November 2, 2013

(Unaudited)

In accordance with the provisions of the guidance, we categorized our financial assets, which are valued on a recurring basis, based on the priority of the inputs to the valuation technique for the instruments, as follows:

	Fair Value Measurements at Reporting Date			
	Balance as of November 2, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Using Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
<b>Current Assets</b>				
<i>Cash equivalents:</i>				
Money market accounts	\$ 17,291	\$ 17,291	\$	\$
<i>Marketable securities:</i>				
Municipal securities	81,963		81,963	
U.S. government securities	32,194	32,194		
U.S. government agencies	9,013		9,013	
Corporate bonds	74,065		74,065	
Commercial paper				
Certificates of deposit				
<b>Non Current Assets</b>				
Deferred compensation plan	6,246	6,246		
<b>Total</b>	\$ 220,772	\$ 55,731	\$ 165,041	\$

**Balance as of  
February  
2,  
2013**

<b>Current Assets</b>				
<i>Cash equivalents:</i>				
Money market accounts	\$ 25,366	\$ 25,366	\$	\$
<i>Marketable securities:</i>				
Municipal securities	92,448		92,448	

Edgar Filing: CHICOS FAS INC - Form 10-Q

U.S. government securities	44,714	44,714		
U.S. government agencies	28,064		28,064	
Corporate bonds	100,255		100,255	
Commercial paper	4,996		4,996	
Certificates of deposit	2,022		2,022	
<b>Non Current Assets</b>				
Deferred compensation plan	4,629	4,629		
<b>Total</b>	<b>\$ 302,494</b>	<b>\$ 74,709</b>	<b>\$ 227,785</b>	<b>\$</b>

**Balance as of  
October  
27,  
2012**

<b>Current Assets</b>				
<i>Cash equivalents:</i>				
Money market accounts	\$ 5,115	\$ 5,115	\$	\$
<i>Marketable securities:</i>				
Municipal securities	97,391		97,391	
U.S. government securities	38,589	38,589		
U.S. government agencies	33,547		33,547	
Corporate bonds	113,854		113,854	
Commercial paper	6,991		6,991	
Certificates of deposit	2,021		2,021	
<b>Non Current Assets</b>				
Deferred compensation plan	4,370	4,370		
<b>Total</b>	<b>\$ 301,878</b>	<b>\$ 48,074</b>	<b>\$ 253,804</b>	<b>\$</b>

**Table of Contents**

**Chico's FAS, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**November 2, 2013**

**(Unaudited)**

**Note 7. Subsequent Events**

On November 26, 2013, we announced that our Board of Directors declared a quarterly dividend of \$0.075 per share on our common stock. The dividend will be payable on December 23, 2013 to shareholders of record at the close of business on December 9, 2013. Although it is our Company's intention to continue to pay a quarterly cash dividend in the future, any decision to pay future cash dividends will be made by the Board of Directors and will depend on future earnings, financial condition and other factors.

---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto and our 2012 Annual Report to Stockholders.

**Executive Overview**

We are a leading omni-channel specialty retailer of women's private branded, sophisticated, casual-to-dressy clothing, intimates, complementary accessories, and other non-clothing items operating under the Chico's, White House | Black Market ( WHIBM ), Soma Intimates and Boston Proper brand names. We earn revenues and generate cash through the sale of merchandise in our retail stores, on our various websites and through our call center, which takes orders for all of our brands.

We utilize an integrated omni-channel approach to managing our business. We want our customers to experience our brands, not a channel within our brands, and view our various sales channels as a single, integrated process rather than as separate sales channels operating independently. This approach allows our customers to browse, purchase, return, or exchange our merchandise through whatever sales channel and at whatever time is most convenient for her. As a result, we track total sales and comparable sales on a combined basis.

Net sales for the third quarter of fiscal 2013 were \$655.6 million, an increase of 3.0% compared to \$636.7 million last year. The increase reflects 115 net new stores for a square footage increase of 8.6% since last year's third quarter. Comparable sales for the third quarter decreased 1.4% following a 9.9% increase in last year's third quarter, primarily reflecting the cycling of strong comparable sales last year and the impact of lower traffic. The Chico's/Soma Intimates brands' comparable sales decreased 3.3% following an 11.6% increase in last year's third quarter and the WHIBM brand's comparable sales increased 2.5% on top of a 6.4% increase in last year's third quarter.

Net loss for the third quarter of fiscal 2013 was \$28.5 million, or \$0.18 per diluted share compared to net income of \$41.7 million, or \$0.25 per diluted share in last year's third quarter, reflecting the impact of approximately 10.9 million shares repurchased since the end of the third quarter last year. Results for the third quarter of fiscal 2013 include the impact of Boston Proper non-cash goodwill and trade name impairment charges of \$64.3 million after-tax, or \$0.40 per diluted share.

Net sales for the year-to-date period were \$1.976 billion, an increase of 2.4% compared to \$1.929 billion in last year's year-to-date period. Net income for the year-to-date period was \$66.2 million compared to \$148.7 million in last year's year-to-date period, and earnings per diluted share for the year-to-date period were \$0.41 compared to \$0.89 per diluted share in last year's year-to-date period, reflecting the impact of approximately 10.9 million shares repurchased since the end of the third quarter last year.

In the third quarter of 2013, the Company determined that certain Boston Proper intangibles were impaired and recorded \$72.5 million in pre-tax, non-cash goodwill and trade name impairment charges. These impairment charges were the result of recent sales declines in the Boston Proper catalog business due to the increasingly competitive direct-to-consumer environment and the impact of integration efforts and new initiatives. The fiscal 2013 impact of the impairment charges is expected to be approximately \$71.4 million after-tax, or \$0.44 per diluted share, comprised of \$0.40 per diluted share in the third quarter and an additional \$0.04 per diluted share in the fourth quarter due to the timing of the tax treatment. The \$72.5 million Boston Proper impairment charges included \$67.3 million related to goodwill impairment and \$5.2 million related to the trade name.



The Company continues to believe in the long-term growth prospects of the Boston Proper brand as it evolves from a direct-to-consumer only business to an omni-channel enterprise, integrating brick and mortar, catalog and web platforms. To that end, the Company currently intends to open 16 to 20 new Boston Proper stores in fiscal 2014.

**Table of Contents**

**Long-term Financial Objectives**

The Company's goal remains to establish financial targets that are both sustainable and reflect strong growth metrics. While 2013 has presented near-term challenges, the Company continues to be confident in its long-term financial objectives. The Company believes that by delivering on its long-term financial objectives to increase sales by a low double-digit percentage and diluted earnings per share by a mid-teen percentage over a meaningful period of time, the Company will provide its shareholders with substantial value.

Consistent with these objectives, the Company announced several strategic investments in 2013 to fuel future growth, including enhanced omni-channel capabilities, expansion into Canada, and opening its first Boston Proper stores.

**Table of Contents****RESULTS OF OPERATIONS*****Thirteen Weeks Ended November 2, 2013 Compared to the Thirteen Weeks Ended October 27, 2012***

The following table depicts net sales by Chico s/Soma Intimates, WHIBM and Boston Proper in dollars and as a percentage of total net sales for the thirteen weeks ended November 2, 2013 and October 27, 2012:

	<b>Thirteen Weeks Ended</b>			
	<b>November 2, 2013</b>		<b>October 27, 2012</b>	
	(dollars in thousands)			
Chico s/Soma Intimates	\$ 415,819	63.4%	\$ 411,671	64.6%
WHIBM	218,200	33.3%	197,248	31.0%
Boston Proper	21,560	3.3%	27,746	4.4%
Total net sales	\$ 655,579	100.0%	\$ 636,665	100.0%

Net sales for the quarter increased 3.0% to \$655.6 million from \$636.7 million in last year s third quarter, primarily reflecting 115 net new stores for a square footage increase of 8.6%. Comparable sales for the third quarter decreased 1.4% following a 9.9% increase in last year s third quarter, reflecting lower average dollar sale partially offset by higher transaction count. The comparable sales results primarily reflect the cycling of strong comparable sales last year and the impact of lower traffic. The Chico s/Soma Intimates brands comparable sales decreased 3.3% following an 11.6% increase in last year s third quarter and the WHIBM brand s comparable sales increased 2.5% on top of a 6.4% increase in last year s third quarter. Boston Proper net sales decreased \$6.2 million, primarily due to decreased customer demand.

***Cost of Goods Sold/Gross Margin***

The following table depicts cost of goods sold and gross margin in dollars and gross margin as a percentage of total net sales for the thirteen weeks ended November 2, 2013 and October 27, 2012:

	<b>Thirteen Weeks Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>
	(dollars in thousands)	
Cost of goods sold	\$ 291,569	\$ 272,369
Gross margin	\$ 364,010	\$ 364,296
Gross margin percentage	55.5%	57.2%

For the third quarter of fiscal 2013, gross margin was \$364.0 million compared to \$364.3 million in last year s third quarter. Gross margin was 55.5% of net sales, a 170 basis point decrease from last year s third quarter, primarily reflecting increased promotional activity in response to lower traffic, partially offset by lower incentive compensation as a percent of net sales.

**Table of Contents***Selling, General and Administrative Expenses*

The following table depicts SG&A, which includes store and direct operating expenses, marketing expenses and National Store Support Center ( NSSC ) expenses, in dollars and as a percentage of total net sales for the thirteen weeks ended November 2, 2013 and October 27, 2012:

	<b>Thirteen Weeks Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>
	(dollars in thousands)	
Selling, general and administrative expenses	\$ 308,528	\$ 297,190
Percentage of total net sales	47.1%	46.7%

For the third quarter of 2013, SG&A was \$308.5 million compared to \$297.2 million in last year's third quarter. SG&A was 47.1% of net sales, a 40 basis point increase from last year's third quarter, primarily reflecting deleverage of occupancy expenses and the impact of investment spending on strategic initiatives, substantially offset by lower incentive compensation as a percent of net sales.

*Goodwill and Trade Name Impairment Charges*

In the third quarter of 2013, the Company determined that certain Boston Proper intangibles were impaired and recorded \$72.5 million in pre-tax, non-cash goodwill and trade name impairment charges. These impairment charges were the result of recent sales declines in the Boston Proper catalog business due to the increasingly competitive direct-to-consumer environment and the impact of integration efforts and new initiatives. The fiscal 2013 impact of the impairment charges is expected to be approximately \$71.4 million after-tax, or \$0.44 per diluted share, comprised of \$0.40 per diluted share in the third quarter and an additional \$0.04 per diluted share in the fourth quarter due to the timing of the tax treatment. The \$72.5 million Boston Proper impairment charges included \$67.3 million related to goodwill impairment and \$5.2 million related to the trade name.

*Provision for Income Taxes*

The third quarter income tax provision of \$11.6 million and effective tax rate of (68.7%) reflects the impact of the Boston Proper goodwill and trade name impairment charges on the annual effective tax rate. Excluding the tax impact of the Boston Proper goodwill and trade name impairment charges, the 2013 third quarter effective tax rate would have been 35.6% compared to an effective tax rate of 37.7% for the same period last year, primarily reflecting federal tax and refund claims filed during the current quarter.

*Net Income (Loss) and Earnings (Loss) Per Diluted Share*

Net loss for the third quarter of fiscal 2013 was \$28.5 million, or \$0.18 per diluted share compared to net income of \$41.7 million, or \$0.25 per diluted share in last year's third quarter, reflecting the impact of approximately 10.9 million shares repurchased since the end of the third quarter last year. Results for the third quarter of fiscal 2013 include the impact of Boston Proper non-cash goodwill and trade name impairment charges of \$64.3 million after-tax, or \$0.40 per diluted share.



**Table of Contents*****Thirty-Nine Weeks Ended November 2, 2013 Compared to the Thirty-Nine Weeks Ended October 27, 2012***

The following table depicts net sales by Chico s/Soma Intimates, WHIBM and Boston Proper in dollars and as a percentage of total net sales for the thirty-nine weeks ended November 2, 2013 and October 27, 2012:

	<b>Thirty-Nine Weeks Ended</b>			
	<b>November 2, 2013</b>		<b>October 27, 2012</b>	
	<i>(dollars in thousands)</i>			
Chico s/Soma Intimates	\$ 1,255,214	63.5%	\$ 1,251,632	64.9%
WHIBM	643,688	32.6%	583,473	30.2%
Boston Proper	76,902	3.9%	94,099	4.9%
Total net sales	\$ 1,975,804	100.0%	\$ 1,929,204	100.0%

Net sales for the year-to-date period increased 2.4% to \$1.976 billion from \$1.929 billion in last year's year-to-date period, primarily reflecting 115 net new stores for a square footage increase of 8.6%. Comparable sales for the year-to-date period decreased 1.3% following an 8.4% increase in last year's year-to-date period, reflecting lower average dollar sale partially offset by higher transaction count. The comparable sales results primarily reflect the cycling of strong comparable sales last year and the impact of lower traffic. The Chico s/Soma Intimates brands comparable sales decreased 3.1% following a 9.2% increase in last year's year-to-date period and the WHIBM brand's comparable sales increased 2.5% on top of a 6.6% increase in last year's year-to-date period. Boston Proper net sales decreased \$17.2 million, primarily reflecting the adverse impact of post-acquisition information systems conversions in early 2013 and decreased customer demand.

***Cost of Goods Sold/Gross Margin***

The following table depicts cost of goods sold and gross margin in dollars and gross margin as a percentage of total net sales for the thirty-nine weeks ended November 2, 2013 and October 27, 2012:

	<b>Thirty-Nine Weeks Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>
	<i>(dollars in thousands)</i>	
Cost of goods sold	\$ 868,808	\$ 824,132
Gross margin	\$ 1,106,996	\$ 1,105,072
Gross margin percentage	56.0%	57.3%

Gross margin for the year-to-date period was \$1.107 billion compared to \$1.105 billion in last year's year-to-date period. Gross margin was 56.0% of net sales, a 130 basis point decrease from fiscal 2012, primarily reflecting increased promotional activity in response to lower traffic and investment in new distribution automation, partially offset by lower incentive compensation as a percent of net sales.

***Selling, General and Administrative Expenses***

The following table depicts SG&A, which includes store and direct operating expenses, marketing expenses and NSSC expenses, in dollars and as a percentage of total net sales for the thirty-nine weeks ended November 2, 2013

and October 27, 2012:

	<b>Thirty-Nine Weeks Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>
	(dollars in thousands)	
Selling, general and administrative expenses	\$ 899,689	\$ 864,987
Percentage of total net sales	45.5%	44.8%

## **Table of Contents**

SG&A for the year-to-date period was \$899.7 million compared to \$865.0 million in last year's year-to-date period. SG&A was 45.5% of net sales, a 70 basis point increase from last year's year-to-date period, primarily reflecting deleverage of occupancy and marketing expenses and the impact of investment spending on strategic initiatives, substantially offset by lower incentive compensation as a percent of net sales.

### *Goodwill and Trade Name Impairment Charges*

In the third quarter of 2013, the Company determined that certain Boston Proper intangibles were impaired and recorded \$72.5 million in pre-tax, non-cash goodwill and trade name impairment charges. These impairment charges were the result of recent sales declines in the Boston Proper catalog business due to the increasingly competitive direct-to-consumer environment and the impact of integration efforts and new initiatives. The fiscal 2013 impact of the impairment charges is expected to be approximately \$71.4 million after-tax, or \$0.44 per diluted share, comprised of \$0.40 per diluted share in the third quarter and an additional \$0.04 per diluted share in the fourth quarter due to the timing of the tax treatment. The \$72.5 million Boston Proper impairment charges included \$67.3 million related to goodwill impairment and \$5.2 million related to the trade name.

### *Provision for Income Taxes*

The year-to-date income tax provision of \$68.1 million and effective tax rate of 50.7% reflects the impact of the Boston Proper goodwill and trade name impairment charges on the annual effective tax rate. Excluding the tax impact of the Boston Proper goodwill and trade name impairment charges, the 2013 year-to-date effective tax rate would have been 36.9% compared to an effective tax rate of 37.9% for the same period last year, primarily reflecting favorable tax settlements in the current year.

### *Net Income and Earnings Per Diluted Share*

Net income for the year-to-date period was \$66.2 million compared to \$148.7 million in last year's year-to-date period, and earnings per diluted share for the year-to-date period were \$0.41 compared to \$0.89 per diluted share in last year's year-to-date period, reflecting the impact of approximately 10.9 million shares repurchased since the end of the third quarter last year. Year-to-date results for fiscal 2013 include the impact of Boston Proper non-cash goodwill and trade name impairment charges of \$64.3 million after-tax, or \$0.40 per diluted share.

## **Liquidity and Capital Resources**

We believe that our existing cash and marketable securities balances and cash generated from operations will be sufficient to fund capital expenditures, working capital needs, dividend payments, potential share repurchases, commitments, and other liquidity requirements associated with our operations through at least the next 12 months. Furthermore, while it is our intention to repurchase our stock and pay a quarterly cash dividend in the future, any determination to repurchase our stock or pay future dividends will be made by the Board of Directors and will depend on our stock price, future earnings, financial condition, and other factors established by the Board.

Our ongoing capital requirements will continue to be primarily for enhancing and expanding our omni-channel capabilities, including: new, expanded, relocated and remodeled stores; information technology; and other central support facilities.



## **Table of Contents**

### *Operating Activities*

Net cash provided by operating activities for the year-to-date period of fiscal 2013 was \$175.1 million, a decrease of approximately \$114.8 million from last year's year-to-date period. This decrease primarily reflects lower net income in fiscal 2013, the impact of goodwill and trade name impairment charges, lower accrued incentive compensation, the impact of the calendar shift on working capital as a result of last fiscal year's 5<sup>3</sup> week and improvements in working capital in fiscal 2012.

### *Investing Activities*

Net cash used in investing activities for the year-to-date period of fiscal 2013 was \$38.2 million compared to \$223.5 million in the same period last year. Investing activities in fiscal 2013 primarily reflects net purchases of property and equipment totaling \$113.4 million offset by a \$75.2 million decrease in marketable securities to facilitate share repurchase activities, compared to net purchases of property and equipment totaling \$119.9 million and marketable securities of \$103.6 million in the same period last year.

### *Financing Activities*

Net cash used in financing activities for the year-to-date period of fiscal 2013 was \$141.3 million compared to \$46.3 million in last year's year-to-date period. The increase is primarily attributable to higher share repurchase activity compared to the same period last year.

## **Credit Facility**

In fiscal 2011, we entered into a \$70 million senior five-year unsecured revolving credit facility (the Credit Facility) with a syndicate led by JPMorgan Chase Bank, N.A., as administrative agent and HSBC Bank USA, National Association, as syndication agent.

The Credit Facility provides a \$70 million revolving credit facility that matures on July 27, 2016. The Credit Facility provides for swing advances of up to \$5 million and issuance of letters of credit up to \$40 million. The Credit Facility also contains a feature that provides us the ability, subject to satisfaction of certain conditions, to expand the commitments available under the Credit Facility from \$70 million up to \$125 million. As of November 2, 2013, no borrowings are outstanding under the Credit Facility.

## **New Store Openings**

During the year-to-date period of fiscal 2013, we had 113 net openings, consisting of 20 Chico's, 49 WHIBM, including 2 stores in Canada, 40 Soma and 4 Boston Proper stores. Currently, we expect our net new stores in fiscal 2013 to increase approximately 8%, reflecting net openings of approximately 16 Chico's, 55 WHIBM, 40 Soma stores and 4 Boston Proper stores. We continuously evaluate the appropriate new store growth rate in light of economic conditions and may adjust the growth rate as conditions require or as opportunities arise.

## **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and

liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors and believes the assumptions and estimates, as set forth in our Annual Report on Form 10-K for the fiscal year ended February 2, 2013, are significant to reporting our results of operations and financial position. There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended February 2, 2013.

---

**Table of Contents****Forward-Looking Statements**

This Form 10-Q may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect our current views with respect to certain events that could have an effect on our future financial performance, including but without limitation, statements regarding our plans, objectives, and future growth rates of our store concepts. These statements may address items such as future sales, gross margin expectations, SG&A expectations, operating margin expectations, earnings per share expectations, planned store openings, closings and expansions, future comparable sales, future product sourcing plans, inventory levels, planned marketing expenditures, planned capital expenditures and future cash needs. In addition, from time to time, we may issue press releases and other written communications, and our representatives may make oral statements, which contain forward-looking information.

These statements, including those in this Form 10-Q and those in press releases or made orally, relate to expectations concerning matters that are not historical fact and may include the words or phrases such as expects, believes, anticipates, plans, estimates, approximately, our planning assumptions, future outlook, and similar expressions for historical information, matters discussed in such oral and written statements, including this Form 10-Q, are forward-looking statements. These forward-looking statements are based largely on information currently available to our management and on our current expectations, assumptions, plans, estimates, judgments and projections about our business and our industry, and are subject to various risks and uncertainties that could cause actual results to differ materially from historical results or those currently anticipated. Although we believe our expectations are based on reasonable estimates and assumptions, they are not guarantees of performance and there are a number of known and unknown risks, uncertainties, contingencies, and other factors (many of which are outside our control) that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Accordingly, there is no assurance that our expectations will, in fact, occur or that our estimates or assumptions will be correct, and we caution investors and all others not to place undue reliance on such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described in Item 1A, Risk Factors in our Annual Report on Form 10-K filed with the SEC on March 20, 2013 and the following:

These potential risks and uncertainties include the financial strength of retailing in particular and the economy in general, the extent of financial difficulties that may be experienced by customers, our ability to secure and maintain customer acceptance of styles and store concepts, the ability to maintain an appropriate level of inventory, the quality of merchandise received from suppliers, the extent and nature of competition in the markets in which we operate, the extent of the market demand and overall level of spending for women's private branded clothing and related accessories, the effectiveness of our brand awareness and marketing programs, the adequacy and perception of customer service, the ability to coordinate product development with buying and planning, the ability to efficiently, timely and successfully execute significant shifts in the countries from which merchandise is supplied, the ability of our suppliers to timely produce and deliver clothing and accessories, the changes in the costs of manufacturing, labor and advertising, the rate of new store openings, our ability to grow through new store openings and the buying public's acceptance of any of our new store concepts, the continuing performance, implementation and integration of management information systems, the impact of any systems failures, cyber security or security breaches, including any security breaches that result in theft, transfer, or unauthorized disclosure of customer, employee, or company information or our compliance with information security and privacy laws and regulations in the event of such an incident, the ability to hire, train, energize and retain qualified sales associates and other employees, the availability of quality store sites, the ability to expand our distribution center and other support facilities in an efficient and effective manner, the ability to hire and train qualified managerial employees, the ability to effectively and efficiently establish our websites, the ability to secure and protect trademarks and other intellectual property rights and to protect our reputation and brand images, the ability to effectively and efficiently operate our brands, risks associated with terrorist activities, risks associated with natural disasters such as hurricanes and other risks. In addition, there are potential

risks and uncertainties that are

## **Table of Contents**

related to our reliance on sourcing from foreign suppliers, including the impact of work stoppages, transportation delays and other interruptions, political or civil instability, imposition of and changes in tariffs and import and export controls such as import quotas, changes in governmental policies in or towards foreign countries, currency exchange rates and other similar factors.

All written or oral forward-looking statements that are made or attributable to us are expressly qualified in their entirety by this cautionary notice. The forward-looking statements included herein are only made as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **Litigation**

In the normal course of business, we are subject to proceedings, lawsuits and other claims including proceedings under laws and government regulations relating to labor, product, intellectual property and other matters including the matters described in Item 1 of Part II of this quarterly report on Form 10-Q. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at November 2, 2013, cannot be ascertained. Although these matters could affect the consolidated operating results of any one quarter when resolved in future periods, and although there can be no assurance with respect thereto, management believes that, after final disposition, any monetary liability or financial impact to us would not be material to the annual consolidated financial statements.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The market risk of our financial instruments as of November 2, 2013 has not significantly changed since February 2, 2013. We are exposed to market risk from changes in interest rates on any future indebtedness and our marketable securities.

Our exposure to interest rate risk relates in part to our revolving line of credit with our bank. However, as of November 2, 2013, we did not have any outstanding borrowings on our line of credit and, given our current liquidity position, do not expect to utilize our line of credit in the foreseeable future.

Our investment portfolio is maintained in accordance with our investment policy which identifies allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. Our investment portfolio consists of cash equivalents and marketable securities including municipal bonds, corporate bonds, and U.S. government and agency securities. The portfolio as of November 2, 2013, consisted of \$113.3 million of securities with maturity dates within one year or less and \$83.9 million with maturity dates over one year and less than or equal to two years. We consider all securities available-for-sale, including those with maturity dates beyond 12 months, and therefore classify these securities as short-term investments within current assets on the consolidated balance sheets as they are available to support current operational liquidity needs. As of November 2, 2013, an increase of 100 basis points in interest rates would reduce the fair value of our marketable securities portfolio by approximately \$1.6 million. Conversely, a reduction of 100 basis points in interest rates would increase the fair value of our marketable securities portfolio by approximately \$0.5 million.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

**Table of Contents**

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures were effective in providing reasonable assurance in timely alerting them to material information relating to us (including our consolidated subsidiaries) and that information required to be disclosed in our reports is recorded, processed, summarized, and reported as required to be included in our periodic SEC filings.

**Changes in Internal Controls**

There were no significant changes in our internal controls or in other factors that could significantly affect our disclosure controls and procedures subsequent to the date of the above referenced evaluation. Furthermore, there was no change in our internal control over financial reporting or in other factors during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

We are not currently a party to any legal proceedings, other than various claims and lawsuits arising in the normal course of business, none of which we believe should have a material adverse effect on our consolidated financial condition or results of operations.

**ITEM 1A. RISK FACTORS**

In addition to the other information discussed in this report, the factors described in Part I, Item 1A. Risk Factors in our 2012 Annual Report on Form 10-K filed with the SEC on March 20, 2013 should be considered as they could materially affect our business, financial condition or future results. There have not been any significant changes with respect to the risks described in our 2012 Form 10-K, but these are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth information concerning our purchases of common stock for the periods indicated (dollar amounts in thousands, except per share amounts):

<b>Period</b>	<b>Total Number of Shares Purchased (a)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans (b)</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Publicly Announced Plans</b>
August 4, 2013 - August 31, 2013	315,987	\$ 15.69	254,100	\$ 211,033,338
September 1, 2013 - October 5, 2013	1,894,361	\$ 16.37	1,894,361	\$ 180,029,969
October 6, 2013 - November 2, 2013	7,261	\$ 17.17		\$ 180,029,969
Total	2,217,609	\$ 16.27	2,148,461	\$ 180,029,969

(a) Includes 68,999 shares of restricted stock repurchased in connection with employee tax withholding obligations under employee compensation plans, which are not purchases under any publicly announced plan.

(b)



In February 2013, we announced a \$300 million share repurchase plan. There was approximately \$180 million remaining under the program as of the end of the third quarter. The repurchase program has no specific termination date and will expire when we have repurchased all securities authorized for repurchase thereunder, unless terminated earlier by our Board of Directors.

**Table of Contents**

**ITEM 6. EXHIBITS**

(a) The following documents are filed as exhibits to this Quarterly Report on Form 10-Q:

Exhibit 31.1	Chico s FAS, Inc. and Subsidiaries Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
Exhibit 31.2	Chico s FAS, Inc. and Subsidiaries Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer
Exhibit 32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

**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.

CHICOS FAS, INC.

Date: November 27, 2013

By: /s/ David F. Dyer  
David F. Dyer  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 27, 2013

By: /s/ Pamela K Knous  
Pamela K Knous  
Executive Vice President-  
Chief Financial Officer  
(Principal Financial and Accounting Officer)