CHICOS FAS INC
Form 10-Q
August 30, 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:	**Commission File Number:**
August 3, 2013	**001-16435**

Chico s FAS, Inc.

(Exact name of registrant as specified in charter)

Florida	**59-2389435**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

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 x 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 x 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	x	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 x

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

At August 23, 2013, the registrant had 160,816,748 shares of Common Stock, $0.01 par value per share, outstanding.

Table of Contents

CHICO S FAS, INC. AND SUSBSIDIARIES

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHICO S FAS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Twenty-Six Weeks Ended				Thirteen Weeks Ended			
	August 3, 2013		July 28, 2012		August 3, 2013		July 28, 2012	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Net sales:								
Chico s/Soma Intimates	$ 839,395	63.6%	$ 839,960	65.0%	$ 414,734	63.8%	$ 414,618	64.6%
White House | Black Market	425,488	32.2%	386,225	29.9%	205,090	31.6%	194,498	30.3%
Boston Proper	55,342	4.2%	66,354	5.1%	29,679	4.6%	32,606	5.1%
Total net sales	1,320,225	100.0%	1,292,539	100.0%	649,503	100.0%	641,722	100.0%
Cost of goods sold	577,239	43.7%	551,763	42.7%	293,361	45.2%	279,542	43.6%
Gross margin	742,986	56.3%	740,776	57.3%	356,142	54.8%	362,180	56.4%
Selling, general and administrative expenses	591,161	44.7%	567,797	43.9%	286,262	44.0%	276,121	43.0%
Acquisition and integration costs	914	0.1%	841	0.1%		0.0%	283	0.0%
Income from operations	150,911	11.5%	172,138	13.3%	69,880	10.8%	85,776	13.4%
Interest income, net	299	0.0%	402	0.0%	108	0.0%	219	0.0%
Income before income taxes	151,210	11.5%	172,540	13.3%	69,988	10.8%	85,995	13.4%
Income tax provision	56,500	4.3%	65,500	5.0%	26,400	4.1%	32,600	5.1%
Net income	$ 94,710	7.2%	$ 107,040	8.3%	$ 43,588	6.7%	$ 53,395	8.3%
Per share data:								
	$ 0.58		$ 0.64		$ 0.27		$ 0.32	

Net income per common share-basic				
Net income per common and common equivalent share diluted	$ 0.58	$ 0.64	$ 0.27	$ 0.32
Weighted average common shares outstanding basic	157,379	163,898	156,589	163,822
Weighted average common and common equivalent shares outstanding diluted	158,322	164,834	157,573	164,732
Dividends declared per share	$ 0.165	$ 0.1575	$ 0.055	$ 0.0525

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

3

Table of Contents

CHICO S FAS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Twenty-Six Weeks Ended		Thirteen Weeks Ended	
	August 3, 2013	**July 28, 2012**	**August 3, 2013**	**July 28, 2012**
Net income	$ 94,710	$ 107,040	$ 43,588	$ 53,395
Other comprehensive loss:				
Unrealized (losses) gains on marketable securities, net of taxes	(151)	(21)	(88)	101
Comprehensive Income	$ 94,559	$ 107,019	$ 43,500	$ 53,496

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

4

Table of Contents

CHICO S FAS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	August 3, 2013 (Unaudited)	February 2, 2013	July 28, 2012 (Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 93,417	$ 56,859	$ 109,466
Marketable securities, at fair value	208,434	272,499	248,480
Inventories	211,148	206,849	191,694
Prepaid expenses and other current assets	57,492	61,786	52,642
Total Current Assets	570,491	597,993	602,282
Property and Equipment, net	622,708	608,120	576,788
Other Assets:			
Goodwill	238,693	238,693	238,693
Other intangible assets, net	125,988	127,754	129,933
Other assets, net	8,212	8,068	6,628
Total Other Assets	372,893	374,515	375,254
	$ 1,566,092	$ 1,580,628	$ 1,554,324
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities:			
Accounts payable	$ 139,727	$ 129,387	$ 139,800
Other current liabilities	140,197	173,024	151,936
Total Current Liabilities	279,924	302,411	291,736
Noncurrent Liabilities:			
Deferred liabilities	141,708	132,374	129,782
Deferred taxes	51,018	52,644	50,840
Total Noncurrent Liabilities	192,726	185,018	180,622
Stockholders Equity:			
Preferred stock			
Common stock	1,609	1,628	1,660
Additional paid-in capital	366,032	348,775	320,161

Retained earnings		725,736		742,580	759,838
Accumulated other comprehensive income		65		216	307
Total Stockholders Equity		1,093,442		1,093,199	1,081,966
	$	1,566,092	$	1,580,628	$ 1,554,324

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

5

Table of Contents

CHICO S FAS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Twenty-Six Weeks Ended	
	August 3, 2013	**July 28, 2012**
Cash Flows From Operating Activities:		
Net income	$ 94,710	$ 107,040
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	58,628	52,655
Deferred tax expense (benefit)	3,556	(4,490)
Stock-based compensation expense	14,304	11,005
Excess tax benefit from stock-based compensation	(1,437)	(3,367)
Deferred rent and lease credits	(8,602)	(8,082)
Loss on disposal and impairment of property and equipment	753	1,759
Changes in assets and liabilities, net of effects of acquisition:		
Inventories	(4,299)	2,775
Prepaid expenses and other assets	(2,148)	5,519
Accounts payable	1,483	30,689
Accrued and other liabilities	(13,491)	30,032
Net cash provided by operating activities	143,457	225,535
Cash Flows From Investing Activities:		
Decrease (increase) in marketable securities	63,914	(59,568)
Purchases of property and equipment, net	(71,745)	(78,755)
Purchases of intangibles	(420)	
Net cash used in investing activities	(8,251)	(138,323)
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock	7,900	6,524
Excess tax benefit from stock-based compensation	1,437	3,367
Dividends paid	(17,777)	(17,530)
Repurchase of common stock	(90,208)	(29,026)
Net cash used in financing activities	(98,648)	(36,665)
Net increase in cash and cash equivalents	36,558	50,547
Cash and Cash Equivalents, Beginning of period	56,859	58,919

Cash and Cash Equivalents, End of period	$ 93,417	$ 109,466
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 182	$ 175
Cash paid for income taxes, net	$ 43,167	$ 46,457

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

6

Table of Contents

Chico s FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

August 3, 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. The February 2, 2013 consolidated balance sheet amounts were derived from audited financial statements included in the Company s Annual Report.

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 twenty-six weeks ended August 3, 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 twenty-six weeks ended August 3, 2013 and July 28, 2012, stock-based compensation expense was $14.3 million and $11.0 million, respectively. As of August 3, 2013, approximately 8.0 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

August 3, 2013

(Unaudited)

Restricted Stock Awards

Restricted stock activity for the twenty-six weeks ended August 3, 2013 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	3,066,264	$ 13.27
Granted	2,124,600	16.97
Vested	(749,569)	14.49
Canceled	(180,808)	13.93
Unvested, end of period	4,260,487	14.87

Performance-based restricted stock activity for the twenty-six weeks ended August 3, 2013 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
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 twenty-six weeks ended August 3, 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 twenty-six weeks ended August 3, 2013 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	657,316	$ 15.01
Granted	612,670	16.96
Vested	(124,449)	15.01
Canceled	(46,435)	15.74
Unvested, end of period	1,099,102	16.06

Table of Contents

Chico s FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

August 3, 2013

(Unaudited)

Stock Option Awards

For the twenty-six weeks ended August 3, 2013 and July 28, 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 twenty-six weeks ended August 3, 2013 was as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	3,851,830	$ 15.91
Granted		
Exercised	(498,101)	13.23
Canceled or expired	(194,644)	24.13
Outstanding, end of period	3,159,085	15.82
Exercisable at August 3, 2013	2,629,670	$ 16.43

Note 4. 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

August 3, 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:

	Twenty-Six Weeks Ended		Thirteen Weeks Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
	(dollars in thousands)			
Numerator				
Net income	$ 94,710	$ 107,040	$ 43,588	$ 53,395
Net income and dividends declared allocated to unvested restricted stock	(2,612)	(1,941)	(1,284)	(1,006)
Net income available to common shareholders	$ 92,098	$ 105,099	$ 42,304	$ 52,389
Denominator				
Weighted average common shares outstanding basic	157,378,652	163,897,542	156,589,110	163,822,041
Dilutive effect of stock options and PSUs outstanding	943,068	935,972	983,505	910,234
Weighted average common and common equivalent shares outstanding diluted	158,321,720	164,833,514	157,572,615	164,732,275
Net income per common share:				
Basic	$ 0.58	$ 0.64	$ 0.27	$ 0.32
Diluted	$ 0.58	$ 0.64	$ 0.27	$ 0.32

For the twenty-six weeks ended August 3, 2013 and July 28, 2012, stock options and performance-based restricted stock units representing, 1,095,934 and 2,829,889 shares of common stock, respectively, were excluded from the computation of diluted EPS because they were antidilutive.

For the thirteen weeks ended August 3, 2013 and July 28, 2012, stock options and performance-based restricted stock units representing 1,014,433 and 2,698,666 shares of common stock, respectively were excluded from the computation of diluted EPS because they were antidilutive.

Note 5. 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 August 3, 2013 generally consist of corporate bonds, municipal bonds, and U.S. government and agency securities with $134.9 million of securities with maturity dates within one year or less and $73.5 million with maturity dates over one year and less than two years.

Table of Contents

Chico s FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

August 3, 2013

(Unaudited)

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 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, specifically long-lived assets evaluated for impairment. We estimate the fair value of our long-lived assets using company-specific assumptions which would fall within Level 3 of the fair value hierarchy.

During the quarter ended August 3, 2013, we did not make any transfers between Level 1 and Level 2 financial assets. Furthermore, as of August 3, 2013, February 2, 2013 and July 28, 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

August 3, 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 Using		
	Balance as of August 3, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Current Assets				
Cash equivalents:				
Money market accounts	$ 5,829	$ 5,829	$	$
Marketable securities:				
Municipal securities	91,903		91,903	
U.S. government securities	35,026	35,026		
U.S. government agencies	5,008		5,008	
Corporate bonds	76,497		76,497	
Commercial paper				
Certificates of deposit				
Non Current Assets				
Deferred compensation plan	5,092	5,092		
Total	$ 219,355	$ 45,947	$ 173,408	$

	Balance as of February 2, 2013
Current Assets	
Cash equivalents:	

Money market accounts	$ 25,366	$ 25,366	$	$
Marketable securities:				
Municipal securities	92,448		92,448	
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	
Non Current Assets				
Deferred compensation plan	4,629	4,629		
Total	$ 302,494	$ 74,709	$ 227,785	$

	Balance as of July 28, 2012			
Current Assets				
Cash equivalents:				
Money market accounts	$ 18,808	$ 18,808	$	$
Marketable securities:				
Municipal securities	87,741		87,741	
U.S. government securities	28,569	28,569		
U.S. government agencies	26,596		26,596	
Corporate bonds	101,580		101,580	
Commercial paper	3,994		3,994	
Certificates of deposit				
Non Current Assets				
Deferred compensation plan	4,175	4,175		
Total	$ 271,463	$ 51,552	$ 219,911	$

Table of Contents

Chico s FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

August 3, 2013

(Unaudited)

Note 6. Subsequent Events

The Company is not aware of any material subsequent events which would require recognition or disclosure in the financial statements.

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 women s omni-channel specialty retailer of private branded, sophisticated, casual-to-dressy clothing, intimates, complementary accessories, and other non-clothing items operating under the Chico s, White House | Black Market (WH|BM), 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 second quarter of fiscal 2013 were $649.5 million, an increase of 1.2% compared to $641.7 million last year. The increase reflects 112 net new stores for a square footage increase of 8.8% since last year s second quarter. Comparable sales for the second quarter decreased 2.6% following a 5.6% increase in last year s second quarter, reflecting lower transaction count and average dollar sale. The Chico s/Soma Intimates brands comparable sales decreased 3.1% following a 7.2% increase in last year s second quarter and the WH|BM brand s comparable sales decreased 1.5% following a 2.3% increase in last year s second quarter.

Net income for the second quarter of fiscal 2013 was $43.6 million, a decrease of 18.4% compared to net income of $53.4 million in 2012 and earnings per diluted share for the second quarter of fiscal 2013 were $0.27, a decrease of 15.6%, compared to $0.32 per diluted share in last year s second quarter, reflecting approximately 9.4 million shares repurchased since last year s second quarter.

Net sales for the year-to-date period were $1.320 billion, an increase of 2.1% compared to $1.293 billion in last year s year-to-date period. Net income for the year-to-date period was $94.7 million, a decrease of 11.5%, compared to $107.0 million in last year s year-to-date period and earnings per diluted share for the year-to-date period were $0.58, a decrease of 9.4%, compared to $0.64 per diluted share in last year s year-to-date period, reflecting approximately 9.4 million shares repurchased since the end of the second quarter last year.

Long-term Financial Objectives

The Company s goal remains to establish financial targets that are both sustainable and reflect strong growth metrics. 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 August 3, 2013 Compared to the Thirteen Weeks Ended July 28, 2012

The following table depicts net sales by Chico s/Soma Intimates, WH|BM and Boston Proper in dollars and as a percentage of total net sales for the thirteen weeks ended August 3, 2013 and July 28, 2012:

	Thirteen Weeks Ended			
	August 3, 2013		July 28, 2012	
	(dollars in thousands)			
Chico s/Soma Intimates	$ 414,734	63.8%	$ 414,618	64.6%
WH|BM	205,090	31.6%	194,498	30.3%
Boston Proper	29,679	4.6%	32,606	5.1%
Total net sales	$ 649,503	100.0%	$ 641,722	100.0%

Net sales for the quarter increased 1.2% to $649.5 million from $641.7 million in last year s second quarter, primarily reflecting 112 net new stores for a square footage increase of 8.8%. Comparable sales for the second quarter decreased 2.6% following a 5.6% increase in last year s second quarter, reflecting lower transaction count and average dollar sale, primarily as a result of the impact of lower traffic and the cycling of strong comparable sales last year. The Chico s/Soma Intimates brands comparable sales decreased 3.1% following a 7.2% increase in last year s second quarter and the WH|BM brand s comparable sales decreased 1.5% following a 2.3% increase in last year s second quarter.

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 August 3, 2013 and July 28, 2012:

	Thirteen Weeks Ended	
	August 3, 2013	July 28, 2012
	(dollars in thousands)	
Cost of goods sold	$ 293,361	$ 279,542
Gross margin	$ 356,142	$ 362,180
Gross margin percentage	54.8%	56.4%

For the second quarter of fiscal 2013, gross margin was $356.1 million compared to $362.2 million in last year s second quarter. Gross margin was 54.8% of net sales, a 160 basis point decrease from last year s second quarter, 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.

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 August 3, 2013 and July 28, 2012:

	Thirteen Weeks Ended	
	August 3, 2013	**July 28, 2012**
	(dollars in thousands)	
Selling, general and administrative expenses	$ 286,262	$ 276,121
Percentage of total net sales	44.0%	43.0%

For the second quarter of 2013, SG&A was $286.3 million compared to $276.1 million in last year s second quarter. SG&A was 44.0% of net sales, a 100 basis point increase from last year s second quarter, primarily reflecting deleverage of occupancy and marketing expenses and the impact of investment spending on strategic initiatives, partially offset by lower incentive compensation as a percent of net sales.

Net Income and Earnings Per Diluted Share

Net income for the second quarter was $43.6 million, a decrease of 18.4%, compared to $53.4 million in last year s second quarter. Earnings per diluted share for the second quarter were $0.27, a decrease of 15.6%, compared to $0.32 per diluted share in last year s second quarter, reflecting approximately 9.4 million shares repurchased since last year s second quarter.

Twenty-Six Weeks Ended August 3, 2013 Compared to the Twenty-Six Weeks Ended July 28, 2012

The following table depicts net sales by Chico s/Soma Intimates, WH|BM and Boston Proper in dollars and as a percentage of total net sales for the twenty-six weeks ended August 3, 2013 and July 28, 2012:

	Twenty-Six Weeks Ended			
	August 3, 2013		**July 28, 2012**	
	(dollars in thousands)			
Chico s/Soma Intimates	$ 839,395	63.6%	$ 839,960	65.0%
WH|BM	425,488	32.2%	386,225	29.9%
Boston Proper	55,342	4.2%	66,354	5.1%
Total net sales	$ 1,320,225	100.0%	$ 1,292,539	100.0%

Net sales for the year-to-date period increased 2.1% to $1.320 billion from $1.293 billion in last year s year-to-date period, primarily reflecting 112 net new stores for a square footage increase of 8.8%. Comparable sales for the year-to-date period decreased 1.3% following a 7.6% increase in last year s year-to-date period, reflecting lower average dollar sale partially offset by higher transaction count primarily as a result of the cycling of strong comparable sales last year. The Chico s/Soma Intimates brands comparable sales decreased 3.0% following an 8.1% increase in last year s year-to-date period and the WH|BM brand s comparable sales increased 2.4% on top of a 6.7% increase in last year s year-to-date period. Boston Proper net sales decreased $11.0 million, primarily reflecting the adverse impact of post-acquisition information systems conversions in the first quarter this year.

16

Table of Contents

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 twenty-six weeks ended August 3, 2013 and July 28, 2012:

	Twenty-Six Weeks Ended	
	August 3, 2013	**July 28, 2012**
	(dollars in thousands)	
Cost of goods sold	$ 577,239	$ 551,763
Gross margin	$ 742,986	$ 740,776
Gross margin percentage	56.3%	57.3%

Gross margin for the year-to-date period was $743.0 million compared to $740.8 million in last year s year-to-date period. Gross margin was 56.3% of net sales, a 100 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 twenty-six weeks ended August 3, 2013 and July 28, 2012:

	Twenty-Six Weeks Ended	
	August 3, 2013	**July 28, 2012**
	(dollars in thousands)	
Selling, general and administrative expenses	$ 591,161	$ 567,797
Percentage of total net sales	44.7%	43.9%

SG&A for the year-to-date period was $591.2 million compared to $567.8 million in last year s year-to-date period. SG&A was 44.7% of net sales, an 80 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, partially offset by lower incentive compensation as a percent of net sales.

Provision for Income Taxes

Our effective tax rate for the year-to-date period was 37.4% compared to an effective tax rate of 38.0% for the same period last year. The effective rate for the current year reflects favorable tax settlements.

Net Income and Earnings Per Diluted Share

Net income for the year-to-date period was $94.7 million, a decrease of 11.5%, compared to $107.0 million in last year s year-to-date period. Earnings per diluted share for the year-to-date period were $0.58, a decrease of 9.4%, compared to $0.64 per diluted share in last year s year-to-date period, reflecting approximately 9.4 million shares repurchased since the end of the second quarter last year.

Table of Contents

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.

Operating Activities

Net cash provided by operating activities for the year-to-date period of fiscal 2013 was $143.5 million, a decrease of approximately $82.1 million from last year s year-to-date period. This decrease primarily reflects lower net income in fiscal 2013, lower accrued incentive compensation, the impact of the calendar shift from last fiscal year s 53rd 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 $8.3 million compared to $138.3 million in the same period last year. Investing activities in fiscal 2013 primarily reflects net purchases of property and equipment totaling $71.7 million offset by a $63.9 million decrease in marketable securities to facilitate share repurchase activities, compared to net purchases of property and equipment totaling $78.8 million and marketable securities of $59.6 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 $98.6 million compared to $36.7 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 August 3, 2013, no borrowings are outstanding under the Credit Facility.

New Store Openings

During the year-to-date period of fiscal 2013, we had 70 net openings, consisting of 17 Chico s, 25 WH|BM, 26 Soma and 2 Boston Proper stores. Currently, we expect our net new stores in fiscal 2013 to increase approximately 8%, reflecting net openings of approximately 20 Chico s, 55 WH|BM, 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.

Table of Contents

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.

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 expressio 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

Table of Contents

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 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 August 3, 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 August 3, 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 August 3, 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 August 3, 2013, consisted of $134.9 million of securities with maturity dates within one year or less and $73.5 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

Table of Contents

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 August 3, 2013, an increase of 100 basis points in interest rates would reduce the fair value of our marketable securities portfolio by approximately $1.7 million. Conversely, a reduction of 100 basis points in interest rates would increase the fair value of our marketable securities portfolio by approximately $0.6 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.

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):

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Publicly Announced Plans
May 4, 2013 - June 1, 2013	66,324	$ 18.31	52,700	$ 239,081,718
June 2, 2013 - July 6, 2013	1,394,616	$ 17.25	1,394,616	$ 215,029,830
July 7, 2013 - August 3, 2013		$		$ 215,029,830
Total	1,460,940	$ 17.29	1,447,316	$ 215,029,830

(a) Includes 13,624 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 $215 million remaining under the program as of the end of the second 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.

		CHICO S FAS, INC.
Date: August 30, 2013	By:	/s/ David F. Dyer David F. Dyer President and Chief Executive Officer (Principal Executive Officer)
Date: August 30, 2013	By:	/s/ Pamela K Knous Pamela K Knous Executive Vice President-Chief Financial Officer (Principal Financial and Accounting Officer)

24