

CHICOS FAS INC  
Form 10-Q  
November 26, 2014  
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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 1, 2014

Commission File Number:  
001-16435

Chico's FAS, Inc.  
(Exact name of registrant as specified in charter)

Florida  
(State of Incorporation)  
11215 Metro Parkway, Fort Myers, Florida 33966  
(Address of principal executive offices)  
239-277-6200  
(Registrant's telephone number, including area code)

59-2389435  
(I.R.S. Employer  
Identification No.)

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.

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At November 19, 2014, the registrant had 152,935,126 shares of Common Stock, \$0.01 par value per share, outstanding.

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## 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)

|                                                                          | Thirty-Nine Weeks Ended |            |                  |            | Thirteen Weeks Ended |            |                  |            |  |  |
|--------------------------------------------------------------------------|-------------------------|------------|------------------|------------|----------------------|------------|------------------|------------|--|--|
|                                                                          | November 1, 2014        |            | November 2, 2013 |            | November 1, 2014     |            | November 2, 2013 |            |  |  |
|                                                                          | Amount                  | % of Sales | Amount           | % of Sales | Amount               | % of Sales | Amount           | % of Sales |  |  |
| Net sales:                                                               |                         |            |                  |            |                      |            |                  |            |  |  |
| Chico's/Soma Intimates                                                   | \$1,290,239             | 63.9 %     | \$1,255,214      | 63.5 %     | \$418,230            | 62.9 %     | \$415,819        | 63.4 %     |  |  |
| White House   Black Market                                               | 655,639                 | 32.5 %     | 643,688          | 32.6 %     | 224,552              | 33.7 %     | 218,200          | 33.3 %     |  |  |
| Boston Proper                                                            | 72,426                  | 3.6 %      | 76,902           | 3.9 %      | 22,787               | 3.4 %      | 21,560           | 3.3 %      |  |  |
| Total net sales                                                          | 2,018,304               | 100.0 %    | 1,975,804        | 100.0 %    | 665,569              | 100.0 %    | 655,579          | 100.0 %    |  |  |
| Cost of goods sold                                                       | 920,148                 | 45.6 %     | 868,808          | 44.0 %     | 301,776              | 45.3 %     | 291,569          | 44.5 %     |  |  |
| Gross margin                                                             | 1,098,156               | 54.4 %     | 1,106,996        | 56.0 %     | 363,793              | 54.7 %     | 364,010          | 55.5 %     |  |  |
| Selling, general and administrative expenses                             | 945,360                 | 46.8 %     | 899,689          | 45.5 %     | 321,574              | 48.3 %     | 308,528          | 47.1 %     |  |  |
| Goodwill and trade name impairment charges                               | —                       | 0.0 %      | 72,466           | 3.7 %      | —                    | 0.0 %      | 72,466           | 11.0 %     |  |  |
| Acquisition and integration costs                                        | —                       | 0.0 %      | 914              | 0.0 %      | —                    | 0.0 %      | —                | 0.0 %      |  |  |
| Income (loss) from operations                                            | 152,796                 | 7.6 %      | 133,927          | 6.8 %      | 42,219               | 6.4 %      | (16,984 )        | (2.6 )%    |  |  |
| Interest income, net                                                     | 75                      | 0.0 %      | 404              | 0.0 %      | 44                   | 0.0 %      | 105              | 0.0 %      |  |  |
| Income (loss) before income taxes                                        | 152,871                 | 7.6 %      | 134,331          | 6.8 %      | 42,263               | 6.4 %      | (16,879 )        | (2.6 )%    |  |  |
| Income tax provision                                                     | 56,400                  | 2.8 %      | 68,100           | 3.4 %      | 15,800               | 2.4 %      | 11,600           | 1.7 %      |  |  |
| Net income (loss)                                                        | \$96,471                | 4.8 %      | \$66,231         | 3.4 %      | \$26,463             | 4.0 %      | \$(28,479 )      | (4.3 )%    |  |  |
| Per share data:                                                          |                         |            |                  |            |                      |            |                  |            |  |  |
| Net income (loss) per common share—basic                                 | \$0.63                  |            | \$0.41           |            | \$0.17               |            | \$(0.18 )        |            |  |  |
| Net income (loss) per common and common equivalent share—diluted         | \$0.63                  |            | \$0.41           |            | \$0.17               |            | \$(0.18 )        |            |  |  |
| Weighted average common shares outstanding—basic                         | 148,577                 |            | 156,662          |            | 148,564              |            | 155,228          |            |  |  |
| Weighted average common and common equivalent shares outstanding—diluted | 149,093                 |            | 157,604          |            | 149,037              |            | 155,228          |            |  |  |
| Dividends declared per share                                             | \$0.225                 |            | \$0.165          |            | \$—                  |            | \$—              |            |  |  |

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

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CHICO'S FAS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (Unaudited)  
 (In thousands)

|                                                                  | Thirty-Nine Weeks Ended |                     | Thirteen Weeks Ended |                     |
|------------------------------------------------------------------|-------------------------|---------------------|----------------------|---------------------|
|                                                                  | November 1,<br>2014     | November 2,<br>2013 | November 1,<br>2014  | November 2,<br>2013 |
| Net income (loss)                                                | \$96,471                | \$66,231            | \$26,463             | \$(28,479 )         |
| Other comprehensive income (loss):                               |                         |                     |                      |                     |
| Unrealized gains (losses) on marketable securities, net of taxes | (81 )                   | (81 )               | (29 )                | 70                  |
| Foreign currency translation adjustment, net of taxes            | 116                     | 10                  | 119                  | 10                  |
| Comprehensive income (loss)                                      | \$96,506                | \$66,160            | \$26,553             | \$(28,399 )         |

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

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CHICO'S FAS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)  
 (In thousands)

|                                             | November 1,<br>2014 | February 1, 2014 | November 2,<br>2013 |
|---------------------------------------------|---------------------|------------------|---------------------|
| <b>ASSETS</b>                               |                     |                  |                     |
| Current Assets:                             |                     |                  |                     |
| Cash and cash equivalents                   | \$67,172            | \$36,444         | \$52,524            |
| Marketable securities, at fair value        | 124,042             | 116,002          | 197,235             |
| Inventories                                 | 294,234             | 238,145          | 267,430             |
| Prepaid expenses and other current assets   | 52,062              | 50,698           | 55,835              |
| Total Current Assets                        | 537,510             | 441,289          | 573,024             |
| Property and Equipment, net                 | 641,187             | 631,050          | 635,284             |
| Other Assets:                               |                     |                  |                     |
| Goodwill                                    | 171,427             | 171,427          | 171,427             |
| Other intangible assets, net                | 114,927             | 118,196          | 119,269             |
| Other assets, net                           | 12,897              | 9,229            | 9,252               |
| Total Other Assets                          | 299,251             | 298,852          | 299,948             |
|                                             | \$1,477,948         | \$1,371,191      | \$1,508,256         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                     |                  |                     |
| Current Liabilities:                        |                     |                  |                     |
| Accounts payable                            | \$162,641           | \$131,254        | \$152,698           |
| Other current and deferred liabilities      | 145,972             | 142,073          | 121,796             |
| Total Current Liabilities                   | 308,613             | 273,327          | 274,494             |
| Noncurrent Liabilities:                     |                     |                  |                     |
| Deferred liabilities                        | 146,715             | 138,874          | 143,991             |
| Deferred taxes                              | 42,306              | 49,887           | 53,338              |
| Total Noncurrent Liabilities                | 189,021             | 188,761          | 197,329             |
| Stockholders' Equity:                       |                     |                  |                     |
| Preferred stock                             | —                   | —                | —                   |
| Common stock                                | 1,529               | 1,522            | 1,588               |
| Additional paid-in capital                  | 401,110             | 382,088          | 372,325             |
| Retained earnings                           | 577,528             | 525,381          | 662,375             |
| Accumulated other comprehensive income      | 147                 | 112              | 145                 |
| Total Stockholders' Equity                  | 980,314             | 909,103          | 1,036,433           |
|                                             | \$1,477,948         | \$1,371,191      | \$1,508,256         |

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

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CHICO'S FAS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (In thousands)

|                                                                                    | Thirty-Nine Weeks Ended |                     |
|------------------------------------------------------------------------------------|-------------------------|---------------------|
|                                                                                    | November 1,<br>2014     | November 2,<br>2013 |
| Cash Flows From Operating Activities:                                              |                         |                     |
| Net income                                                                         | \$96,471                | \$66,231            |
| Adjustments to reconcile net income to net cash provided by operating activities — |                         |                     |
| Goodwill and trade name impairment charges                                         | —                       | 72,466              |
| Depreciation and amortization                                                      | 90,514                  | 88,123              |
| Deferred tax (benefit) expense                                                     | (9,204)                 | ) 6,024             |
| Stock-based compensation expense                                                   | 20,041                  | 19,542              |
| Excess tax benefit from stock-based compensation                                   | (1,654)                 | ) (1,281)           |
| Deferred rent and lease credits                                                    | (13,754)                | ) (13,299)          |
| Loss on disposal and impairment of property and equipment                          | 757                     | 1,432               |
| Changes in assets and liabilities:                                                 |                         |                     |
| Inventories                                                                        | (56,089)                | ) (60,581)          |
| Prepaid expenses and other assets                                                  | (5,032)                 | ) (1,775)           |
| Accounts payable                                                                   | 31,387                  | 23,311              |
| Accrued and other liabilities                                                      | 27,655                  | (25,087)            |
| Net cash provided by operating activities                                          | 181,092                 | 175,106             |
| Cash Flows From Investing Activities:                                              |                         |                     |
| Purchases of marketable securities                                                 | (81,134)                | ) (90,669)          |
| Proceeds from sale of marketable securities                                        | 73,062                  | 165,852             |
| Purchases of property and equipment, net                                           | (98,084)                | ) (113,376)         |
| Net cash used in investing activities                                              | (106,156)               | ) (38,193)          |
| Cash Flows From Financing Activities:                                              |                         |                     |
| Proceeds from issuance of common stock                                             | 5,930                   | 10,176              |
| Excess tax benefit from stock-based compensation                                   | 1,654                   | 1,281               |
| Dividends paid                                                                     | (34,329)                | ) (26,536)          |
| Repurchase of common stock                                                         | (17,579)                | ) (126,179)         |
| Net cash used in financing activities                                              | (44,324)                | ) (141,258)         |
| Effects of exchange rate changes on cash and cash equivalents                      | 116                     | 10                  |
| Net increase (decrease) in cash and cash equivalents                               | 30,728                  | (4,335)             |
| Cash and Cash Equivalents, Beginning of period                                     | 36,444                  | 56,859              |
| Cash and Cash Equivalents, End of period                                           | \$67,172                | \$52,524            |
| Supplemental Disclosures of Cash Flow Information:                                 |                         |                     |
| Cash paid for interest                                                             | \$230                   | \$269               |
| Cash paid for income taxes, net                                                    | \$48,321                | \$62,162            |

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



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Chico's FAS, Inc. and Subsidiaries  
 Notes to Condensed Consolidated Financial Statements  
 November 1, 2014  
 (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 condensed 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 1, 2014, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 14, 2014.

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 1, 2014 are not necessarily indicative of the results that may be expected for the entire year.

## Note 2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016. The standard allows for either a full retrospective or a modified retrospective transition method. We are currently assessing the potential impact of adopting this ASU, but do not, at this time, anticipate a material impact to our consolidated results of operations, financial position or cash flows.

## Note 3. Stock-Based Compensation

For the thirty-nine weeks ended November 1, 2014 and November 2, 2013, stock-based compensation expense was \$20.0 million and \$19.5 million, respectively. As of November 1, 2014, approximately 7.4 million shares remain available for future grants of equity awards under our 2012 Omnibus Stock and Incentive Plan.

## Restricted Stock Awards

Restricted stock award activity for the thirty-nine weeks ended November 1, 2014 was as follows:

|                               | Number of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|---------------------|-------------------------------------------------|
| Unvested, beginning of period | 3,883,134           | \$15.13                                         |
| Granted                       | 1,625,050           | 16.47                                           |
| Vested                        | (1,195,585)         | 15.05                                           |
| Forfeited                     | (311,665)           | 16.23                                           |
| Unvested, end of period       | 4,000,934           | 15.61                                           |



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Chico's FAS, Inc. and Subsidiaries  
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 (Unaudited)

Performance-based restricted stock award activity for the thirty-nine weeks ended November 1, 2014 was as follows:

|                               | Number of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|---------------------|-------------------------------------------------|
| Unvested, beginning of period | 17,222              | \$13.69                                         |
| Granted                       | —                   | —                                               |
| Vested                        | (17,222             | ) 13.69                                         |
| Forfeited                     | —                   | —                                               |
| Unvested, end of period       | —                   | —                                               |

## Performance-based Restricted Stock Units

For the thirty-nine weeks ended November 1, 2014, we granted performance-based restricted stock units ("PSUs"), contingent upon the achievement of a Company-specific performance goal during fiscal 2014. 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 1, 2014 was as follows:

|                               | Number of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|---------------------|-------------------------------------------------|
| Unvested, beginning of period | 485,935             | \$15.01                                         |
| Granted                       | 657,000             | 16.51                                           |
| Vested                        | (240,596            | ) 15.01                                         |
| Forfeited                     | (55,352             | ) 15.72                                         |
| Unvested, end of period       | 846,987             | 16.13                                           |

## Stock Option Awards

For the thirty-nine weeks ended November 1, 2014 and November 2, 2013, 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 1, 2014 was as follows:

|                                  | Number of<br>Shares | Weighted<br>Average<br>Exercise Price |
|----------------------------------|---------------------|---------------------------------------|
| Outstanding, beginning of period | 2,642,269           | \$15.63                               |
| Granted                          | —                   | —                                     |
| Exercised                        | (288,661            | ) 11.98                               |
| Forfeited or expired             | (272,146            | ) 19.78                               |
| Outstanding, end of period       | 2,081,462           | 15.59                                 |
| Exercisable at November 1, 2014  | 2,051,300           | \$15.67                               |

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Chico's FAS, Inc. and Subsidiaries  
 Notes to Condensed Consolidated Financial Statements  
 November 1, 2014  
 (Unaudited)

## 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 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.

## Note 5. Earnings Per Share

In accordance with relevant 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 earnings per common share pursuant to the "two-class" method. For us, participating securities are composed entirely of unvested restricted stock awards and PSUs that have met their relevant performance criteria.

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

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) (in thousands, except per share amounts):

|                                                                            | Thirty-Nine Weeks Ended |                     | Thirteen Weeks Ended |                     |
|----------------------------------------------------------------------------|-------------------------|---------------------|----------------------|---------------------|
|                                                                            | November 1,<br>2014     | November 2,<br>2013 | November 1,<br>2014  | November 2,<br>2013 |
| Numerator                                                                  |                         |                     |                      |                     |
| Net income (loss)                                                          | \$96,471                | \$66,231            | \$26,463             | \$(28,479)          |
| Net income and dividends declared allocated to participating securities    | (2,648)                 | (1,785)             | (745)                | —                   |
| Net income (loss) available to common shareholders                         | \$93,823                | \$64,446            | \$25,718             | \$(28,479)          |
| Denominator                                                                |                         |                     |                      |                     |
| Weighted average common shares outstanding – basic                         | 148,577                 | 156,662             | 148,564              | 155,228             |
| Dilutive effect of non-participating securities                            | 516                     | 942                 | 473                  | —                   |
| Weighted average common and common equivalent shares outstanding – diluted | 149,093                 | 157,604             | 149,037              | 155,228             |
| Net income (loss) per common share:                                        |                         |                     |                      |                     |
| Basic                                                                      | \$0.63                  | \$0.41              | \$0.17               | \$(0.18)            |

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|         |        |        |        |         |   |
|---------|--------|--------|--------|---------|---|
| Diluted | \$0.63 | \$0.41 | \$0.17 | \$(0.18 | ) |
|---------|--------|--------|--------|---------|---|

For the thirty-nine weeks ended November 1, 2014 and November 2, 2013, 0.6 million and 1.0 million potential shares of common stock, respectively, were excluded from the diluted per share calculation relating to non-participating securities, because the effect of including these potential shares was antidilutive.

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Chico's FAS, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
November 1, 2014  
(Unaudited)

For the thirteen weeks ended November 1, 2014 and November 2, 2013, 0.5 million and 0.8 million potential shares of common stock, respectively, were excluded from the diluted per share calculation relating to non-participating securities, because the effect of including these potential shares was antidilutive.

Note 6. Fair Value Measurements

Our financial instruments consist of cash, money market accounts, marketable securities, assets held in our non-qualified deferred compensation plan and accounts receivable and payable. Cash, accounts receivable and accounts payable are carried at cost, which approximates their fair value due to the short-term nature of the instruments.

Marketable securities are classified as available-for-sale and as of November 1, 2014 generally consist of corporate bonds, commercial paper, municipal bonds, and U.S. government and agency securities with \$92.6 million of securities with maturity dates within one year or less and \$31.4 million with maturity dates over one year and less than two years.

We consider all marketable 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 in accumulated other comprehensive income 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 condensed 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 third quarter of fiscal 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 in Boston Proper trade name impairment. To assess the fair value of Boston Proper 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.

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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 1, 2014, we did not make any transfers between Level 1 and Level 2 financial assets. Furthermore, as of November 1, 2014, February 1, 2014 and November 2, 2013, we did not have any Level 3 cash equivalents or marketable securities. 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.



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Chico's FAS, Inc. and Subsidiaries  
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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:

|                            | Balance as of<br>November 1, 2014 | Fair Value Measurements at Reporting Date Using<br>Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|----------------------------|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
|                            | (in thousands)                    |                                                                                                                            |                                                     |                                                    |
| Current Assets             |                                   |                                                                                                                            |                                                     |                                                    |
| Cash equivalents:          |                                   |                                                                                                                            |                                                     |                                                    |
| Money market accounts      | \$2,721                           | \$2,721                                                                                                                    | \$—                                                 | \$—                                                |
| Marketable securities:     |                                   |                                                                                                                            |                                                     |                                                    |
| Municipal securities       | 22,103                            | —                                                                                                                          | 22,103                                              | —                                                  |
| U.S. government securities | 1,403                             | 1,403                                                                                                                      | —                                                   | —                                                  |
| U.S. government agencies   | 20,313                            | —                                                                                                                          | 20,313                                              | —                                                  |
| Corporate bonds            | 49,225                            | —                                                                                                                          | 49,225                                              | —                                                  |
| Commercial paper           | 30,998                            | —                                                                                                                          | 30,998                                              | —                                                  |
| Non Current Assets         |                                   |                                                                                                                            |                                                     |                                                    |
| Deferred compensation plan | 8,085                             | 8,085                                                                                                                      | —                                                   | —                                                  |
| Total                      | \$134,848                         | \$12,209                                                                                                                   | \$122,639                                           | \$—                                                |
|                            | Balance as of<br>February 1, 2014 |                                                                                                                            |                                                     |                                                    |
| Current Assets             |                                   |                                                                                                                            |                                                     |                                                    |
| Cash equivalents:          |                                   |                                                                                                                            |                                                     |                                                    |
| Money market accounts      | \$7,509                           | \$7,509                                                                                                                    | \$—                                                 | \$—                                                |
| Marketable securities:     |                                   |                                                                                                                            |                                                     |                                                    |
| Municipal securities       | 51,519                            | —                                                                                                                          | 51,519                                              | —                                                  |
| U.S. government securities | 9,812                             | 9,812                                                                                                                      | —                                                   | —                                                  |
| U.S. government agencies   | 9,020                             | —                                                                                                                          | 9,020                                               | —                                                  |
| Corporate bonds            | 45,651                            | —                                                                                                                          | 45,651                                              | —                                                  |
| Non Current Assets         |                                   |                                                                                                                            |                                                     |                                                    |
| Deferred compensation plan | 6,299                             | 6,299                                                                                                                      | —                                                   | —                                                  |
| Total                      | \$129,810                         | \$23,620                                                                                                                   | \$106,190                                           | \$—                                                |
|                            | Balance as of<br>November 2, 2013 |                                                                                                                            |                                                     |                                                    |
| Current Assets             |                                   |                                                                                                                            |                                                     |                                                    |
| Cash equivalents:          |                                   |                                                                                                                            |                                                     |                                                    |
| Money market accounts      | \$17,291                          | \$17,291                                                                                                                   | \$—                                                 | \$—                                                |
| Marketable securities:     |                                   |                                                                                                                            |                                                     |                                                    |
| Municipal securities       | 81,963                            | —                                                                                                                          | 81,963                                              | —                                                  |
| U.S. government securities | 32,194                            | 32,194                                                                                                                     | —                                                   | —                                                  |

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|                            |           |          |           |     |
|----------------------------|-----------|----------|-----------|-----|
| U.S. government agencies   | 9,013     | —        | 9,013     | —   |
| Corporate bonds            | 74,065    | —        | 74,065    | —   |
| Non Current Assets         |           |          |           |     |
| Deferred compensation plan | 6,246     | 6,246    | —         | —   |
| Total                      | \$220,772 | \$55,731 | \$165,041 | \$— |

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Note 7. Subsequent Events

On November 25, 2014, 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 22, 2014 to shareholders of record at the close of business on December 8, 2014. 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.

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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 2013 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 ("WH|BM"), Soma Intimates and Boston Proper brand names. We earn revenues and generate cash through the sale of merchandise in our domestic and international retail stores, on our various websites, through our call center which takes orders for all of our brands, and through our international franchise arrangements.

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 2014 were \$665.6 million, an increase of 1.5% compared to \$655.6 million in last year's third quarter. The increase reflected 87 net new stores for a 5.4% square footage increase since last year's third quarter, partially offset by a 1.6% decrease in comparable sales. The 1.6% decrease in comparable sales for the third quarter was following a 1.4% decrease in last year's third quarter, reflecting a decrease in average dollar sale partially offset by an increase in transaction count.

Net income for the third quarter of fiscal 2014 was \$26.5 million, or \$0.17 per diluted share, compared to a net loss of \$28.5 million, or \$0.18 per diluted share, in last year's third quarter. 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. The change in earnings per share reflects higher net income and the impact of approximately 7.3 million shares repurchased since the end of the third quarter last year.

Net sales for the year-to-date period of fiscal 2014 were \$2.018 billion, an increase of 2.2% compared to \$1.976 billion in last year's year-to-date period. Net income for the year-to-date period of fiscal 2014 was \$96.5 million, or \$0.63 per diluted share, compared to net income of \$66.2 million, or \$0.41 per diluted share, in last year's year-to-date period. The change in earnings per share reflects higher net income and the impact of approximately 7.3 million shares repurchased since the end of the third quarter last year.

Long-term Financial Objectives

The Company's goals remain to increase sales by a low double-digit percentage and diluted earnings per share by a mid-teen percentage; financial targets that we believe are both sustainable and reflect strong growth metrics. The Company believes that by delivering on these financial objectives over the long-term, the Company will provide its shareholders with substantial value despite periods where we do not meet these objectives.

Consistent with these objectives, the Company is pursuing previously announced strategic initiatives to fuel future growth, including enhanced omni-channel capabilities, international expansion, testing the use of physical store fronts for Boston Proper, and updating our various loyalty programs.

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## RESULTS OF OPERATIONS

Thirteen Weeks Ended November 1, 2014 Compared to the Thirteen Weeks Ended November 2, 2013

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 1, 2014 and November 2, 2013:

|                        | Thirteen Weeks Ended   |       |   |                  |       |   |
|------------------------|------------------------|-------|---|------------------|-------|---|
|                        | November 1, 2014       |       |   | November 2, 2013 |       |   |
|                        | (dollars in thousands) |       |   |                  |       |   |
| Chico's/Soma Intimates | \$418,230              | 62.9  | % | \$415,819        | 63.4  | % |
| WHIBM                  | 224,552                | 33.7  | % | 218,200          | 33.3  | % |
| Boston Proper          | 22,787                 | 3.4   | % | 21,560           | 3.3   | % |
| Total net sales        | \$665,569              | 100.0 | % | \$655,579        | 100.0 | % |

Net sales for the third quarter increased 1.5% to \$665.6 million from \$655.6 million in last year's third quarter, primarily reflecting 87 net new stores for a 5.4% square footage increase since last year's third quarter, partially offset by a 1.6% decrease in comparable sales. The 1.6% decrease in comparable sales for the third quarter was following a 1.4% decrease in last year's third quarter, reflecting a decrease in average dollar sale partially offset by an increase in transaction count.

The Chico's/Soma Intimates brands' comparable sales decreased 1.6% following a 3.3% decrease in last year's third quarter. The Chico's brand experienced a low single digit decrease in comparable sales in the third quarter compared to a mid-single digit decrease in last year's third quarter, and the Soma Intimates brand experienced a mid-single digit comparable sales increase in the third quarter compared to a high-single digit increase in last year's third quarter. The WHIBM brand's comparable sales decreased 1.4% following a 2.5% increase in last year's third quarter. Boston Proper net sales increased \$1.2 million during the current third quarter as compared to last year, primarily due to additional new stores.

## 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 1, 2014 and November 2, 2013:

|                         | Thirteen Weeks Ended   |   |                  |   |
|-------------------------|------------------------|---|------------------|---|
|                         | November 1, 2014       |   | November 2, 2013 |   |
|                         | (dollars in thousands) |   |                  |   |
| Cost of goods sold      | \$301,776              |   | \$291,569        |   |
| Gross margin            | \$363,793              |   | \$364,010        |   |
| Gross margin percentage | 54.7                   | % | 55.5             | % |

For the third quarter of fiscal 2014, gross margin was \$363.8 million compared to \$364.0 million in last year's third quarter. Gross margin was 54.7% of net sales, an 80 basis point decrease from last year's third quarter, primarily reflecting increased promotional activity to sell through seasonal merchandise.

## 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 1, 2014 and November 2, 2013:

|                                              | Thirteen Weeks Ended   |   |                  |   |
|----------------------------------------------|------------------------|---|------------------|---|
|                                              | November 1, 2014       |   | November 2, 2013 |   |
|                                              | (dollars in thousands) |   |                  |   |
| Selling, general and administrative expenses | \$321,574              |   | \$308,528        |   |
| Percentage of total net sales                | 48.3                   | % | 47.1             | % |

For the third quarter of fiscal 2014, SG&A was \$321.6 million compared to \$308.5 million in last year's third quarter. SG&A was 48.3% of net sales, a 120 basis point increase from last year's third quarter, primarily reflecting sales

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store expenses, the impact of approximately \$5 million in incremental investment spending on strategic initiatives and cycling the reversal of incentive compensation in fiscal 2013.

**Goodwill and Trade Name Impairment Charges**

In last year's third quarter, 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 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 \$72.5 million Boston Proper impairment charges included \$67.3 million related to goodwill impairment and \$5.2 million related to the trade name impairment.

In the third quarter of 2014, Boston Proper's sales performance has shown improvement. The Company will perform its annual test for goodwill impairment during the fourth quarter of fiscal 2014.

**Provision for Income Taxes**

Our effective tax rate for the third quarter of fiscal 2014 was 37.4%, compared to an effective tax rate of (68.7)% in last year's third quarter. The income tax provision of \$11.6 million and effective tax rate of (68.7)% in last year's third quarter 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 37.4% in the third quarter of fiscal 2014, primarily reflecting federal tax and refund claims filed in the third quarter of 2013.

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

Net income for the third quarter of fiscal 2014 was \$26.5 million, or \$0.17 per diluted share, compared to a net loss of \$28.5 million, or \$0.18 per diluted share in last year's third quarter. 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. The change in earnings per share reflects higher net income and the impact of approximately 7.3 million shares repurchased since the end of the third quarter last year.

**Thirty-Nine Weeks Ended November 1, 2014 Compared to the Thirty-Nine Weeks Ended November 2, 2013**

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 1, 2014 and November 2, 2013:

|                        | Thirty-Nine Weeks Ended |       |   |                  |       |   |
|------------------------|-------------------------|-------|---|------------------|-------|---|
|                        | November 1, 2014        |       |   | November 2, 2013 |       |   |
|                        | (dollars in thousands)  |       |   |                  |       |   |
| Chico's/Soma Intimates | \$1,290,239             | 63.9  | % | \$1,255,214      | 63.5  | % |
| WHIBM                  | 655,639                 | 32.5  | % | 643,688          | 32.6  | % |
| Boston Proper          | 72,426                  | 3.6   | % | 76,902           | 3.9   | % |
| Total net sales        | \$2,018,304             | 100.0 | % | \$1,975,804      | 100.0 | % |

Net sales for the year-to-date period increased 2.2% to \$2.018 billion from \$1.976 billion in last year's year-to-date period, primarily reflecting 87 net new stores for a 5.4% square footage increase since last year's third quarter, partially offset by a 1.3% decrease in comparable sales. The 1.3% decrease in comparable sales for the year-to-date period was following a 1.3% decrease in last year's year-to-date period, reflecting lower average dollar sale partially offset by an increase in transaction count.

The Chico's/Soma Intimates brands' comparable sales increased 0.1% following a 3.1% decrease in last year's year-to-date period. The Chico's brand experienced a decrease of slightly less than 1% in comparable sales compared to a mid-single digit decrease in last year's year-to-date period, and the Soma Intimates brand experienced a mid-single digit comparable sales increase compared to a high-single digit increase in last year's year-to-date period. The WHIBM brand's comparable sales decreased 4.0% following a 2.5% increase in last year's year-to-date period. Boston Proper net sales decreased \$4.5 million, during the current year-to-date period as compared to last year, primarily reflecting decreased customer demand.





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## 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 1, 2014 and November 2, 2013:

|                         | Thirty-Nine Weeks Ended |                  |      |
|-------------------------|-------------------------|------------------|------|
|                         | November 1, 2014        | November 2, 2013 |      |
|                         | (dollars in thousands)  |                  |      |
| Cost of goods sold      | \$920,148               | \$868,808        |      |
| Gross margin            | \$1,098,156             | \$1,106,996      |      |
| Gross margin percentage | 54.4                    | %                | 56.0 |

Gross margin for the year-to-date period was \$1.098 billion compared to \$1.107 billion in last year's year-to-date period. Gross margin was 54.4% of net sales, a 160 basis point decrease from fiscal 2013, primarily reflecting increased promotional activity to sell through seasonal merchandise.

## 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 1, 2014 and November 2, 2013:

|                                              | Thirty-Nine Weeks Ended |                  |      |
|----------------------------------------------|-------------------------|------------------|------|
|                                              | November 1, 2014        | November 2, 2013 |      |
|                                              | (dollars in thousands)  |                  |      |
| Selling, general and administrative expenses | \$945,360               | \$899,689        |      |
| Percentage of total net sales                | 46.8                    | %                | 45.5 |

SG&A for the year-to-date period was \$945.4 million compared to \$899.7 million in last year's year-to-date period. SG&A was 46.8% of net sales, a 130 basis point increase from last year's year-to-date period, primarily reflecting sales deleverage of store expenses and the impact of approximately \$14 million in incremental investment spending on strategic initiatives.

## Goodwill and Trade Name Impairment Charges

In last year's third quarter, 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 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 \$72.5 million Boston Proper impairment charges included \$67.3 million related to goodwill impairment and \$5.2 million related to the trade name impairment.

In the third quarter of 2014, Boston Proper's sales performance has shown improvement. The Company will perform its annual test for goodwill impairment during the fourth quarter of fiscal 2014.

## Provision for Income Taxes

Our effective tax rate for the year-to-date period of fiscal 2014 was 36.9%, compared to an effective tax rate of 50.7% in last year's year-to-date period. The income tax provision of \$68.1 million and effective tax rate of 50.7% in last year's year-to-date period 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, last year's year-to-date effective tax rate would have been 36.9% compared to an effective tax rate of 36.9% in the year-to-date period of fiscal 2014.

## Net Income and Earnings Per Diluted Share

Net income for the year-to-date period was \$96.5 million compared to \$66.2 million in last year's year-to-date period, and earnings per diluted share for the year-to-date period were \$0.63 compared to \$0.41 per diluted share in last year's year-to-date period. Results for the year-to-date period of fiscal 2013 include the impact of Boston Proper non-cash goodwill and trade



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name impairment charges of \$64.3 million after-tax, or \$0.40 per diluted share. The change in earnings per share reflects higher net income and the impact of approximately 7.3 million shares repurchased since the end of the third quarter last year.

### 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 for the foreseeable future. Furthermore, while it is our intention to repurchase our stock and pay a quarterly cash dividend in the future, any determination to repurchase additional shares of 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 considered 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; and information technology.

### Operating Activities

Net cash provided by operating activities for the year-to-date period of fiscal 2014 was \$181.1 million, an increase of approximately \$6.0 million from the same period last year. This increase primarily reflected the benefit of changes in working capital and higher fiscal 2014 net income, partially offset by changes in deferred taxes related to lower incentive compensation and the impact of goodwill and trade name impairment charges in last year's year-to-date period. The changes in working capital primarily reflected the impact of accrued income taxes in fiscal 2014 and incentive compensation in fiscal 2013.

At the end of the third quarter of 2014, total inventories per selling square foot increased 1.6%, excluding in-transit inventories. In-transit inventories increased by \$10.0 million, primarily reflecting an increase in the length of in-transit times for ocean shipments, as well as delays at West Coast ports.

### Investing Activities

Net cash used in investing activities for the year-to-date period of fiscal 2014 was \$106.2 million compared to \$38.2 million in the same period last year, reflecting an \$8.1 million increase in marketable securities in fiscal 2014 related to the investment of cash from operations compared to a \$75.2 million decrease in the same period last year related to \$120.0 million in share repurchases. Investing activities in the year-to-date period of fiscal 2014 included net purchases of property and equipment totaling \$98.1 million compared to \$113.4 million in the same period last year.

### Financing Activities

Net cash used in financing activities for the year-to-date period of fiscal 2014 was \$44.3 million compared to \$141.3 million in the same period last year. The decrease in net cash used in financing activities primarily reflects \$10.0 million in fiscal 2014 share repurchases under our publicly announced repurchase program, compared to \$120.0 million in the same period last year, partially offset by an increase in dividends paid as a result of the per share dividend increase announced in the fourth quarter of fiscal 2013.

### 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 1, 2014, no borrowings are outstanding under the Credit Facility.

### New Store Openings

During the fiscal 2014 year-to-date period, we had 85 net openings, consisting of 21 Chico's, 20 WHIBM, 31 Soma and 13 Boston Proper stores. Currently, we expect our net new stores in fiscal 2014 to increase approximately 6%, reflecting net openings of approximately 17 Chico's, 18 WHIBM, 31 Soma stores and 15 Boston Proper stores. We continuously evaluate

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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 condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of condensed 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 1, 2014, 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 1, 2014.

### 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. E

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 14, 2014 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,

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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.

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

The market risk of our financial instruments as of November 1, 2014 has not significantly changed since February 1, 2014. We are exposed to market risk from changes in interest rates on any future indebtedness and our marketable securities and from foreign currency exchange rate fluctuations.

Our exposure to interest rate risk relates in part to our revolving line of credit with our bank. However, as of November 1, 2014, we did not have any outstanding borrowings on our line of credit.

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 corporate bonds, commercial paper, municipal bonds, and U.S. government and agency securities. The marketable securities portfolio as of November 1, 2014, consisted of \$92.6 million of securities with maturity dates within one year or less and \$31.4 million with maturity dates over one year and less than or equal to two years. We consider all marketable 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 condensed consolidated balance sheets as they are available to support current operational liquidity needs. As of November 1, 2014, an increase of 100 basis points in interest rates would reduce the fair value of our marketable securities portfolio by approximately \$0.9 million. Conversely, a reduction of 100 basis points in interest rates would increase the fair value of our marketable securities portfolio by approximately \$0.3 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.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued an updated version of its Internal Control – Integrated Framework, referred to as the 2013 COSO Framework and has indicated that after December 15, 2014, the 1992 Framework will be considered superseded. We expect that management's assessment of the overall effectiveness of our internal controls over financial reporting for the year ending January 31, 2015 will be based on the 2013 COSO Framework and that the change will not be significant to our overall control structure over financial reporting.



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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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. 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 1, 2014, 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.

The Company was named as a defendant in a putative class action filed in February 2014 in the Superior Court of the State of California for the County of Sacramento: Toni Delfierro, et al, v. White House Black Market, Inc. The Complaint alleges numerous violations of California law related to wages, meal periods, rest periods, wage statements, and failure to reimburse business expenses, among other things. The Company denies the material allegations of the Complaint and believes that its policies and procedures for paying its associates comply with all applicable California laws. In mid-October, the Company and the plaintiffs agreed to settle this matter. The settlement is subject to the review and approval of the Court, which is not expected to occur until approximately mid-fiscal 2015. If approved by the Court, the settlement amount will not have a material adverse effect on the Company's consolidated financial condition or results of operations.

Other than as noted above, 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 2013 Annual Report on Form 10-K filed with the SEC on March 14, 2014 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 2013 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.

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## 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 (amounts in thousands, except share and per share amounts):

| Period                             | Total<br>Number of<br>Shares<br>Purchased (a) | Average Price<br>Paid per Share | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans (b) | Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased Under<br>the Publicly<br>Announced Plans |
|------------------------------------|-----------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| August 3, 2014 - August 30, 2014   | 55,177                                        | \$ 15.43                        | —                                                                                          | \$290,000                                                                                                      |
| August 31, 2014 - October 4, 2014  | 4,799                                         | \$ 15.03                        | —                                                                                          | \$290,000                                                                                                      |
| October 5, 2014 - November 1, 2014 | 8,559                                         | \$ 15.08                        | —                                                                                          | \$290,000                                                                                                      |
| Total                              | 68,535                                        | \$ 15.36                        | —                                                                                          | \$290,000                                                                                                      |

(a) Represents 68,535 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 December 2013, we announced a \$300 million share repurchase plan. There was approximately \$290 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.

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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                                                                                            |

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SIGNATURES

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

CHICO'S FAS, INC.

Date: November 26, 2014

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

Date: November 26, 2014

By: /s/ Todd E. Vogensen  
Todd E. Vogensen  
Senior Vice President,  
Chief Financial Officer

Date: November 26, 2014

By: /s/ David M. Oliver  
David M. Oliver  
Vice President-Finance, Controller,  
and  
Chief Accounting Officer