

CHICOS FAS INC  
Form 10-Q  
December 07, 2009

**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:  
October 31, 2009

Commission File Number:  
001-16435

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

Florida  
(State of Incorporation)

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

11215 Metro Parkway, Fort Myers, Florida 33966  
(Address of principal executive offices)  
239-277-6200

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition 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  Smaller reporting company

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

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

At November 25, 2009, there were 177,981,872 shares outstanding of Common Stock, \$.01 par value per share.

Chico s FAS, Inc.  
Index

**PART I Financial Information**

|                |  |    |
|----------------|--|----|
| <i>Item 1.</i> | <i>Financial Statements (Unaudited):</i>   |    |
|                | <u>Consolidated Statements of Income for the Thirty- Nine and Thirteen Weeks Ended October 31, 2009 and November 1, 2008</u> | 3  |
|                | <u>Consolidated Balance Sheets October 31, 2009, January 31, 2009 and November 1, 2008</u>                                   | 4  |
|                | <u>Consolidated Statements of Cash Flows for the Thirty-Nine Weeks Ended October 31, 2009 and November 1, 2008</u>           | 5  |
|                | <u>Notes to Consolidated Financial Statements</u>  | 6  |
| <i>Item 2.</i> | <i>Management s Discussion and Analysis of Financial Condition and Results of Operations</i>                                 | 14 |
| <i>Item 3.</i> | <i>Quantitative and Qualitative Disclosures About Market Risk</i>  | 25 |
| <i>Item 4.</i> | <i>Controls and Procedures</i>   | 25 |

**PART II Other Information**

|                   |  |    |
|-------------------|--|----|
| <i>Item 1.</i>    | <i>Legal Proceedings</i>   | 26 |
| <i>Item 1A.</i>   | <i>Risk Factors</i>  | 26 |
| <i>Item 2.</i>    | <i>Unregistered Sales of Equity Securities and Use of Proceeds</i> | 27 |
| <i>Item 6.</i>    | <i>Exhibits</i>  | 27 |
| <u>Signatures</u> |  | 28 |
| <u>EX-31.1</u>    |  |    |
| <u>EX-31.2</u>    |  |    |
| <u>EX-32.1</u>    |  |    |
| <u>EX-32.2</u>    |  |    |

**Table of Contents**

Chico's FAS, Inc. and Subsidiaries  
Consolidated Statements of Income  
(Unaudited)

(In thousands, except per share amounts)

|  | <b>Thirty-Nine Weeks Ended</b> |                   |                         |                   | <b>Thirteen Weeks Ended</b> |                   |                         |                   |
|--|--------------------------------|-------------------|-------------------------|-------------------|-----------------------------|-------------------|-------------------------|-------------------|
|  | <b>October 31, 2009</b>        |                   | <b>November 1, 2008</b> |                   | <b>October 31, 2009</b>     |                   | <b>November 1, 2008</b> |                   |
|  | <b>Amount</b>                  | <b>% of Sales</b> | <b>Amount</b>           | <b>% of Sales</b> | <b>Amount</b>               | <b>% of Sales</b> | <b>Amount</b>           | <b>% of Sales</b> |
| Net sales by Chico's/Soma stores                           | \$ 853,374                     | <b>66.8</b>       | \$ 832,052              | <b>68.8</b>       | \$ 300,957                  | <b>67.3</b>       | \$ 269,079              | <b>68.2</b>       |
| Net sales by White House   Black Market stores             | 357,319                        | <b>28.0</b>       | 328,696                 | <b>27.2</b>       | 121,408                     | <b>27.2</b>       | 106,751                 | <b>27.1</b>       |
| Net sales by Direct-to-Consumer                            | 66,727                         | <b>5.2</b>        | 48,278                  | <b>4.0</b>        | 24,498                      | <b>5.5</b>        | 18,413                  | <b>4.7</b>        |
| <b>Net sales</b>   | <b>1,277,420</b>               | <b>100.0</b>      | <b>1,209,026</b>        | <b>100.0</b>      | <b>446,863</b>              | <b>100.0</b>      | <b>394,243</b>          | <b>100.0</b>      |
| Cost of goods sold   | 555,713                        | <b>43.5</b>       | 555,490                 | <b>45.9</b>       | 189,585                     | <b>42.4</b>       | 182,870                 | <b>46.4</b>       |
| <b>Gross margin</b>  | <b>721,707</b>                 | <b>56.5</b>       | <b>653,536</b>          | <b>54.1</b>       | <b>257,278</b>              | <b>57.6</b>       | <b>211,373</b>          | <b>53.6</b>       |
| <b>Selling, general and administrative expenses:</b>       |                                |                   |                         |                   |                             |                   |                         |                   |
| Store operating expenses                                   | 482,481                        | <b>37.8</b>       | 485,436                 | <b>40.2</b>       | 165,106                     | <b>37.0</b>       | 164,494                 | <b>41.7</b>       |
| Marketing  | 58,976                         | <b>4.6</b>        | 61,673                  | <b>5.1</b>        | 24,974                      | <b>5.6</b>        | 22,043                  | <b>5.6</b>        |
| National Store Support Center                              | 85,123                         | <b>6.7</b>        | 83,553                  | <b>6.9</b>        | 30,887                      | <b>6.9</b>        | 26,535                  | <b>6.7</b>        |
| Impairment charges   | 13,026                         | <b>1.0</b>        |                         |                   |                             |                   |                         |                   |
| <b>Total selling, general, and administrative expenses</b> | <b>639,606</b>                 | <b>50.1</b>       | <b>630,662</b>          | <b>52.2</b>       | <b>220,967</b>              | <b>49.5</b>       | <b>213,072</b>          | <b>54.0</b>       |
| <b>Income (loss) from operations</b>                       | <b>82,101</b>                  | <b>6.4</b>        | <b>22,874</b>           | <b>1.9</b>        | <b>36,311</b>               | <b>8.1</b>        | <b>(1,699)</b>          | <b>(0.4)</b>      |
| Interest income, net                                       | 1,337                          | <b>0.1</b>        | 6,433                   | <b>0.5</b>        | 334                         | <b>0.1</b>        | 2,394                   | <b>0.6</b>        |
| <b>Income before income taxes</b>                          | <b>83,438</b>                  | <b>6.5</b>        | <b>29,307</b>           | <b>2.4</b>        | <b>36,645</b>               | <b>8.2</b>        | <b>695</b>              | <b>0.2</b>        |
| Income tax provision (benefit)                             | 31,300                         | <b>2.4</b>        | 7,900                   | <b>0.6</b>        | 13,900                      | <b>3.1</b>        | (1,300)                 | <b>(0.3)</b>      |
| <b>Net income</b>  | <b>\$ 52,138</b>               | <b>4.1</b>        | <b>\$ 21,407</b>        | <b>1.8</b>        | <b>\$ 22,745</b>            | <b>5.1</b>        | <b>\$ 1,995</b>         | <b>0.5</b>        |

**Per share data:**

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Net income per<br>common share-basic  | \$ 0.29 | \$ 0.12 | \$ 0.13 | \$ 0.01 |
| Net income per<br>common & common<br>equivalent<br>share diluted                | \$ 0.29 | \$ 0.12 | \$ 0.13 | \$ 0.01 |
| Weighted average<br>common shares<br>outstanding basic                          | 177,348 | 176,452 | 177,662 | 176,517 |
| Weighted average<br>common & common<br>equivalent shares<br>outstanding diluted | 178,516 | 176,599 | 179,251 | 176,604 |

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

**Table of Contents**

Chico s FAS, Inc. and Subsidiaries  
Consolidated Balance Sheets  
(In thousands)

|  | <b>October 31,<br/>2009<br/>(Unaudited)</b> | <b>January 31,<br/>2009</b> | <b>November<br/>1,<br/>2008<br/>(Unaudited)</b> |
|--|---|-----------------------------|---|
| <b>ASSETS</b>                                  |   |                             |   |
| <b>Current Assets:</b>                         |   |                             |   |
| Cash and cash equivalents                      | \$ 60,985                                   | \$ 26,549                   | \$ 50,233                                       |
| Marketable securities, at market               | 362,322                                     | 242,153                     | 206,105   |
| Receivables                                    | 5,845                                       | 33,993                      | 38,287  |
| Income tax receivable                          | 728   | 11,706                      |   |
| Inventories                                    | 160,030                                     | 132,413                     | 187,271   |
| Prepaid expenses                               | 24,152                                      | 21,702                      | 24,063  |
| Deferred taxes                                 | 7,524                                       | 17,859                      | 19,131  |
| <b>Total Current Assets</b>                    | <b>621,586</b>                              | <b>486,375</b>              | <b>525,090</b>                                  |
| <b>Property and Equipment:</b>                 |   |                             |   |
| Land and land improvements                     | 20,311                                      | 18,627                      | 18,225  |
| Building and building improvements             | 84,062                                      | 74,998                      | 74,542  |
| Equipment, furniture and fixtures              | 395,225                                     | 376,218                     | 381,812   |
| Leasehold improvements                         | 416,003                                     | 418,691                     | 428,755   |
| <b>Total Property and Equipment</b>            | <b>915,601</b>                              | <b>888,534</b>              | <b>903,334</b>                                  |
| Less accumulated depreciation and amortization | (386,999)                                   | (327,989)                   | (319,083)                                       |
| <b>Property and Equipment, Net</b>             | <b>528,602</b>                              | <b>560,545</b>              | <b>584,251</b>                                  |
| <b>Other Assets:</b>                           |   |                             |   |
| Goodwill                                       | 96,774                                      | 96,774                      | 96,774  |
| Other intangible assets                        | 38,930                                      | 38,930                      | 38,930  |
| Deferred taxes                                 | 39,398                                      | 38,458                      | 29,406  |
| Other assets, net                              | 27,323                                      | 5,101                       | 9,368   |
| <b>Total Other Assets</b>                      | <b>202,425</b>                              | <b>179,263</b>              | <b>174,478</b>                                  |
|  | <b>\$ 1,352,613</b>                         | <b>\$ 1,226,183</b>         | <b>\$ 1,283,819</b>                             |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>     |   |                             |   |
| <b>Current Liabilities:</b>                    |   |                             |   |
| Accounts payable                               | \$ 97,238                                   | \$ 56,542                   | \$ 81,948                                       |
| Accrued liabilities                            | 123,069                                     | 88,446                      | 83,883  |
| Current portion of deferred liabilities        | 2,236                                       | 1,748                       | 1,528   |
| <b>Total Current Liabilities</b>               | <b>222,543</b>                              | <b>146,736</b>              | <b>167,359</b>                                  |

**Noncurrent Liabilities:**

|                      |         |         |         |
|----------------------|---------|---------|---------|
| Deferred liabilities | 167,819 | 177,251 | 174,307 |
|----------------------|---------|---------|---------|

**Stockholders Equity:**

|  |         |         |         |
|--|---------|---------|---------|
| Common stock                           | 1,779   | 1,771   | 1,765   |
| Additional paid-in capital             | 266,112 | 258,312 | 257,854 |
| Retained earnings                      | 694,116 | 641,978 | 682,522 |
| Other accumulated comprehensive income | 244     | 135     | 12      |

|   |         |         |         |
|---|---------|---------|---------|
| <b><i>Total Stockholders Equity</i></b> | 962,251 | 902,196 | 942,153 |
|---|---------|---------|---------|

|  |              |             |              |
|--|--------------|-------------|--------------|
|  | \$ 1,352,613 | \$1,226,183 | \$ 1,283,819 |
|--|--------------|-------------|--------------|

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

**Table of Contents**

Chico's FAS, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(Unaudited)  
(In thousands)

|  | <b>Thirty-Nine Weeks Ended<br/>October<br/>31,<br/>2009</b> | <b>November<br/>1,<br/>2008</b> |
|--|---|---------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                     |   |                                 |
| Net income   | \$ 52,138   | \$ 21,407                       |
| Adjustments to reconcile net income to net cash provided by operating activities |   |                                 |
| Depreciation and amortization, cost of goods sold                                | 5,770   | 7,122                           |
| Depreciation and amortization, other   | 66,637  | 68,190                          |
| Deferred tax expense (benefit)   | 9,394   | (12,728)                        |
| Stock-based compensation expense, cost of goods sold                             | 1,994   | 2,612                           |
| Stock-based compensation expense, other  | 4,549   | 6,822                           |
| Excess tax benefit from stock-based compensation                                 | (1,473)   | (100)                           |
| Impairment charges   | 13,026  |                                 |
| Deferred rent expense, net   | 1,963   | 5,423                           |
| Loss on disposal of property and equipment                                       | 1,361   | 711                             |
| Decrease (increase) in assets  |   |                                 |
| Receivables, net   | 2,314   | (528)                           |
| Income tax receivable  | 10,978  | 23,973                          |
| Inventories  | (27,617)  | (43,010)                        |
| Prepaid expenses and other   | (2,671)   | (3,035)                         |
| Increase (decrease) in liabilities   |   |                                 |
| Accounts payable   | 40,696  | (6,186)                         |
| Accrued and other deferred liabilities   | 21,200  | 3,492                           |
| Total adjustments  | 148,121   | 52,758                          |
| Net cash provided by operating activities  | 200,259   | 74,165                          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                     |   |                                 |
| (Purchases) sales of marketable securities, net                                  | (120,061)   | 54,376                          |
| Purchases of property and equipment  | (51,016)  | (92,320)                        |
| Net cash used in investing activities  | (171,077)   | (37,944)                        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                     |   |                                 |
| Proceeds from issuance of common stock   | 3,960   | 307                             |
| Excess tax benefit from stock-based compensation                                 | 1,473   | 100                             |
| Repurchase of common stock   | (179)   | (196)                           |
| Net cash provided by financing activities  | 5,254   | 211                             |



|  |           |           |
|--|-----------|-----------|
| Net increase in cash and cash equivalents              | 34,436    | 36,432    |
| <b>CASH AND CASH EQUIVALENTS</b> , Beginning of period | 26,549    | 13,801    |
| <b>CASH AND CASH EQUIVALENTS</b> , End of period       | \$ 60,985 | \$ 50,233 |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

|                                 |           |           |
|---------------------------------|-----------|-----------|
| Cash paid for interest          | \$ 230    | \$ 39     |
| Cash paid for income taxes, net | \$ 19,242 | \$ 14,556 |

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

**Table of Contents**

Chico s FAS, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
October 31, 2009  
(Unaudited)

(in thousands, except share and per share amounts)

**Note 1. Basis of Presentation**

The accompanying unaudited 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 generally accepted accounting principles 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 financial position and 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 January 31, 2009, included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ) on March 27, 2009. The January 31, 2009 balance sheet amounts were derived from audited financial statements included in the Company s Annual Report.

The Company s fiscal year ends on the Saturday closest to January 31 and is designated by the calendar year in which the fiscal year commences. Operating results for the thirty-nine weeks ended October 31, 2009 are not necessarily indicative of the results that may be expected for the entire year.

In the third quarter of fiscal 2009, the Company adopted the Financial Accounting Standards Board s ( FASB ) Accounting Standards Codification ( ASC ) as the source of authoritative U.S. GAAP for nongovernmental entities. The ASC does not change GAAP but rather takes the numerous individual pronouncements that previously constituted GAAP and reorganizes them into approximately 90 accounting topics, and displays all topics using a consistent structure. Citing particular content in the ASC involves specifying the unique numeric path to the content. The adoption of ASC did not have any effect on the Company s consolidated results of operations, financial position or cash flows.

On August 1, 2009, the Company adopted new guidance under the Subsequent Events topic of the ASC. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In accordance with this guidance, the Company has evaluated subsequent events through the date and time the financial statements were issued on December 7, 2009 and concluded that no subsequent events have occurred that would require additional disclosure in the notes to the financial statements.

**Note 2. Impairment Charges**

*Long-Lived Assets*

During the first quarter of fiscal 2009, the Company incurred non-cash impairment charges totaling approximately \$8.1 million which are included in the Company s consolidated statements of income within selling, general and administrative expenses. The impairment was related to the write-off of development costs for software applications that reflected the Company s decision to deploy alternative inventory planning and allocation software.

**Table of Contents**

Chico's FAS, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
October 31, 2009  
(Unaudited)

(in thousands, except share and per share amounts)

**Note 2. Impairment Charges (continued)**

During the second quarter of fiscal 2009, the Company completed an evaluation of long-lived assets at certain underperforming stores for indicators of impairment and, as a result, determined that the carrying values of certain assets exceeded their future undiscounted cash flows. Under the accounting guidance regarding long-lived assets, in circumstances where future undiscounted cash flows expected to be generated by an asset are less than its carrying amount, the asset is determined to be impaired, and a loss is recorded for the amount by which the carrying value of the asset exceeds its fair value. With respect to the assets identified, the Company determined their fair value of these assets by discounting their future cash flows using a rate approximating the Company's cost of capital, which resulted in an impairment charge being recorded in the second quarter of approximately \$1.1 million.

*Note Receivable*

During fiscal 2007, the Company consummated a transaction under which it sold a parcel of land for a sales price totaling \$39.7 million consisting of approximately \$13.4 million in cash proceeds, net of closing costs, and a note receivable with a principal amount of approximately \$25.8 million due on August 1, 2009 which was secured by a purchase money mortgage. During the second quarter of fiscal 2009, the Company determined, based on an independent evaluation of the fair value of the underlying collateral and coupled with the debtor's apparent inability to pay the note in full, that the note receivable was impaired. As a result, the Company recorded a non-cash impairment charge of approximately \$3.8 million, which was determined based on the difference between the book value of the note and the independent evaluation of the fair value of the land. The amount of this impairment charge was included in the Company's second quarter consolidated statements of income within selling, general and administrative expenses. Additionally, upon determining the note was impaired, the Company ceased recognizing any further interest income and also reversed the then year-to-date interest income of approximately \$0.8 million. As of October 31, 2009, the balance of the note, totaling approximately \$22.0 million, is classified within other assets in the Company's consolidated balance sheets.

**Note 3. Restructuring Charges**

During the fourth quarter of fiscal 2008, in an effort to reduce costs and enhance efficiencies, the Company announced a workforce reduction that included the elimination of approximately 180 positions, or approximately 11% of the National Store Support Center's employee base. In addition, the Company incurred charges related to the separation agreement with its former Chief Executive Officer. In connection with these actions, the Company recorded approximately \$10.0 million of personnel separation costs. The following table reflects the change, during the first nine months of fiscal 2009, in the severance and workforce reduction amounts remaining to be paid (amounts in thousands):

|   | <b>Thirty-nine weeks ended October 31, 2009</b> |                |                 | <b>Ending<br/>balance</b> |
|---|---|----------------|-----------------|---------------------------|
|   | <b>Beginning<br/>balance</b>                    | <b>Charges</b> | <b>Payments</b> |                           |
| Severance and workforce reduction liability | \$8,698   | \$             | \$(8,271)       | \$ 427                    |

**Table of Contents**

Chico s FAS, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
October 31, 2009  
(Unaudited)

(in thousands, except share and per share amounts)

**Note 4. Income Taxes**

The unrecognized tax benefits were \$10.1 million and \$10.6 million at October 31, 2009 and January 31, 2009, respectively. There have been no significant changes to the balance of unrecognized tax benefits reported at January 31, 2009. As of October 31, 2009, the Company does not believe that its estimates, as otherwise provided for on such tax positions, will significantly increase or decrease within the next twelve months. The Company is currently subject to income tax examinations being conducted by various states, but does not expect the resolution of these examinations will have a material impact on its financial position, results of operations, or liquidity.

**Note 5. Stock-Based Compensation**

*General*

In accordance with accounting guidance pertaining to stock compensation, the Company recorded share-based compensation expense during the thirteen and thirty-nine weeks ended October 31, 2009. Stock-compensation expense consists of compensation for all share-based awards granted subsequent to January 29, 2006, and is based on the grant date estimated fair value. During the thirteen and thirty-nine weeks ended November 1, 2008, stock-based compensation expense for share-based awards recognized included: (a) the applicable portion of compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of, January 29, 2006, and (b) the applicable portion of compensation expense for all stock-based compensation awards granted subsequent to January 29, 2006, based on the grant date fair value estimated in accordance with the accounting guidance.

*Methodology Assumptions*

The Company uses the Black-Scholes option-pricing model to value the Company s stock options. Using this option-pricing model, the fair value of each stock option award is estimated on the date of grant. The fair value of the Company s stock option awards, which are subject to pro-rata vesting generally over 3 years, is expensed on a straight-line basis over the vesting period of the stock options. The expected volatility assumption inherent in the pricing model is based on the historical volatility of the Company s stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company s stock option plans and represents the period of time that stock option awards granted are expected to be outstanding. The expected term assumption incorporates the contractual term of an option grant, which is generally ten years, as well as the vesting period of an award, which is generally pro-rata vesting over 3 years. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted.

**Table of Contents**

Chico s FAS, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
October 31, 2009  
(Unaudited)

(in thousands, except share and per share amounts)

**Note 5. Stock-Based Compensation (continued)**

The weighted average assumptions relating to the valuation of the Company s stock options for the thirty-nine and thirteen weeks ended October 31, 2009 and November 1, 2008 were as follows:

|                                       | <b>Thirty-Nine Weeks Ended</b> |                             | <b>Thirteen Weeks Ended</b> |                             |
|---------------------------------------|--------------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                       | <b>October<br/>31, 2009</b>    | <b>November 1,<br/>2008</b> | <b>October<br/>31, 2009</b> | <b>November 1,<br/>2008</b> |
| Weighted average fair value of grants | \$2.50                         | \$ 2.99                     | \$7.14                      | \$ 2.46                     |
| Expected volatility                   | 62%                            | 46%                         | 66%                         | 50%                         |
| Expected term (years)                 | 4.5                            | 4.5                         | 4.5                         | 4.5                         |
| Risk-free interest rate               | 1.8%                           | 2.4%                        | 2.2%                        | 2.9%                        |
| Expected dividend yield               | N/A                            | N/A                         | N/A                         | N/A                         |

*Performance Shares*

During the first quarter of fiscal 2009, the Company granted David F. Dyer, President and Chief Executive Officer of the Company, a performance award grant under which Mr. Dyer is eligible to receive from 0 to 133,333 shares, with a target of 100,000 shares, contingent upon the achievement of certain Company-specific performance goals over the one-year period ending January 30, 2010. Any shares earned as a result of the achievement of such goals will vest 3 years from the date of grant. The Company is accounting for the grant by recording compensation expense, based on the number of shares ultimately expected to vest and recognized on a straight-line basis over the 3-year service period. The Company reevaluates the amount of compensation expected to be earned at the end of each reporting period and records an adjustment, if necessary.

*Stock-Based Compensation Activity*

As of October 31, 2009, 6,668,963 nonqualified options are outstanding at a weighted average exercise price of \$12.59 per share, and 8,618,644 shares remain available for future grants of either stock options, restricted stock, restricted stock units, stock appreciation rights (SARs) or performance shares.

The following table presents a summary of the Company s stock option activity for the thirty-nine weeks ended October 31, 2009:

|                                  | <b>Number of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
|----------------------------------|-----------------------------|--|
| Outstanding, beginning of period | 7,763,161                   | \$ 14.10   |
| Granted                          | 993,000                     | 5.74   |
| Exercised                        | (574,880)                   | 6.19   |
| Canceled or expired              | (1,512,318)                 | 18.27  |
| Outstanding, end of period       | 6,668,963                   | 12.59  |
| Exercisable at October 31, 2009  | 3,201,536                   | 20.71  |

**Table of Contents**

Chico's FAS, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
October 31, 2009  
(Unaudited)

(in thousands, except share and per share amounts)

**Note 5. Stock-Based Compensation (continued)**

The following table presents a summary of the Company's restricted stock activity for the thirty-nine weeks ended October 31, 2009:

|                                | Number of<br>Shares | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value |
|--------------------------------|---------------------|---|
| Nonvested, beginning of period | 1,112,004           | \$ 6.31   |
| Granted                        | 178,146             | 7.16  |
| Vested                         | (190,205)           | 12.31   |
| Canceled                       | (113,671)           | 5.46  |
| Nonvested, end of period       | 986,274             | 5.40  |

For the thirty-nine and thirteen weeks ended October 31, 2009 and November 1, 2008, respectively, stock-based compensation expense was recorded as follows (in thousands):

|  | Thirty-Nine Weeks Ended |                     | Thirteen Weeks Ended |                     |
|--|-------------------------|---------------------|----------------------|---------------------|
|  | October<br>31, 2009     | November 1,<br>2008 | October<br>31, 2009  | November 1,<br>2008 |
| Cost of goods sold   | \$ 1,994                | \$ 2,612            | \$ 559               | \$ 806              |
| Selling, general and administrative expenses                 | 4,549                   | 6,822               | 1,807                | 2,260               |
| Stock-based compensation expense before<br>income taxes      | \$ 6,543                | \$ 9,434            | \$ 2,366             | \$ 3,066            |
| Income tax benefit   | 2,511                   | 2,835               | 900                  | 821                 |
| Total stock-based compensation expense<br>after income taxes | \$ 4,032                | \$ 6,599            | \$ 1,466             | \$ 2,245            |

**Note 6. Net Income Per Share**

Basic Earnings Per Share (EPS) is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted EPS reflects the dilutive effect of potential common shares from securities such as stock options and performance awards.

In June 2008, new accounting guidance was issued on determining whether share-based awards are participating securities. In accordance with this 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 the Company, participating securities are comprised of unvested restricted stock awards. These participating securities, prior to the application of this guidance, were excluded from weighted average common shares outstanding in the

calculation of basic earnings per share.

**Table of Contents**

Chico s FAS, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
October 31, 2009  
(Unaudited)

(in thousands, except share and per share amounts)

**Note 6. Net Income Per Share (continued)**

In accordance with the new provisions, the basic and diluted earnings per share amounts have been retroactively adjusted for all periods presented to include outstanding unvested restricted stock in the calculation of basic weighted average shares outstanding.

The following is a reconciliation of the denominators of the basic and diluted EPS computations shown on the face of the accompanying consolidated statements of income:

|  | <b>Thirty-Nine Weeks Ended</b> |                    | <b>Thirteen Weeks Ended</b> |                 |
|--|--------------------------------|--------------------|-----------------------------|-----------------|
|  | <b>October 31,</b>             | <b>November 1,</b> | <b>October 31,</b>          | <b>November</b> |
|  | <b>2009</b>                    | <b>2008</b>        | <b>2009</b>                 | <b>1,2008</b>   |
| Weighted average common shares outstanding basic                         | 177,348,442                    | 176,452,164        | 177,661,902                 | 176,516,557     |
| Dilutive effect of stock options and performance shares outstanding      | 1,167,520                      | 146,795            | 1,589,267                   | 86,962          |
| Weighted average common and common equivalent shares outstanding diluted | 178,515,962                    | 176,598,959        | 179,251,169                 | 176,603,519     |

For the three and nine month periods ended October 31, 2009, 2,629,786 and 3,532,428 potential shares of common stock, respectively, were excluded from the computation of diluted EPS relating to stock option awards because the effect of including these potential shares was antidilutive.

For the three and nine month periods ended November 1, 2008, 5,600,498 and 5,476,417 potential shares of common stock, respectively, were excluded from the computation of diluted EPS relating to stock option awards because the effect of including these potential shares was antidilutive.

**Note 7. Fair Value Measurements**

The Company s financial instruments consist of cash and cash equivalents, marketable securities, trade receivables and payables. The carrying values of cash and cash equivalents, marketable securities, trade receivables and trade payables approximate current fair value due to the short-term nature of the instruments.

Marketable securities are classified as available-for-sale and generally consist of variable rate demand notes, which are considered highly liquid, variable rate municipal debt securities, municipal bonds and U.S treasury securities. Although the variable rate demand notes, totaling \$251.8 million, have long-term nominal maturity dates ranging from 2011 to 2048, the interest rates are reset either daily or every 7 days. Despite the long-term nature of the underlying securities of the variable rate demand notes, the Company has the ability to quickly liquidate these securities. The remainder of the portfolio, as of October 31, 2009 consisted of \$86.7 million of securities with maturity dates less than one year and \$23.8 million with maturity dates over one year and less than or equal to two years.



**Table of Contents**

Chico's FAS, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
October 31, 2009  
(Unaudited)

(in thousands, except share and per share amounts)

**Note 7. Fair Value Measurements (continued)**

The Company considers all available-for-sale securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and therefore classifies these securities as short-term investments within current assets on the consolidated balance sheet. Marketable securities are carried at market value, with the unrealized holding gains and losses, net of income taxes, reflected as a separate component of stockholders equity until realized.

There were no securities in an unrealized loss position as of October 31, 2009. Furthermore, the Company determined that the difference between the amortized cost and fair value of these securities was not material.

Effective February 1, 2009, the Company adopted the provisions regarding fair value measurements, as it applies to financial and non-financial assets and liabilities. The new guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new guidance does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. 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. A three-level hierarchy was established, 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 a 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.

The Company measures certain financial assets at fair value on a recurring basis, including its marketable securities (which are classified as available-for-sale securities), certain cash equivalents, (specifically its money market accounts), assets held in the Company's deferred compensation plan and the Company's note receivable. The Company's money market accounts are valued based on quoted market prices in active markets. The types of instruments valued based on other observable inputs include variable rate demand notes and municipal bonds. The Company's investments in its non-qualified Deferred Compensation Plan are valued using quoted market prices and are included in other assets on the Company's consolidated balance sheets. The note receivable's value is based on the value of the underlying real estate collateral as determined by an independent third party using observable market data.

**Table of Contents**

Chico s FAS, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
October 31, 2009  
(Unaudited)

(in thousands, except share and per share amounts)

**Note 7. Fair Value Measurements (continued)**

In addition, the Company measures certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment. As discussed in Note 2, the Company estimated the fair value of certain long-lived assets using Company-specific assumptions which would fall within Level 3 of the fair value hierarchy.

The Company categorized these financial assets based on the priority of the inputs to the valuation technique for the instruments, as follows (amounts in thousands):

|                                   | <b>As of October 31, 2009</b> |                  |                   | <b>Level<br/>3</b> |
|-----------------------------------|-------------------------------|------------------|-------------------|--------------------|
|                                   | <b>Total</b>                  | <b>Level 1</b>   | <b>Level 2</b>    |                    |
| <b>Current Assets</b>             |                               |                  |                   |                    |
| Cash equivalents                  | \$ 11,782                     | \$ 11,782        | \$                | \$                 |
| Marketable securities             | 362,322                       | 10,489           | 351,833           |                    |
| <b>Non Current Assets</b>         |                               |                  |                   |                    |
| Note receivable                   | 22,000                        |                  | 22,000            |                    |
| Deferred compensation plan assets | 4,044                         |                  | 4,044             |                    |
| <b>Total</b>                      | <b>\$ 400,148</b>             | <b>\$ 22,271</b> | <b>\$ 377,877</b> | <b>\$</b>          |

**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 consolidated financial statements and notes thereto and the Company's 2008 Annual Report to Stockholders.

**Executive Overview**

The Company is a specialty retailer of private branded, sophisticated, casual-to-dressy clothing, intimates, complementary accessories, and other non-clothing gift items operating under the Chico's, White House | Black Market ( WHIBM ), and Soma Intimates ( Soma ) brand names. The Company earns revenues and generates cash through the sale of merchandise in its retail stores and on its various websites and through its call centers.

For the third quarter of fiscal 2009 ended October 31, 2009 (the third quarter ), net sales increased from \$394.2 million to \$446.9 million and consolidated comparable store sales (sales from stores open for at least twelve full months, including stores that have been expanded or relocated within the same general market) increased 12.8% compared to the 13.4% decrease for the like period last year ended November 1, 2008. The Chico's brand's comparable store sales, which include the Soma brand, increased approximately 12.2% while the WHIBM brand's comparable store sales increased approximately 14.4%. In the third quarter the Company recorded net income of \$22.7 million or \$0.13 per diluted share, compared to net income of \$2.0 million, or \$0.01 per diluted share for the like period last year.

For the nine months ended October 31, 2009, the Company had net income of \$52.1 million or \$0.29 per diluted share, compared to net income of \$21.4 million, or \$0.12 per diluted share in the first nine months of the prior fiscal year. The results for the year-to-date period included non-cash impairment charges, which consist of \$8.1 million related to the write-off of development costs for software applications, \$3.8 million related to the impaired portion of a note receivable and \$1.1 million related to the write-down of assets at certain underperforming stores.

Direct-to-consumer sales increased 33% in the third quarter over the prior year's third quarter and over 38% for the year-to-date period this year compared to last year's comparable period.

During the third quarter, the Company successfully executed its key strategies which resulted in continued improvement in the financial results at the Chico's and WHIBM brands, despite the perceived challenging sales environment. The Company also continued to invest in and expand upon its direct-to-consumer channel, with encouraging year-to-date results. Lastly, the success of on-going savings initiatives throughout the Company has contributed to a significant decrease in the selling, general and administrative expenses, as a percentage of sales.

The Company believes that the successful performance of the Chico's brand is primarily a result of improved merchandise offerings, an effective print and television marketing campaign in the third quarter, and the Company's renewed focus on providing its customers with amazing customer service. As a result, the brand continued to experience improvement in its comparable store sales during the third quarter and will continue to execute its strategies with an eye toward continuing this trend through the end of the year. Positive momentum continued at the WHIBM brand during the third quarter, resulting in positive comparable store sales for the third consecutive quarter.

**Table of Contents**

The Company's balance sheet as of October 31, 2009 includes \$423.3 million in cash and marketable securities, which reflects a near \$167 million increase from a year ago. The Company believes its financial position increases its flexibility and reinforces its ability to successfully execute its strategies in a slowly recovering economic environment.

**Results of Operations – Thirteen Weeks Ended October 31, 2009 Compared to the Thirteen Weeks Ended November 1, 2008.*****Net Sales***

The following table shows net sales by Chico's/Soma stores, net sales by WHIBM stores, and net sales by the direct-to-consumer channel in dollars and as a percentage of total net sales for the thirteen weeks ended October 31, 2009 (the current period) and November 1, 2008 (the prior period) (dollar amounts in thousands):

|                                  | <b>Thirteen Weeks Ended</b> |        |                         |        |
|----------------------------------|-----------------------------|--------|-------------------------|--------|
|                                  | <b>October 31, 2009</b>     |        | <b>November 1, 2008</b> |        |
| Net sales by Chico's/Soma stores | \$ 300,957                  | 67.3%  | \$ 269,079              | 68.2%  |
| Net sales by WHIBM stores        | 121,408                     | 27.2   | 106,751                 | 27.1   |
| Net sales by Direct-to-Consumer  | 24,498                      | 5.5    | 18,413                  | 4.7    |
| Net sales                        | \$ 446,863                  | 100.0% | \$ 394,243              | 100.0% |

Net sales for all three brands increased in the current period from the prior period primarily due to increases in each brand's comparable store net sales.

The consolidated comparable store sales increase of 12.8% was driven primarily by an increase in the number of transactions at Chico's front-line stores and a 3.0% increase in the average unit retail price (the percentage change management believes to represent a reasonable approximation of the percentage change attributable to price changes, level of markdowns, changes in product mix, or a combination of the three). Comparable store sales results also benefited from an increase of 3.9% in the WHIBM average unit retail price and, to a lesser extent from increased transactions at WHIBM front-line stores. The Chico's brand comparable store sales, which include the Soma brand, increased by approximately 12.2% and the WHIBM brand's comparable store sales increased by approximately 14.4% from the comparable period last year.

Net sales for the direct-to-consumer channel for all the Company's brands increased \$6.1 million, or 33.0%, in the third quarter compared to the like period last year. This increase is attributable to strong direct-to-consumer sales for the Chico's and WHIBM brands, which the Company believes is a direct result of its increased focus on this previously underinvested channel.

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

The following table shows cost of goods sold and gross margin in dollars and the related gross margin percentages for the thirteen weeks ended October 31, 2009 and November 1, 2008 (dollar amounts in thousands):

|                         | <b>Thirteen Weeks Ended</b> |                         |
|-------------------------|-----------------------------|-------------------------|
|                         | <b>October 31, 2009</b>     | <b>November 1, 2008</b> |
| Cost of goods sold      | \$ 189,585                  | \$ 182,870              |
| Gross margin            | 257,278                     | 211,373                 |
| Gross margin percentage | 57.6%                       | 53.6%                   |

Gross margin as a percentage of sales for the current quarter was 57.6%, compared to 53.6% in the third quarter of fiscal 2008 resulting primarily from significant improvements in the brand margins at both Chico's and WHIBM. The increased margins benefited primarily from lower markdowns accompanied by higher initial markups for the Chico's/Soma and WHIBM brands. These increases in gross margin were partially offset by continued investment in the Company's merchandise payroll.

**Selling, General, and Administrative Expenses**

The following tables show store operating expenses, marketing, and National Store Support Center (NSSC) costs in dollars and as a percentage of total net sales for the thirteen weeks ended October 31, 2009 and November 1, 2008 (dollar amounts in thousands):

|                               | <b>Thirteen Weeks Ended</b> |                         |
|-------------------------------|-----------------------------|-------------------------|
|                               | <b>October 31, 2009</b>     | <b>November 1, 2008</b> |
| Store operating expenses      | \$ 165,106                  | \$ 164,494              |
| Percentage of total net sales | 37.0%                       | 41.7%                   |

Store operating expenses include all direct expenses, including such items as personnel, occupancy, depreciation and supplies, incurred to operate the Company's stores. In addition, store operating expenses include those costs necessary to support the operation of the Company's stores including district and regional management expenses and other store support functions. Expressed as a percentage of net sales, store operating expenses decreased by approximately 470 basis points compared to the prior period primarily as the result of leverage associated with improved comparable store sales as well as effective implementation of ongoing store-level cost reduction strategies such as those addressing payroll, supplies and shipping costs.

|                               | <b>Thirteen Weeks Ended</b> |                         |
|-------------------------------|-----------------------------|-------------------------|
|                               | <b>October 31, 2009</b>     | <b>November 1, 2008</b> |
| Marketing                     | \$ 24,974                   | \$ 22,043               |
| Percentage of total net sales | 5.6%                        | 5.6%                    |

**Table of Contents**

Marketing expenses include expenses related to the Company's national marketing programs such as direct marketing efforts (including direct mail and e-mail), national advertising expenses and related support costs. The increase in dollars in marketing expense was due to increases in print and broadcast advertisement associated with expanded national marketing campaigns for the Chico's and WHIBM brands designed to more effectively target purchasing during the fall and holiday shopping seasons. As a percentage of sales, marketing expenses were flat compared to last year due to leverage associated with increased comparable store sales.

|                               | <b>Thirteen Weeks Ended</b> |                             |
|-------------------------------|-----------------------------|-----------------------------|
|                               | <b>October 31,<br/>2009</b> | <b>November 1,<br/>2008</b> |
| National Store Support Center | \$30,887                    | \$ 26,535                   |
| Percentage of total net sales | 6.9%                        | 6.7%                        |

NSSC expenses consist of the corporate level support functions including executive management, human resources, management information systems and finance, among others. Expressed as a percentage of net sales, NSSC expenses increased in the current period by approximately 20 basis points compared to the prior period mainly due to approximately \$4.3 million of incremental performance-based compensation accruals offset by expense control efforts.

***Interest Income, net***

The following table shows interest income, net in dollars and as a percentage of total net sales for the thirteen weeks ended October 31, 2009 and November 1, 2008 (dollar amounts in thousands):

|                               | <b>Thirteen Weeks Ended</b>     |                             |
|-------------------------------|---------------------------------|-----------------------------|
|                               | <b>October<br/>31,<br/>2009</b> | <b>November 1,<br/>2008</b> |
| Interest income, net          | \$334                           | \$ 2,394                    |
| Percentage of total net sales | 0.1%                            | 0.6%                        |

Notwithstanding the significant increase in the marketable securities balances year-over-year, interest income decreased as a percentage of sales by approximately 50 basis points in the third quarter compared to the prior period primarily due to substantially lower interest rates.

***Provision (Benefit) for Income Taxes***

The income tax provision in the third quarter of fiscal 2009 was \$13.9 million compared to an income tax benefit of \$1.3 million in the third quarter of fiscal 2008. The increase in the current period effective tax rate was due primarily to an increase in pre-tax income, coupled with a reduction in the amount of income tax benefit recognized for tax-exempt interest income and from reduced charitable donations of inventory.

**Table of Contents****Results of Operations Thirty-Nine Weeks Ended October 31, 2009 Compared to the Thirty-Nine Weeks Ended November 1, 2008.****Net Sales**

The following table shows net sales by Chico s/Soma stores, net sales by WHIBM stores and net sales by the direct-to-consumer channel in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 31, 2009 (the current period ) and November 1, 2008 (the prior period ) (dollar amounts in thousands):

|                                  | <b>Thirty-Nine Weeks Ended</b> |        |                         |        |
|----------------------------------|--------------------------------|--------|-------------------------|--------|
|                                  | <b>October 31, 2009</b>        |        | <b>November 1, 2008</b> |        |
| Net sales by Chico s/Soma stores | \$ 853,374                     | 66.8%  | \$ 832,052              | 68.8%  |
| Net sales by WHIBM stores        | 357,319                        | 28.0   | 328,696                 | 27.2   |
| Net sales by Direct-to-Consumer  | 66,727                         | 5.2    | 48,278                  | 4.0    |
| Net sales                        | \$ 1,277,420                   | 100.0% | \$ 1,209,026            | 100.0% |

Net sales for all three brands increased in the current period from the prior period primarily due to increased comparable store sales, and to a lesser extent as a result of increased sales from new store openings.

The consolidated comparable store sales increase of 3.5% was driven primarily by a 5.0% increase in the Chico s average unit retail price, which was partially offset by a slight decrease in transactions at Chico s front-line stores. Comparable store sales results also benefited from an increase in both the number of units per transaction as well as total transactions at the WHIBM brand compared to the like period last year. The Chico s brand comparable store sales, which include the Soma brand, increased by approximately 2.0% and the WHIBM brand s comparable store sales increased by approximately 7.4% compared to the prior period.

Net sales for the direct-to-consumer channel for all three of the Company s brands, increased \$18.4 million, or 38.2% in the current period compared to the prior period. This increase is attributable to strong direct-to-consumer sales for the Chico s and WHIBM brands, which the Company believes is a direct result of its focus on this previously underinvested channel.

**Cost of Goods Sold/Gross Margin**

The following table shows cost of goods sold and gross margin in dollars and the related gross margin percentages for the thirty-nine weeks ended October 31, 2009 and November 1, 2008 (dollar amounts in thousands):

|                         | <b>Thirty-Nine Weeks Ended</b> |                         |
|-------------------------|--------------------------------|-------------------------|
|                         | <b>October 31, 2009</b>        | <b>November 1, 2008</b> |
| Cost of goods sold      | \$555,713                      | \$555,490               |
| Gross margin            | 721,707                        | 653,536                 |
| Gross margin percentage | 56.5%                          | 54.1%                   |

Gross margin as a percentage of sales for the current period was 56.5%, compared to 54.1% for the comparable prior year period, resulting primarily from (i) an improvement in the Chico s brand merchandise margin driven by lower markdowns and higher initial markups, (ii) improved merchandise margins at WHIBM due to higher initial markups and lower markdowns and, (iii) an improvement in merchandise margins at the Chico s outlet stores due to increased penetration of made for outlet product. These increases in gross margin were partially offset by the continued investment in the Company s merchandise payroll.

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

The following tables show store operating expenses, marketing, and NSSC costs in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 31, 2009 and November 1, 2008 (dollar amounts in thousands):

|                               | <b>Thirty-Nine Weeks Ended</b> |                             |
|-------------------------------|--------------------------------|-----------------------------|
|                               | <b>October 31,<br/>2009</b>    | <b>November 1,<br/>2008</b> |
| Store operating expenses      | \$482,481                      | \$ 485,436                  |
| Percentage of total net sales | 37.8%                          | 40.2%                       |

Store operating expenses include all direct expenses, including personnel, occupancy, depreciation and supplies, incurred to operate the Company's stores. In addition, store operating expenses include those costs necessary to support the operation of the Company's stores, including district and regional management expenses and other store support functions. Expressed as a percentage of net sales, store operating expenses in the current period decreased by approximately 240 basis points compared to the prior period primarily due to leverage associated with improved comparable store sales as well as effective implementation of on-going store-level cost reduction initiatives.

|                               | <b>Thirty-Nine Weeks Ended</b> |                             |
|-------------------------------|--------------------------------|-----------------------------|
|                               | <b>October 31,<br/>2009</b>    | <b>November 1,<br/>2008</b> |
| Marketing                     | \$58,976                       | \$ 61,673                   |
| Percentage of total net sales | 4.6%                           | 5.1%                        |

Marketing expenses include expenses related to the Company's national marketing programs such as direct marketing efforts (including direct mail and e-mail), national advertising expenses and related support costs. Marketing expenses decreased as a percentage of net sales by approximately 50 basis points due to leverage associated with improved comparable store sales and an overall decrease in print and mail advertising in the current period compared to the prior period.

|                               | <b>Thirty-Nine Weeks Ended</b> |                             |
|-------------------------------|--------------------------------|-----------------------------|
|                               | <b>October 31,<br/>2009</b>    | <b>November 1,<br/>2008</b> |
| National Store Support Center | \$85,123                       | \$ 83,553                   |
| Percentage of total net sales | 6.7%                           | 6.9%                        |

NSSC expenses consist of the corporate level functions including executive management, human resources, management information systems and finance, among others. Expressed as a percentage of net sales, NSSC expenses decreased in the current period by approximately 20 basis points compared to the prior period mainly due to the leverage associated with comparable store sales increases and expense control efforts which were partially offset by higher performance-based compensation accruals.



**Table of Contents*****Impairment Charges***

The following table shows impairment charges in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 31, 2009 (dollar amounts in thousands):

|                               | <b>Thirty-Nine Weeks<br/>Ended<br/>October 31, 2009</b> |
|-------------------------------|---|
| Impairment charges            | \$ 13,026   |
| Percentage of total net sales | 1.0%  |

The impairment charges recognized include non-cash impairment charges in both the first and second quarters of fiscal 2009. During the first quarter of fiscal 2009, an impairment charge totaling \$8.1 million was recorded related to the write-off of development costs for software applications. During the second quarter of fiscal 2009, a non-cash charge totaling \$3.8 million was incurred related to the partial write-off of a note receivable the Company determined was impaired, and \$1.1 million in non-cash impairment charges related to the write-off of fixed assets at certain underperforming stores. The total net-of-tax impairment charges for the first nine months of fiscal 2009 was \$8.1 million. No impairment charges were recognized in the first nine months of fiscal 2008.

***Interest Income, net***

The following table shows interest income, net in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 31, 2009 and November 1, 2008 (dollar amounts in thousands):

|                               | <b>Thirty-Nine Weeks Ended</b> |                             |
|-------------------------------|--------------------------------|-----------------------------|
|                               | <b>October 31,<br/>2009</b>    | <b>November 1,<br/>2008</b> |
| Interest income, net          | \$1,337                        | \$ 6,433                    |
| Percentage of total net sales | 0.1%                           | 0.5%                        |

Notwithstanding the significant increase in the marketable securities balances year-over-year, interest income decreased in the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008 primarily due to substantially lower interest rates on its investments and, to a lesser extent, due to the reversal of approximately \$0.8 million in interest income recorded in fiscal 2009 on the Company's note receivable which may not be collected.

***Provision for Income Taxes***

The Company's effective tax rate for the current period was 37.5% compared to an effective tax rate of 27.0% for the prior period. The increase in the current period effective tax rate was due primarily to an increase in pre-tax income, coupled with a reduction in the amount of income tax benefit recognized for tax-exempt interest income and from reduced charitable donations of inventory.

**Table of Contents****Liquidity and Capital Resources**

The Company's ongoing capital requirements continue to be for funding capital expenditures for new, expanded, relocated and remodeled stores, for planned expansion of its NSSC, distribution center and other central support facilities, and for continued improvement in information technology tools, including the ongoing conversion to the SAP and JDA planning and allocation software platforms.

The following table shows the Company's capital resources as of October 31, 2009 and November 1, 2008 (amounts in thousands):

|                           | <b>October 31,<br/>2009</b> | <b>November 1,<br/>2008</b> |
|---------------------------|-----------------------------|-----------------------------|
| Cash and cash equivalents | \$ 60,985                   | \$ 50,233                   |
| Marketable securities     | 362,322                     | 206,105                     |
| Working capital           | 399,043                     | 357,731                     |

Working capital increased from November 1, 2008 to October 31, 2009 primarily due to an increase in cash and marketable securities resulting from higher net sales as well as implementation of the Company's planned reduction in capital expenditure spending during fiscal 2009, offset in part by the reclassification of the note receivable held by the Company from a current asset to a long-term asset.

Based on past performance and current expectations, the Company believes that its cash and cash equivalents, marketable securities and cash generated from operations will satisfy the Company's working capital needs, capital expenditure needs (see *New Store Openings and Infrastructure Investments* discussed below), commitments, and other liquidity requirements associated with the Company's operations through at least the next 12 months.

***Operating Activities***

Net cash provided by operating activities was \$200.3 million and \$74.2 million for the thirty-nine weeks ended October 31, 2009 and November 1, 2008, respectively. The \$126.1 million increase in cash flows from operating activities in the current period from the prior fiscal year resulted primarily from improved operating results, lower inventory investment and an increase in accounts payable and accrued expenses. Net cash provided by operating activities reflects the recognition of \$13.0 million of non-cash impairment charges with there being no corresponding charge in the prior period.

***Investing Activities***

Net cash used in investing activities was \$171.1 million and \$37.9 million for the thirty-nine weeks ended October 31, 2009 and November 1, 2008, respectively. The increase was essentially due to the purchase of marketable securities in the current period compared with sales of marketable securities in the prior period, offset in part by a reduction in the amount of cash used for capital expenditures.

The investment in capital expenditures during the current period was primarily related to costs associated with system upgrades and new software implementations, the planning and opening of new, relocated, remodeled and expanded Chico's/Soma and WHIBM stores and other miscellaneous capital expenditures including costs associated with the Company's NSSC's improvements and distribution center expansion aggregating \$51.0 million compared to capital expenditures aggregating \$92.3 million in the prior year.

**Table of Contents**

***Financing Activities***

Net cash provided by financing activities was \$5.3 million and \$0.2 million for the thirty-nine weeks ended October 31, 2009 and November 1, 2008, respectively.

The Company received proceeds, in the current and prior period, from employee stock option exercises and employee participation in its employee stock purchase plan.

**New Store Openings and Infrastructure Investments**

The Company currently expects its overall square footage in fiscal 2009 to be flat or decrease slightly compared to the end of fiscal 2008, reflecting the net effect of approximately 18 net closures of Chico's stores, 3 net openings of WHIBM stores, 6 net openings of Soma stores and 10 relocations/expansions across all brands. The Company continuously evaluates the appropriate new store growth rate and store size in light of current economic conditions and may adjust its plans as deemed appropriate based on changes in economic conditions or as opportunities may arise.

During the current fiscal year, the Company acquired property adjacent to its distribution center in Winder, Georgia comprising 39 acres of land and a 300,000 square foot building on the land. The purchase price totaled approximately \$10.4 million and was funded from the Company's existing cash and marketable securities balances.

The Company believes that the liquidity needed for its planned new stores (including the continued investment associated with its Soma brand), its continuing store remodel/expansion program, the investments required for its NSSC and recent distribution center expansion, its continued installation and upgrading of new and existing software packages, and maintenance of proper inventory levels associated with this growth will be funded primarily from cash flow from operations and its existing cash and marketable securities balances, and, if necessary, the capacity included in its bank credit facility.

The Company is working with SAP and JDA, third party vendors, to implement an enterprise resource planning system ( ERP ). This fully integrated system is expected to support and coordinate all aspects of product development, merchandising, store support, finance and accounting and to be fully scalable to accommodate future growth.

On February 4, 2007, the Company completed the first major phase of its multi-year, planned implementation of the new ERP system by converting its Soma brand to the new merchandising system as well as rolling out the new financial systems at the same time.

During the first quarter of fiscal 2009, the Company announced the planned implementation of JDA Enterprise Planning, JDA Assortment Planning and JDA Allocation software applications instead of previously planned implementations of related SAP applications and revised its roll out plan accordingly.

The Company recently completed the second major phase of its multi-year plan with the successful roll out of the SAP core systems and the JDA allocation system for its Chico's and WHIBM brands. The third major phase contemplates ongoing enhancements and optimization of the new ERP across all three brands, as well as the deployment of additional functionality across various other functions within the Company.

**Table of Contents**

The Company expects that the costs associated with the continuing implementation of the ERP system (including costs for the JDA applications and those SAP applications that the Company continues to implement) will be funded from the Company's existing cash and marketable securities balances.

Given the Company's existing cash and marketable securities balances and the available borrowing capacity included in its bank credit facility, the Company does not believe that it would need to seek other sources of financing to conduct its operations or pursue its expansion plans even if cash flow from operations should prove to be less than anticipated or if the Company were to increase the number of new stores planned to be opened in future periods.

**Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The critical accounting matters that are particularly important to the portrayal of the Company's financial condition and results of operations and require some of management's most difficult, subjective and complex judgments are described in detail in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009. The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to customer product returns, inventories, income taxes, insurance reserves, contingencies and litigation. The Company bases its 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. There have been no material changes to the Company's critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009.

**Inflation**

The Company's operations are influenced by general economic conditions. Historically, inflation has not had a material effect on the results of operations.

**Quarterly Results and Seasonality**

The Company reports its sales on a quarterly basis in line with other public companies in the women's apparel industry. The Company's quarterly results may fluctuate significantly depending on a number of factors including timing of new store openings, adverse weather conditions, the spring and fall fashion lines and shifts in the timing of certain holidays. In addition, the Company's periodic results can be directly and significantly impacted by the extent to which the Company's new merchandise offerings are accepted by its customers and by the timing of the introduction of such merchandise.

**Table of Contents**

**Certain Factors That May Affect Future Results**

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 the current views of the Company with respect to certain events that could have an effect on the Company's future financial performance, including but without limitation, statements regarding future growth rates of the established Company store concepts and the roll out of the Soma concept. The statements may address items such as future sales, gross margin expectations, operating margin expectations, earnings per share expectations, planned store openings, closings and expansions, future comparable store sales, future product sourcing plans, inventory levels, planned marketing expenditures, planned capital expenditures and future cash needs. In addition, from time to time, the Company may issue press releases and other written communications, and representatives of the Company 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, may include the words expects, believes, and similar expressions. Except 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 subject to various risks and uncertainties that could cause actual results to differ materially from historical results or those currently anticipated. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and in Item 1A, Risk Factors of the Company's most recent Form 10-K filed with the Securities and Exchange Commission on March 27, 2009.

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, the ability of the Company to secure and maintain customer acceptance of the Company's styles and store concepts, the propriety of inventory mix and sizing, the quality of merchandise received from vendors, the extent and nature of competition in the markets in which the Company operates, the extent of the market demand and overall level of spending for women's privately branded clothing and related accessories, the adequacy and perception of customer service, the ability to coordinate product development with buying and planning, the ability of the Company's suppliers to timely produce and deliver clothing and accessories, the changes in the costs of manufacturing, labor and advertising, the potential effect of public health issues related to infectious diseases, especially on the Company's global supply chain, the rate of new store openings, the buying public's acceptance of any of the Company's new store concepts, the performance, implementation and integration of management information systems, the ability to hire, train, energize and retain qualified sales associates and other employees, the availability of quality store sites, the ability to expand its NSSC, 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 and operate its direct-to-consumer operations, the ability to secure and protect trademarks and other intellectual property rights, the ability to effectively and efficiently operate the Chico's, WHIBM, and Soma merchandise divisions, risks associated with terrorist activities, risks associated with natural disasters such as hurricanes, risks associated with public health issues, and other risks. In addition, there are potential risks and uncertainties that are peculiar to the Company's reliance on sourcing from foreign vendors, 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.

The forward-looking statements included herein are only made as of the date of this Quarterly Report on Form 10-Q. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Table of Contents****Litigation**

In the normal course of business, the Company is 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 October 31, 2009, cannot be ascertained. Although these matters could affect the 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 the Company would not be material to the annual consolidated financial statements.

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

The market risk of the Company's financial instruments as of October 31, 2009 has not significantly changed since January 31, 2009. The Company is exposed to market risk from changes in interest rates on any future indebtedness and its marketable securities.

The Company's exposure to interest rate risk relates in part to its revolving line of credit with its bank; however, as of October 31, 2009, the Company did not have any outstanding borrowings on its line of credit and, given its liquidity position, does not expect to utilize its line of credit in the foreseeable future except for its continuing use of the letter of credit facility portion thereof.

The Company's investment portfolio is maintained in accordance with the Company's investment policy which identifies allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. The Company's investment portfolio generally consists of cash equivalents and marketable securities, including variable rate demand notes, which are considered highly liquid, variable rate municipal debt securities, municipal bonds and U.S. treasury securities. Although the variable rate demand notes, totaling \$251.8 million, have long-term nominal maturity dates ranging from 2011 to 2048, the interest rates are reset, either daily or every 7 days. Despite the long-term nature of the underlying securities, the Company has the ability to quickly liquidate these securities. The remainder of the portfolio, as of October 31, 2009 consisted of \$86.7 million of securities with maturity dates less than one year and \$23.8 million with maturity dates over one year and less than or equal to two years. The Company considers all available-for-sale securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and therefore classifies these securities as short-term investments within current assets on the consolidated balance sheet. As of October 31, 2009, an increase of 100 basis points in interest rates would reduce fair value of the Company's marketable securities by approximately \$1.0 million. Conversely, a reduction of 100 basis points in interest rates would increase the fair value of the Company's marketable securities by approximately \$0.9 million.

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

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

**Table of Contents**

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's 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, the Company's disclosure controls and procedures were effective in providing reasonable assurance in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) and that information required to be disclosed in our reports is recorded, processed, summarized, and reported as required to be included in the Company's periodic SEC filings.

**Changes in Internal Controls**

There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the date of the above referenced evaluation. Furthermore, there was no change in the Company's 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, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Company was named as defendant in a putative class action filed in June 2008 in the Superior Court for the State of California, County of San Diego, Michele L. Massey Haefner v. Chico's FAS, Inc. The Complaint alleges that the Company, in violation of California law, requested or required customers to provide personal identification information in conjunction with credit card transactions. The Company filed an answer denying the material allegations of the Complaint. The parties exchanged class certification briefs and the Court scheduled a hearing on class certification in September. After the hearing, the Court issued an Order denying the plaintiff's motion for class certification. As a result, the case will proceed as a single plaintiff case only, unless the ruling is overturned on appeal. The Company continues to believe that the case is wholly without merit. As a single plaintiff case, the Company does not believe that it is material or will have any material adverse effect on the Company's financial condition or results of operations. Therefore, unless overturned on appeal, the Company will no longer include a report on this matter in future filings on Form 10-K or 10-Q.

The Company is not a party to any other legal proceedings, other than various claims and lawsuits arising in the normal course of business, none of which the Company believes should have a material adverse effect on its 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 the Company's 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 27, 2009 should be considered as they could materially affect the Company's business, financial condition or future results. There have not been any significant changes with respect to the risks described in our 2008 Form 10-K, but these are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may adversely affect the Company's business, financial condition or operating results.

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

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

| <b>Period</b>                       | <b>Total<br/>Number of<br/>Shares<br/>Purchased(a)</b> | <b>Average<br/>Price<br/>Paid<br/>per<br/>Share</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans</b> | <b>Approximate<br/>Dollar Value<br/>of<br/>Shares that<br/>May Yet Be<br/>Purchased<br/>Under the<br/>Publicly<br/>Announced<br/>Plans</b> |
|-------------------------------------|--|---|---|--|
| August 2, 2009 to August 29, 2009   | 1,837  | \$ 12.09  |   | \$   |
| August 30, 2009 to October 3, 2009  | 5,299  | \$ 12.67  |   | \$   |
| October 4, 2009 to October 31, 2009 |  | \$  |   | \$   |
| <b>Total</b>                        | <b>7,136</b>   | <b>\$ 12.52</b>                                     |   | <b>\$</b>  |

(a) Consists of 7,136 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.

**ITEM 6. EXHIBITS**

(a) The following documents are filed as exhibits to this Quarterly Report on Form 10-Q (exhibits marked with an asterisk have been previously filed with the Commission as indicated and are incorporated herein by this reference):

Exhibit 10.1\* Credit Agreement by and among SunTrust Bank, the Company and the subsidiaries of the Company dated as of November 24, 2008, including the schedules and exhibits (Filed as Exhibit 10.1 to the Company's Form 8-K/A (Amendment No. 2) as filed with the Commission on September 30, 2009).

Exhibit 31.1



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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

27

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**Table of Contents**

**SIGNATURES**

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

CHICOS FAS, INC.

Date: December 7, 2009

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

Date: December 7, 2009

By: /s/ Kent A. Kleeberger  
Kent A. Kleeberger  
Executive Vice President - Finance,  
Chief  
Financial Officer and Treasurer  
(Principal Financial and Accounting  
Officer)