

CHICOS FAS INC
Form 10-Q
November 24, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended:

Commission File Number:

October 30, 2010

001-16435

Chico s FAS, Inc.

(Exact name of registrant as specified in charter)

Florida

59-2389435

(State of Incorporation)

(I.R.S. Employer Identification No.)

11215 Metro Parkway, Fort Myers, Florida 33966

(Address of principal executive offices)

239-277-6200

(Registrant s telephone number, including area code)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a 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 17, 2010, there were 177,602,803 shares outstanding of Common Stock, \$.01 par value per share.

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

PART I Financial Information

Item 1. Financial Statements

Consolidated Statements of Income for the Thirty-Nine and Thirteen Weeks Ended October 30, 2010 and October 31, 2009 (Unaudited) 3

Consolidated Balance Sheets October 30, 2010 (Unaudited), January 30, 2010 and October 31, 2009 (Unaudited) 4

Consolidated Statements of Cash Flows for the Thirty-Nine Weeks Ended October 30, 2010 and October 31, 2009 (Unaudited) 5

Notes to Consolidated Financial Statements (Unaudited) 6

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations 15

Item 3. Quantitative and Qualitative Disclosures About Market Risk 24

Item 4. Controls and Procedures 25

PART II Other Information

Item 1. Legal Proceedings 26

Item 1A. Risk Factors 26

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 26

Item 6. Exhibits 27

Signatures 28

EX-31.1

EX-31.2

EX-32.1

EX-32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

(In thousands, except per share amounts)

	Thirty-Nine Weeks Ended				Thirteen Weeks Ended			
	October 30, 2010		October 31, 2009		October 30, 2010		October 31, 2009	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Net Sales:								
Chico's/Soma								
Intimates	\$ 993,989	69.5	\$ 902,050	70.6	\$ 337,629	69.9	\$ 319,526	71.5
White House Black Market	435,992	30.5	375,370	29.4	145,393	30.1	127,337	28.5
Net sales	1,429,981	100.0	1,277,420	100.0	483,022	100.0	446,863	100.0
Cost of goods sold	614,128	42.9	555,713	43.5	207,955	43.0	189,585	42.4
Gross margin	815,853	57.1	721,707	56.5	275,067	57.0	257,278	57.6
Selling, general and administrative expenses:								
Store and direct operating expenses	502,404	35.1	482,481	37.8	169,726	35.1	165,106	37.0
Marketing	79,019	5.5	58,976	4.6	31,928	6.6	24,974	5.6
National Store Support Center	87,035	6.1	85,123	6.7	29,252	6.1	30,887	6.9
Impairment charges	822	0.1	13,026	1.0				
Total selling, general and administrative expenses	669,280	46.8	639,606	50.1	230,906	47.8	220,967	49.5
Income from operations	146,573	10.3	82,101	6.4	44,161	9.2	36,311	8.1
Interest income, net	1,327	0.0	1,337	0.1	483	0.1	334	0.1
Income before income taxes	147,900	10.3	83,438	6.5	44,644	9.3	36,645	8.2
Income tax provision	53,200	3.7	31,300	2.4	15,800	3.3	13,900	3.1
Net income	\$ 94,700	6.6	\$ 52,138	4.1	\$ 28,844	6.0	\$ 22,745	5.1

Per share data:

Net income per common share-basic	\$ 0.53	\$ 0.29	\$ 0.16	\$ 0.13
-----------------------------------	---------	---------	---------	---------

Net income per common & common equivalent share diluted	\$ 0.53	\$ 0.29	\$ 0.16	\$ 0.13
---	---------	---------	---------	---------

Weighted average common shares outstanding basic	177,028	177,348	176,215	177,662
--	---------	---------	---------	---------

Weighted average common & common equivalent shares outstanding diluted	178,320	178,516	177,262	179,251
--	---------	---------	---------	---------

Dividends declared per share	\$ 0.12
------------------------------	---------

See Accompanying Notes.

Table of Contents**Chico s FAS, Inc. and Subsidiaries****Consolidated Balance Sheets
(In thousands)**

	October 30, 2010 (Unaudited)	January 30, 2010	October 31, 2009 (Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 21,930	\$ 37,043	\$ 60,985
Marketable securities, at fair value	483,622	386,500	362,322
Receivables	4,901	3,922	5,845
Income tax receivable	12,814	312	728
Inventories	179,110	138,516	160,030
Prepaid expenses	23,442	24,023	24,152
Deferred taxes	14,347	9,664	7,524
Total Current Assets	740,166	599,980	621,586
Property and Equipment:			
Land and land improvements	42,351	21,978	20,311
Building and building improvements	87,246	82,169	84,062
Equipment, furniture and fixtures	420,420	388,392	395,225
Leasehold improvements	425,237	412,834	416,003
Total Property and Equipment	975,254	905,373	915,601
Less accumulated depreciation and amortization	(447,354)	(383,844)	(386,999)
Property and Equipment, Net	527,900	521,529	528,602
Other Assets:			
Goodwill	96,774	96,774	96,774
Other intangible assets	38,930	38,930	38,930
Deferred taxes	1,027	36,321	39,398
Other assets, net	5,112	25,269	27,323
Total Other Assets	141,843	197,294	202,425
	\$ 1,409,909	\$ 1,318,803	\$ 1,352,613
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities:			
Accounts payable	\$ 100,650	\$ 79,219	\$ 97,238
Accrued liabilities	108,377	95,862	123,069
Current portion of deferred liabilities	19,905	19,625	19,517
Total Current Liabilities	228,932	194,706	239,824

Noncurrent Liabilities:

Deferred liabilities	132,665	142,179	150,538
----------------------	---------	---------	---------

Stockholders Equity:

Preferred stock			
Common stock	1,776	1,781	1,779
Additional paid-in capital	279,227	268,109	266,112
Retained earnings	766,619	711,624	694,116
Other accumulated comprehensive income	690	404	244

Total Stockholders Equity	1,048,312	981,918	962,251
----------------------------------	-----------	---------	---------

	\$ 1,409,909	\$ 1,318,803	\$ 1,352,613
--	--------------	--------------	--------------

See Accompanying Notes.

4

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

	Thirty-Nine Weeks Ended October	
	30, 2010	October 31, 2009
Cash Flows from Operating Activities:		
Net income	\$ 94,700	\$ 52,138
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	70,218	72,407
Deferred tax expense	29,828	9,394
Stock-based compensation expense	8,874	6,543
Excess tax benefit from stock-based compensation	(1,223)	(1,473)
Impairment charges	822	13,026
Deferred rent expense, net	(6,245)	(7,721)
Loss on disposal of property and equipment	1,090	1,361
(Increase) decrease in assets		
Receivables, net	(978)	2,314
Income tax receivable	(12,503)	10,978
Inventories	(40,593)	(27,617)
Prepaid expenses and other	737	(2,671)
Increase in liabilities		
Accounts payable	21,431	40,696
Accrued and other deferred liabilities	10,749	30,884
Total adjustments	82,207	148,121
Net cash provided by operating activities	176,907	200,259
Cash Flows from Investing Activities:		
Purchases of marketable securities, net	(96,836)	(120,061)
Purchases of property and equipment	(58,501)	(51,016)
Net cash used in investing activities	(155,337)	(171,077)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	2,137	3,960
Excess tax benefit from stock-based compensation	1,223	1,473
Dividends paid	(21,389)	
Repurchase of common stock	(18,654)	(179)
Net cash (used in) provided by financing activities	(36,683)	5,254

Net (decrease) increase in cash and cash equivalents	(15,113)	34,436
Cash and Cash Equivalents , Beginning of period	37,043	26,549
Cash and Cash Equivalents , End of period	\$ 21,930	\$ 60,985

Supplemental Disclosures of Cash Flow Information:

Cash paid for interest	\$ 212	\$ 230
Cash paid for income taxes, net	\$ 40,538	\$ 19,242

Non-Cash Investing and Financing Activities:

Repossession of land in satisfaction of note receivable	\$ 20,000	\$
---	-----------	----

See Accompanying Notes.

Table of Contents

Chico's FAS, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

October 30, 2010

(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 accounting principles generally accepted in the U.S. (U.S. GAAP) for complete financial statements. In the opinion of management, such interim financial statements reflect all normal 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 30, 2010, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 24, 2010. The January 30, 2010 balance sheet amounts were derived from audited financial statements included in the Company's Annual Report.

As used in this report, all references to we, us, our, and the Company, refer to Chico's FAS, Inc. and all of its wholly-owned subsidiaries. Unless otherwise noted, all references to the third quarter refer to the third quarter of fiscal 2010.

Our fiscal years end on the Saturday closest to January 31 and are designated by the calendar year in which the fiscal year commences. Operating results for the thirteen and thirty-nine weeks ended October 30, 2010 are not necessarily indicative of the results that may be expected for the entire year.

Certain prior year amounts have been reclassified in order to conform to the current year presentation.

Note 2. Impairment Charges

Long-Lived Assets

During our quarterly reviews for impairment in the first quarter of fiscal 2010 and the second quarter of fiscal 2009, we completed evaluations 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. We then determined the fair value of these assets by discounting their future cash flows using a rate approximating our cost of capital, which resulted in an impairment charge of approximately \$0.8 million and \$1.1 million in the first quarter of fiscal 2010 and second quarter of fiscal 2009, respectively.

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

Note Receivable

In fiscal 2007, we sold a parcel of land for \$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.

Table of Contents

Chico's FAS, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 30, 2010
(Unaudited)

(in thousands, except share and per share amounts)

Note 2. Impairment Charges (continued)

During the second quarter of fiscal 2009, we 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 loan was impaired. As a result, we 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 at that time. During the fourth quarter of fiscal 2009, based on an updated third-party valuation of the land, we determined that the fair value of the land had declined further and an additional \$2.0 million impairment charge was necessary to adjust the note to its current fair value, less estimated costs to sell. Additionally, upon determining the note was impaired, we ceased recognizing any further interest income and also reversed year-to-date interest income of approximately \$0.8 million. On May 4, 2010, we took possession of the land in satisfaction of the note receivable and classified the land within property, plant and equipment on our balance sheet.

Note 3. Restructuring Charges

During the fourth quarter of fiscal 2008, in an effort to reduce costs and enhance efficiencies, we announced a workforce reduction that included the elimination of approximately 180 positions, or approximately 11% of the National Store Support Center (NSSC) employee base. In addition, we incurred charges related to the separation agreement with our former Chief Executive Officer. In connection with these actions, we recorded approximately \$10.0 million of personnel separation costs within selling, general and administrative expenses on the income statement. The following table summarizes the severance and workforce reduction liability for each period as indicated (amounts in thousands):

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Beginning balance	\$ 116	\$ 8,698	\$	\$ 1,188
Payments	\$ (116)	\$ (8,271)	\$	\$ (761)
Ending balance	\$	\$ 427	\$	\$ 427

Note 4. Income Taxes

Our uncertain tax positions were \$4.2 million and \$6.9 million at October 30, 2010 and January 30, 2010, respectively. During the third quarter, uncertain tax positions decreased \$2.5 million as a result of a tax audit settlement on more favorable terms than had been originally estimated. However, as of October 30, 2010, we do not believe that the balance of our uncertain tax positions will significantly increase or decrease within the next twelve months. We are currently subject to income tax examinations by various states, but do not expect the resolution of the examinations will have a material impact on our financial position, results of operations, or liquidity.

During the third quarter, in connection with the filing of our fiscal year 2009 income tax return, Chico's filed accounting method changes with the Internal Revenue Service regarding how fixed assets are classified and depreciated for tax purposes. While these changes had virtually no effect on our current year tax rate and income statement for the third quarter and year, they did result in monetizing about \$29.1 million in deferred tax assets, a portion of which has been reclassified to an income tax receivable on our balance sheet at the end of the third quarter.

Table of Contents

Chico s FAS, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 30, 2010
(Unaudited)

(in thousands, except share and per share amounts)

Note 4. Income Taxes (continued)

Our effective tax rate decreased for the current quarter to 35.4% compared to 37.9% in the third quarter of last year due primarily to a favorable state tax audit settlement.

Our effective tax rate for the thirty-nine weeks ended October 30, 2010 is 36.0% compared to an effective tax rate of 37.5% for the thirty-nine weeks ended October 31, 2009. Our effective tax rate was lower in the current thirty-nine week period compared to last year due primarily to favorable state tax audit settlements and the restoration of a state tax receivable due to a favorable ruling.

Note 5. Stock-Based Compensation

General

Stock-based compensation award expense recognized during the thirteen and thirty-nine weeks ended October 30, 2010 and October 31, 2009 consists of compensation expense for all share-based awards granted and is based on the grant date fair value estimated in accordance with the relevant accounting guidance.

For the thirty-nine weeks ended October 30, 2010 and October 31, 2009, stock-based compensation expense was \$8.9 million and \$6.5 million, respectively, and for the thirteen weeks ended October 30, 2010 and October 31, 2009, stock-based compensation was \$2.9 million and \$2.4 million, respectively. The total tax benefit associated with stock-based compensation for the thirty-nine weeks ended October 30, 2010 and October 31, 2009 was \$3.4 million and \$2.5 million, respectively, and for the thirteen weeks ended October 30, 2010 and October 31, 2009, the total tax benefit associated with stock-based compensation was \$1.1 million and \$0.9 million, respectively. We recognize stock-based compensation costs net of a forfeiture rate for only those shares expected to vest and on a straight-line basis over the requisite service period of the award.

Methodology Assumptions

We use the Black-Scholes option-pricing model to value our 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 our 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 our 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 our 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. The expected dividend yield is based on the expected annual dividend divided by the market price of our common stock at the time of declaration.

Table of Contents

Chico s FAS, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 30, 2010
(Unaudited)

(in thousands, except share and per share amounts)

Note 5. Stock-Based Compensation (continued)

The weighted average assumptions relating to the valuation of our stock options for the thirty-nine and thirteen weeks ended October 30, 2010 and October 31, 2009 were as follows:

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Weighted average fair value of grants	\$6.70	\$ 2.50	\$4.27	\$ 7.14
Expected volatility	66%	62%	67%	66%
Expected term (years)	4.5	4.5	4.5	4.5
Risk-free interest rate	2.0%	1.8%	1.2%	2.2%
Expected dividend yield	1.1%	N/A	1.8%	N/A

Performance-based Awards

In fiscal 2009, we granted David F. Dyer, our President and Chief Executive Officer, a performance award under which he was eligible to receive up to 133,333 shares, contingent upon the achievement of certain Company-specific performance goals in fiscal 2009. At the time of the grant, 100,000 shares, which represented the targeted number of shares under the grant, were issued to Mr. Dyer as restricted shares. The grant provided for vesting of all performance shares issued (whether issued at the time of grant or as additional shares earned at the end of the performance measurement period) three years from the date of grant. After the end of fiscal 2009, our Board s Compensation and Benefits Committee determined that the Company had achieved the performance goals and that Mr. Dyer earned 133,333 shares. Accordingly, in the first quarter of fiscal 2010, we issued Mr. Dyer 33,333 restricted shares, which were in addition to the 100,000 restricted shares issued to him at the time of the fiscal 2009 grant. We account for the award by recording compensation expense, based on the 133,333 shares earned, on a straight-line basis over the 3-year service period.

In the first quarter of fiscal 2010, a new performance-based stock award was granted to Mr. Dyer. Similar to the 2009 grant, under this performance award, Mr. Dyer is eligible to receive up to 133,333 shares, contingent upon the achievement of certain Company-specific performance goals during fiscal 2010. At the time of the grant, 100,000 shares, which represented the targeted number of shares under the grant, were issued to Mr. Dyer as restricted shares. Any shares earned as a result of the achievement of such goals (whether issued at the time of grant or as additional shares earned at the end of the performance measurement period) will vest two years from the date of grant. We are recording compensation expense, based on the number of shares ultimately expected to vest, recognized on a straight-line basis over the 2-year service period. Additionally, we reevaluate the amount of compensation expected to be earned at the end of each reporting period and record an adjustment, if necessary.

In the first quarter of fiscal 2010, certain of our executive officers were also granted Performance Stock Units (PSU). Each PSU award has the ability to be converted into shares on the second anniversary of the grant date upon the achievement of certain Company-specific performance goals for fiscal 2011. Based on the level of achievement of the performance goals, the participants in this award may earn up to 100% of the units awarded. Similar to the performance awards granted to Mr. Dyer, compensation cost is recognized on a straight-line basis over the vesting period, based on the number of units ultimately expected to vest and depending on the level and likelihood of the performance condition being met. Additionally, we reevaluate the amount of compensation expected to be earned at the end of each reporting period and record an adjustment, if necessary.

Table of Contents

Chico s FAS, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 30, 2010
(Unaudited)

(in thousands, except share and per share amounts)

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

As of October 30, 2010, 6,590,794 nonqualified options are outstanding at a weighted average exercise price of \$12.89 per share. The following table presents a summary of our stock options activity for the thirty-nine weeks ended October 30, 2010:

	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	6,288,358	\$ 12.54
Granted	1,125,800	13.34
Exercised	(315,015)	4.45
Canceled or expired	(508,349)	14.70
Outstanding, end of period	6,590,794	12.89
Exercisable at October 30, 2010	3,553,583	17.24

The following table presents a summary of our restricted stock activity for the thirty-nine weeks ended October 30, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	816,677	\$ 6.21
Granted	1,168,501	10.45
Vested	(203,611)	9.19
Canceled	(103,160)	6.13
Nonvested, end of period	1,678,407	8.80

Approximately 6.7 million shares remain available under our Omnibus Stock and Incentive Plan for future grants of either stock options, restricted stock or restricted stock units, stock appreciation rights (SARs) or performance shares.

Note 6. Net Income Per Share

In June 2008, accounting guidance was issued related to share-based awards that qualify as 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 us, participating securities are generally comprised of unvested restricted stock awards.

Basic EPS is determined using the two-class method and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the dilutive effect of potential common shares from securities such as stock options.

Table of Contents

Chico s FAS, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 30, 2010
(Unaudited)

(in thousands, except share and per share amounts)

Note 6. Net Income Per Share (continued)

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

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Numerator				
Net income	\$ 94,700	\$ 52,138	\$ 28,844	\$ 22,745
Net income allocated to participating securities	(731)		(288)	
Net income available to common shareholders	\$ 93,969	\$ 52,138	\$ 28,556	\$ 22,745
Denominator				
Weighted average common shares outstanding basic	177,027,767	177,348,442	176,215,239	177,661,902
Dilutive effect of stock options outstanding	1,292,095	1,167,520	1,046,809	1,589,267
Weighted average common and common equivalent shares outstanding diluted	178,319,862	178,515,962	177,262,048	179,251,169
Net income per common share:				
Basic	\$ 0.53	\$ 0.29	\$ 0.16	\$ 0.13
Diluted	\$ 0.53	\$ 0.29	\$ 0.16	\$ 0.13

For the thirteen weeks ended October 30, 2010 and October 31, 2009, 3,785,990 and 2,629,786 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 would have been anti-dilutive.

For the thirty-nine weeks ended October 30, 2010 and October 31, 2009, 3,349,846 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 would have been anti-dilutive.

Note 7. Fair Value Measurements

Our 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 consist of variable rate demand notes, which are considered highly liquid, variable rate municipal debt securities, municipal bonds, asset-backed securities, corporate bonds and U.S treasury securities. Although the variable rate demand notes, totaling \$273.2 million as of October 30, 2010, have long-term maturity dates ranging from 2011 to 2048, the interest rates generally reset weekly. Despite the

long-term nature of the underlying securities of the variable rate demand notes, we believe we have the ability to quickly liquidate or put back these securities. The remainder of the portfolio, as of October 30, 2010, consisted of \$57.5 million of securities with maturity dates less than one year and \$152.9 million with maturity dates over one year and less than or equal to three years.

Table of Contents

**Chico s FAS, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 30, 2010
(Unaudited)**

(in thousands, except share and per share amounts)

Note 7. Fair Value Measurements (continued)

We consider all available-for-sale securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and therefore classify these securities as short-term investments within current assets on the consolidated balance sheets. 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. For the purposes of computing realized and unrealized gains and losses, cost is determined on a specific identification basis.

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

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

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

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

Level 3 Unobservable inputs for the asset or liability.

We measure certain financial assets at fair value on a recurring basis, including our marketable securities, which are classified as available-for-sale securities, certain cash equivalents, specifically our money market accounts, and assets held in our non-qualified deferred compensation plan. The money market funds are valued based on quoted market prices in active markets. Our marketable securities are generally valued based on other observable inputs for those securities (including market corroborated pricing or other models that utilize observable inputs such as yield curves) except for U.S. treasury holdings which are valued based on quoted market prices in active markets. The investments in our non-qualified deferred compensation plan are valued using quoted market prices and are included in other assets on our consolidated balance sheets.

From time to time, we measure certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment and previously, our note receivable. We estimate the fair value of our long-lived assets using company-specific assumptions which would fall within Level 3 of the fair value hierarchy. In prior periods, the note receivable's value was based on the value of the underlying real estate collateral as determined by an independent third party using observable market data, which resulted in a Level 2 classification. During the second quarter of 2010, the underlying real estate collateral was repossessed by us in full satisfaction of the note receivable.

New guidance on financial instruments measured at fair value requires additional disclosures regarding significant transfers into and out of Level 1 and Level 2 as well as more detailed discussions regarding Level 3 activity. We conduct reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure. During fiscal 2010, we did not make significant transfers between Level 1 and Level 2 assets. Furthermore, as of October 30, 2010, January 30, 2010 and October 31, 2009, we did not have any Level 3 financial assets.

Table of Contents

Chico s FAS, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 30, 2010
(Unaudited)

(in thousands, except share and per share amounts)

Note 7. Fair Value Measurements (continued)

In accordance with the provisions of the guidance, we categorized our financial assets, whether valued on a recurring or non-recurring basis, based on the priority of the inputs to the valuation technique for the instruments, as follows (amounts in thousands):

	Balance as of October 30, 2010	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Current Assets				
<i>Cash equivalents:</i>				
Money market account	\$ 629	\$ 629	\$	\$
<i>Marketable securities:</i>				
Variable rate demand notes	273,187		273,187	
Municipal securities	143,950		143,950	
U.S. government securities	58,949	58,949		
Corporate bonds	2,170		2,170	
Asset-backed securities	5,366		5,366	
Non Current Assets				
Deferred compensation plan	3,996	3,996		
Total	\$ 488,247	\$ 63,574	\$ 424,673	\$

	Balance as of January 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Current Assets						
<i>Cash equivalents:</i>						
Money market account	\$ 8,256	\$ 8,256	\$	\$	\$	\$
<i>Marketable securities:</i>						

Edgar Filing: CHICOS FAS INC - Form 10-Q

Variable rate demand notes	207,895		207,895	
Municipal securities	111,153		111,153	
U.S. government securities	33,383	33,383		
Corporate bonds	12,826		12,826	
Asset-backed securities	21,243		21,243	
Non Current Assets				
Note receivable	20,000		20,000	
Deferred compensation plan	4,050	4,050		
Total	\$ 418,806	\$ 45,689	\$ 373,117	\$

	Balance as of October 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Current Assets				
<i>Cash equivalents:</i>				
Money market account	\$ 11,782	\$ 11,782	\$	\$
<i>Marketable securities:</i>				
Variable rate demand notes	251,804		251,804	
Municipal securities	61,645		61,645	
U.S. government securities	10,489	10,489		
Corporate bonds	12,841		12,841	
Asset-backed securities	25,543		25,543	
Non Current Assets				
Note receivable	22,000		22,000	
Deferred compensation plan	4,044	4,044		
Total	\$ 400,148	\$ 26,315	\$ 373,833	\$

Table of Contents

Chico s FAS, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 30, 2010
(Unaudited)

(in thousands, except share and per share amounts)

Note 8. Share Repurchase Program

In August 2010, our Board of Directors authorized the repurchase of up to \$200 million of our outstanding common stock through January 2013. During the third quarter, we repurchased 2,096,300 shares, at a total cost of approximately \$18.3 million, under this program. However, we have no continuing obligation to repurchase shares under this authorization, and the timing, actual number and value of any additional shares to be purchased will depend on the performance of our stock price, market conditions and other considerations.

Note 9. Subsequent Event

On November 10, 2010 our Board of Directors declared a quarterly cash dividend of \$0.04 per share on our common stock. The dividend will be payable on December 21, 2010 to shareholders of record at the close of business on December 7, 2010. While it is our intention to continue to pay a quarterly cash dividend in the future, any decision to pay future cash dividends will be made by the Board of Directors and will depend on future earnings, financial condition and other factors.

Table of Contents

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the accompanying unaudited consolidated financial statements and notes thereto and our 2009 Annual Report to Stockholders.

Executive Overview

We are 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. We earn revenues and generate cash through the sale of merchandise in our retail stores, on our various websites and through our call centers, which take orders for all of our brands.

Throughout fiscal 2010, we continue to focus on the initiatives that contributed to our success last year. These initiatives include: 1) rebuilding the Chico's business into a high performance brand, 2) growing the WHIBM and Soma brands, 3) accelerating direct-to-consumer (DTC) sales growth, 4) improving our cost structure and inventory control, and 5) targeting a level of profitability in fiscal 2011 approaching what we achieved in fiscal 2005, previously our highest earnings year.

Our performance in the third quarter of 2010 reflects a significant improvement over last year's third quarter as we continue to execute our key strategic initiatives. Net sales increased over 8%, operating income increased over 20% and earnings per diluted share increased 27% to \$0.16 per diluted share in this year's third quarter from \$0.13 per diluted share in the same period last year.

The Chico's brand overcame a slower start to the third quarter and delivered improved overall results as compared to last year's third quarter. Although the retail environment continues to be highly promotional, we believe overall our Fall product was generally well received by our customers and the increased advertising spend for all of our brands helped to drive traffic to our stores resulting in higher sales.

Financial Highlights for the Third Quarter of 2010

Net sales for the thirteen-week period ended October 30, 2010 (current period) increased 8.1% to \$483.0 million compared to \$446.9 million for the thirteen-week period ended October 31, 2009 (prior period), driven by a 3.1% consolidated comparable store sales increase (sales from stores open for at least twelve full months, including stores that have been expanded or relocated within the same general market) compared to an increase of 12.8% in the same period last year and a 40.4% increase in DTC sales in the current period to \$34.4 million.

The gross margin rate decreased slightly to 57.0% from 57.6% in the prior period mainly due to higher markdowns principally at the Chico's brand offset by improved margins at the Chico's and WHIBM brand outlet stores.

Selling, general and administrative expenses for the current period, as a percentage of total net sales, improved 170 basis points compared to last year's third quarter mainly due to the leverage associated with the comparable store sales increase.

Net income in the current period was \$28.8 million compared to net income of \$22.7 million in the same period last year, and earnings per diluted share increased to \$0.16 compared to \$0.13 in the same period last year.

Table of Contents

Cash and marketable securities at the end of the quarter were \$505.6 million, an increase of \$82.3 million over last year's third quarter, which considers we paid \$21.4 million of dividends and the repurchase of \$18.3 million worth of our common stock through our share repurchase program announced in August 2010.

End of quarter inventory of \$179.1 million increased \$19.1 million, or approximately 12%, from the prior year's third quarter. This increase is primarily driven by 64 net new stores over last year as well as inventory purchased for positive sales trends in stores and the DTC channel and new store openings in the fourth quarter.

Total inventory cost per selling square foot increased 6% to \$65 per selling square foot compared to \$61 at the end of last year's third quarter. Excluding inventory purchased for new stores scheduled to open in the fourth quarter, inventories are up 4.5% per square foot at cost. End of quarter inventory for the WHIBM brand increased approximately 10.5% per selling square foot versus down 21.7% per square foot last year, while Chico's brand inventory decreased approximately 1.2% quarter over quarter.

Future Outlook

We are currently forecasting a positive low single digit increase in comparable store sales for the fourth quarter of fiscal 2010. We anticipate gross margin to be slightly lower than the previous year's fourth quarter due to promotional markdowns for the holiday season and greater than planned sourcing costs. Lastly, we expect selling, general and administrative dollars to increase slightly in the fourth quarter driven by an incremental \$3 million in marketing costs and higher costs associated with new store growth.

Results of Operations Thirteen Weeks Ended October 30, 2010 Compared to the Thirteen Weeks Ended October 31, 2009.**Net Sales**

The following table depicts net sales for the Chico's/Soma and WHIBM brands in dollars and as a percentage of total net sales for the thirteen weeks ended October 30, 2010 and October 31, 2009 (dollar amounts in thousands):

	Thirteen Weeks Ended			
	October 30, 2010		October 31, 2009	
Net Sales:				
Chico's/Soma Intimates	\$ 337,629	69.9%	\$ 319,526	71.5%
White House Black Market	145,393	30.1	127,337	28.5
Total net sales	\$ 483,022	100.0%	\$ 446,863	100.0%

Net sales by the Chico's, WHIBM and Soma brands increased from the prior period primarily due to positive comparable store sales, new store openings, and increases in DTC sales for all brands. DTC sales are not included in comparable store sales.

The Chico's/Soma brands' comparable store sales increased by 1.5% and the WHIBM brand's comparable store sales increased by 7.1% compared to the prior period. The consolidated comparable store sales increase of 3.1% in the current period was driven by a 4% increase in units per transaction and an increase in the average unit retail price at WHIBM front-line stores offset by a slight decrease in transactions compared to the prior period. Comparable store sales results also benefited from an approximate 4% increase in transactions at Chico's front-line stores, offset by decreases in the average unit retail price and units per transaction.

Table of Contents

Net sales for the DTC channel in the current period, which are included in each brand's total net sales, increased by \$9.9 million, or 40.4%, compared to net sales for the DTC channel in the prior period. All three brands generated significant increases for the quarter which we believe are attributable to enhanced website functionality and improved online product offerings.

Cost of Goods Sold/Gross Margin

The following table depicts cost of goods sold and gross margin in dollars and the related gross margin percentages for the thirteen weeks ended October 30, 2010 and October 31, 2009 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	October 30, 2010	October 31, 2009
Cost of goods sold	\$ 207,955	\$ 189,585
Gross margin	\$ 275,067	\$ 257,278
Gross margin percentage	57.0%	57.6%

Gross margin as a percentage of net sales for the current quarter decreased to 57.0% compared to 57.6% in the third quarter of fiscal 2009. The gross margin rate decrease was primarily attributable to higher markdowns at Chico's frontline stores due to softer sales experienced early in the quarter and promotions derived to generate traffic. However, the decrease in the gross margin rate was partially offset by improved margins at outlet stores mainly due to increased penetration of made-for-outlet product.

Selling, General and Administrative Expenses

The following tables depict store and direct operating expenses, marketing, and National Store Support Center expenses in dollars and as a percentage of total net sales for the thirteen weeks ended October 30, 2010 and October 31, 2009 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	October 30, 2010	October 31, 2009
Store and direct operating expenses	\$ 169,726	\$ 165,106
Percentage of total net sales	35.1%	37.0%

Store and direct operating expenses include store and DTC operational expenses, and reflect such items as personnel, occupancy, credit card fees, depreciation and supplies incurred to operate each of our stores and the DTC channel. Store and direct operating expenses increased by \$4.6 million over last year's third quarter primarily due to increased occupancy expense and store labor costs associated with 64 net new stores over last year, accompanied by increased in-store promotions and higher credit card fees due to higher sales volume compared to last year. However, expressed as a percentage of net sales, store and direct operating expenses decreased 190 basis points due to the leverage associated with improved comparable store sales.

	Thirteen Weeks Ended	
	October 30, 2010	October 31, 2009
Marketing	\$ 31,928	\$ 24,974
Percentage of total net sales	6.6%	5.6%

Marketing expenses include marketing programs such as direct marketing efforts, national advertising expenses via various media and related support costs. Marketing expenses increased \$7.0 million, as planned, over last year's third quarter primarily due to increased television ads, including ads for the Soma brand, as well as increased online and print media campaigns across all three brands. As a percentage of net sales, marketing expenses increased 100 basis points compared to last year's third quarter.

Table of Contents

	Thirteen Weeks Ended	
	October 30, 2010	October 31, 2009
National Store Support Center	\$ 29,252	\$ 30,887
Percentage of total net sales	6.1%	6.9%

National Store Support Center (NSSC) expenses consist of the corporate level functions including executive management, human resources, management information systems and finance, among others. In dollars, NSSC expenses decreased over the prior period due to lower performance-based compensation accruals and effective expense control. Expressed as a percentage of net sales, NSSC expenses decreased in the third quarter by approximately 80 basis points, assisted by the leverage associated with improved comparable store sales.

Provision for Income Taxes

Our effective tax rate decreased for the current period to 35.4% compared to 37.9% in the prior period primarily due to a favorable state income tax audit settlement.

Results of Operations Thirty-Nine Weeks Ended October 30, 2010 Compared to the Thirty-Nine Weeks Ended October 31, 2009.**Net Sales**

The following table depicts net sales for the Chico s/Soma and WHIBM brands in dollars and as a percentage of total net sales for the year-to-date period ended October 30, 2010 and October 31, 2009 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended			
	October 30, 2010		October 31, 2009	
Net Sales:				
Chico s/Soma Intimates	\$ 993,989	69.5%	\$ 902,050	70.6%
White House Black Market	435,992	30.5	375,370	29.4
Total net sales	\$ 1,429,981	100.0%	\$ 1,277,420	100.0%

Net sales by the Chico s, WHIBM and Soma brands for the year-to-date period ended October 30, 2010 increased from the prior year s comparable period primarily due to positive comparable store sales, new store openings, as well as increases in DTC sales for all brands. DTC sales are not included in comparable store sales.

The Chico s/Soma brands comparable store sales increased by 6.7% and the WHIBM brand s comparable store sales increased by 11.2% for the year-to-date period compared to the prior period. The consolidated comparable store sales increase of 8.0% in the year-to-date period was driven primarily by an approximate 10% increase in transactions at Chico s front-line stores, offset by a decrease in units per transaction. Comparable store sales results also benefited from an approximate 6% increase in transactions at WHIBM front-line stores coupled with an approximate 4% increase in units per transaction in the year-to-date period versus the prior year s comparable period.

Net sales for the DTC channel for the year-to-date period, which are included in each brand s total net sales, increased by \$24.1 million, or 36.2%, compared to net sales for the DTC channel in the prior year s comparable period. All three brands posted increases of over 30% in DTC Sales which we believe are due to our continued focus on this previously underinvested channel including enhanced website functionality and improved and expanded online product offerings.

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

The following table depicts cost of goods sold and gross margin in dollars and the related gross margin percentages for the thirty-nine weeks ended October 30, 2010 and October 31, 2009 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended	
	October 30, 2010	October 31, 2009
Cost of goods sold	\$ 614,128	\$ 555,713
Gross margin	\$ 815,853	\$ 721,707
Gross margin percentage	57.1%	56.5%

Gross margin as a percentage of sales for the year-to-date period improved to 57.1% compared to 56.5% for the comparable period last year. The improvement in gross margin percentage is primarily attributable to improved merchandise margins at WHIBM stores and an improvement in merchandise margins at the Chico's outlet stores due to increased penetration of made-for-outlet product. These improvements in gross margin were partially offset by a slight decrease in merchandise margins at Chico's front-line stores due to higher markdowns.

Selling, General and Administrative Expenses

The following tables depict store and direct operating expenses, marketing, and National Store Support Center expenses in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 30, 2010 and October 31, 2009 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended	
	October 30, 2010	October 31, 2009
Store and direct operating expenses	\$ 502,404	\$ 482,481
Percentage of total net sales	35.1%	37.8%

Store and direct operating expenses include store and DTC operational expenses, and reflect such items as personnel, occupancy, credit card fees, depreciation and supplies incurred to operate each of our stores and the DTC channel. In addition, store and direct operating expenses include support expenditures for district and regional management and other store support functions. Store and direct operating expenses increased in dollars for the year-to-date period primarily due to (i) increases in store personnel costs associated with higher sales, (ii) costs associated with 64 net new store openings since last year's third quarter and (iii) higher credit card fees associated with the increase in sales compared to the prior year-to-date period. Expressed as a percentage of net sales, store and direct operating expenses decreased by 270 basis points primarily due to the leverage from improved comparable store sales.

	Thirty-Nine Weeks Ended	
	October 30, 2010	October 31, 2009
Marketing	\$ 79,019	\$ 58,976
Percentage of total net sales	5.5%	4.6%

Marketing expenses include marketing programs such as direct marketing efforts, national advertising expenses via various media and related support costs. Marketing expenses increased \$20 million in the year-to-date period and, as expressed as a percentage of net sales, increased by approximately 90 basis points due mainly to increased television, online and print media campaigns for all three brands.

Table of Contents

	Thirty-Nine Weeks Ended	
	October 30, 2010	October 31, 2009
National Store Support Center	\$ 87,035	\$ 85,123
Percentage of total net sales	6.1%	6.7%

National Store Support Center (NSSC) expenses consist of the corporate level functions including executive management, human resources, management information systems and finance, among others. NSSC expenses increased in the current year-to-date period mainly due to increased relocation and recruiting costs. Expressed as a percentage of net sales, NSSC expenses decreased in the year-to-date period by approximately 60 basis points, primarily due to the leverage associated with improved comparable store sales.

Impairment Charges

The following table depicts impairment charges in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 30, 2010 and October 31, 2009 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended	
	October 30, 2010	October 31, 2009
Impairment charges	\$ 822	\$ 13,026
Percentage of total net sales	0.1%	1.0%

The non-cash impairment charges recognized in the first thirty-nine weeks of fiscal 2010 related to the write-off of fixed assets at certain underperforming stores.

The impairment charges recognized in the thirty-nine weeks of fiscal 2009 include the following: 1) the write-off of development costs for software applications totaling \$8.1 million; 2) the partial write-off of a note receivable totaling \$3.8 million; and 3) \$1.1 million in impairment charges related to the write-off of fixed assets at certain underperforming stores.

Provision for Income Taxes

Our effective tax rate for the thirty-nine weeks ended October 30, 2010 is 36.0% compared to an effective tax rate of 37.5% for the thirty-nine weeks ended October 31, 2009. Our effective tax rate was lower in the current thirty-nine week period compared to last year due primarily to a favorable state income tax audit settlement and the restoration of a state tax receivable due to a favorable ruling.

Liquidity and Capital Resources

Our ongoing capital requirements have been and are for funding capital expenditures for new, expanded, relocated and remodeled stores, continued improvement of information technology tools, for the planned expansion of our NSSC campus and for our distribution centers and other central support facilities.

The following table depicts our capital resources as of October 30, 2010 and October 31, 2009 (amounts in thousands):

	October 30, 2010	October 31, 2009
Cash and cash equivalents	\$ 21,930	\$ 60,985
Marketable securities	\$ 483,622	\$ 362,322
Working capital	\$ 511,234	\$ 381,762

Table of Contents

Working capital as of October 30, 2010 increased compared to October 31, 2009 resulting primarily from higher cash and marketable securities amounts attributable to our improved operating results. In addition, certain tax initiatives resulted in the conversion of a significant portion of our noncurrent deferred tax assets to a current position and generated an income tax receivable. The significant components of working capital are cash and cash equivalents, marketable securities, receivables and inventories, reduced by current liabilities.

Based on past performance and current expectations, we believe that our cash and cash equivalents, marketable securities and cash generated from operations will satisfy and fund our working capital needs, future capital expenditures (see *New Store Openings and Infrastructure Investments*), commitments, dividend payments, potential share repurchases and other liquidity requirements associated with our operations through at least the next 12 months. Furthermore, while it is our intention to continue to pay a quarterly cash dividend in the future, any determination to pay future dividends will be made by the Board of Directors and will depend on future earnings, financial condition and other factors.

Operating Activities

Net cash provided by operating activities was \$176.9 million and \$200.3 million for the thirty-nine weeks ended October 30, 2010 and October 31, 2009, respectively. The \$23.4 million decrease in cash flows from operating activities in the current period from the prior period is primarily due to the increase in inventory investment accompanied by differences in the timing of accounts payable and accrued liabilities. These uses of cash were partially offset by higher net income.

Investing Activities

Net cash used in investing activities was \$155.3 million and \$171.1 million for the thirty-nine weeks ended October 30, 2010 and October 31, 2009, respectively.

We had net purchases of \$96.8 million of marketable securities in the current year-to-date period compared to net purchases of \$120.1 million of marketable securities in last year's comparable year-to-date period.

Our approximate \$7.5 million increase in capital expenditures in the current year-to-date period when compared to last year's year-to-date period was primarily related to new, relocated, remodeled and expanded Chico's/Soma and WHIBM stores, partially offset by decreased distribution center improvements.

Financing Activities

Net cash used in financing activities was \$36.7 million during the thirty-nine weeks ended October 30, 2010 compared to net cash provided by financing activities of \$5.3 million for the thirty-nine weeks ended October 31, 2009.

Through the first nine months of fiscal 2010, we declared three quarterly \$0.04 per share cash dividend payments on our common stock totaling \$21.4 million and repurchased \$18.3 million of our common stock through the share repurchase program announced in August 2010. In the current and prior year-to-date periods, we received proceeds from both the issuance of common stock related to option exercises and employee participation in our employee stock purchase plan.

Table of Contents

New Store Openings and Infrastructure Investments

During the first nine months of fiscal 2010, we had 64 net store openings consisting of 35 Soma net openings, 15 Chico's net openings and 14 WHIBM net openings. Currently, we expect our overall square footage in fiscal 2010 to increase approximately 6%, reflecting approximately 14-16 net openings of Chico's stores, 13-15 net openings of WHIBM stores, approximately 40 net openings of Soma stores (which does not include Soma sister stores) and 14-16 relocations/expansions. We continuously evaluate the appropriate new store growth rate in light of economic conditions and may adjust the growth rate as conditions require or as opportunities arise.

We believe that the liquidity needed for new stores (including the continued investment associated with the Soma brand), our continuing store remodel/expansion program, investments in improvements and expansions of our NSSC and distribution centers, continued installation and upgrading of new and existing software packages and related hardware, and investment in inventory levels associated with our growth will be funded primarily from cash flow from operations and our existing cash and marketable securities balances, and, if necessary, the capacity included in our bank credit facility.

At the beginning of fiscal 2010, we completed the second major phase of our multi-year, planned implementation of our enterprise resource planning (ERP) system. We are currently utilizing this system in all of our brands. The third major phase includes on-going enhancements and optimization of the new ERP across all three brands, as well as the deployment of additional functionality.

In fiscal 2009, we purchased JDA Enterprise Planning, JDA Assortment Planning and JDA Allocation software applications instead of previously planned implementations of related SAP applications and revised our roll out plan accordingly. We completed the implementation of the allocation functionality during fiscal 2009, installed enterprise planning in 2010 and are currently working on implementing the additional JDA planning applications over the next 18-24 months.

Given our existing cash and marketable securities balances and the capacity included in our bank credit facility, we do not believe that we will need to seek other sources of financing to conduct our operations, pay future dividends, repurchase shares under our recently announced program or pursue our expansion plans even if cash flow from operations should prove to be less than anticipated or if there should arise a need for additional letter of credit capacity due to establishing new and expanded sources of supply, or if we were to increase the number of new stores planned to be opened in future periods.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors, and believes the assumptions and estimates, as set forth in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010, are significant to reporting our results of operations and financial position. There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

Table of Contents

Inflation

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

Quarterly Results and Seasonality

Our 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, our periodic results can be directly and significantly impacted by the extent to which new merchandise offerings are accepted by customers and by the timing of the introduction of such merchandise.

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 our current views with respect to certain events that could have an effect on our future financial performance, including but without limitation, statements regarding future growth rates of our store concepts. 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, we may issue press releases and other written communications, and our representatives may make oral statements, which contain forward-looking information.

These statements, including those in this Form 10-Q and those in press releases or made orally, 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 in our Annual Report on Form 10-K filed with the SEC on March 24, 2010.

These potential risks and uncertainties include the financial strength of retailing in particular and the economy in general, the extent of financial difficulties that may be experienced by customers, our ability to secure and maintain customer acceptance of styles and store concepts, the propriety of inventory mix and sizing, the quality of merchandise received from suppliers, the extent and nature of competition in the markets in which we operate, the extent of the market demand and overall level of spending for women's private branded clothing and related accessories, the adequacy and perception of customer service, the ability to coordinate product development with buying and planning, the ability of our suppliers to timely produce and deliver clothing and accessories, the changes in the costs of manufacturing, labor and advertising, the rate of new store openings, the buying public's acceptance of any of our 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 our NSSC, distribution centers 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 DTC sales operations, the ability to secure and protect trademarks and other intellectual property rights, the ability to effectively and efficiently operate the Chico's, WH|BM, and Soma merchandise divisions, risks associated with terrorist activities, risks associated with natural disasters such

Table of Contents

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

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

Litigation

In the normal course of business, we are subject to proceedings, lawsuits and other claims including proceedings under laws and government regulations relating to labor, product, intellectual property and other matters. 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 30, 2010, 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 us would not be material to the annual consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk of our financial instruments as of October 30, 2010 has not significantly changed since January 30, 2010. We are exposed to market risk from changes in interest rates on any future indebtedness and our marketable securities.

Our exposure to interest rate risk relates in part to our revolving line of credit with our bank. However, as of October 30, 2010, we did not have any outstanding borrowings on our line of credit and, given our current liquidity position, do not expect to utilize our line of credit in the foreseeable future except for the continuing use of the letter of credit facility portion thereof.

Our investment portfolio is maintained in accordance with our investment policy which identifies allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. Our investment portfolio consists of cash equivalents and marketable securities, including variable rate demand notes, which are considered highly liquid, variable rate municipal debt securities, municipal bonds, asset-backed securities, corporate bonds, and U.S. treasury securities. Although the variable rate demand notes, totaling \$273.2 million as of October 30, 2010, have long-term maturity dates ranging from 2011 to 2048, the interest rates generally reset weekly. Despite the long-term nature of the underlying securities of the variable rate demand notes, we have the ability to quickly liquidate or put back these securities. The remainder of the portfolio, as of October 30, 2010 consisted of \$57.5 million of securities with maturity dates less than one year and \$152.9 million with maturity dates over one year and less than or equal to three years. We consider all available-for-sale securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and therefore classify these securities as short-term investments within current assets on the consolidated balance sheets. As of October 30, 2010, an increase of 100 basis points in interest rates would reduce the fair value of our marketable securities portfolio by approximately \$2.6 million. Conversely, a reduction of 100 basis points in interest rates would increase the fair value of our marketable securities portfolio by approximately \$2.0 million.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Controls

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

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

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

ITEM 1A. RISK FACTORS

In addition to the other information discussed in this report, the factors described in Part I, Item 1A., Risk Factors in our 2009 Annual Report on Form 10-K filed with the SEC on March 24, 2010 should be considered as they could materially affect our business, financial condition or future results. There have not been any significant changes with respect to the risks described in our 2009 Form 10-K, but these are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results.

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

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

Period	Total Number of Shares Purchased(a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Publicly Announced Plans
August 1, 2010 to August 28, 2010	873,222	\$ 8.79	870,000	\$ 192,359
August 29, 2010 to October 2, 2010	1,230,591	\$ 8.72	1,226,300	\$ 181,662
October 3, 2010 to October 30, 2010		\$		\$ 181,662
Total	2,103,813	\$ 8.75	2,096,300	\$ 181,662

(a) Includes 7,513 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.

Table of Contents

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

Table of Contents

SIGNATURES

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

CHICOS FAS, INC.

Date: November 24, 2010

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

Date: November 24, 2010

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