

CHICOS FAS INC  
Form 10-Q  
August 24, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

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

**For the Quarter Ended:**  
**July 30, 2011**

**Commission File Number:**  
**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 August 17, 2011, there were 172,190,161 shares outstanding of Common Stock, \$.01 par value per share.

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

(In thousands, except per share amounts)

	<b>Twenty-Six Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>July 30, 2011</b>	<b>July 31, 2010</b>	<b>July 30, 2011</b>	<b>July 31, 2010</b>
<b>Net Sales:</b>				
Chico's/Soma Intimates	\$ 749,258	\$ 656,360	\$ 374,324	\$ 319,660
White House Black Market	339,349	290,599	177,125	145,711
<b>Net sales</b>	<b>1,088,607</b>	<b>946,959</b>	<b>551,449</b>	<b>465,371</b>
Cost of goods sold	461,617	406,173	242,122	206,164
<b>Gross margin</b>	<b>626,990</b>	<b>540,786</b>	<b>309,327</b>	<b>259,207</b>
<b>Selling, general and administrative expenses:</b>				
Store and direct operating expenses	364,977	333,501	183,461	164,853
Marketing	51,971	47,091	21,073	18,011
National Store Support Center	68,253	57,782	35,822	28,982
<b>Total selling, general and administrative expenses</b>	<b>485,201</b>	<b>438,374</b>	<b>240,356</b>	<b>211,846</b>
<b>Income from operations</b>	<b>141,789</b>	<b>102,412</b>	<b>68,971</b>	<b>47,361</b>
Interest income, net	820	844	420	394
<b>Income before income taxes</b>	<b>142,609</b>	<b>103,256</b>	<b>69,391</b>	<b>47,755</b>
Income tax provision	53,300	37,400	26,000	17,300
<b>Net income</b>	<b>\$ 89,309</b>	<b>\$ 65,856</b>	<b>\$ 43,391</b>	<b>\$ 30,455</b>
<b>Per share data:</b>				
Net income per common share-basic	\$ 0.51	\$ 0.37	\$ 0.25	\$ 0.17
Net income per common & common equivalent share diluted	\$ 0.51	\$ 0.37	\$ 0.25	\$ 0.17
Weighted average common shares outstanding basic	173,082	177,417	171,282	177,499

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Weighted average common & common equivalent shares outstanding diluted	174,298	178,807	172,495	178,774
Dividends declared per share	\$ 0.15	\$ 0.12	\$ 0.05	\$ 0.04

*See Accompanying Notes.*

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

	July 30, 2011 (Unaudited)	January 29, 2011	July 31, 2010 (Unaudited)
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 56,109	\$ 14,695	\$ 17,559
Marketable securities, at fair value	448,211	534,019	469,829
Receivables	5,619	3,845	7,483
Income tax receivable	11,303	6,565	657
Inventories	190,745	159,814	146,899
Prepaid expenses	31,184	26,851	27,018
Deferred taxes	9,084	10,976	9,823
<b>Total Current Assets</b>	<b>752,255</b>	<b>756,765</b>	<b>679,268</b>
<b>Property and Equipment:</b>			
Land and land improvements	43,314	42,468	42,080
Building and building improvements	92,864	89,328	85,628
Equipment, furniture and fixtures	463,130	428,217	406,682
Leasehold improvements	436,432	426,141	418,585
<b>Total Property and Equipment</b>	<b>1,035,740</b>	<b>986,154</b>	<b>952,975</b>
Less accumulated depreciation and amortization	(510,958)	(468,777)	(425,498)
<b>Property and Equipment, Net</b>	<b>524,782</b>	<b>517,377</b>	<b>527,477</b>
<b>Other Assets:</b>			
Goodwill	96,774	96,774	96,774
Other intangible assets	38,930	38,930	38,930
Deferred taxes		964	39,597
Other assets, net	5,532	5,211	4,940
<b>Total Other Assets</b>	<b>141,236</b>	<b>141,879</b>	<b>180,241</b>
	<b>\$ 1,418,273</b>	<b>\$ 1,416,021</b>	<b>\$ 1,386,986</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Current Liabilities:**

Accounts payable	\$ 132,703	\$ 106,680	\$ 101,595
Accrued liabilities	91,885	94,837	93,592
Current portion of deferred liabilities	21,150	19,760	19,681
<b>Total Current Liabilities</b>	<b>245,738</b>	<b>221,277</b>	<b>214,868</b>

**Noncurrent Liabilities:**

Deferred liabilities	130,196	129,837	137,437
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**Stockholders Equity:**

Preferred stock			
Common stock	1,722	1,779	1,789
Additional paid-in capital	293,881	282,528	276,000
Retained earnings	746,006	780,212	756,043
Accumulated other comprehensive income	730	388	849

<b>Total Stockholders Equity</b>	1,042,339	1,064,907	1,034,681
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	\$ 1,418,273	\$ 1,416,021	\$ 1,386,986
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*See Accompanying Notes.*

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

	<b>Twenty-Six Weeks Ended July 30, 2011</b>	<b>July 31, 2010</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 89,309	\$ 65,856
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	48,353	46,636
Deferred tax expense (benefit)	4,845	(3,628)
Stock-based compensation expense	8,365	5,950
Excess tax benefit from stock-based compensation	(1,642)	(1,011)
Deferred rent and lease credits	(9,167)	(8,037)
Loss on disposal of property and equipment	1,756	1,813
Decrease (increase) in assets		
Receivables, net	(1,774)	(3,578)
Income tax receivable	(4,738)	(346)
Inventories	(30,931)	(8,382)
Prepaid expenses and other	(5,904)	(2,666)
Increase in liabilities		
Accounts payable	17,417	15,203
Accrued and other deferred liabilities	6,637	2,110
Total adjustments	33,217	44,064
Net cash provided by operating activities	122,526	109,920
<b>Cash Flows from Investing Activities:</b>		
Decrease (increase) in marketable securities	86,150	(82,884)
Purchases of property and equipment, net	(56,265)	(34,380)
Net cash provided by (used in) investing activities	29,885	(117,264)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of common stock	2,762	1,378
Excess tax benefit from stock-based compensation	1,642	1,011
Dividends paid	(17,521)	(14,282)
Repurchase of common stock	(97,880)	(247)
Net cash used in financing activities	(110,997)	(12,140)
Net increase (decrease) in cash and cash equivalents	41,414	(19,484)
<b>Cash and Cash Equivalents, Beginning of period</b>	<b>14,695</b>	<b>37,043</b>
<b>Cash and Cash Equivalents, End of period</b>	<b>\$ 56,109</b>	<b>\$ 17,559</b>

**Supplemental Disclosures of Cash Flow Information:**

Cash paid for interest	\$ 195	\$ 142
Cash paid for income taxes, net	\$ 51,587	\$ 39,368

**Non-Cash Investing and Financing Activities:**

Repossession of land in satisfaction of note receivable	\$	\$ 20,000
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*See Accompanying Notes.*

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

**Notes to Consolidated Financial Statements**

**July 30, 2011**

**(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 29, 2011, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 22, 2011. The January 29, 2011 balance sheet amounts were derived from audited financial statements included in the Company's Annual Report.

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

Our fiscal years end on the Saturday closest to January 31 and are designated by the calendar year in which the fiscal year commences. Operating results for the thirteen and twenty-six weeks ended July 30, 2011 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. New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board issued new disclosure guidance related to the presentation of the statement of comprehensive income. This guidance provides an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The current option to report other comprehensive income and its components in the statement of changes in stockholders' equity was eliminated. This accounting standard is effective for periods beginning on or after December 15, 2011. Other than the change in presentation, this accounting standard will not have a material impact on our financial position and results of operations.

**Note 3. Income Taxes**

Our uncertain tax positions were \$3.6 million at both July 30, 2011 and January 29, 2011. As of July 30, 2011, we do not believe that our estimates, as otherwise provided for, on such 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.

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**Chico's FAS, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**July 30, 2011**  
**(Unaudited)**

(in thousands, except share and per share amounts)

**Note 4. Stock-Based Compensation**

For the twenty-six weeks ended July 30, 2011 and July 31, 2010, stock-based compensation expense was \$8.4 million and \$6.0 million, respectively, and for the thirteen weeks ended July 30, 2011 and July 31, 2010, stock-based compensation expense was \$4.7 million and \$3.1 million, respectively. The total tax benefit associated with stock-based compensation for the twenty-six weeks ended July 30, 2011 and July 31, 2010 was \$3.2 million and \$2.3 million, respectively, and for the thirteen weeks ended July 30, 2011 and July 31, 2010, the total tax benefit associated with stock-based compensation was \$1.8 million and \$1.2 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.

We use the Black-Scholes option-pricing model to value our stock options. The weighted average assumptions relating to the valuation of our stock options for the twenty-six and thirteen weeks ended July 30, 2011 and July 31, 2010 were as follows:

	<b>Twenty-Six Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>July 30, 2011</b>	<b>July 31, 2010</b>	<b>July 30, 2011</b>	<b>July 31, 2010</b>
Weighted average fair value of grants	\$ 6.70	\$ 6.89	\$ 6.66	\$ 5.91
Expected volatility	66%	66%	64%	66%
Expected term (years)	4.5	4.5	4.5	4.5
Risk-free interest rate	1.9%	2.1%	1.6%	1.8%
Expected dividend yield	1.5%	1.0%	1.4%	1.3%

*Stock-Based Awards Activity*

As of July 30, 2011, 6,611,081 nonqualified options are outstanding at a weighted average exercise price of \$13.03 per share, and approximately 5.3 million shares remain available for future grants of either stock options, restricted stock or restricted stock units, stock appreciation rights ( SARs ) or performance shares.

The following table presents a summary of our stock options activity for the twenty-six weeks ended July 30, 2011:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of period	6,033,101	\$ 12.87
Granted	1,531,000	13.72
Exercised	(405,161)	5.70
Canceled or expired	(547,859)	18.68
Outstanding, end of period	6,611,081	13.03
Exercisable at July 30, 2011	3,681,315	14.59

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**Chico's FAS, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**July 30, 2011**

**(Unaudited)**

**(in thousands, except share and per share amounts)**

The following table presents a summary of our restricted stock activity for the twenty-six weeks ended July 30, 2011:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested, beginning of period	1,430,335	\$ 9.27
Granted	761,427	13.76
Vested	(246,305)	10.69
Canceled	(136,397)	10.62
Nonvested, end of period	1,809,060	10.86

*Performance-based Awards*

In the first quarter of fiscal 2011, a performance-based stock award was granted to our President and Chief Executive Officer, Mr. Dyer. Under this performance award, Mr. Dyer is eligible to receive up to 133,333 shares, with a target of 100,000 shares, contingent upon the achievement of certain Company-specific performance goals during fiscal 2011. 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 1 year 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 1-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 2011, certain of our executive officers were granted a restricted stock award of which a performance condition was attached to 50% of the award, contingent upon the achievement of certain Company-specific performance goals during fiscal 2011. Any shares earned as a result of the achievement of such goals will vest over 3 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 3-year service period.

**Note 5. Earnings 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.

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**Notes to Consolidated Financial Statements**  
**July 30, 2011**  
**(Unaudited)**

(in thousands, except share and per share amounts)

**Note 5. Earnings 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:

	<b>Twenty-Six Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>July 30, 2011</b>	<b>July 31, 2010</b>	<b>July 30, 2011</b>	<b>July 31, 2010</b>
<b>Numerator</b>				
Net income	\$ 89,309	\$ 65,856	\$ 43,391	\$ 30,455
Net income allocated to participating securities	(1,110)	(440)	(573)	(216)
Net income available to common shareholders	\$ 88,199	\$ 65,416	\$ 42,818	\$ 30,239
<b>Denominator</b>				
Weighted average common shares outstanding basic	173,081,952	177,417,471	171,282,434	177,499,286
Dilutive effect of stock options outstanding	1,216,112	1,389,066	1,212,573	1,275,130
Weighted average common and common equivalent shares outstanding diluted	174,298,064	178,806,537	172,495,007	178,774,416
Net income per common share:				
Basic	\$ 0.51	\$ 0.37	\$ 0.25	\$ 0.17
Diluted	\$ 0.51	\$ 0.37	\$ 0.25	\$ 0.17

For the thirteen weeks ended July 30, 2011 and July 31, 2010, 3,980,832 and 3,445,097 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 twenty-six weeks ended July 30, 2011 and July 31, 2010, 3,964,669 and 3,306,313 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 6. 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 generally consist of municipal bonds, asset-backed securities, corporate bonds, commercial paper, certificates of deposit, and U.S Treasury securities. As of July 30, 2011, our holdings consisted of \$265.5 million of securities with maturity dates less than one year and \$182.7 million with maturity dates over one year and less than or equal to two 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. Marketable securities are carried

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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 certain 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 price