CHICOS FAS INC
Form 10-Q
August 24, 2011

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:**
July 30, 2011	**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 þ No o

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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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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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)

	Twenty-Six Weeks Ended		Thirteen Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
Net Sales:				
Chico s/Soma Intimates	$ 749,258	$ 656,360	$ 374,324	$ 319,660
White House Black Market	339,349	290,599	177,125	145,711
Net sales	1,088,607	946,959	551,449	465,371
Cost of goods sold	461,617	406,173	242,122	206,164
Gross margin	626,990	540,786	309,327	259,207
Selling, general and administrative expenses:				
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
Total selling, general and administrative expenses	485,201	438,374	240,356	211,846
Income from operations	141,789	102,412	68,971	47,361
Interest income, net	820	844	420	394
Income before income taxes	142,609	103,256	69,391	47,755
Income tax provision	53,300	37,400	26,000	17,300
Net income	$ 89,309	$ 65,856	$ 43,391	$ 30,455
Per share data:				
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

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)
ASSETS			
Current Assets:			
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
Total Current Assets	752,255	756,765	679,268
Property and Equipment:			
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
Total Property and Equipment	1,035,740	986,154	952,975
Less accumulated depreciation and amortization	(510,958)	(468,777)	(425,498)
Property and Equipment, Net	524,782	517,377	527,477
Other Assets:			
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
Total Other Assets	141,236	141,879	180,241
	$ 1,418,273	$ 1,416,021	$ 1,386,986
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
Total Current Liabilities	245,738	221,277	214,868

Noncurrent Liabilities:			
Deferred liabilities	130,196	129,837	137,437
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
Total Stockholders Equity	1,042,339	1,064,907	1,034,681
	$ 1,418,273	$ 1,416,021	$ 1,386,986

See Accompanying Notes.

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

	Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010
Cash Flows from Operating Activities:		
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
Cash Flows from Investing Activities:		
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)
Cash Flows from Financing Activities:		
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)
Cash and Cash Equivalents, Beginning of period	14,695	37,043
Cash and Cash Equivalents, End of period	$ 56,109	$ 17,559

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

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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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:

	Twenty-Six Weeks Ended		Thirteen Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
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:

	Number of Shares	Weighted Average Exercise Price
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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The following table presents a summary of our restricted stock activity for the twenty-six weeks ended July 30, 2011:

	Number of Shares	Weighted Average Grant Date Fair Value
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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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:

	Twenty-Six Weeks Ended		Thirteen Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
Numerator				
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
Denominator				
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 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 prices and are included in other assets on our consolidated balance sheets.

From time to time, we measure certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment. We estimate the fair value of our long-lived assets using company-specific assumptions which would fall within Level 3 of the fair value hierarchy.

During the quarter ended July 30, 2011, we did not make significant transfers between Level 1 and Level 2 financial assets. Furthermore, as of July 30, 2011, January 29, 2011 and July 31, 2010, we did not have any Level 3 financial assets. We conduct reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure.

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Note 6. Fair Value Measurements (continued)

In accordance with the provisions of the guidance, we categorized our financial assets based on the priority of the inputs to the valuation technique for the instruments, as follows (amounts in thousands):

		Fair Value Measurements at Reporting Date Using		
Current Assets	**Balance as of July 30, 2011**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents:				
Money market accounts	$ 9,895	$ 9,895	$	$
Marketable securities:				
Municipal securities	136,826		136,826	
U.S. government securities	100,719	52,890	47,829	
Corporate bonds	162,914		162,914	
Asset-backed securities	616		616	
Commercial paper	45,064		45,064	
Certificates of deposit	2,072		2,072	
Non Current Assets				
Deferred compensation plan	4,256	4,256		
Total	$ 462,362	$ 67,041	$ 395,321	$

Current Assets	**Balance as of January 29, 2011**			
Cash equivalents:				
Money market accounts	$ 5,397	$ 5,397	$	$
Marketable securities:				
Variable rate demand notes	319,220		319,220	
Municipal securities	151,159		151,159	
U.S. government securities	58,554	58,554		
Corporate bonds	2,055		2,055	
Asset-backed securities	3,031		3,031	
Non Current Assets				
Deferred compensation plan	4,143	4,143		

Total	$ 543,559	$ 68,094	$ 475,465	$

Current Assets	**Balance as of July 31, 2010**			
Cash equivalents:				
Money market accounts	$ 1,467	$ 1,467	$	$
Marketable securities:				
Variable rate demand notes	230,728		230,728	
Municipal securities	158,557		158,557	
U.S. government securities	59,130	59,130		
Corporate bonds	12,453		12,453	
Asset-backed securities	8,961		8,961	
Non Current Assets				
Deferred compensation plan	3,815	3,815		
Total	$ 475,111	$ 64,412	$ 410,699	$

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Note 7. Subsequent Events

In August 2011, the Company entered into an agreement to purchase Boston Proper, Inc., a privately held direct-to-consumer retailer, for total cash consideration of $205 million to be funded entirely from available cash balances. The transaction is expected to close in the third quarter of fiscal 2011 but is subject to customary closing conditions, including regulatory review.

Since July 30, 2011, in accordance with the share repurchase program, the Company repurchased and retired approximately 3.2 million shares of stock for $40.0 million.

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

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the accompanying unaudited consolidated financial statements and notes thereto and our 2010 Annual Report to Stockholders.

Executive Overview

We are a national 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 (WH|BM), 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.

For fiscal 2011, we continue to focus on executing the goals that contributed to our success over the last few years. These initiatives were and continue to be: 1) rebuilding the Chico s business into a high performance brand, 2) investing in the growth potential of the WH|BM and Soma brands, 3) accelerating the growth of the direct-to-consumer (DTC) channel, 4) improving our cost structure and maintaining inventory control, and 5) achieving a level of profitability in the current year comparable to what we achieved in fiscal 2005, previously our highest earnings year.

Our financial performance reflects our progress in implementing these strategic initiatives. For the quarter, earnings per share increased 47%, net sales increased 18.5%, and comparable sales increased 12.8%, reflecting our compelling fashion offering and effective merchandise and marketing programs.

Financial Highlights for the Second Quarter of 2011

Net sales for the thirteen-week period ended July 30, 2011 (current period) increased 18.5% to $551.4 million compared to $465.4 million for the thirteen-week period ended July 31, 2010 (prior period), driven by 9% net square footage growth and by a comparable sales increase of 12.8% compared to an increase of 7.6% in the prior period.

Gross margin percentage for the current period increased to 56.1% from 55.7% in the prior period.

Selling, general and administrative (SG&A) expenses for the current period, as a percentage of total net sales, decreased to 43.6% from 45.5% in the prior period.

Operating income in the current period, as a percentage of total net sales, increased to 12.5% from 10.2% in the prior period.

Net income in the current period was $43.4 million compared to net income of $30.5 million in the prior period.

Earnings per diluted share for the current period increased to $0.25 compared to $0.17 in the prior period.

Cash and marketable securities at the end of the 2011 second quarter was $504.3 million, reflecting an increase of $16.9 million over last year s second quarter.

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Future Outlook

For the third quarter of 2011, our assumptions are a mid-single digit increase in comparable sales accompanied by an approximate 9% increase in selling square footage, which should result in a total net sales increase in the low to mid teens for the quarter. We expect slight improvement in the gross margin rate and SG&A as a percentage of net sales compared to last year s third quarter. We expect an increase in cost of goods sold and SG&A dollars, reflecting higher comparable sales and new store growth, as well as increases in marketing expense and performance-based compensation.

Results of Operations Thirteen Weeks Ended July 30, 2011 Compared to the Thirteen Weeks Ended July 31, 2010.

The following table sets forth the percentage relationship to net sales of certain items in our consolidated statements of income for the periods shown below:

	Twenty-Six Weeks Ended		Thirteen Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2010	July 31, 2010
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	42.4	42.9	43.9	44.3
Gross margin	57.6	57.1	56.1	55.7
Store and direct operating expenses	33.5	35.2	33.3	35.4
Marketing	4.8	5.0	3.8	3.9
National Store Support Center	6.3	6.1	6.5	6.2
Income from operations	13.0	10.8	12.5	10.2
Interest income, net	0.1	0.1	0.1	0.0
Income before income taxes	13.1	10.9	12.6	10.2
Income tax provision	4.9	3.9	4.7	3.7
Net income	8.2%	7.0%	7.9%	6.5%

Net Sales

The following table depicts net sales for the Chico s/Soma and WH|BM brands in dollars and as a percentage of total net sales for the thirteen weeks ended July 30, 2011 and July 31, 2010 (dollar amounts in thousands):

	Thirteen Weeks Ended			
	July 30, 2011		July 31, 2010	
Net Sales:				
Chico s/Soma Intimates	$ 374,324	67.9%	$ 319,660	68.7%
White House/ Black Market	177,125	32.1	145,711	31.3
Total net sales	$ 551,449	100.0%	$ 465,371	100.0%

Net sales by the Chico s/Soma and WH|BM brands increased from the prior period primarily due to positive comparable sales as well as new store openings. The Chico s/Soma brands comparable sales increased by 11.9% and the WH|BM brand s comparable sales increased by 14.9% compared to the prior period. Comparable sales growth in the second quarter reflects our compelling fashion offering and effective merchandise and marketing programs which drove increases in both average dollar sales and number of transactions.

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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 July 30, 2011 and July 31, 2010 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	July 30, 2011	July 31, 2010
Cost of goods sold	$ 242,122	$ 206,164
Gross margin	$ 309,327	$ 259,207
Gross margin percentage	56.1%	55.7%

Gross margin as a percentage of net sales was 56.1% for the current period versus 55.7% for the prior period, a 40 basis point improvement primarily attributable to increased full-price selling partially offset by planned promotional activity.

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 July 30, 2011 and July 31, 2010 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	July 30, 2011	July 31, 2010
Store and direct operating expenses	$ 183,461	$ 164,853
Percentage of total net sales	33.3%	35.4%

Store and direct operating expenses as a percentage of net sales were 33.3% for the current period versus 35.4% for the prior period, a 210 basis point decrease, primarily reflecting the leverage achieved on store payroll and occupancy costs against the larger sales base.

	Thirteen Weeks Ended	
	July 30, 2011	July 31, 2010
Marketing	$ 21,073	$ 18,011
Percentage of total net sales	3.8%	3.9%

	Thirteen Weeks Ended	
	July 30, 2011	July 31, 2010
National Store Support Center	$ 35,822	$ 28,982
Percentage of total net sales	6.5%	6.2%

National Store Support Center (NSSC) expenses as a percentage of net sales were 6.5% in the current period versus 6.2% in the prior period, a 30 basis point increase primarily reflecting higher performance based compensation compared to last year.

Provision for Income Taxes

Our effective tax rate increased for the current period to 37.5% versus 36.2% in the prior period. Our effective tax rate was higher in the current period due primarily to favorable state audit settlements and state refund claims in the previous year.

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Results of Operations Twenty-Six Weeks Ended July 30, 2011 Compared to the Twenty-Six Weeks Ended July 31, 2010.

Net Sales

The following table depicts net sales for the Chico s/Soma and WH|BM brands in dollars and as a percentage of total net sales for the year-to-date period ended July 30, 2011 and July 31, 2010 (dollar amounts in thousands):

	Twenty-Six Weeks Ended			
	July 30, 2011		July 31, 2010	
Net Sales:				
Chico s/Soma Intimates	$ 749,258	68.8%	$ 656,360	69.3%
White House/ Black Market	339,349	31.2	290,599	30.7
Total net sales	$ 1,088,607	100.0%	$ 946,959	100.0%

Net sales by the Chico s/Soma and WH|BM brands increased from the prior year-to-date period primarily due to positive comparable sales as well as new store openings. The Chico s/Soma brands comparable sales increased by 9.7% and the WH|BM brand s comparable sales increased by 11.1% compared to the prior year-to-date period. Comparable sales growth in the current year-to-date period reflects our compelling fashion offering and effective merchandising and marketing programs which drove increases in both average dollar sales and number of transactions.

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 twenty-six weeks ended July 30, 2011 and July 31, 2010 (dollar amounts in thousands):

	Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010
Cost of goods sold	$ 461,617	$ 406,173
Gross margin	$ 626,990	$ 540,786
Gross margin percentage	57.6%	57.1%

Gross margin as a percentage of sales was 57.6% for the current year-to-date period versus 57.1% for the prior year-to-date period, a 50 basis point improvement primarily attributable to increased full-price selling partially offset by planned promotional activity.

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 twenty-six weeks ended July 30, 2011 and July 31, 2010 (dollar amounts in thousands):

	Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010
Store and direct operating expenses	$ 364,977	$ 333,501
Percentage of total net sales	33.5%	35.2%

Store and direct operating expenses as a percentage of net sales were 33.5% for the current year-to-date period versus 35.2% for the prior year-to-date period, a 170 basis point improvement primarily reflecting the leverage achieved on store payroll and occupancy costs against the larger sales base.

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	Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010
Marketing	$ 51,971	$ 47,091
Percentage of total net sales	4.8%	5.0%

Marketing expenses as a percentage of net sales were 4.8% for the current year-to-date period versus 5.0% for the prior year-to-date period, a 20 basis point improvement primarily reflecting the leverage achieved on marketing expenses against the larger sales base.

	Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010
National Store Support Center	$ 68,253	$ 57,782
Percentage of total net sales	6.3%	6.1%

NSSC expenses as a percentage of net sales were 6.3% for the current year-to-date period versus 6.1% for the prior year-to-date period, a 20 basis point increase primarily reflecting higher performance based compensation.

Provision for Income Taxes

Our effective tax rate for the current year-to-date period is 37.4% versus 36.2% for the prior year-to-date period. Our effective tax rate was higher in the current year-to-date period due primarily to favorable state audit settlements, state refund claims and the restoration of a state tax receivable due to a favorable ruling in the previous year.

Liquidity and Capital Resources

We believe that our existing cash, and marketable securities balances and cash generated from operations will be sufficient to fund: the $205 million acquisition of Boston Proper, Inc., potential share repurchases, dividend payments, capital expenditures, working capital needs, commitments, 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 our future earnings, financial condition, and other factors.

Our ongoing capital requirements will continue to be for: new, expanded, relocated and remodeled stores; our distribution center and other central support facilities; the planned expansion of our NSSC campus; and information technology tools.

Operating Activities

Net cash provided by operating activities was $122.5 million and $109.9 million for the twenty-six weeks ended July 30, 2011 and July 31, 2010, respectively. The $12.6 million increase in cash flows from operating activities in the current period in comparison to the prior period primarily reflects higher net income and deferred taxes partially offset by investment in inventory.

Investing Activities

Net cash provided by investing activities for the twenty-six weeks ended July 30, 2011 was $29.9 million compared to $117.3 million used for the twenty-six weeks ended July 31, 2010. The net change of $147.2 million primarily reflects the net decrease in marketable securities in the current year-to-date period versus the net increase in marketable securities in the prior year-to-date period.

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Financing Activities

Net cash used in financing activities was $111.0 million and $12.1 million during the twenty-six weeks ended July 30, 2011 and July 31, 2010, respectively. The approximate $99 million increase in cash used in financing activities primarily reflects repurchases of common stock in the current year-to-date period.

Credit Facility

On July 27, 2011, we entered into a $70 million senior five-year unsecured revolving credit facility (the Credit Facility) with a syndicate led by JPMorgan Chase Bank, N.A., as administrative agent and HSBC Bank USA, National Association, as syndication agent. The Credit Facility replaces our previous $55 million secured credit facility with SunTrust Bank.

The Credit Facility provides a $70 million revolving credit facility that matures on July 27, 2016. The Credit Facility provides for swing advances of up to $5 million and issuance of letters of credit up to $40 million. The Credit Facility also contains a feature that provides the Company the ability, subject to satisfaction of certain conditions, to expand the commitments available under the Credit Facility from $70 million up to $125 million.

The Credit Facility contains standard affirmative and negative covenants and other limitations (subject to various carve-outs) regarding the Company. The covenants limit: (a) the making of investments, the payment of dividends and other payments with respect to capital, the disposition of material assets other than in the ordinary course of business, and mergers and acquisitions under certain conditions, (b) transactions with affiliates unless such transactions are completed in the ordinary course of business and upon fair and reasonable terms, (c) the incurrence of liens and indebtedness, and (d) certain substantial changes in the nature of the subsidiaries business.

The Credit Facility contains customary financial covenants for unsecured credit facilities, consisting of a maximum total debt leverage ratio that cannot be greater than 3.25 to 1.00 and a minimum fixed charge coverage ratio that cannot be less than 1.20 to 1.00.

The Credit Facility contains customary events of default. If a default occurs and is not cured within any applicable cure period or is not waived, the Company s obligations under the Credit Facility may be accelerated or the Credit Facility may be terminated.

New Store Openings

During the first six months of fiscal 2011, we had 67 net store openings consisting of 15 Chico s net openings, 34 Soma net openings, and 18 WH|BM net openings. Currently, we expect our overall square footage in fiscal 2011 to increase approximately 9%, reflecting approximately 20-22 net openings of Chico s stores, 27-29 net openings of WH|BM stores, approximately 51-53 net openings of Soma stores, and 25-27 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.

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 29, 2011, 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 29, 2011.

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 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 22, 2011.

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 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk of our financial instruments as of July 30, 2011 has not significantly changed since January 29, 2011. 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 July 30, 2011, 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 municipal bonds, asset-backed securities, corporate bonds, commercial paper, certificates of deposit, and U.S. Treasury securities. The portfolio as of July 30, 2011, 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. As of July 30, 2011, an increase of 100 basis points in interest rates would reduce the fair value of our marketable securities portfolio by approximately $3.7 million. Conversely, a reduction of 100 basis points in interest rates would increase the fair value of our marketable securities portfolio by approximately $1.6 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures

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(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.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company was named as a defendant in a putative class action filed in February 2011 in the Superior Court of the State of California for the County of Orange, Lorraine V. Garcia v. Chico s FAS, Inc. The Complaint alleges that the Company, in violation of California law, requested or required customers to provide personal information as a condition of accepting payment by credit card. The Company denied the material allegations of the Complaint. The case was wholly without merit and, in July 2011, the plaintiff voluntarily dismissed her complaint, without receiving anything of value from the Company.

The Company was named as a defendant in a putative class action filed in March 2011 in the Superior Court of the State of California for the County of Los Angeles, Eileen Schlim v. Chico s FAS, Inc. The Complaint attempts to allege numerous violations of California law related to wages, meal periods, rest periods, and vacation pay, among other things. The Company denies the material allegations of the Complaint. The Company believes that its policies and procedures for paying its associates comply with all applicable California laws. As a result, the Company does not believe that the case should have a material adverse effect on the Company s financial condition or results of operations.

Other than as noted above, we are not currently a party to any legal proceedings, other than various claims and lawsuits arising in the normal course of business, none of which we believe should have a material adverse effect on our 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 2010 Annual Report on Form 10-K filed with the SEC on March 22, 2011 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 2010 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
May 1, 2011 to May 28, 2011	1,833,267	$ 14.26	1,832,199	$ 119,224
May 29, 2011 to July 2, 2011	2,469,725	$ 14.18	2,468,563	$ 84,205
July 3, 2011 to July 30, 2011		$		$ 84,205
Total	4,302,992	$ 14.21	4,300,762	$ 84,205

(a) Includes 2,230 shares of restricted stock repurchased in connection with employee tax withholding obligations under employee compensation plans, which are not purchases under any publicly announced plan.

ITEM 6. EXHIBITS

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

Exhibit 2.1*	Agreement and Plan of Merger dated as of August 16, 2011 by and among the Company, Harbor DTC, Inc., Boston Proper, Inc. and others
Exhibit 10.1	2002 Amended and Restated Employee Stock Purchase Plan
Exhibit 10.2**	Employment letter agreement between the Company and Pamela K. Knous (Filed as Exhibit 10.1 to the Company s Form 8-K, as filed with the SEC on June 23, 2011)
Exhibit 10.3**	Credit Agreement by and among JPMorgan Chase Bank, N.A., HSBC Bank USA, National Association, the Company and the Lenders parties thereto dated as of July 27, 2011 (Filed as Exhibit 10.1 to the Company s Form 8-K, as filed with the SEC on July 29, 2011)
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

* Exhibits and schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant agrees to furnish any such omitted exhibit or schedule supplementally to the SEC upon request.

** Previously filed with the SEC as indicated and incorporated herein by this reference.

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SIGNATURES

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

	CHICO S FAS, INC.
Date: August 24, 2011	By: /s/ David F. Dyer David F. Dyer President and Chief Executive Officer (Principal Executive Officer)
Date: August 24, 2011	By: /s/ Pamela K. Knous Pamela K. Knous Executive Vice President Chief Financial Officer (Principal Financial and Accounting Officer)