

CHICOS FAS INC  
Form 10-Q  
November 23, 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: October 29, 2011

Commission File Number: 001-16435

**Chico s FAS, Inc.**

(Exact name of registrant as specified in charter)

Florida  
(State of Incorporation)

59-2389435  
(I.R.S. Employer)

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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  (do not check if a smaller reporting company)

Smaller reporting company

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

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

At November 18, 2011, there were 167,683,441 shares outstanding of Common Stock, \$.01 par value per share.

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**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)**

	<b>Thirty-Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>October 29,</b>	<b>October 30,</b>	<b>October 29,</b>	<b>October 30,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Net Sales:</b>				
Chico s/Soma Intimates	\$ 1,106,466	\$ 993,989	\$ 357,208	\$ 337,629
White House   Black Market	509,677	435,992	170,328	145,393
Boston Proper	11,010		11,010	
<b>Net sales</b>	<b>1,627,153</b>	<b>1,429,981</b>	<b>538,546</b>	<b>483,022</b>
Cost of goods sold	698,655	614,128	237,038	207,955
<b>Gross margin</b>	<b>928,498</b>	<b>815,853</b>	<b>301,508</b>	<b>275,067</b>
<b>Selling, general and administrative expenses:</b>				
Store and direct operating expenses	549,391	503,226	184,414	169,726
Marketing	90,979	79,019	39,008	31,928
National Store Support Center	99,353	87,035	31,100	29,252
Acquisition and integration costs	4,985		4,985	
<b>Total selling, general and administrative expenses</b>	<b>744,708</b>	<b>669,280</b>	<b>259,507</b>	<b>230,906</b>
<b>Income from operations</b>	<b>183,790</b>	<b>146,573</b>	<b>42,001</b>	<b>44,161</b>
Interest income, net	1,386	1,327	566	483
<b>Income before income taxes</b>	<b>185,176</b>	<b>147,900</b>	<b>42,567</b>	<b>44,644</b>
Income tax provision	69,400	53,200	16,100	15,800
<b>Net income</b>	<b>\$ 115,776</b>	<b>\$ 94,700</b>	<b>\$ 26,467</b>	<b>\$ 28,844</b>
<b>Per share data:</b>				
Net income per common share-basic	\$ 0.67	\$ 0.53	\$ 0.16	\$ 0.16
Net income per common & common equivalent share diluted	\$ 0.66	\$ 0.53	\$ 0.16	\$ 0.16
Weighted average common shares outstanding basic	170,912	177,028	166,519	176,215

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Weighted average common & common equivalent shares outstanding diluted	172,092	178,320	167,575	177,262
Dividends declared per share	\$ 0.15	\$ 0.12		

*See Accompanying Notes.*

**Table of Contents****Chico s FAS, Inc. and Subsidiaries****Consolidated Balance Sheets**

(In thousands)

	October 29, 2011 (Unaudited)	January 29, 2011	October 30, 2010 (Unaudited)
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 49,485	\$ 14,695	\$ 21,930
Marketable securities, at fair value	190,328	534,019	483,622
Receivables	5,735	3,845	4,901
Income tax receivable	6,279	6,565	12,814
Inventories	247,530	159,814	179,110
Prepaid expenses	32,472	26,851	23,442
Deferred taxes	11,738	10,976	14,347
<b>Total Current Assets</b>	<b>543,567</b>	<b>756,765</b>	<b>740,166</b>
<b>Property and Equipment:</b>			
Land and land improvements	43,631	42,468	42,351
Building and building improvements	96,712	89,328	87,246
Equipment, furniture and fixtures	487,975	428,217	420,420
Leasehold improvements	448,357	426,141	425,237
<b>Total Property and Equipment</b>	<b>1,076,675</b>	<b>986,154</b>	<b>975,254</b>
Less accumulated depreciation and amortization	(534,313)	(468,777)	(447,354)
<b>Property and Equipment, Net</b>	<b>542,362</b>	<b>517,377</b>	<b>527,900</b>
<b>Other Assets:</b>			
Goodwill	238,952	96,774	96,774
Other intangible assets	133,201	38,930	38,930
Deferred taxes		964	1,027
Other assets, net	6,660	5,211	5,112
<b>Total Other Assets</b>	<b>378,813</b>	<b>141,879</b>	<b>141,843</b>
	<b>\$ 1,464,742</b>	<b>\$ 1,416,021</b>	<b>\$ 1,409,909</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

<b>Current Liabilities:</b>			
Accounts payable	\$ 144,196	\$ 106,680	\$ 101,086
Accrued liabilities	114,232	94,837	107,941
Current portion of deferred liabilities	21,027	19,760	19,905
<b>Total Current Liabilities</b>	<b>279,455</b>	<b>221,277</b>	<b>228,932</b>
<b>Noncurrent Liabilities:</b>			
Deferred liabilities	173,097	129,837	132,665
<b>Stockholders Equity:</b>			

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Preferred stock			
Common stock	1,676	1,779	1,776
Additional paid-in capital	297,480	282,528	279,227
Retained earnings	712,766	780,212	766,619
Accumulated other comprehensive income	268	388	690
<b>Total Stockholders' Equity</b>	1,012,190	1,064,907	1,048,312
	\$ 1,464,742	\$ 1,416,021	\$ 1,409,909

*See Accompanying Notes.*

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

	<b>Thirty-Nine Weeks Ended</b>	
	<b>October 29, 2011</b>	<b>October 30, 2010</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 115,776	\$ 94,700
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	72,952	70,218
Deferred tax expense	11,399	29,828
Stock-based compensation expense	11,051	8,874
Excess tax benefit from stock-based compensation	(1,758)	(1,223)
Deferred rent and lease credits	(14,106)	(12,053)
Loss on disposal of property and equipment	2,603	1,912
Decrease (increase) in assets, net of effects of acquisition		
Receivables, net	(1,723)	(978)
Income tax receivable	5,086	(12,503)
Inventories	(73,485)	(40,593)
Prepaid expenses and other	(4,722)	737
Increase in liabilities, net of effects of acquisition		
Accounts payable	29,131	21,850
Accrued and other deferred liabilities	28,805	16,138
Total adjustments	65,233	82,207
Net cash provided by operating activities	181,009	176,907
<b>Cash Flows from Investing Activities:</b>		
Decrease (increase) in marketable securities	343,570	(96,836)
Acquisition of Boston Proper, Inc., net of cash acquired	(212,733)	
Purchases of property and equipment, net	(98,174)	(58,501)
Net cash provided by (used in) investing activities	32,663	(155,337)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of common stock	3,567	2,137
Excess tax benefit from stock-based compensation	1,758	1,223
Dividends paid	(25,888)	(21,389)
Repurchase of common stock	(157,905)	(18,654)
Cash paid for deferred financing costs	(414)	
Net cash used in financing activities	(178,882)	(36,683)
Net increase (decrease) in cash and cash equivalents	34,790	(15,113)



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<b>Cash and Cash Equivalents</b> , Beginning of period	14,695	37,043
<b>Cash and Cash Equivalents</b> , End of period	\$ 49,485	\$ 21,930
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for interest	\$ 244	\$ 212
Cash paid for income taxes, net	\$ 51,234	\$ 40,538
<b>Non-Cash Investing and Financing Activities:</b>		
Repossession of land in satisfaction of note receivable	\$	\$ 20,000
	<i>See Accompanying Notes.</i>	

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

**Notes to Consolidated Financial Statements**

**October 29, 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 thirty-nine weeks ended October 29, 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 September 2011, the Financial Accounting Standards Board ( FASB ) issued updated guidance on the periodic testing of goodwill for impairment. This guidance provides companies the option to assess qualitative factors to determine if it is more likely than not goodwill will be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This accounting standard is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company plans to early adopt this guidance and does not expect its adoption to have a material impact on our financial position and results of operations.

In June 2011, the FASB 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.

**Table of Contents****Chico s FAS, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****October 29, 2011****(Unaudited)****(in thousands, except share and per share amounts)****Note 3. Acquisition of Boston Proper**

On September 19, 2011, we acquired all of the outstanding equity of Boston Proper, Inc. ( Boston Proper ), a privately held direct-to-consumer ( DTC ) retailer of distinctive women s apparel and accessories. Total cash consideration was approximately \$213 million, \$205 million for the common stock, stock options and certain transaction related expenses and approximately \$8 million for incremental working capital generated after the signing of the merger agreement and prior to closing of the transaction. This incremental working capital is subject to adjustment by December 2, 2011. The cash paid at closing was funded by available cash balances. An escrow in the aggregate amount of \$15 million of the merger consideration was established at the closing to secure the indemnification and other obligations of Boston Proper shareholders and certain covenants under the merger agreement.

We incurred certain acquisition and integration costs totaling approximately \$5.0 million, consisting of professional service fees and employee-related benefit costs, which are reflected as a separate line item on the accompanying consolidated statements of income. We expect to incur additional acquisition and integration costs in future periods as we integrate the Boston Proper business into our corporate structure.

We believe that the acquisition provides us with the potential to grow both our DTC business and market share. The results of operations for Boston Proper are included in the consolidated statements of income beginning September 20, 2011. The impact of the acquisition to our results of operations, as if the acquisition had been completed as of the beginning of the periods presented, is not significant.

We allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated purchase price recorded as goodwill. None of the goodwill acquired is deductible for tax purposes.

Intangible assets not subject to amortization consist of \$51.2 million related to the Boston Proper tradename. Intangible assets subject to amortization consist of \$43.6 million in customer relationships and are being amortized, on a straight-line basis, over a period of 10 years. Amortization expense for both the thirteen and thirty-nine weeks ended October 29, 2011 was approximately \$0.5 million. For fiscal 2011, we expect to record total amortization expense of approximately \$1.6 million. For fiscal years 2012 through 2016, we expect to record annual amortization expense of approximately \$4.4 million in each fiscal year.

The purchase price was allocated as follows as of September 19, 2011:

Current assets	\$ 22,379
Current liabilities	(12,737)
Non-current assets	
Goodwill	142,178
Intangibles- tradename	51,200
Intangibles-customer relationships	43,580
Other	1,874
Non-current deferred tax liabilities	(35,741)
<b>Total purchase price</b>	<b>\$ 212,733</b>

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The allocation of the purchase price to assets acquired and liabilities assumed is preliminary pending finalization of management's analysis.

**Table of Contents****Chico s FAS, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****October 29, 2011****(Unaudited)****(in thousands, except share and per share amounts)****Note 4. Income Taxes**

Our effective tax rate increased for the current thirteen-week period to 37.8% versus 35.4% in the prior period. Our effective tax rate was higher in the current quarter compared to last year due to a favorable state income tax audit settlement last year as well as the non-deductibility of certain Boston Proper acquisition and integration costs in the current period.

**Note 5. Stock-Based Compensation**

For the thirty-nine weeks ended October 29, 2011 and October 30, 2010, stock-based compensation expense was \$11.1 million and \$8.9 million, respectively, and for the thirteen weeks ended October 29, 2011 and October 30, 2010, stock-based compensation expense was \$2.7 million and \$2.9 million, respectively. The total tax benefit associated with stock-based compensation for the thirty-nine weeks ended October 29, 2011 and October 30, 2010 was \$4.2 million and \$3.4 million, respectively, and for the thirteen weeks ended October 29, 2011 and October 30, 2010, the total tax benefit associated with stock-based compensation was \$1.0 million and \$1.1 million, respectively. We recognize stock-based compensation costs, net of a forfeiture rate, for only those shares expected to vest 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 thirty-nine and thirteen weeks ended October 29, 2011 and October 30, 2010 were as follows:

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Weighted average fair value of grants	\$ 6.61	\$ 6.70	\$ 5.68	\$ 4.27
Expected volatility	66%	66%	65%	67%
Expected term (years)	4.5	4.5	4.5	4.5
Risk-free interest rate	1.8%	2.0%	0.8%	1.2%
Expected dividend yield	1.5%	1.1%	1.6%	1.8%

*Stock-Based Awards Activity*

As of October 29, 2011, approximately 5.1 million shares remain available for future grants of either stock options, restricted stock or restricted stock units, stock appreciation rights or performance shares.

The following table presents a summary of our stock options activity for the thirty-nine weeks ended October 29, 2011:

	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	6,033,101	\$ 12.87

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Granted	1,677,000	13.59
Exercised	(475,128)	5.73
Canceled or expired	(705,400)	18.03
Outstanding, end of period	6,529,573	13.02
Exercisable at October 29, 2011	3,601,533	14.55

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The following table presents a summary of our restricted stock activity for the thirty-nine weeks ended October 29, 2011:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested, beginning of period	1,430,335	\$ 9.27
Granted	900,177	13.57
Vested	(261,079)	10.63
Canceled	(172,433)	10.89
Nonvested, end of period	1,897,000	10.98

*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 6. Earnings Per Share**

In accordance with accounting guidance, unvested share-based payment awards that include non-forfeitable rights to dividends, whether paid or unpaid, are considered participating securities. As a result, such awards are required to be included in the calculation of 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 29, 2011****(Unaudited)****(in thousands, except share and per share amounts)****Note 6. 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>Thirty-Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>October 29, 2011</b>	<b>October 30, 2010</b>	<b>October 29, 2011</b>	<b>October 30, 2010</b>
<b>Numerator</b>				
Net income	\$ 115,776	\$ 94,700	\$ 26,467	\$ 28,844
Net income allocated to participating securities	(1,462)	(731)	(362)	(288)
Net income available to common shareholders	\$ 114,314	\$ 93,969	\$ 26,105	\$ 28,556
<b>Denominator</b>				
Weighted average common shares outstanding basic	170,912,046	177,027,767	166,518,711	176,215,239
Dilutive effect of stock options outstanding	1,179,739	1,292,095	1,056,062	1,046,809
Weighted average common and common equivalent shares outstanding diluted	172,091,785	178,319,862	167,574,773	177,262,048
<b>Net income per common share:</b>				
Basic	\$ 0.67	\$ 0.53	\$ 0.16	\$ 0.16
Diluted	\$ 0.66	\$ 0.53	\$ 0.16	\$ 0.16

For the thirteen weeks ended October 29, 2011 and October 30, 2010, 3,830,402 and 3,785,990 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 29, 2011 and October 30, 2010, 3,751,480 and 3,349,846 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**

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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. Government, including governmental agency securities. As of October 29, 2011, our holdings consisted of \$124.3 million of securities with maturity dates less than one year and \$66.0 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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**Chico s FAS, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**October 29, 2011**

**(Unaudited)**

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

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 accounts are valued based on quoted market prices in active markets. Our marketable securities are generally valued based on other observable inputs for those securities (including market corroborated pricing or other models that utilize observable inputs such as 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 October 29, 2011, we did not make significant transfers between Level 1 and Level 2 financial assets. Furthermore, as of October 29, 2011, January 29, 2011 and October 30, 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.

**Table of Contents****Chico s FAS, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****October 29, 2011****(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 based on the priority of the inputs to the valuation technique for the instruments, as follows (amounts in thousands):

	Balance as of October 29, 2011	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)
<b>Current Assets</b>				
<i>Cash equivalents:</i>				
Money market accounts	\$ 1,312	\$ 1,312	\$	\$
<i>Marketable securities:</i>				
Municipal securities	68,405		68,405	
U.S. government securities	58,575	35,454	23,121	
Corporate bonds	61,296		61,296	
<i>Asset-backed securities</i>				
<i>Commercial paper</i>				
Certificates of deposit	2,052		2,052	
<b>Non Current Assets</b>				
Deferred compensation plan	4,042	4,042		
<b>Total</b>	<b>\$ 195,682</b>	<b>\$ 40,808</b>	<b>\$ 154,874</b>	<b>\$</b>

	Balance as of January 29, 2011			
<b>Current Assets</b>				
<i>Cash equivalents:</i>				
Money market accounts	\$ 5,397	\$ 5,397	\$	\$
<i>Marketable securities:</i>				
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	

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**Non Current Assets**

Deferred compensation plan	4,143	4,143		
<b>Total</b>	\$ 543,559	\$ 68,094	\$ 475,465	\$

**Balance as  
of  
October 30,  
2010**

**Current Assets**

*Cash equivalents:*

Money market accounts	\$ 629	\$ 629	\$	\$
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*Marketable securities:*

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		
<b>Total</b>	\$ 488,247	\$ 63,574	\$ 424,673	\$

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

**Notes to Consolidated Financial Statements**

**October 29, 2011**

**(Unaudited)**

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

**Note 8. Subsequent Events**

On November 17, 2011 our Board of Directors declared a quarterly cash dividend of \$0.05 per share on our common stock. The dividend will be payable on December 19, 2011 to shareholders of record at the close of business on December 5, 2011. 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.

Also, on November 17, 2011, our Board approved a new share repurchase program and cancelled in its entirety the prior share repurchase program, which had \$24.2 million remaining. On November 21, 2011, the Company announced a new \$200 million share repurchase program of our outstanding common stock, effective November 23, 2011. We intend to fund the repurchase program from cash on hand and retire any shares repurchased. However, we have no obligation to repurchase shares under this authorization, and the timing, actual number and value of shares to be purchased depends on a number of factors including Company performance, available cash balances, our stock price and other market conditions.

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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 ( WHIBM ), Soma Intimates ( Soma ) and Boston Proper 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.

During the third quarter of fiscal 2011, we successfully completed our acquisition of Boston Proper, a direct-to-consumer ( DTC ) retailer of distinctive women's apparel and accessories. We expect that Boston Proper will be accretive to earnings in the first full year following its acquisition before giving any consideration to potential synergies coming from various corporate activities including marketing, catalog circulation and merchandise sourcing.

For fiscal 2011, we established and are focused on the following goals: 1) rebuilding the Chico's business into a high performance brand, 2) investing in the growth potential of the WHIBM and Soma brands, 3) accelerating the growth of the DTC channel, and 4) improving our cost structure and maintaining inventory control. With the acquisition of Boston Proper, we are also focused on integrating Boston Proper with the Company in a timely and cost-efficient manner.

In February 2009, we also established a stretch financial goal of approaching a level of profitability in the current year comparable to what we achieved in fiscal 2005, previously our highest earnings year. While we believed that it was possible to achieve this stretch goal based on first half results, our financial results for the third quarter lead us to conclude that we will not reach this goal in fiscal 2011. We continue, however, to remain focused on delivering meaningful year-over-year growth in earnings per share.

Earnings per diluted share for the 2011 third quarter were \$0.16 compared to \$0.16 in last year's third quarter. These results include acquisition and integration costs of approximately \$3.5 million, net of tax, or \$0.02 per diluted share. Additionally, 2011 third quarter results include approximately six weeks of Boston Proper's operations.

**Financial Highlights for the Third Quarter of 2011**

Net sales for the thirteen-week period ended October 29, 2011 ( current period ) increased 11.5% to \$538.5 million compared to \$483.0 million for the thirteen-week period ended October 30, 2010 ( prior period ). Consolidated comparable sales increased 3.7% for the quarter following a 5.5% increase for the same period last year reflecting increases in average dollar sale and transaction count.

Gross margin percentage as a percentage of net sales was 56.0% for the current period versus 57.0% for the prior period, a decrease of 100 basis points attributable to higher discounting for the Chico's brand as a result of a soft sales environment partially offset by higher margins at the WHIBM and Soma Intimates brands due to increased full-price selling and effective promotional activities.

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Selling, general and administrative ( SG&A ) expenses for the third quarter were \$259.5 million, or 48.2% of net sales. Excluding \$5.0 million of non-recurring acquisition and integration costs consisting of professional service fees and employee benefit related costs, SG&A expenses were \$254.5 million, or 47.3% of net sales, a 50 basis point improvement from 47.8% of net sales for last year's third quarter primarily attributable to the sales leverage impact on occupancy costs as well as lower performance based compensation, partially offset by increased marketing expenses.

**Future Outlook**

For the fourth quarter of 2011, our assumptions are a mid single digit increase in comparable sales accompanied by an approximate 8% net increase in selling square footage. These anticipated increases along with a full quarter of Boston Proper's sales, should result in a total net sales percentage increase in the mid teens for the quarter. We expect gross margin, as a rate of sales, will decline in the range of 100-200 basis points compared to last year's fourth quarter. Also, we expect SG&A, as a rate of sales, to be in the range of flat to a 50 basis point improvement compared to last year's fourth quarter. We expect SG&A dollars to increase by approximately 15%, and do not anticipate any material nonrecurring items in the fourth quarter. Our assumptions also include an effective income tax rate of approximately 37.5%.

**Results of Operations – Thirteen Weeks Ended October 29, 2011 Compared to the Thirteen Weeks Ended October 30, 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:

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	42.9	42.9	44.0	43.0
Gross margin	57.1	57.1	56.0	57.0
Store and direct operating expenses	33.8	35.2	34.2	35.1
Marketing	5.6	5.5	7.3	6.6
National Store Support Center	6.1	6.1	5.8	6.1
Acquisition and integration costs	0.3		0.9	
Income from operations	11.3	10.3	7.8	9.2
Interest income, net	0.1	0.0	0.1	0.1
Income before income taxes	11.4	10.3	7.9	9.3
Income tax provision	4.3	3.7	3.0	3.3
Net income	7.1%	6.6%	4.9%	6.0%



**Table of Contents****Net Sales**

The following table depicts net sales for the Chico s/Soma, WHIBM and Boston Proper brands in dollars and as a percentage of total net sales for the thirteen weeks ended October 29, 2011 and October 30, 2010 (dollar amounts in thousands):

	Thirteen Weeks Ended			
	October 29, 2011		October 30, 2010	
Net sales:				
Chico s/Soma Intimates	\$ 357,208	66.3%	\$ 337,629	69.9%
White House   Black Market	170,328	31.6	145,393	30.1
Boston Proper	11,010	2.1		
<b>Total net sales</b>	<b>\$ 538,546</b>	<b>100.0%</b>	<b>\$ 483,022</b>	<b>100.0%</b>

Net sales for the quarter increased 11.5% to \$538.5 million from \$483.0 million in last year's third quarter. Consolidated comparable sales increased 3.7% for the quarter following a 5.5% increase for the same period last year reflecting increases in average dollar sale and transaction count. The Chico s/Soma Intimates brands' comparable sales increased 0.6% following a 3.6% increase for the same period last year and the White House | Black Market ( WHIBM ) brand's comparable sales increased 11.0% following a 10.2% increase for the same period last year. Boston Proper's sales are excluded from the comparable sales calculation until twelve full months after the acquisition.

**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 29, 2011 and October 30, 2010 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	October 29, 2011	October 30, 2010
Cost of goods sold	\$ 237,038	\$ 207,955
Gross margin	\$ 301,508	\$ 275,067
Gross margin percentage	56.0%	57.0%

Gross margin as a percentage of net sales was 56.0% for the current period versus 57.0% for the prior period, a decrease of 100 basis points attributable to higher discounting for the Chico s brand as a result of a soft sales environment partially offset by higher margins at the WHIBM and Soma Intimates brands due to increased full-price selling and effective promotional activities.

**Selling, General and Administrative Expenses**

The following tables depict store and direct operating expenses, marketing expenses, National Store Support Center expenses and acquisition and integration costs in dollars and as a percentage of total net sales for the thirteen weeks ended October 29, 2011 and October 30, 2010 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	October 29, 2011	October 30, 2010
Store and direct operating expenses	\$ 184,414	\$ 169,726
Percentage of total net sales	34.2%	35.1%

Store and direct operating expenses as a percentage of net sales were 34.2% for the current period versus 35.1% for the prior period, a 90 basis point decrease, primarily reflecting the sales leverage achieved on store occupancy costs.



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	<b>Thirteen Weeks Ended</b>	
	<b>October 29, 2011</b>	<b>October 30, 2010</b>
Marketing	\$ 39,008	\$ 31,928
Percentage of total net sales	7.3%	6.6%

Marketing expenses as a percentage of net sales were 7.3% for the current period versus 6.6% for the prior period, a 70 basis point increase, primarily reflecting \$3.0 million in marketing costs related to the Boston Proper brand, which has a higher marketing rate to sales than our other brands.

	<b>Thirteen Weeks Ended</b>	
	<b>October 29, 2011</b>	<b>October 30, 2010</b>
National Store Support Center	\$ 31,100	\$ 29,252
Percentage of total net sales	5.8%	6.1%

National Store Support Center ( NSSC ) expenses as a percentage of net sales were 5.8% in the current period versus 6.1% in the prior period, a 30 basis point improvement primarily due to a decrease in performance based compensation compared to last year.

	<b>Thirteen Weeks Ended October 29, 2011</b>
Acquisition and integration costs	\$ 4,985
Percentage of total net sales	0.9%

Acquisition and integration costs as a percentage of net sales were 0.9% in the current period and primarily consisted of professional service fees and employee-related benefit costs totaling approximately \$5.0 million, or \$3.5 million, net of tax.

***Provision for Income Taxes***

Our effective tax rate increased for the current period to 37.8% versus 35.4% in the prior period. Our effective tax rate was higher in the current quarter compared to last year due to a favorable state income tax audit settlement last year as well as the non-deductibility of certain Boston Proper acquisition and integration costs in the current period.

**Table of Contents****Results of Operations** Thirty-Nine Weeks Ended October 29, 2011 Compared to the Thirty-Nine Weeks Ended October 30, 2010.*Net Sales*

The following table depicts net sales for the Chico s/Soma, WHIBM and Boston Proper brands in dollars and as a percentage of total net sales for the year-to-date period ended October 29, 2011 and October 30, 2010 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended			
	October 29, 2011		October 30, 2010	
Net sales:				
Chico s/Soma Intimates	\$ 1,106,466	68.0%	\$ 993,989	69.5%
White House   Black Market	509,677	31.3	435,992	30.5
Boston Proper	11,010	0.7		
<b>Total net sales</b>	<b>\$ 1,627,153</b>	<b>100.0%</b>	<b>\$ 1,429,981</b>	<b>100.0%</b>

Net sales by the Chico s/Soma and WHIBM brands increased from the prior year-to-date period due primarily to positive comparable sales as well as new store openings. The Chico s/Soma brands comparable sales increased by 6.6% compared to the prior year-to-date period, and the WHIBM 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 offerings and effective merchandising and marketing strategies which drove increases in average dollar sales and number of transactions. Boston Proper s results are excluded from our comparable sales calculation until twelve full months after the acquisition.

*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 29, 2011 and October 30, 2010 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended	
	October 29, 2011	October 30, 2010
Cost of goods sold	\$ 698,655	\$ 614,128
Gross margin	\$ 928,498	\$ 815,853
Gross margin percentage	57.1%	57.1%

Gross margin as a percentage of sales was 57.1% for the current year-to-date period, flat compared to the prior year-to-date period. Improved full-price selling and effective promotional activity was offset by higher discounting at the Chico s brand during the 2011 third quarter.

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

The following tables depict store and direct operating expenses, marketing expenses, National Store Support Center expenses and acquisition and integration costs in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 29, 2011 and October 30, 2010 (dollar amounts in thousands):

	<b>Thirty-Nine Weeks Ended</b>	
	<b>October 29, 2011</b>	<b>October 30, 2010</b>
Store and direct operating expenses	\$ 549,391	\$ 503,226
Percentage of total net sales	33.8%	35.2%

Store and direct operating expenses as a percentage of net sales were 33.8% for the current year-to-date period versus 35.2% for the prior year-to-date period, a 140 basis point improvement primarily reflecting the sales leverage achieved on store payroll and occupancy costs.

	<b>Thirty-Nine Weeks Ended</b>	
	<b>October 29, 2011</b>	<b>October 30, 2010</b>
Marketing	\$ 90,979	\$ 79,019
Percentage of total net sales	5.6%	5.5%

	<b>Thirty-Nine Weeks Ended</b>	
	<b>October 29, 2011</b>	<b>October 30, 2010</b>
National Store Support Center	\$ 99,353	\$ 87,035
Percentage of total net sales	6.1%	6.1%

	<b>Thirty-Nine Weeks Ended October 29, 2011</b>
	Acquisition and integration costs
Percentage of total net sales	0.3%

Acquisition and integration costs as a percentage of net sales were 0.3% in the current year-to-date period and primarily consisted of professional service fees and employee-related benefit costs totaling approximately \$5.0 million, or \$3.5 million, net of tax.

***Provision for Income Taxes***

Our effective tax rate for the current year-to-date period is 37.5% versus 36.0% 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 in the previous year as well as the non-deductibility of certain Boston Proper acquisition and integration costs in the current period.

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### **Liquidity and Capital Resources**

We believe that our existing cash, and marketable securities balances and cash generated from operations will be sufficient to fund capital expenditures, working capital needs, dividend payments, potential share repurchases, commitments, and other liquidity requirements associated with our operations 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 \$181.0 million and \$176.9 million for the thirty-nine weeks ended October 29, 2011 and October 30, 2010, respectively. The \$4.1 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 mostly offset by investment in inventory.

### ***Investing Activities***

Net cash provided by investing activities for the thirty-nine weeks ended October 29, 2011 was \$32.7 million compared to \$155.3 million used for the thirty-nine weeks ended October 30, 2010. The net change of \$188.0 million primarily reflects the use of marketable securities in the current year-to-date period to consummate the Boston Proper acquisition.

### ***Financing Activities***

Net cash used in financing activities was \$178.9 million and \$36.7 million during the thirty-nine weeks ended October 29, 2011 and October 30, 2010, respectively. The approximate \$142.2 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

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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 nine months of fiscal 2011, we had 98 net store openings consisting of 21 Chico's net openings, 20 WHIBM net openings and 57 Soma net openings. Currently, we expect our overall square footage in fiscal 2011 to increase approximately 8%, reflecting approximately 21-23 net openings of Chico's stores, 25-27 net openings of WHIBM stores, approximately 50 net openings of Soma stores, and 26-28 relocations/expansions. In fiscal 2012, we currently expect to open approximately 98-116 net new stores. Of this total, we expect 22-28 net openings of Chico's stores, 53-59 net openings of WH/BM stores and 23-29 net openings of Soma stores. 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.

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### **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 brands. 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, WHIBM, Soma and Boston Proper merchandise divisions, the ability to secure our facilities and systems and those of our third party service providers from, among other things, cybersecurity breaches, acts of vandalism, computer viruses or similar events, 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.



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

The market risk of our financial instruments as of October 29, 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 October 29, 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.

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. Government, including governmental agency securities. The portfolio as of October 29, 2011, consisted of \$124.3 million of securities with maturity dates less than one year and \$66.0 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 October 29, 2011, an increase of 100 basis points in interest rates would reduce the fair value of our marketable securities portfolio by approximately \$1.4 million. Conversely, a reduction of 100 basis points in interest rates would increase the fair value of our marketable securities portfolio by approximately \$0.7 million.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

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

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

**Changes in Internal Controls**

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

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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 October 2011 in the Superior Court of the State of California for the County of San Diego, Leslie Golba v. White House | Black Market, 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 has only recently been served with the Complaint, has not yet filed its response, but will do so in a timely manner. Based on our initial assessment, however, the Company believes that the case is without merit and, as a result, should not have a material adverse effect on the Company's financial condition or results of operations.

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. 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.

**Table of Contents****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):

<b>Period</b>	<b>Total Number of Shares Purchased(a)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Publicly Announced Plans(b)</b>
July 31, 2011 to August 27, 2011	3,826,594	\$ 12.60	3,824,137	\$ 35,964
August 28, 2011 to October 1, 2011	908,253	\$ 12.93	908,253	\$ 24,212
October 2, 2011 to October 29, 2011		\$		\$ 24,212
<b>Total</b>	<b>4,734,847</b>	<b>\$ 12.67</b>	<b>4,732,390</b>	<b>\$ 24,212</b>

(a) Includes 2,457 shares of restricted stock repurchased in connection with employee tax withholding obligations under employee compensation plans, which are not purchases under any publicly announced plan.

(b) This program was cancelled.

For additional share repurchase program information, see Note 8 to the consolidated financial statements included in Item 1. Financial Statements.

**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 10.1	Amendment No. 1 to 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 September 14, 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

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Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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**SIGNATURES**

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

CHICO S FAS, INC.

Date: November 23, 2011

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

Date: November 23, 2011

By: /s/ Pamela K. Knous  
Pamela K. Knous  
Executive Vice President  
Chief Financial Officer  
(Principal Financial and Accounting Officer)