

CHICOS FAS INC

Form 10-Q

November 22, 2016

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended: Commission File Number:  
October 29, 2016 001-16435

Chico's FAS, Inc.

(Exact name of registrant as specified in charter)

Florida 59-2389435  
(State of Incorporation) (I.R.S. Employer  
Identification No.)  
11215 Metro Parkway, Fort Myers, Florida 33966  
(Address of principal executive offices)  
239-277-6200  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (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.

Edgar Filing: CHICOS FAS INC - Form 10-Q

At November 14, 2016, the registrant had 129,205,515 shares of Common Stock, \$0.01 par value per share, outstanding.

Table of Contents

CHICO'S FAS, INC. AND SUBSIDIARIES  
TABLE OF CONTENTS

PART I – Financial Information

Item 1. Financial Statements:

Condensed Consolidated Statements of Income (Loss) for the Thirteen Weeks and Thirty-Nine Weeks Ended October 29, 2016 (Unaudited) and October 31, 2015 (Unaudited) 3

Condensed Consolidated Statements of Comprehensive Income (Loss) for the Thirteen and Thirty-Nine Weeks Ended October 29, 2016 (Unaudited) and October 31, 2015 (Unaudited) 4

Condensed Consolidated Balance Sheets –October 29, 2016 (Unaudited), January 30, 2016 (Unaudited) and October 31, 2015 (Unaudited) 5

Condensed Consolidated Statements of Cash Flows for the Thirty-Nine Weeks Ended October 29, 2016 (Unaudited ) and October 31, 2015 (Unaudited) 6

Notes to Condensed Consolidated Financial Statements (Unaudited) 7

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations 17

Item 3. Quantitative and Qualitative Disclosures About Market Risk 25

Item 4. Controls and Procedures 25

PART II – Other Information

Item 1. Legal Proceedings 26

Item 1A. Risk Factors 27

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 28

Item 5. Other Information 29

Item 6. Exhibits 29

Signatures 30

Table of Contents

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CHICO'S FAS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

(In thousands, except per share amounts)

|                                                                          | Thirteen Weeks Ended |               |                                   |               | Thirty-Nine Weeks Ended |               |                                   |               |
|--------------------------------------------------------------------------|----------------------|---------------|-----------------------------------|---------------|-------------------------|---------------|-----------------------------------|---------------|
|                                                                          | October 29, 2016     |               | October 31, 2015<br>(as adjusted) |               | October 29, 2016        |               | October 31, 2015<br>(as adjusted) |               |
|                                                                          | Amount               | % of<br>Sales | Amount                            | % of<br>Sales | Amount                  | % of<br>Sales | Amount                            | % of<br>Sales |
| Net sales                                                                | \$596,912            | 100.0         | \$645,433                         | 100.0         | \$1,875,621             | 100.0         | \$2,029,025                       | 100.0         |
| Cost of goods sold                                                       | 366,618              | 61.4          | 396,270                           | 61.4          | 1,142,182               | 60.9          | 1,219,543                         | 60.1          |
| Gross margin                                                             | 230,294              | 38.6          | 249,163                           | 38.6          | 733,439                 | 39.1          | 809,482                           | 39.9          |
| Selling, general and administrative expenses                             | 188,350              | 31.6          | 226,256                           | 35.1          | 583,117                 | 31.1          | 661,491                           | 32.6          |
| Goodwill and intangible impairment charges                               | —                    | 0.0           | 45,514                            | 7.1           | —                       | 0.0           | 112,455                           | 5.6           |
| Restructuring and strategic charges                                      | 10,820               | 1.8           | 3,137                             | 0.4           | 31,027                  | 1.6           | 34,178                            | 1.6           |
| Income (loss) from operations                                            | 31,124               | 5.2           | (25,744 )                         | (4.0 )        | 119,295                 | 6.4           | 1,358                             | 0.1           |
| Interest expense, net                                                    | (526 )               | (0.1 )        | (466 )                            | (0.1 )        | (1,474 )                | (0.1 )        | (1,421 )                          | (0.1 )        |
| Income (loss) before income taxes                                        | 30,598               | 5.1           | (26,210 )                         | (4.1 )        | 117,821                 | 6.3           | (63 )                             | 0.0           |
| Income tax provision (benefit)                                           | 7,000                | 1.1           | (14,600 )                         | (2.3 )        | 40,100                  | 2.2           | (23,100 )                         | (1.1 )        |
| Net income (loss)                                                        | \$23,598             | 4.0           | \$(11,610 )                       | (1.8 )        | \$77,721                | 4.1           | \$23,037                          | 1.1           |
| Per share data:                                                          |                      |               |                                   |               |                         |               |                                   |               |
| Net income (loss) per common share-basic                                 | \$0.18               |               | \$(0.09 )                         |               | \$0.59                  |               | \$0.16                            |               |
| Net income (loss) per common and common equivalent share—diluted         | \$0.18               |               | \$(0.09 )                         |               | \$0.58                  |               | \$0.16                            |               |
| Weighted average common shares outstanding—basic                         | 128,753              |               | 136,172                           |               | 129,830                 |               | 139,386                           |               |
| Weighted average common and common equivalent shares outstanding—diluted | 128,996              |               | 136,172                           |               | 129,999                 |               | 139,724                           |               |
| Dividends declared per share                                             | \$—                  |               | \$—                               |               | \$0.2400                |               | \$0.2325                          |               |

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

Table of Contents

CHICO'S FAS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

|                                                                  | Thirteen Weeks<br>Ended<br>October 29,<br>2016 |              | Thirty-Nine Weeks<br>Ended<br>October 29,<br>2016 |           |
|------------------------------------------------------------------|------------------------------------------------|--------------|---------------------------------------------------|-----------|
|                                                                  | October 31,<br>2015                            |              | October 31,<br>2015                               |           |
| Net income (loss)                                                | \$23,598                                       | \$ (11,610 ) | \$77,721                                          | \$ 23,037 |
| Other comprehensive income (loss):                               |                                                |              |                                                   |           |
| Unrealized (losses) gains on marketable securities, net of taxes | (35 )                                          | 12           | 4                                                 | (6 )      |
| Foreign currency translation (losses) gains, net of taxes        | (19 )                                          | (31 )        | (46 )                                             | 90        |
| Comprehensive income (loss)                                      | \$23,544                                       | \$ (11,629 ) | \$77,679                                          | \$ 23,121 |

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

Table of ContentsCHICO'S FAS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

|                                               | October 29,<br>2016 | January 30,<br>2016 | October 31,<br>2015 |
|-----------------------------------------------|---------------------|---------------------|---------------------|
| <b>ASSETS</b>                                 |                     |                     |                     |
| Current Assets:                               |                     |                     |                     |
| Cash and cash equivalents                     | \$80,331            | \$89,951            | \$91,256            |
| Marketable securities, at fair value          | 50,411              | 50,194              | 47,316              |
| Inventories                                   | 261,341             | 233,834             | 268,968             |
| Prepaid expenses and other current assets     | 46,635              | 45,660              | 55,149              |
| Income tax receivable                         | 3,402               | 29,157              | 16,225              |
| Assets held for sale                          | 18,520              | 16,525              | 41,802              |
| Total Current Assets                          | 460,640             | 465,321             | 520,716             |
| Property and Equipment, net                   | 495,587             | 550,953             | 556,172             |
| Other Assets:                                 |                     |                     |                     |
| Goodwill                                      | 96,774              | 96,774              | 96,774              |
| Other intangible assets, net                  | 38,930              | 38,930              | 38,930              |
| Other assets, net                             | 18,382              | 14,074              | 40,622              |
| Total Other Assets                            | 154,086             | 149,778             | 176,326             |
|                                               | \$1,110,313         | \$1,166,052         | \$1,253,214         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                     |                     |
| Current Liabilities:                          |                     |                     |                     |
| Accounts payable                              | \$125,532           | \$129,343           | \$147,526           |
| Current debt                                  | 10,000              | 10,000              | 10,000              |
| Other current and deferred liabilities        | 148,706             | 158,788             | 140,557             |
| Liabilities held for sale                     | —                   | —                   | 8,478               |
| Total Current Liabilities                     | 284,238             | 298,131             | 306,561             |
| Noncurrent Liabilities:                       |                     |                     |                     |
| Long-term debt                                | 74,768              | 82,219              | 84,702              |
| Deferred liabilities                          | 122,848             | 130,743             | 135,390             |
| Deferred taxes                                | 9,320               | 15,171              | 20,385              |
| Total Noncurrent Liabilities                  | 206,936             | 228,133             | 240,477             |
| Commitments and Contingencies                 |                     |                     |                     |
| Stockholders' Equity:                         |                     |                     |                     |
| Preferred stock                               | —                   | —                   | —                   |
| Common stock                                  | 1,301               | 1,355               | 1,394               |
| Additional paid-in capital                    | 445,787             | 435,881             | 429,746             |
| Treasury stock, at cost                       | (366,081)           | (289,813)           | (249,854)           |
| Retained earnings                             | 538,134             | 492,325             | 524,244             |
| Accumulated other comprehensive (loss) income | (2)                 | 40                  | 646                 |
| Total Stockholders' Equity                    | 619,139             | 639,788             | 706,176             |
|                                               | \$1,110,313         | \$1,166,052         | \$1,253,214         |

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



Table of Contents

CHICO'S FAS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (In thousands)

|                                                                                   | Thirty-Nine Weeks<br>Ended |                     |
|-----------------------------------------------------------------------------------|----------------------------|---------------------|
|                                                                                   | October 29,<br>2016        | October 31,<br>2015 |
| Cash Flows From Operating Activities:                                             |                            |                     |
| Net income                                                                        | \$77,721                   | \$ 23,037           |
| Adjustments to reconcile net income to net cash provided by operating activities: |                            |                     |
| Goodwill and intangible impairment charges, pre-tax                               | —                          | 112,455             |
| Depreciation and amortization                                                     | 82,585                     | 90,266              |
| Loss on disposal and impairment of property and equipment                         | 6,434                      | 22,609              |
| Deferred tax benefit                                                              | (8,098 )                   | (52,623 )           |
| Stock-based compensation expense                                                  | 15,483                     | 20,712              |
| Excess tax benefit from stock-based compensation                                  | (322 )                     | (2,992 )            |
| Deferred rent and lease credits                                                   | (14,264 )                  | (15,018 )           |
| Changes in assets and liabilities:                                                |                            |                     |
| Inventories                                                                       | (27,506 )                  | (44,811 )           |
| Prepaid expenses and accounts receivable                                          | (6,237 )                   | (12,024 )           |
| Income tax receivable                                                             | 25,755                     | (15,629 )           |
| Accounts payable                                                                  | (3,789 )                   | 7,377               |
| Accrued and other liabilities                                                     | (3,391 )                   | (3,300 )            |
| Net cash provided by operating activities                                         | 144,371                    | 130,059             |
| Cash Flows From Investing Activities:                                             |                            |                     |
| Purchases of marketable securities                                                | (43,266 )                  | (43,479 )           |
| Proceeds from sale of marketable securities                                       | 43,058                     | 122,712             |
| Purchases of property and equipment, net                                          | (35,663 )                  | (66,595 )           |
| Net cash (used in) provided by investing activities                               | (35,871 )                  | 12,638              |
| Cash Flows From Financing Activities:                                             |                            |                     |
| Proceeds from borrowings                                                          | —                          | 124,000             |
| Payments on borrowings                                                            | (7,500 )                   | (29,000 )           |
| Proceeds from issuance of common stock                                            | 2,363                      | 10,614              |
| Excess tax benefit from stock-based compensation                                  | 322                        | 2,992               |
| Dividends paid                                                                    | (31,936 )                  | (32,933 )           |
| Repurchase of common stock                                                        | (81,324 )                  | (260,555 )          |
| Net cash used in financing activities                                             | (118,075)                  | (184,882 )          |
| Effects of exchange rate changes on cash and cash equivalents                     | (45 )                      | 90                  |
| Net decrease in cash and cash equivalents                                         | (9,620 )                   | (42,095 )           |
| Cash and Cash Equivalents, Beginning of period                                    | 89,951                     | 133,351             |
| Cash and Cash Equivalents, End of period                                          | \$80,331                   | \$ 91,256           |
| Supplemental Disclosures of Cash Flow Information:                                |                            |                     |
| Cash paid for interest                                                            | \$1,713                    | \$ 2,112            |
| Cash paid for income taxes, net                                                   | \$22,752                   | \$ 47,377           |

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





Table of Contents

Chico's FAS, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
October 29, 2016  
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed 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, recurring adjustments considered necessary to present fairly the condensed consolidated financial position, the results of operations and cash flows for the interim periods presented. All significant intercompany balances and transactions have been eliminated in consolidation. For further information, refer to the consolidated financial statements and notes thereto for the fiscal year ended January 30, 2016, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 8, 2016.

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, 2016 are not necessarily indicative of the results that may be expected for the entire year.

Reclassifications

Reclassifications of certain prior year balances were made in order to conform to the current year presentation.

Change in Accounting Policy

Effective January 31, 2016, the Company made a voluntary change in accounting principle related to our classification of shipping expenses. Historically, we have presented shipping expenses within selling, general and administrative expenses ("SG&A"). Under the new policy, the Company is presenting these expenses within cost of good sold ("COGS") in the unaudited Condensed Consolidated Statements of Income. The Company believes that this change is preferable as the shipping expenses represent direct costs associated with the sale of our merchandise and improves comparability with the Company's peers. The accounting policy change was applied retrospectively to all periods presented. There was no change to consolidated net income, however, cost of sales increased by \$8.8 million and SG&A decreased by the same amount for the thirteen weeks ended October 31, 2015. The Company recorded \$8.6 million in shipping expense as a component of COGS during the thirteen weeks ended October 29, 2016. For the year-to-date period ended October 31, 2015, cost of sales increased by \$27.6 million and SG&A decreased by the same amount. The Company recorded \$25.5 million in shipping expense as a component of COGS during the thirty-nine weeks ended October 29, 2016.

Reclassification of Occupancy Expenses and Correction of Immaterial Accounting Error

The Company has changed its classification of store occupancy expenses. Historically, we have presented store occupancy expenses within SG&A. As now reclassified, the Company is presenting these expenses within COGS in the unaudited Condensed Consolidated Statements of Income. The Company believes that the store occupancy expenses represent direct costs associated with the sale of our merchandise and improves comparability with the Company's peers. This reclassification was applied retrospectively to all periods presented. There was no change to consolidated net income, however, cost of sales increased by \$96.8 million and SG&A decreased by the same amount for the thirteen weeks ended October 31, 2015. The Company recorded \$95.4 million in store occupancy expenses as a component of COGS during the thirteen weeks ended October 29, 2016. For the year-to-date period ended October 31, 2015, cost of sales increased by \$289.3 million and SG&A decreased by the same amount. The Company recorded \$287.3 million in store occupancy expenses as a component of COGS during the thirty-nine weeks ended October 29, 2016.

The Company has also elected to correct the historical classification of shipping revenue within SG&A. To correct the immaterial error, we are classifying shipping revenue as a component of net sales within the unaudited Condensed

Consolidated Statements of Income for all periods presented. There was no change to consolidated net income, however, net sales increased by \$4.2 million and SG&A increased by the same amount for the thirteen weeks ended October 31, 2015. The Company recorded \$3.0 million in shipping revenue as a component of net sales during the thirteen weeks ended October 29, 2016. For the year-to-date period ended October 31, 2015, net sales increased by \$14.1 million and SG&A increased by the same amount. The Company recorded \$9.7 million in shipping revenue as a component of net sales during the thirty-nine weeks ended October 29, 2016.

Table of Contents

Chico's FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

October 29, 2016

(Unaudited)

## Adjustments to Presentation

The above mentioned changes had no cumulative effect on the presentation of the unaudited Condensed Consolidated Statements of Income, Condensed Consolidated Balance Sheets, or Condensed Consolidated Statements of Cash Flows. The effects of the aforementioned accounting policy change, change in classification and error correction to the October 31, 2015 unaudited Condensed Consolidated Statement of Income are as follows (dollars in thousands):

|                                              | As<br>Previously<br>Reported | % of<br>Sales | Change in<br>Accounting<br>Policy    | Effect of<br>Change in<br>Occupancy<br>Classification | Effect of<br>Error<br>Correction | As<br>Adjusted | % of<br>Sales |
|----------------------------------------------|------------------------------|---------------|--------------------------------------|-------------------------------------------------------|----------------------------------|----------------|---------------|
| Thirteen Weeks Ended October 31, 2015        |                              |               |                                      |                                                       |                                  |                |               |
| Net sales                                    | \$ 641,219                   | 100.0         | \$ —                                 | \$ —                                                  | \$ 4,214                         | \$645,433      | 100.0         |
| Cost of goods sold                           | 290,737                      | 45.3          | 8,760                                | 96,773                                                | —                                | 396,270        | 61.4          |
| Gross Margin                                 | 350,482                      | 54.7          | (8,760)                              | (96,773)                                              | 4,214                            | 249,163        | 38.6          |
| Selling, general and administrative expenses | 327,575                      | 51.1          | (8,760)                              | (96,773)                                              | 4,214                            | 226,256        | 35.1          |
|                                              | As<br>Previously<br>Reported | % of<br>Sales | Change<br>in<br>Accounting<br>Policy | Effect of<br>Change in<br>Occupancy<br>Classification | Effect of<br>Error<br>Correction | As<br>Adjusted | % of<br>Sales |
| Thirty-Nine Weeks Ended October 31, 2015     |                              |               |                                      |                                                       |                                  |                |               |
| Net sales                                    | \$2,014,910                  | 100.0         | \$ —                                 | \$ —                                                  | \$ 14,115                        | \$2,029,025    | 100.0         |
| Cost of goods sold                           | 902,690                      | 44.8          | 27,585                               | 289,268                                               | —                                | 1,219,543      | 60.1          |
| Gross Margin                                 | 1,112,220                    | 55.2          | (27,585)                             | (289,268)                                             | 14,115                           | 809,482        | 39.9          |
| Selling, general and administrative expenses | 964,229                      | 47.9          | (27,585)                             | (289,268)                                             | 14,115                           | 661,491        | 32.6          |

Footnotes to the unaudited Condensed Consolidated Financial Statements herein have been adjusted to reflect the impact of these changes accordingly.

## Note 2. New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-09, Compensation - Stock Compensation. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. ASU 2016-09 requires entities to recognize the income tax effects of awards in the income statement when the awards vest or are settled. The standard also permits an employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. This standard will be effective and adopted for our first quarter 2017. We are currently assessing the new standard and its impact to our consolidated results of operations, financial position and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which replaces the existing guidance in Accounting Standard Codification 840, Leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset and for operating leases, the lessee would

recognize straight-line total rent expense. We are currently assessing the new standard and its impact to our consolidated results of operations, financial position and cash flows.

Table of Contents

Chico's FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

October 29, 2016

(Unaudited)

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which modifies the presentation of noncurrent and current deferred taxes. ASU 2015-17 requires that all deferred tax assets and liabilities be classified as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The standard is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. We early adopted this standard in the fourth quarter of 2015, with retrospective presentation, as shown in our consolidated balance sheets. Our retrospective presentation resulted in a \$26.9 million reclassification from current assets to other assets, net for the period ending October 31, 2015.

In July 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330). The amendments, which apply to inventory that is measured using any method other than the last-in, first-out (LIFO) or retail inventory method, require that entities measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and should be applied on a prospective basis. We are currently assessing the potential impact of adopting this ASU, but do not, at this time, anticipate a material impact to our consolidated results of operations, financial position or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB approved a one year deferral of the effective date, to make it effective for annual and interim reporting periods beginning after December 15, 2017. The standard allows for either a full retrospective or a modified retrospective transition method. The FASB has issued subsequent ASUs related to ASU No. 2014-09, which detail amendments to the ASU, implementation considerations, narrow-scope improvements and practical expedients. We are currently assessing the new standard and all related ASUs and its impact to our consolidated results of operations, financial position and cash flows.

**Note 3. Restructuring and Strategic Charges**

During the fourth quarter of fiscal 2014, we initiated a restructuring program, including the acceleration of domestic store closures and an organizational realignment, to ensure that resources align with long-term growth initiatives, including omni-channel. In fiscal 2015, in connection with the restructuring program, we completed an evaluation of the Boston Proper brand, completed the sale of the Boston Proper direct-to-consumer business, and closed its stores. During the first quarter of fiscal 2016, we announced an expansion of our restructuring program to further align the organizational structure with long-term growth initiatives, including transition of executive leadership, and to reduce COGS and SG&A through strategic initiatives. These strategic initiatives include realigning marketing and digital commerce, improving supply chain efficiency, and reducing non-merchandise and marketing expenses. In fiscal 2016, the Company recorded pre-tax restructuring and strategic charges of \$10.8 million for the third quarter and \$31.0 million year-to-date, primarily related to outside services, severance and proxy solicitation costs.

In connection with the restructuring program, we evaluated our domestic store portfolio and identified approximately 175 stores for closure, with 90 stores across our brands, including 20 Boston Proper stores, closed through the third quarter of fiscal 2016. As a result, we expect to incur additional cash charges related to lease termination expenses of approximately \$1.7 million through fiscal 2017 related to these future closures.

Table of Contents

Chico's FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

October 29, 2016

(Unaudited)

A summary of the pre-tax restructuring and strategic charges is presented in the table below:

|                                                    | Thirteen Weeks Ended |                  | Thirty-Nine Weeks Ended |                  |
|----------------------------------------------------|----------------------|------------------|-------------------------|------------------|
|                                                    | October 29, 2016     | October 31, 2015 | October 29, 2016        | October 31, 2015 |
|                                                    | (in thousands)       |                  |                         |                  |
| Impairment charges                                 | \$—                  | \$329            | \$1,453                 | \$21,259         |
| Continuing employee-related costs                  | 781                  | —                | 1,796                   | 5,639            |
| Severance charges                                  | 65                   | (12 )            | 9,485                   | 1,808            |
| Proxy solicitation costs                           | 108                  | —                | 5,697                   | —                |
| Lease termination charges                          | 79                   | 2,146            | 427                     | 4,903            |
| Outside services                                   | 9,779                | —                | 12,013                  | —                |
| Other charges                                      | 8                    | 674              | 156                     | 569              |
| Total restructuring and strategic charges, pre-tax | \$10,820             | \$3,137          | \$31,027                | \$34,178         |

As of October 29, 2016, a reserve of \$18.1 million related to restructuring and strategic activities was included in other current and deferred liabilities in the accompanying condensed consolidated balance sheets. A roll-forward of the reserve is presented as follows:

|                                     | Continuing Employee-Related Costs | Severance Charges | Proxy Solicitation Costs | Lease Termination Charges | Outside Services | Other charges | Total     |
|-------------------------------------|-----------------------------------|-------------------|--------------------------|---------------------------|------------------|---------------|-----------|
|                                     | (in thousands)                    |                   |                          |                           |                  |               |           |
| Beginning Balance, January 30, 2016 | \$2,549                           | \$1,678           | \$ —                     | \$1,101                   | \$9              | \$ —          | \$5,337   |
| Charges                             | 1,796                             | 9,485             | 5,697                    | 427                       | 12,013           | 156           | 29,574    |
| Payments                            | (3,702 )                          | (6,066 )          | (5,697 )                 | (612 )                    | (623 )           | (130 )        | (16,830 ) |
| Ending Balance, October 29, 2016    | \$643                             | \$5,097           | \$ —                     | \$916                     | \$11,399         | \$26          | \$18,081  |

**Note 4. Stock-Based Compensation**

For the thirty-nine weeks ended October 29, 2016 and October 31, 2015, stock-based compensation expense was \$15.5 million and \$20.7 million, respectively. As of October 29, 2016, approximately 5.8 million shares remain available for future grants of equity awards under our 2012 Omnibus Stock and Incentive Plan.

**Restricted Stock Awards**

Restricted stock award activity for the thirty-nine weeks ended October 29, 2016 was as follows:

|                               | Number of Shares | Weighted Average Grant Date Fair Value |
|-------------------------------|------------------|----------------------------------------|
| Unvested, beginning of period | 2,585,392        | \$16.60                                |
| Granted                       | 1,719,380        | 12.35                                  |
| Vested                        | (1,062,433)      | 17.06                                  |
| Forfeited                     | (776,587 )       | 15.20                                  |
| Unvested, end of period       | 2,465,752        | 13.88                                  |





Table of Contents

Chico's FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

October 29, 2016

(Unaudited)

## Performance-based Stock Units

For the thirty-nine weeks ended October 29, 2016, we granted performance-based restricted stock units ("PSUs"), contingent upon the achievement of a Company-specific performance goal during fiscal 2016. Any units earned as a result of the achievement of this goal will vest over 3 years from the date of grant and will be settled in shares of our common stock.

Performance-based restricted stock unit activity for the thirty-nine weeks ended October 29, 2016 was as follows:

|                               | Number of  | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|------------|-------------------------------------------------|
| Unvested, beginning of period | 469,898    | \$ 18.23                                        |
| Granted                       | 733,360    | 12.55                                           |
| Vested                        | (228,105 ) | 18.23                                           |
| Forfeited <sup>(1)</sup>      | (329,891 ) | 15.29                                           |
| Unvested, end of period       | 645,262    | 13.28                                           |

<sup>(1)</sup> The performance goal for the PSUs granted in 2015 was not fully met. Forfeitures for the thirty-nine weeks ended October 29, 2016 include the portion of the fiscal 2015 PSUs that were not earned.

## Stock Option Awards

For the thirty-nine weeks ended October 29, 2016 and October 31, 2015, we did not grant any stock options.

Stock option activity for the thirty-nine weeks ended October 29, 2016 was as follows:

|                                                 | Number of  | Weighted<br>Average<br>Exercise<br>Price |
|-------------------------------------------------|------------|------------------------------------------|
| Outstanding, beginning of period                | 1,060,774  | \$ 15.17                                 |
| Granted                                         | —          | —                                        |
| Exercised                                       | (46,810 )  | 6.51                                     |
| Forfeited or expired                            | (202,783 ) | 23.98                                    |
| Outstanding and exercisable at October 29, 2016 | 811,181    | 13.47                                    |

## Note 5. Income Taxes

The provision for income taxes is based on a current estimate of the annual effective tax rate and is adjusted as necessary for quarterly events. Our effective income tax rate may fluctuate from quarter to quarter as a result of a variety of factors, including changes in our assessment of certain tax contingencies, valuation allowances, changes in tax law, outcomes of administrative audits, the impact of discrete items, and the mix of earnings.

For the thirteen weeks ended October 29, 2016 and October 31, 2015, the effective tax rate was 22.9% and (55.7)%, respectively. For the thirteen weeks ended October 29, 2016, the income tax provision was \$7.0 million compared to the income tax benefit of \$14.6 million for the thirteen weeks ended October 31, 2015. The favorability in the effective tax rate for the third quarter of 2016 primarily reflects an additional tax benefit related to the disposition of Boston Proper's stock and the realization of income tax credits in 2016. The income tax benefit for the third quarter of 2015 of \$14.6 million and effective tax rate of (55.7)% primarily reflected the tax benefit related to the disposition of Boston Proper's stock and the impact of the Boston Proper goodwill and trade name impairment on the annual effective tax rate.



Table of Contents

Chico's FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

October 29, 2016

(Unaudited)

For the thirty-nine weeks ended October 29, 2016, the income tax provision of \$40.1 million and effective tax rate of 34.0% primarily reflected the pre-tax net income during the year and the additional tax benefit related to the disposition of Boston Proper's stock and the realization of income tax credits in 2016. For the thirty-nine weeks ended October 31, 2015, the income tax benefit was \$23.1 million. The effective tax rate of 34.0% for the thirty-nine weeks ended October 29, 2016 was not comparable to the effective tax rate for the thirty-nine weeks ended October 31, 2015 primarily due to the tax benefit recorded in fiscal 2015 related to the disposition of Boston Proper's stock and the impact of the Boston Proper goodwill impairment on the annual effective tax rate.

## Note 6. Earnings Per Share

In accordance with relevant 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 earnings per common share pursuant to the "two-class" method. For us, participating securities are composed entirely of unvested restricted stock awards and PSUs that have met their relevant performance criteria.

Earnings per share ("EPS") is determined using the two-class method when it is more dilutive than the treasury stock method. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period, including participating securities. Diluted EPS reflects the dilutive effect of potential common shares from non-participating securities such as stock options and PSUs.

The following table sets forth the computation of basic and diluted EPS shown on the face of the accompanying condensed consolidated statements of operations (in thousands, except per share amounts):

|                                                                            | Thirteen Weeks<br>Ended<br>October 29,<br>2016 |             | Thirty-Nine Weeks<br>Ended<br>October 29,<br>2015 |           |
|----------------------------------------------------------------------------|------------------------------------------------|-------------|---------------------------------------------------|-----------|
| Numerator                                                                  |                                                |             |                                                   |           |
| Net income (loss)                                                          | \$23,598                                       | \$(11,610 ) | \$77,721                                          | \$ 23,037 |
| Net income and dividends declared allocated to participating securities    | (502 )                                         | —           | (1,677 )                                          | (492 )    |
| Net income (loss) available to common shareholders                         | \$23,096                                       | \$(11,610 ) | \$76,044                                          | \$ 22,545 |
| Denominator                                                                |                                                |             |                                                   |           |
| Weighted average common shares outstanding – basic                         | 128,753                                        | 136,172     | 129,830                                           | 139,386   |
| Dilutive effect of non-participating securities                            | 243                                            | —           | 169                                               | 338       |
| Weighted average common and common equivalent shares outstanding – diluted | 128,996                                        | 136,172     | 129,999                                           | 139,724   |
| Net income (loss) per common share:                                        |                                                |             |                                                   |           |
| Basic                                                                      | \$0.18                                         | \$(0.09 )   | \$0.59                                            | \$ 0.16   |
| Diluted                                                                    | \$0.18                                         | \$(0.09 )   | \$0.58                                            | \$ 0.16   |

For the thirteen weeks weeks ended October 29, 2016 and October 31, 2015, 0.7 million and 0.3 million potential shares of common stock, respectively, were excluded from the diluted per share calculation relating to non-participating securities, because the effect of including these potential shares was antidilutive.

For the thirty-nine weeks ended October 29, 2016 and October 31, 2015, 0.9 million and 1.3 million potential shares of common stock, respectively, were excluded from the diluted per share calculation relating to non-participating securities, because the effect of including these potential shares was antidilutive.



Table of Contents

Chico's FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

October 29, 2016

(Unaudited)

Note 7. Fair Value Measurements

Our financial instruments consist of cash, money market accounts, marketable securities, assets held in our non-qualified deferred compensation plan, accounts receivable and payable, and debt. Cash, accounts receivable and accounts payable are carried at cost, which approximates their fair value due to the short-term nature of the instruments.

Marketable securities are classified as available-for-sale and as of October 29, 2016 generally consist of corporate bonds, U.S. government agencies, municipal securities, and commercial paper with \$25.4 million of securities with maturity dates within one year or less and \$25.0 million with maturity dates over one year and less than two years. We consider all marketable securities available-for-sale, including those with maturity dates beyond 12 months, and therefore classify these securities within current assets on the condensed consolidated balance sheets as they are available to support current operational liquidity needs. Marketable securities are carried at fair value, with the unrealized holding gains and losses, net of income taxes, reflected in accumulated other comprehensive income 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

Unadjusted quoted prices in active markets for similar assets or liabilities, or; Unadjusted quoted prices for Level 2—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 interest rates and yield curves) based on information provided by independent third party pricing entities, except for U.S. government securities 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 condensed consolidated balance sheets.

From time to time, we measure certain assets at fair value on a non-recurring basis, including evaluation of long-lived assets, goodwill and other intangible assets for impairment using company-specific assumptions which would fall within Level 3 of the fair value hierarchy. We estimate the fair value of assets held for sale using market values for similar assets which would fall within Level 2 of the fair value hierarchy.

To assess the fair value of long-term debt, we utilize a discounted future cash flow model using current borrowing rates for similar types of debt of comparable maturities.

Fair value calculations contain significant judgments and estimates, which may differ from actual results due to, among other things, economic conditions, changes to the business model or changes in operating performance.

During the quarter ended October 29, 2016, we did not make any transfers between Level 1 and Level 2 financial instruments. Furthermore, as of October 29, 2016, January 30, 2016 and October 31, 2015, we did not have any Level 3 financial instruments. 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 Condensed Consolidated Financial Statements

October 29, 2016

(Unaudited)

In accordance with the provisions of the guidance, we categorized our financial instruments, which are valued on a recurring basis, based on the priority of the inputs to the valuation technique for the instruments, as follows:

|                                       | Fair Value Measurements at Reporting Date Using |                                                                |                                               |                                           |
|---------------------------------------|-------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                       | Balance as of October 29, 2016 (in thousands)   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Financial Assets:</b>              |                                                 |                                                                |                                               |                                           |
| <b>Current Assets</b>                 |                                                 |                                                                |                                               |                                           |
| <b>Cash equivalents:</b>              |                                                 |                                                                |                                               |                                           |
| Money market accounts                 | \$365                                           | \$365                                                          | \$ —                                          | \$ —                                      |
| <b>Marketable securities:</b>         |                                                 |                                                                |                                               |                                           |
| Municipal securities                  | 3,193                                           | —                                                              | 3,193                                         | —                                         |
| U.S. government agencies              | 23,113                                          | —                                                              | 23,113                                        | —                                         |
| Corporate bonds                       | 18,253                                          | —                                                              | 18,253                                        | —                                         |
| Commercial paper                      | 5,852                                           | —                                                              | 5,852                                         | —                                         |
| <b>Non Current Assets</b>             |                                                 |                                                                |                                               |                                           |
| Deferred compensation plan            | 7,291                                           | 7,291                                                          | —                                             | —                                         |
| <b>Total</b>                          | <b>\$58,067</b>                                 | <b>\$7,656</b>                                                 | <b>\$ 50,411</b>                              | <b>\$ —</b>                               |
| <b>Financial Liabilities:</b>         |                                                 |                                                                |                                               |                                           |
| Long-term debt <sup>1</sup>           | \$84,768                                        | \$—                                                            | \$ 85,207                                     | \$ —                                      |
| <b>Balance as of January 30, 2016</b> |                                                 |                                                                |                                               |                                           |
| <b>Financial Assets:</b>              |                                                 |                                                                |                                               |                                           |
| <b>Current Assets</b>                 |                                                 |                                                                |                                               |                                           |
| <b>Cash equivalents:</b>              |                                                 |                                                                |                                               |                                           |
| Money market accounts                 | \$275                                           | \$275                                                          | \$ —                                          | \$ —                                      |
| <b>Marketable securities:</b>         |                                                 |                                                                |                                               |                                           |
| U.S. government agencies              | 21,800                                          | —                                                              | 21,800                                        | —                                         |
| Corporate bonds                       | 26,149                                          | —                                                              | 26,149                                        | —                                         |
| Commercial paper                      | 2,245                                           | —                                                              | 2,245                                         | —                                         |
| <b>Non Current Assets</b>             |                                                 |                                                                |                                               |                                           |
| Deferred compensation plan            | 7,023                                           | 7,023                                                          | —                                             | —                                         |
| <b>Total</b>                          | <b>\$57,492</b>                                 | <b>\$7,298</b>                                                 | <b>\$ 50,194</b>                              | <b>\$ —</b>                               |
| <b>Financial Liabilities:</b>         |                                                 |                                                                |                                               |                                           |
| Long-term debt                        | \$92,219                                        | \$—                                                            | \$ 92,647                                     | \$ —                                      |

Balance as of  
October  
31,  
2015

Financial Assets:

Current Assets

Cash equivalents:

|                       |         |         |      |      |
|-----------------------|---------|---------|------|------|
| Money market accounts | \$3,100 | \$3,100 | \$ — | \$ — |
|-----------------------|---------|---------|------|------|

Marketable securities:

|                          |        |   |        |   |
|--------------------------|--------|---|--------|---|
| U.S. government agencies | 17,817 | — | 17,817 | — |
|--------------------------|--------|---|--------|---|

|                 |        |   |        |   |
|-----------------|--------|---|--------|---|
| Corporate bonds | 27,256 | — | 27,256 | — |
|-----------------|--------|---|--------|---|

|                  |       |   |       |   |
|------------------|-------|---|-------|---|
| Commercial paper | 2,243 | — | 2,243 | — |
|------------------|-------|---|-------|---|

Non Current Assets

|                            |       |       |   |   |
|----------------------------|-------|-------|---|---|
| Deferred compensation plan | 8,632 | 8,632 | — | — |
|----------------------------|-------|-------|---|---|

|       |          |          |           |      |
|-------|----------|----------|-----------|------|
| Total | \$59,048 | \$11,732 | \$ 47,316 | \$ — |
|-------|----------|----------|-----------|------|

Financial Liabilities:

|                |        |   |           |   |
|----------------|--------|---|-----------|---|
| Long-term debt | 94,702 | — | \$ 95,161 | — |
|----------------|--------|---|-----------|---|

<sup>1</sup> The carrying value of long-term debt includes the remaining unamortized discount of \$0.2 million on the issuance of debt.



Table of Contents

Chico's FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

October 29, 2016

(Unaudited)

## Note 8. Debt

In fiscal 2015, we entered into a credit agreement (the "Agreement") providing for a term loan of \$100.0 million and a revolving credit facility of \$100.0 million. The term loan and revolving credit facility mature on May 4, 2020 and accrue interest by reference, at our election, at either an adjusted eurodollar rate tied to LIBOR or an Alternate Base Rate plus an interest rate margin, as defined in the Agreement. The Agreement contains customary representations, warranties, and affirmative covenants, including the requirement to maintain certain financial ratios. The Company was in compliance with the applicable ratio requirements and other covenants at October 29, 2016. As of October 29, 2016, we had total available borrowing capacity of \$100.0 million under our revolving credit facility.

The following table provides details on our debt outstanding as of October 29, 2016, January 30, 2016 and October 31, 2015:

|                       | October<br>29, 2016 | January<br>30, 2016 | October<br>31, 2015 |
|-----------------------|---------------------|---------------------|---------------------|
|                       | (in thousands)      |                     |                     |
| Credit Agreement, net | \$84,768            | \$92,219            | \$94,702            |
| Less: current portion | (10,000 )           | (10,000 )           | (10,000 )           |
| Total long-term debt  | \$74,768            | \$82,219            | \$84,702            |

## Note 9. Share Repurchases

During the thirty-nine weeks ended October 29, 2016, we repurchased 6.5 million shares, under our share repurchase program announced in November 2015 at a total cost of approximately \$76.3 million. As of October 29, 2016, the Company has \$183.7 million remaining under the share repurchase program. However, we have no continuing obligation to repurchase shares under this authorization, and the timing, actual number and value of any additional shares to be purchased will depend on the performance of our stock price, market conditions and other considerations.

## Note 10. Commitments and Contingencies

In July 2015, the Company was named as a defendant in Altman v. White House Black Market, Inc., a putative class action filed in the United States District Court for the Northern District of Georgia. The Complaint alleges that the Company, in violation of federal law, published more than the last five digits of a credit or debit card number or an expiration date on customers' receipts. The Company denies the material allegations of the complaint. Its motion to dismiss was denied on July 13, 2016, but the Company continues to believe that the case is without merit and is not appropriate for class treatment. It intends to vigorously defend the matter. At this time however, it is not possible to predict whether the proceeding will be permitted to proceed as a class or the size of the putative class, and no assurance can be given that the Company will be successful in its defense on the merits or otherwise. Because the case is still in the early stages and class determinations have not been made, the Company is unable to estimate any potential loss or range of loss.

In June 2015, the Company was named as a defendant in Ackerman v. Chico's FAS, Inc., a putative representative Private Attorney General action filed in the Superior Court of California, County of Los Angeles. The Complaint alleges numerous violations of California law related to wages, meal periods, rest periods, wage statements, and failure to reimburse business expenses, among other things. Plaintiff subsequently amended her complaint to make the same allegations on a class action basis. In June 2016, the parties submitted a proposed settlement of the matter to the court, and the court granted preliminary approval on August 26, 2016, and settlement notices have been distributed. If finally approved, the proposed settlement will not have a material adverse effect on the Company's consolidated financial condition or results of operations.

In March 2016, the Company was named as a defendant in Cunningham v. Chico's FAS, Inc., a putative class action filed in the Superior Court of California, County of San Diego. Given the overlap with the claims alleged in the

Ackerman case, described above, the Court initially stayed the Cunningham case pending final approval of the Ackerman settlement. In October 2016, the parties agreed to lift the stay and to resolve the matter as an individual action. The Court has since dismissed the case. The settlement amount was immaterial.

Table of Contents

Chico's FAS, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

October 29, 2016

(Unaudited)

In June 2016, the Company was named as a defendant in *Rodems v. Chico's FAS, Inc.*, a putative class action filed in the Superior Court of California, County of Fresno. Plaintiff sought to represent current and former nonexempt employees of Chico's stores in California. The Complaint alleged many of the same Labor Code violations as Ackerman, described above. As a result, the court stayed the matter pending final approval of the Ackerman proposed settlement. The Company and the plaintiff subsequently agreed to a lifting of the stay and a filing of an amended complaint in early November, and the Company removed the case to the United State District Court for the Eastern District of California on November 9, 2016. In the proposed First Amended Complaint, the plaintiff makes similar claims of Labor Code violations against the Company but does not seek to represent a putative class or make class action allegations. The Company disputes the allegations of the First Amended Complaint and, at this time, does not expect that this case will have a material adverse effect on the Company's consolidated financial condition or results of operation.

On July 28, 2016, the Company was named as a defendant in *Calleros v. Chico's FAS, Inc.*, a putative class action filed in the Superior Court of California, County of Santa Barbara. Plaintiff alleges that the Company failed to comply with California law requiring it to provide consumers cash for gift cards with a stored value of less than \$10.00. The Company believes that the matter is not appropriate for class treatment; however, it is not possible to predict whether it will be permitted to proceed as a class or the size of the putative class, and no assurance can be given that the Company will be successful in its defense of this action on the merits or otherwise. Because class determinations have not been made, the Company is unable to estimate any potential loss or range of loss were it to lose on the merits of the case. However, the case is scheduled for voluntary mediation on November 28, 2016, and, at this time, the Company does not expect that the case will have a material adverse effect on the Company's consolidated financial conditions or results of operation.

Other than as noted above, we are not currently a party to any legal proceedings other than claims and lawsuits arising in the normal course of business. All such matters are subject to uncertainties and outcomes may not be predictable. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of October 29, 2016 are not estimable. However, while such matters could affect our consolidated operating results when resolved in future periods, management believes that upon final disposition, any monetary liability or financial impact to us would not be material to our annual consolidated financial statements.

Note 11. Subsequent Events

On November 22, 2016, we announced that our Board of Directors has declared a quarterly dividend of \$0.08 per share on our common stock. The dividend will be payable on December 19, 2016 to shareholders of record at the close of business on December 5, 2016. Although it is our Company's intention to continue to pay a quarterly cash dividend in the future, any decision to pay future cash dividends will be made by the Board of Directors and will depend on future earnings, financial condition and other factors.

Table of Contents

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto and our 2015 Annual Report to Stockholders.

Executive Overview

We are a leading omni-channel specialty retailer of women's private branded, sophisticated, casual-to-dressy clothing, intimates, complementary accessories, and other non-clothing items operating under the Chico's, White House Black Market ("WHBM") and Soma brand names. We earn revenues and generate cash through the sale of merchandise in our domestic and international retail stores, on our various websites, through our call center which takes orders for all of our brands, and through an unaffiliated franchise partner in Mexico.

We utilize an integrated omni-channel approach to managing our business. For each of our brands, we want our customers to view the brand, through all of its various sales channels, as an integrated experience, rather than viewing it through a single channel (such as the store or the website). This approach allows our customers to browse, purchase, return, or exchange our merchandise through whatever sales channel and at whatever time is most convenient. As a result, we track total sales and comparable sales on a combined basis.

Net sales for the third quarter of fiscal 2016 were \$596.9 million compared to \$645.4 million in last year's third quarter. This decrease of 7.5% included \$18.7 million related to Boston Proper. Excluding Boston Proper from fiscal 2015, net sales decreased 4.8% and primarily reflected a 4.9% decrease in comparable sales, comprised of a decrease in transaction count and lower average dollar sale. Third quarter average unit retail increased with a decline in promotional activity.

We reported net income for the third quarter of fiscal 2016 of \$23.6 million, or \$0.18 per diluted share, compared to a net loss of \$11.6 million, or \$0.09 per diluted share, in last year's third quarter. Results for the third quarter of fiscal 2016 include restructuring and strategic charges of \$6.8 million after-tax, or \$0.05 per diluted share, primarily consisting of outside services, partially offset by an additional tax benefit on the disposition of Boston Proper's stock of \$4.0 million, or \$0.03 per diluted share. Results for the third quarter of fiscal 2015 include the impact of Boston Proper non-cash goodwill and trade name impairment charges of \$23.9 million after-tax, or \$0.18 per diluted share, restructuring and strategic charges of \$1.9 million after-tax, or \$0.01 per diluted share, primarily related to property and equipment impairment charges for the Boston Proper stores, and the operating loss related to Boston Proper of \$3.5 million, or \$0.03 per diluted share. The change in earnings per share also reflects the impact of approximately 10.2 million shares repurchased since the end of the third quarter last year.

Net sales for the year-to-date period of fiscal 2016 were \$1.876 billion, a decrease of 7.5% compared to \$2.029 billion in last year's year-to-date period. Net income for the year-to-date period of fiscal 2016 was \$77.7 million, or \$0.58 per diluted share, compared to net income of \$23.0 million, or \$0.16 per diluted share last year. Results for the year-to-date period of fiscal 2016 include restructuring and strategic charges of \$19.4 million after-tax, or \$0.15 per diluted share, primarily consisting of severance, proxy solicitation costs, and outside services, partially offset by an additional tax benefit on the disposition of Boston Proper's stock of \$4.0 million, or \$0.03 per diluted share. Results for the year-to-date period of fiscal 2015 include the impact of Boston Proper non-cash goodwill and trade name impairment charges of \$71.0 million after-tax, or \$0.50 per diluted share, restructuring and strategic charges of \$21.2 million after-tax, or \$0.15 per diluted share, primarily related to property and equipment impairment charges, employee-related costs and lease termination charges, a tax benefit related to the disposition of Boston Proper's stock of \$23.8 million, or \$0.17 per diluted share, and the operating loss related to Boston Proper of \$8.2 million, or \$0.06 per diluted share. The change in earnings per share also reflects the impact of approximately 10.2 million shares repurchased since the end of the third quarter last year.

Our Business Strategy

Our overall business strategy is focused on building and cultivating a portfolio of high-performing retail brands serving the fashion needs of women 35 years and older. We are focused on increasing the sales volume and profitability of our existing brands through our four focus areas: (1) evolving the customer experience, (2)

strengthening our brands' positions, (3) leveraging actionable retail science, and (4) sharpening our financial principles. Over the long term, we may build our brand portfolio by organic development or acquisition of other specialty retail concepts if research indicates that the opportunity complements our current brands and is appropriate and in the best interest of the shareholders.

Table of Contents

We pursue the growth of the brands in our portfolio by building our omni-channel capabilities, which includes managing our store base and our growing online presence, executing marketing plans, effectively leveraging expenses and optimizing the potential of each of our three brands. We have invested heavily in our omni-channel capabilities in order to allow customers to fully experience our brands, through more than one channel. In essence, we view our various sales channels as a single, integrated process rather than as separate sales channels operating independently. To that end, we often refer to our brands' respective websites as "our largest store" within the brand.

Under this integrated, omni-channel approach, we encourage our customers to take advantage of each of our sales channels in whatever way best fits their needs. Customers may shop our products through one channel and consummate the purchase through a different channel. Our domestic customers have the option of returning merchandise to a store or to our distribution center, regardless of the channel used for purchase. We believe this omni-channel approach meets our customers' expectations, enhances the customer experience, contributes to the overall success of our brands, reflects that our customers do not differentiate between channels, and is consistent with how we plan and manage our business. As a result, we maintain a shared inventory platform for our operations, allowing us to fulfill orders for all channels from our distribution center in Winder, Georgia. We also fulfill in-store orders directly from other stores or our distribution center and offer domestic online and catalog customers the option of returning items to our stores.

We seek to acquire and retain omni-channel customers by leveraging existing customer-specific data and through targeted marketing, including e-marketing, television, catalogs and mailers. We seek to optimize the potential of our brands with improved product offerings, which includes potential new merchandise opportunities and brand extensions that complement the current offerings, as well as our continued emphasis on our "Most Amazing Personal Service" standard.

In 2016, we announced new initiatives to realign marketing and digital commerce, improve supply chain efficiency, and reduce non-merchandise and marketing expenses. Actions taken as part of these initiatives are expected to reduce expenses and complexity, standardize processes and improve the Company's ability to respond in real-time to changes in customer demand for merchandise.

Table of Contents

## RESULTS OF OPERATIONS

Thirteen Weeks Ended October 29, 2016 Compared to the Thirteen Weeks Ended October 31, 2015

## Net Sales

The following table depicts net sales by Chico's, WHBM, Soma and Boston Proper in dollars and as a percentage of total net sales for the thirteen weeks ended October 29, 2016 and October 31, 2015:

|                 | Thirteen Weeks Ended   |        |                  |        |
|-----------------|------------------------|--------|------------------|--------|
|                 | October 29, 2016       |        | October 31, 2015 |        |
|                 | (dollars in thousands) |        |                  |        |
| Chico's         | \$312,203              | 52.3 % | \$333,421        | 51.7 % |
| WHBM            | 210,389                | 35.2   | 220,965          | 34.2   |
| Soma            | 74,320                 | 12.5   | 72,349           | 11.2   |
| Boston Proper   | —                      | —      | 18,698           | 2.9    |
| Total net sales | \$596,912              | 100.0% | \$645,433        | 100.0% |

Net sales for the third quarter decreased to \$596.9 million from \$645.4 million in last year's third quarter. This 7.5% decrease includes \$18.7 million related to Boston Proper in last year's third quarter and primarily reflects a 4.9% decrease in comparable sales, comprised of reduced transaction count and lower average dollar sale. For the third quarter, average unit retail increased with a decline in promotional activity. Net sales reflects 36 net store closures, including 20 Boston Proper store closures, or a 1.7% net decrease in selling square footage since last year's third quarter.

The following table depicts comparable sales percentages by Chico's, WHBM and Soma for the thirteen weeks ended October 29, 2016 and October 31, 2015:

|               | Thirteen Weeks Ended |                  |
|---------------|----------------------|------------------|
|               | October 29, 2016     | October 31, 2015 |
| Chico's       | (5.6)%               | (4.7)%           |
| WHBM          | (5.5)%               | (2.0)%           |
| Soma          | 0.4 %                | (0.9)%           |
| Total Company | (4.9)%               | (3.3)%           |

## Cost of Goods Sold/Gross Margin

The following table depicts cost of goods sold and gross margin in dollars and gross margin as a percentage of total net sales for the thirteen weeks ended October 29, 2016 and October 31, 2015:

|                         | Thirteen Weeks Ended   |                  |
|-------------------------|------------------------|------------------|
|                         | October 29, 2016       | October 31, 2015 |
|                         | (dollars in thousands) |                  |
| Cost of goods sold      | \$366,618              | \$396,270        |
| Gross margin            | \$230,294              | \$249,163        |
| Gross margin percentage | 38.6 %                 | 38.6 %           |

For the third quarter of fiscal 2016, gross margin was \$230.3 million, or 38.6%, compared to \$249.2 million, or 38.6%, in last year's third quarter. When excluding Boston Proper from fiscal 2015, gross margin decreased 40 basis points in fiscal 2016 compared to gross margin of \$244.2 million, or 39.0% last year. This decrease in gross margin rate primarily reflects an improvement in merchandise margin, which was more than offset by deleverage of occupancy costs and an increase in incentive compensation.





Table of Contents

## Selling, General and Administrative Expenses

The following table depicts SG&A, which includes direct operating expenses, marketing expenses and National Store Support Center ("NSSC") expenses, in dollars and as a percentage of total net sales for the thirteen weeks ended October 29, 2016 and October 31, 2015:

|                                              | Thirteen Weeks Ended   |   |                  |   |
|----------------------------------------------|------------------------|---|------------------|---|
|                                              | October 29, 2016       |   | October 31, 2015 |   |
|                                              | (dollars in thousands) |   |                  |   |
| Selling, general and administrative expenses | \$188,350              |   | \$226,256        |   |
| Percentage of total net sales                | 31.6                   | % | 35.1             | % |

For the third quarter of fiscal 2016, SG&A was \$188.4 million compared to \$226.3 million in last year's third quarter. SG&A was 31.6% of net sales, a 350 basis point decrease from last year's third quarter, primarily due a reduction in marketing spend in fiscal 2016, \$11.5 million of SG&A related to Boston Proper in fiscal 2015, and savings in store labor, partially offset by an increase in incentive compensation.

## Restructuring and Strategic Charges

In fiscal 2014, we initiated a restructuring program, including the acceleration of domestic store closures and an organizational realignment, to ensure that resources are aligned with long-term growth initiatives, including omni-channel. During the first quarter of fiscal 2016, we announced an expansion of our restructuring program to further align the organizational structure with long-term growth initiatives, including transition of executive leadership, and to reduce COGS and SG&A through strategic initiatives. These strategic initiatives include realigning marketing and digital commerce, improving supply chain efficiency, and reducing non-merchandise and marketing expenses. We have continued to execute on our cost reduction and operating efficiency initiatives, including an organizational redesign in the third quarter of fiscal 2016 which clarified roles, responsibilities and processes across our brands and shared service center.

In connection with this effort, in the third quarter of fiscal 2016, we recorded pre-tax restructuring and strategic charges totaling \$10.8 million, primarily consisting of outside services related to cost reduction and operating efficiency initiatives, compared to \$3.1 million in the third quarter of fiscal 2015, primarily consisting of Boston Proper lease termination charges. The after-tax impact of the restructuring and strategic charges in the third quarter totaled \$6.8 million, or \$0.05 per diluted share, compared to \$1.9 million, or \$0.01 per diluted share in fiscal 2015.

In connection with the restructuring program, we evaluated our domestic store portfolio and identified approximately 175 stores for closure, with 90 stores across our brands, including 20 Boston Proper stores, closed through the third quarter of fiscal 2016. As a result, we expect to incur additional cash charges related to lease termination expenses of approximately \$1.7 million through fiscal 2017 related to these future closures.

## Provision for Income Taxes

Our effective tax rate for the third quarter was 22.9% compared to an effective tax rate of (55.7)% in last year's third quarter. The favorability in the effective tax rate for the third quarter of 2016 primarily reflects an additional tax benefit related to the disposition of Boston Proper's stock and the realization of income tax credits in 2016. The income tax benefit of \$14.6 million for the third quarter of 2015 and effective tax rate of (55.7)% primarily reflected the tax benefit related to the disposition of Boston Proper's stock and the tax impact of the Boston Proper goodwill and trade name impairment on the annual effective tax rate. Excluding the net after-tax impact of restructuring and strategic charges and the exit of Boston Proper, the effective tax rate for the third quarter of 2016 would have been 36.2% compared to 37.0% in the same period last year.

## Net Income and Earnings Per Diluted Share

We reported net income for the third quarter of fiscal 2016 of \$23.6 million, or \$0.18 per diluted share, compared to net loss of \$11.6 million, or \$0.09 per diluted share in last year's third quarter. Results for the third quarter of fiscal 2016 include the impact of restructuring and strategic charges of \$6.8 million after-tax, or \$0.05 per diluted share, primarily related to outside services related to cost reduction and operating efficiency initiatives, partially offset by an additional tax benefit related to the exit of Boston Proper of \$4.0 million, or \$0.03 per diluted share. Results for the

third quarter of fiscal 2015 include charges of \$29.3 million after-tax, or \$0.22 per diluted share, related to Boston Proper non-cash goodwill and trade name impairment charges, restructuring and strategic charges and Boston Proper operating results. The change in earnings per share also reflects the impact of approximately 10.2 million shares repurchased since the end of the third quarter last year.

Table of Contents

## Thirty-Nine Weeks Ended October 29, 2016 Compared to the Thirty-Nine Weeks Ended October 31, 2015

## Net Sales

The following table depicts net sales by Chico's, WHBM, Soma and Boston Proper in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 29, 2016 and October 31, 2015:

|                 | Thirty-Nine Weeks Ended |       |   |                  |       |   |
|-----------------|-------------------------|-------|---|------------------|-------|---|
|                 | October 29, 2016        |       |   | October 31, 2015 |       |   |
|                 | (dollars in thousands)  |       |   |                  |       |   |
| Chico's         | \$995,067               | 53.0  | % | \$1,058,697      | 52.2  | % |
| WHBM            | 633,420                 | 33.8  | % | 659,682          | 32.5  | % |
| Soma            | 247,134                 | 13.2  | % | 240,347          | 11.8  | % |
| Boston Proper   | —                       | 0.0   | % | 70,299           | 3.5   | % |
| Total net sales | \$1,875,621             | 100.0 | % | \$2,029,025      | 100.0 | % |

Net sales for the year-to-date period decreased to \$1.876 billion from \$2.029 billion in last year's year-to-date period. This 7.6% decrease includes \$70.3 million related to Boston Proper last year and primarily reflects a 4.0% decrease in comparable sales, comprised of a decrease in transaction count and average dollar sale.

The following table depicts comparable sales percentages by Chico's, WHBM and Soma for the thirty-nine weeks ended October 29, 2016 and October 31, 2015:

|               | Thirty-Nine Weeks Ended |                  |
|---------------|-------------------------|------------------|
|               | October 29, 2016        | October 31, 2015 |
| Chico's       | (5.4)%                  | (2.1)%           |
| WHBM          | (3.5)%                  | (0.8)%           |
| Soma          | 0.6 %                   | 3.6 %            |
| Total Company | (4.0)%                  | (1.0)%           |

## Cost of Goods Sold/Gross Margin

The following table depicts cost of goods sold and gross margin in dollars and gross margin as a percentage of total net sales for the thirty-nine weeks ended October 29, 2016 and October 31, 2015:

|                         | Thirty-Nine Weeks Ended |                  |
|-------------------------|-------------------------|------------------|
|                         | October 29, 2016        | October 31, 2015 |
|                         | (dollars in thousands)  |                  |
| Cost of goods sold      | \$1,142,182             | \$1,219,543      |
| Gross margin            | \$733,439               | \$809,482        |
| Gross margin percentage | 39.1 %                  | 39.9 %           |

Gross margin for the year-to-date period was \$733.4 million, or 39.1%, compared to \$809.5 million, or 39.9%, in last year's year-to-date period. When excluding Boston Proper from fiscal 2015, gross margin decreased 110 basis points in fiscal 2016 compared to \$786.5 million, or 40.2%, last year. The decrease is primarily due to sales deleverage of store occupancy expense.

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

The following table depicts SG&A, which includes store and direct operating expenses, marketing expenses and NSSC expenses, in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 29, 2016 and October 31, 2015:

|                                              | Thirty-Nine Weeks<br>Ended<br>October 29, October 31,<br>2016                      2015 |   |           |   |
|----------------------------------------------|-----------------------------------------------------------------------------------------|---|-----------|---|
|                                              | (dollars in thousands)                                                                  |   |           |   |
| Selling, general and administrative expenses | \$583,117                                                                               |   | \$661,491 |   |
| Percentage of total net sales                | 31.1                                                                                    | % | 32.6      | % |

For the year-to-date period of fiscal 2016, SG&A was \$583.1 million compared to \$661.5 million in last year's year-to-date period. SG&A was 31.1% of net sales, a 150 basis point decrease from last year, primarily due to \$40.5 million of SG&A related to Boston Proper in fiscal 2015, and a reduction in marketing spend and store labor, partially offset by employee benefit costs in fiscal 2016.

**Restructuring and Strategic Charges**

Restructuring and strategic charges for the year-to-date period of fiscal 2016 were \$31.0 million pre-tax, primarily consisting of outside services, severance, proxy solicitation costs, compared to \$34.2 million in fiscal 2015, primarily consisting of non-cash property and equipment impairment charges, continuing employee-related costs, lease termination charges and severance charges. The after-tax impact of the restructuring and strategic charges totaled \$19.4 million, or \$0.15 per diluted share, compared to \$21.2 million, or \$0.15 per diluted share in fiscal 2015.

**Provision for Income Taxes**

For the year-to-date period of fiscal 2016, the income tax provision of \$40.1 million and effective tax rate of 34.0% primarily reflected the pre-tax net income during the period and the additional tax benefit related to the disposition of Boston Proper's stock and the realization of income tax credits in 2016. For the year-to-date period of fiscal 2015, the income tax benefit was \$23.1 million. The effective tax rate for the year-to-date period of fiscal 2015 was not comparable to the 34.0% effective tax rate for the year-to-date period of fiscal 2016, primarily due to the tax benefit recorded in fiscal 2015 related to the disposition of Boston Proper's stock and the impact of the Boston Proper goodwill impairment on the annual effective tax rate.

**Net Income and Earnings Per Diluted Share**

Net income for the year-to-date period of fiscal 2016 was \$77.7 million, or \$0.58 per diluted share, compared to net income of \$23.0 million, or \$0.16 per diluted share, in last year's year-to-date period. Results for the year-to-date period of fiscal 2016 include the impact of restructuring and strategic charges of \$19.4 million after-tax, or \$0.15 per diluted share, primarily related to outside services, severance, proxy solicitation costs, partially offset by an additional tax benefit related to the exit of Boston Proper of \$4.0 million, or \$0.03 per diluted share. Results for the year-to-date period of fiscal 2015 include charges of \$76.7 million after tax, or \$0.54 per diluted share, related to Boston Proper non-cash goodwill and trade name impairment charges, restructuring and strategic charges, a tax benefit as a result of the disposition of Boston Proper's stock and Boston Proper operating results. The change in earnings per share also reflects the impact of approximately 10.2 million shares repurchased since the end of the third quarter last year.

**Liquidity and Capital Resources**

We believe that our existing cash and marketable securities balances, cash generated from operations, available credit facilities and potential future borrowings will be sufficient to fund capital expenditures, working capital needs, dividend payments, potential share repurchases, commitments, and other liquidity requirements associated with our operations for the foreseeable future. Furthermore, while it is our intention to repurchase our stock and pay a quarterly cash dividend in the future, any determination to repurchase additional shares of our stock or pay future dividends will be made by the Board of Directors and will depend on our stock price, future earnings, financial condition, and other

factors considered by the Board.

Our ongoing capital requirements will continue to be primarily for enhancing and expanding our omni-channel capabilities, including: information technology and relocated, remodeled and new stores.

## Table of Contents

### Operating Activities

Net cash provided by operating activities for the year-to-date period of fiscal 2016 was \$144.4 million, an increase of approximately \$14.3 million from last year's year-to-date period. This increase primarily reflected the change in working capital, partially offset by lower net income compared to prior year when adjusted for non-cash impairment charges and the deferred tax benefit related to the exit of Boston Proper, as well as lower stock compensation expense and depreciation and amortization. The change in working capital is primarily due to a decrease in net income tax receivable, improved inventory management and the timing of payables.

### Investing Activities

Net cash used in investing activities for the year-to-date period of fiscal 2016 was \$35.9 million compared to \$12.6 million provided by investing activities in last year's year-to-date period, primarily reflecting a \$79.4 million decrease in marketable securities related to share repurchases in fiscal 2015. Investing activities in the third quarter of fiscal 2016 included net purchases of property and equipment totaling \$35.7 million compared to \$66.6 million in the same period last year, consistent with our overall business strategy.

### Financing Activities

Net cash used in financing activities for the year-to-date period of fiscal 2016 was \$118.1 million compared to \$184.9 million in last year's year-to-date period. The decrease in net cash used in financing activities primarily reflects a decrease of \$179.2 million in share repurchases in fiscal 2016 compared to fiscal 2015, partially offset by net borrowings of \$95.0 million under our Credit Agreement in fiscal 2015.

### Store and Franchise Activity

During the fiscal 2016 year-to-date period, we had 8 net store closure, consisting of net closures of 10 Chico's and 4 WHBM stores, and openings of 6 Soma stores. Currently, we expect an additional 9 net store closures in fiscal 2016, reflecting approximately 8 net closures of Chico's stores and 1 net WHBM closure. 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. As of October 29, 2016, we also sold merchandise through 88 international franchise locations.

### Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon the condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors and believes the assumptions and estimates, as set forth in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016, are significant to reporting our results of operations and financial position.

In fiscal 2016 we implemented changes to our accounting policy for the classification of shipping expense, corrected an immaterial error in the classification of shipping revenue and changed the classification of occupancy expenses. Please see Note 1 in our Notes to Condensed Consolidated Financial Statements for a detailed description and reconciliation of these matters.

Other than discussed above, there have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

## Table of Contents

### Forward-Looking Statements

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 our plans, objectives, the implementation of our previously announced restructuring program and organizational redesign for improved business performance, including our re-balancing of our store fleet and streamlining the headquarter workforce, and the future success of our store concepts. These statements may address items such as future sales and sales initiatives, gross margin expectations, SG&A expectations (particularly estimated expected savings), 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, relate to expectations concerning matters that are not historical fact and may include the words or phrases such as “expects,” “believes,” “anticipates,” “plans,” “estimates,” “approximately,” “our planning assumptions,” “future outlook,” and similar expressions. E. 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 based largely on information currently available to our management and on our current expectations, assumptions, plans, estimates, judgments and projections about our business and our industry, and are subject to various risks and uncertainties that could cause actual results to differ materially from historical results or those currently anticipated. Although we believe our expectations are based on reasonable estimates and assumptions, they are not guarantees of performance and there are a number of known and unknown risks, uncertainties, contingencies, and other factors (many of which are outside our control) that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Accordingly, there is no assurance that our expectations will, in fact, occur or that our estimates or assumptions will be correct, and we caution investors and all others not to place undue reliance on such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described in Item 1A, “Risk Factors” in our Annual Report on Form 10-K filed with the SEC on March 8, 2016, those described in Item 1A herein, and the following:

Potential risks and uncertainties include: the financial strength of retailing in particular and the economy in general; the extent of financial difficulties or uncertainty that may be experienced by customers; our ability to secure and maintain customer acceptance of styles and store concepts; the ability to effectively manage and maintain an appropriate level of inventory; 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 effectiveness of our brand awareness and marketing programs; the adequacy and perception of customer service; the ability to coordinate product development with buying and planning; the quality of merchandise received from suppliers; the ability to efficiently, timely and successfully execute significant economic, labor or other shifts in the countries from which our merchandise is supplied; the ability of our suppliers to timely produce and deliver clothing and accessories; the changes in the costs of manufacturing, raw materials, labor and advertising; the availability of quality store sites; our ability to manage our store fleet and the risk that our investments in shopping initiatives may not deliver the results we anticipate; the risk that comparable sales and margins will experience fluctuations; the ability to successfully execute our business strategies; the continuing performance, implementation and integration of management information systems; the impact of any systems failures, cyber security or other data or security breaches, including any security breaches that result in theft, transfer, or unauthorized disclosure of customer, employee, or company information or our compliance with information security and privacy laws and regulations in the event of such an incident; the ability to hire, train, energize and retain qualified sales associates, managerial employees and other employees; the successful integration of our new management team; the ability to achieve the results of our previously announced restructuring program and expense initiatives the ability to respond effectively to actions of activist shareholders and others; the ability to utilize our distribution center and other support facilities in an

efficient and effective manner; the ability to establish our websites and operate them in a manner that produces profitable sales and marketing; the ability to secure and protect trademarks and other intellectual property rights and to protect our reputation and brand images; and the risk that natural disasters, public health crises, political uprisings or unrest, or other catastrophic events could adversely affect our operations and financial results. In addition, there are potential risks and uncertainties that are related 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.

All written or oral forward-looking statements that are made or attributable to us are expressly qualified in their entirety by this cautionary notice. 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.



Table of Contents

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

The market risk of our financial instruments as of October 29, 2016 has not significantly changed since January 30, 2016. We are exposed to market risk from changes in interest rates on any future indebtedness and our marketable securities and from foreign currency exchange rate fluctuations.

Our exposure to interest rate risk relates in part to our revolving line of credit with our bank. On May 4, 2015, we entered into a credit agreement, as further discussed in Note 7. The Agreement, which matures on May 4, 2020, has borrowing options which accrue interest by reference, at our election, at either an adjusted eurodollar rate tied to LIBOR or an Alternate Base Rate plus an interest rate margin, as defined in the Agreement. An increase or decrease in market interest rates of 100 basis points would not have a material effect on annual interest expense.

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 securities, corporate bonds, U.S. government agencies and commercial paper. The marketable securities portfolio as of October 29, 2016, consisted of \$25.4 million of securities with maturity dates within one year or less and \$25.0 million with maturity dates over one year and less than or equal to two years. We consider all marketable securities available-for-sale, including those with maturity dates beyond 12 months, and therefore classify these securities as short-term investments within current assets on the condensed consolidated balance sheets as they are available to support current operational liquidity needs. As of October 29, 2016, an increase or decrease of 100 basis points in interest rates would not have a material effect on the fair value of our marketable securities portfolio.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

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

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

**Changes in Internal Controls**

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

Table of Contents

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In July 2015, the Company was named as a defendant in *Altman v. White House Black Market, Inc.*, a putative class action filed in the United States District Court for the Northern District of Georgia. The Complaint alleges that the Company, in violation of federal law, published more than the last five digits of a credit or debit card number or an expiration date on customers' receipts. The Company denies the material allegations of the complaint. Its motion to dismiss was denied on July 13, 2016, but the Company continues to believe that the case is without merit and is not appropriate for class treatment. It intends to vigorously defend the matter. At this time however, it is not possible to predict whether the proceeding will be permitted to proceed as a class or the size of the putative class, and no assurance can be given that the Company will be successful in its defense on the merits or otherwise. Because the case is still in the early stages and class determinations have not been made, the Company is unable to estimate any potential loss or range of loss.

In June 2015, the Company was named as a defendant in *Ackerman v. Chico's FAS, Inc.*, a putative representative Private Attorney General action filed in the Superior Court of California, County of Los Angeles. The Complaint alleges numerous violations of California law related to wages, meal periods, rest periods, wage statements, and failure to reimburse business expenses, among other things. Plaintiff subsequently amended her complaint to make the same allegations on a class action basis. In June 2016, the parties submitted a proposed settlement of the matter to the court, and the court granted preliminary approval on August 26, 2016, and settlement notices have been distributed. If finally approved, the proposed settlement will not have a material adverse effect on the Company's consolidated financial condition or results of operations.

In March 2016, the Company was named as a defendant in *Cunningham v. Chico's FAS, Inc.*, a putative class action filed in the Superior Court of California, County of San Diego. Given the overlap with the claims alleged in the Ackerman case, described above, the Court initially stayed the Cunningham case pending final approval of the Ackerman settlement. In October 2016, the parties agreed to lift the stay and to resolve the matter as an individual action. The Court has since dismissed the case. The settlement amount was immaterial.

In June 2016, the Company was named as a defendant in *Rodems v. Chico's FAS, Inc.*, a putative class action filed in the Superior Court of California, County of Fresno. Plaintiff sought to represent current and former nonexempt employees of Chico's stores in California. The Complaint alleged many of the same Labor Code violations as Ackerman, described above. As a result, the court stayed the matter pending final approval of the Ackerman proposed settlement. The Company and the plaintiff subsequently agreed to a lifting of the stay and a filing of an amended complaint in early November, and the Company removed the case to the United State District Court for the Eastern District of California on November 9, 2016. In the proposed First Amended Complaint, the plaintiff makes similar claims of Labor Code violations against the Company but does not seek to represent a putative class or make class action allegations. The Company disputes the allegations of the First Amended Complaint and, at this time, does not expect that this case will have a material adverse effect on the Company's consolidated financial condition or results of operation.

On July 28, 2016, the Company was named as a defendant in *Calleros v. Chico's FAS, Inc.*, a putative class action filed in the Superior Court of California, County of Santa Barbara. Plaintiff alleges that the Company failed to comply with California law requiring it to provide consumers cash for gift cards with a stored value of less than \$10.00. The Company believes that the matter is not appropriate for class treatment; however, it is not possible to predict whether it will be permitted to proceed as a class or the size of the putative class, and no assurance can be given that the Company will be successful in its defense of this action on the merits or otherwise. Because class determinations have not been made, the Company is unable to estimate any potential loss or range of loss were it to lose on the merits of the case. However, the case is scheduled for voluntary mediation on November 28, 2016, and, at this time, the Company does not expect that the case will have a material adverse effect on the Company's consolidated financial conditions or results of operation.

Other than as noted above, we are not currently a party to any legal proceedings other than claims and lawsuits arising in the normal course of business. All such matters are subject to uncertainties and outcomes may not be predictable.

Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of October 29, 2016 are not estimable. However, while such matters could affect our consolidated operating results when resolved in future periods, management believes that upon final disposition, any monetary liability or financial impact to us would not be material to our annual consolidated financial statements.

Table of Contents

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 2015 Annual Report on Form 10-K filed with the SEC on March 8, 2016 should be considered as they could materially affect our business, financial condition or future results. Other than as noted below, there have not been any significant changes with respect to the risks described in our 2015 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.

As discussed in Note 3 in our Notes to Condensed Consolidated Financial Statements, we are currently involved in significant strategic initiatives intended to increase the efficiency and productivity of our business processes. These initiatives require substantial internal change and effort, including reductions and changes in personnel and significant adjustments in how we design and source product and how we ultimately present it to our customers. While we are confident that these initiatives are appropriate for the long-term viability and success of our business, they may not deliver all of the results we expect. Moreover, the process of implementing them places significant stress on the company and could result in unexpected short-term disruptions or negative impacts to our business, including, by way of example:

- Unintended loss of key personnel or unexpected delay in the hiring of personnel whose expertise is needed for the successful implementation of the initiatives.

- Disruption to our current business processes as we migrate to the new processes, or failure to successfully migrate to those new processes, which could negatively impact product flow, product quality or inventory levels.

- Inadvertent lapses or failures in our process, compliance or financial controls as we implement the new initiatives.

These negative impacts, or others, could adversely affect our business and results of operations. In addition, there is no assurance that we can complete the implementation of these initiatives in the manner or in the time-frame planned, or that, once implemented, they will result in the expected increases in the efficiency or productivity of our business. Failure to successfully implement them or their failure to produce the savings and productivity increases we anticipate could materially adversely affect our business and results of operations.

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

| Period                             | Total<br>Number of<br>Shares<br>Purchased (a) | Average Price<br>Paid per Share | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans (b) | Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased Under<br>the Publicly<br>Announced Plans |
|------------------------------------|-----------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| July 31, 2016 - August 27, 2016    | 1,899                                         | \$ 11.66                        | —                                                                                          | \$ 203,706                                                                                                     |
| August 28, 2016 - October 1, 2016  | 57,168                                        | 12.32                           | —                                                                                          | 203,706                                                                                                        |
| October 2, 2016 - October 29, 2016 | 1,651,538                                     | 12.13                           | 1,651,440                                                                                  | 183,673                                                                                                        |
| Total                              | 1,710,605                                     | 12.14                           | 1,651,440                                                                                  | 183,673                                                                                                        |

(a) Total number of shares purchased includes 59,165 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) In November 2015, we announced a \$300.0 million share repurchase plan. There was approximately \$183.7 million remaining under the program as of the end of the third quarter. The repurchase program has no specific termination date and will expire when we have repurchased all securities authorized for repurchase thereunder, unless terminated earlier by our Board of Directors.

Table of Contents

ITEM 5. OTHER INFORMATION

On November 17, 2016, the Company amended and restated the Company's Amended and Restated Bylaws (the "Bylaws") to add proxy access and to make other updates to the Bylaws (the "Amendments"), effective November 17, 2016. The Amendments include a new provisions Section 2.05 to the Bylaws that permits a stockholder, or a group of up to 20 stockholders, owning at least 3% of the number of outstanding shares of common stock of the Company continuously for at least three years, to include in the Company's annual meeting proxy materials director nominees constituting up to 20% of the Board, provided that the stockholder(s) and the nominee(s) satisfy certain notice and other requirements specified in the Bylaws.

The foregoing description of the Amendments does not purport to be complete and is qualified in its entirety by reference to the full text of the Bylaws, as amended, a copy of which is attached hereto as Exhibit 3.1 to this Form 10-Q.

On November 22, 2016, we announced that its Board of Directors declared a quarterly cash dividend of \$0.08 per share of its common stock, a 3.2% increase over the dividend rate from November 2015. The dividend is payable on December 19, 2016 to Chico's FAS shareholders of record at the close of business on December 5, 2016.

ITEM 6. EXHIBITS

(a) The following documents are filed as exhibits to this Quarterly Report on Form 10-Q:

|                 |                                                                                                                                                   |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 3.1     | Amended and Restated Bylaws                                                                                                                       |
| Exhibit 3.2     | Amended and Restated Articles of Incorporation                                                                                                    |
| Exhibit 10.1    | Amended Restricted Stock Agreement (Non-Soma Officers)                                                                                            |
| Exhibit 10.2    | Amended Restricted Stock Agreement (Soma Officers)                                                                                                |
| Exhibit 31.1    | Chico's FAS, Inc. and Subsidiaries Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer              |
| Exhibit 31.2    | Chico's FAS, Inc. and Subsidiaries Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer              |
| Exhibit 32.1    | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32.2    | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 101.INS | XBRL Instance Document                                                                                                                            |
| Exhibit 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                                           |
| Exhibit 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                             |
| Exhibit 101.DEF | XBRL Taxonomy Definition Linkbase Document                                                                                                        |
| Exhibit 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                                   |
| Exhibit 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                            |



Table of Contents

SIGNATURES

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

CHICO'S FAS, INC.

Date: November 22, 2016    By: /s/ Shelley G. Broader  
Shelley G. Broader  
Chief Executive Officer, President and Director

Date: November 22, 2016    By: /s/ Todd E. Vogensen  
Todd E. Vogensen  
Executive Vice President, Chief Financial Officer and Assistant Corporate Secretary

Date: November 22, 2016    By: /s/ David M. Oliver  
David M. Oliver  
Group Vice President Finance - Controller and Chief Accounting Officer