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CHICOS FAS INC

Form 10-Q

August 30, 2018

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

At August 13, 2018, the registrant had 125,697,740 shares of Common Stock, \$0.01 par value per share, outstanding.

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**CHICO'S FAS, INC. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE
FISCAL THIRTEEN AND TWENTY-SIX WEEKS ENDED AUGUST 4, 2018
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CHICO’S FAS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	August 4, 2018		July 29, 2017		August 4, 2018		July 29, 2017	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Net Sales	\$544,720	100.0 %	\$578,581	100.0 %	\$1,106,535	100.0 %	\$1,162,309	100.0 %
Cost of goods sold	347,853	63.9	369,480	63.9	682,800	61.7	715,795	61.6
Gross Margin	196,867	36.1	209,101	36.1	423,735	38.3	446,514	38.4
Selling, general and administrative expenses	174,089	31.9	173,642	30.0	360,508	32.6	356,181	30.6
Income from Operations	22,778	4.2	35,459	6.1	63,227	5.7	90,333	7.8
Interest expense, net	(310)	(0.1)	(443)	0.0	(555)	0.0	(898)	(0.1)
Income before Income Taxes	22,468	4.1	35,016	6.1	62,672	5.7	89,435	7.7
Income tax provision	5,700	1.0	12,300	2.2	16,900	1.6	33,100	2.9
Net Income	\$16,768	3.1 %	\$22,716	3.9 %	\$45,772	4.1 %	\$56,335	4.8 %
Per Share Data:								
Net income per common share–basic	\$0.13		\$0.18		\$0.36		\$0.44	
Net income per common and common equivalent share–diluted	\$0.13		\$0.18		\$0.36		\$0.44	
Weighted average common shares outstanding–basic	124,730		125,643		125,003		125,847	
Weighted average common and common equivalent shares outstanding–diluted	124,774		125,677		125,054		125,890	
Dividends declared per share	\$0.0850		\$0.0825		\$0.2550		\$0.2475	

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

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net Income	\$16,768	\$22,716	\$45,772	\$56,335
Other comprehensive income:				
Unrealized gains on marketable securities, net of taxes	87	10	56	32
Foreign currency translation (losses) gains	(20)	133	(88)	109
Comprehensive Income	\$16,835	\$22,859	\$45,740	\$56,476

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

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CHICO'S FAS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	August 4, 2018	February 3, 2018	July 29, 2017
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 177,641	\$ 160,071	\$ 135,324
Marketable securities, at fair value	61,727	60,060	50,878
Inventories	224,233	233,726	235,167
Prepaid expenses and other current assets	57,301	60,668	49,381
Total Current Assets	520,902	514,525	470,750
Property and Equipment, net	393,525	421,038	443,833
Other Assets:			
Goodwill	96,774	96,774	96,774
Other intangible assets, net	38,930	38,930	38,930
Other assets, net	13,327	16,338	16,745
Total Other Assets	149,031	152,042	152,449
	\$ 1,063,458	\$ 1,087,605	\$ 1,067,032
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	\$ 139,604	\$ 118,253	\$ 125,945
Current debt	—	15,000	15,000
Other current and deferred liabilities	119,497	133,715	123,137
Total Current Liabilities	259,101	266,968	264,082
Noncurrent Liabilities:			
Long-term debt	61,250	53,601	61,068
Other noncurrent and deferred liabilities	97,454	103,282	112,218
Deferred taxes	4,640	7,372	11,222
Total Noncurrent Liabilities	163,344	164,255	184,508
Commitments and Contingencies			
Shareholders' Equity:			
Preferred stock, \$0.01 par value; 2,500 shares authorized; no shares issued and outstanding	—	—	—
Common stock, \$0.01 par value; 400,000 shares authorized; 158,368 and 156,585 and 156,635 shares issued respectively; and 125,710 and 127,471 and 128,329 shares outstanding, respectively	1,257	1,275	1,283
Additional paid-in capital	476,480	468,806	458,172
Treasury stock, at cost, 32,658 and 29,114 and 28,306 shares, respectively	(444,252)	(413,465)	(406,776)
Retained earnings	607,643	599,810	565,650
Accumulated other comprehensive (loss) income	(115)	(44)	113
Total Shareholders' Equity	641,013	656,382	618,442
	\$ 1,063,458	\$ 1,087,605	\$ 1,067,032

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

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

	Twenty-Six Weeks Ended August 4, 2018	July 29, 2017
Cash Flows from Operating Activities:		
Net income	\$ 45,772	\$ 56,335
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,870	50,012
Loss on disposal and impairment of property and equipment	1,778	1,183
Deferred income taxes	(2,600)	1,653
Share-based compensation expense	10,238	10,232
Deferred rent and lease credits	(10,101)	(9,345)
Changes in assets and liabilities:		
Inventories	8,669	(2,804)
Prepaid expenses and other current assets	5,864	5,022
Accounts payable	10,440	(903)
Accrued and other liabilities	(16,329)	(44,076)
Net cash provided by operating activities	99,601	67,309
Cash Flows from Investing Activities:		
Purchases of marketable securities	(17,315)	(14,264)
Proceeds from sale of marketable securities	15,718	13,794
Purchases of property and equipment	(19,844)	(18,040)
Net cash used in investing activities	(21,441)	(18,510)
Cash Flows from Financing Activities:		
Proceeds from borrowings	61,250	—
	(68,750)	(8,750)

Payments on borrowings				
Proceeds from issuance of common stock	679		1,095	
Dividends paid	(22,012))	(21,467))
Repurchase of common stock	(28,443))	(20,700))
Payments of tax withholdings related to share-based awards	(3,226))	(5,897))
Net cash used in financing activities	(60,502))	(55,719))
Effects of exchange rate changes on cash and cash equivalents	(88))	109	
Net increase (decrease) in cash and cash equivalents	17,570		(6,811))
Cash and Cash Equivalents, Beginning of period	60,071		142,135	
Cash and Cash Equivalents, End of period	\$ 177,641		\$ 135,324	
Supplemental Disclosures of Cash Flow Information:				
Cash paid for interest	\$ 2,063		\$ 1,203	
Cash paid for income taxes, net	\$ 22,327		\$ 39,553	

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****(In thousands, except share and per share amounts and where otherwise indicated)****(Unaudited)****1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 February 3, 2018, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 13, 2018.

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

Our fiscal years end on the Saturday closest to January 31 and are designated by the calendar year in which the fiscal year commences. Operating results for the thirteen and twenty-six weeks ended August 4, 2018 are not necessarily indicative of the results that may be expected for the entire year.

Adoption of New Accounting Pronouncements

In the first quarter of fiscal 2018, we early adopted the guidance of Accounting Standards Update ("ASU") 2018-02, *Income Statement - Reporting Comprehensive Income*, which provides entities the option to reclassify to retained earnings tax effects related to items in accumulated other comprehensive income ("OCI") that have been stranded in accumulated OCI as a result of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The provisions of ASU 2018-02 were adopted on a prospective basis with a cumulative adjustment to opening retained earnings, and prior period amounts have not been adjusted and continue to be reported in accordance with the previous guidance. In the first quarter of fiscal 2018, the Company recorded an immaterial cumulative effect adjustment as an increase to opening retained earnings upon adoption of ASU 2018-02 as detailed in the table below.

In the second quarter of fiscal 2018, we adopted the guidance of ASU 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill by eliminating the second step from the quantitative goodwill impairment test. Under this guidance, annual or interim goodwill impairment testing will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge will then be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the carrying value of goodwill. The provisions of ASU 2017-04 were adopted on a prospective basis and did not have an impact on the Company's unaudited consolidated financial statements.

In the first quarter of fiscal 2018, we adopted the guidance of ASU 2016-16, *Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory*, which requires companies to recognize the income tax effects of intercompany sales or transfers of other assets in the income statement as income tax expense (benefit) in the period the sale or transfer occurs. Additionally, companies are required to evaluate whether the tax effects of the intercompany sales or transfers of non-inventory assets should be included in their estimates of annual effective tax rates by using today's interim guidance on income tax accounting. The provisions of ASU 2016-16 were adopted on a modified retrospective basis with a cumulative adjustment to opening retained earnings, and prior period amounts have not been adjusted and continue to be reported in accordance with the previous guidance. In the first quarter of fiscal 2018, the Company recorded a cumulative effect adjustment of \$5.7 million as a decrease to opening retained earnings upon adoption of ASU 2016-16. Any further tax impacts on sales or transfers of intercompany assets other than inventory will be recognized as incurred.

In the first quarter of fiscal 2018, we adopted the guidance of ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, under which entities are no longer able to recognize unrealized holding

gains and losses on equity securities they classify as available-for-sale in other comprehensive income but instead must recognize the change in fair value in net income. The updated guidance further eliminated equity security classification categories (i.e., trading and available-for-sale). The new standard does not change the guidance for classifying and measuring investments in debt securities. The provisions of ASU 2016-01 were adopted on a prospective basis and did not have an impact on the Company's unaudited consolidated financial statements.

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Table of Contents**CHICO'S FAS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(In thousands, except share and per share amounts and where otherwise indicated)****(Unaudited)**

In the first quarter of fiscal 2018, we adopted the guidance of ASU 2014-09, *Revenue from Contracts with Customers*. The updated guidance 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. Through our evaluation of the impact of this ASU 2014-09, we identified certain changes that were made to our accounting policies, practices, systems and controls which include: 1) revenue related to our online sales will be recognized at the shipping point rather than upon delivery to customer; 2) timing of our recognition of advertising expenses, whereby certain expenses that previously were amortized over their expected period of future benefit will be expensed the first time the advertisement appears; 3) presentation of estimated merchandise returns as both an asset, equal to the inventory value net of processing costs, and a corresponding return liability, compared to the previous practice of recording an estimated net return liability; and 4) the recognition of any future franchise development fees will be recognized over the license period. Upon adoption, the Company's accounting policies and treatment over revenue recognition are consistent with the provisions of ASU 2014-09 and represent a faithful depiction of the transfer of promised goods or services to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The provisions of ASU 2014-09 were adopted on a modified retrospective basis with a cumulative adjustment to opening retained earnings, and prior period amounts have not been adjusted and continue to be reported in accordance with the previous guidance. In the first quarter of fiscal 2018, the Company recorded a cumulative effect adjustment of \$0.7 million as an increase to opening retained earnings upon adoption of ASU 2014-09.

Adjustments to Presentation Upon Adoption of New Accounting Pronouncements

The following table presents the effects that the aforementioned adopted accounting standards had on our February 3, 2018 condensed consolidated balance sheet:

	February 3,				February 3,
	2018	ASU	ASU	ASU	2018
	(As	2018-02	2016-16	2014-09	(As
	Reported)				Adjusted)
<u>ASSETS</u>					
Inventories	\$233,726	\$ —	\$ —	\$(824)	\$232,902
Prepaid expenses and other current assets	60,668	—	(500)	5,389	65,557
Other assets, net	16,338	—	(5,206	—	11,132
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>					
Other current and deferred liabilities	\$133,715	\$ —	\$ —	\$3,677	\$137,392
Deferred taxes	7,372	—	—	236	7,608
Retained earnings	599,810	39	(5,706	652	594,795
Accumulated other comprehensive loss	(44)	(39)	—	—	(83)

Had the Company not adopted the provisions of ASU 2014-09, the effects of adoption of this standard on our unaudited condensed consolidated statement of income for the thirteen and twenty-six weeks ended August 4, 2018 and unaudited condensed consolidated balance sheet as of August 4, 2018 were as follows:

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(In thousands, except share and per share amounts and where otherwise indicated)

(Unaudited)

	Thirteen Weeks Ended August 4, 2018			Twenty-Six Weeks Ended August 4, 2018		
	As Reported	Effects of Standard	Balances Without Adoption of ASU 2014-09	As Reported	Effects of Standard	Balances Without Adoption of ASU 2014-09
Sales	\$544,720	\$ 2,584	\$ 547,304	\$1,106,535	\$(4,078)	\$1,102,457
Cost of Goods Sold	347,853	694	348,547	682,800	(2,171)	680,629
Selling, general and administrative expenses	174,089	1,426	175,515	360,508	(637)	359,871
	August 4, 2018					
	As Reported	Effects of Standard	Balances Without Adoption of ASU 2014-09			
ASSETS						
Inventory	\$224,233	\$ 1,662	\$ 225,895			
Prepaid expenses and other current assets	57,301	(4,263)	53,038			
LIABILITIES AND SHAREHOLDERS' EQUITY						
Other current and deferred liabilities	\$119,497	\$(1,331)	\$118,166			

2. NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases*, which replaces the existing guidance in Accounting Standard Codification ("ASC") 840, *Leases*. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 and will be applied on a modified retrospective basis upon adoption. The standard 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. Upon adoption of the standard in fiscal 2019, we expect to record material right-of-use assets and lease liabilities on the balance sheets approximating the present value of future lease payments.

3. REVENUE RECOGNITION**Disaggregated Revenue**

The following table disaggregates our operating segment revenue by brand, which we believe provides a meaningful depiction of the nature of our revenue. Amounts shown include licensing and wholesale income, which is not a significant component of total revenue, and is aggregated within the respective brands in the table below.

	Thirteen Weeks Ended			Twenty-Six Weeks Ended				
	August 4, 2018	July 29, 2017		August 4, 2018	July 29, 2017			
Chico's	\$286,808	52.7 %	\$302,217	52.2 %	\$587,744	53.1 %	\$612,344	52.7 %
WHBM	168,938	31.0	184,396	31.9	351,586	31.8	377,728	32.5
Soma	88,974	16.3	91,968	15.9	167,205	15.1	172,237	14.8
Total Net Sales	\$544,720	100.0%	\$578,581	100.0%	\$1,106,535	100.0%	\$1,162,309	100.0%

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CHICO'S FAS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(In thousands, except share and per share amounts and where otherwise indicated)

(Unaudited)

Accounting Policies

The Company recognizes revenue pursuant ASC 606 as established by ASU 2014-09 ("ASC 606"). Retail sales by our stores are recorded at the point of sale and are net of estimated customer returns, sales discounts under rewards programs and Company issued coupons, promotional discounts and employee discounts. Sales from our websites and catalogs are recognized at the time of shipment. Amounts related to shipping and handling costs billed to customers are recorded in net sales and the related shipping and handling costs are recorded in cost of goods sold in the accompanying unaudited condensed consolidated statements of income. Amounts paid by customers to cover shipping and handling costs are immaterial. Our policy towards taxes assessed by a government authority directly imposed on revenue producing transactions between a seller and a customer is, and has been, to exclude all such taxes from revenue. Licensing and wholesale income, which is not a significant component of total revenue, is recognized based upon delivery of products, except when the customer has a contractual right of return.

We sell gift cards in stores, on our e-commerce website and through third parties. Our gift cards do not have expiration dates. We account for gift cards by recognizing a liability at the time the gift card is sold. The liability is relieved and revenue is recognized, net of third party sales commissions, for gift cards upon redemption. In addition, we recognize revenue for the amount of gift cards expected to go unredeemed (commonly referred to as gift card breakage) under the redemption recognition method. This method records gift card breakage as revenue on a proportional basis over the redemption period based on our historical gift card breakage rate. We determine the gift card breakage rate based on our historical redemption patterns. We recognize revenue on the remaining unredeemed gift cards based on determining that the likelihood of the gift card being redeemed is remote and that there is no legal obligation to remit the unredeemed gift cards to relevant jurisdictions.

Soma offers a points-based loyalty program in which customers earn points based on purchases. Attaining specified loyalty point levels results in the issuance of reward coupons to discount future purchases. As program members accumulate points, we accrue the estimated future liability, adjusted for expected redemption rates and expirations. The liability is relieved and revenue is recognized for loyalty point reward coupons upon redemption. In addition, we recognize revenue on unredeemed points when it can be determined that the likelihood of the point being redeemed is remote and there is no legal obligation to remit the point value. We determine the loyalty point breakage rate based on historical and redemption patterns.

As part of the normal sales cycle, we receive customer merchandise returns related to store, website and catalog sales. To account for the financial impact of potential customer merchandise returns, we estimate future returns on previously sold merchandise. Reductions in sales and gross margin are recorded for estimated merchandise returns based on return history, current sales levels and projected future return levels.

The Company's accounting policies and treatment over revenue recognition are consistent with the provisions of ASC 606 and represent a faithful depiction of the transfer of promised goods or services to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Contract Liability

Contract liabilities on the unaudited condensed consolidated balance sheet were comprised of obligations associated with our gift card and customer loyalty programs. As of August 4, 2018 and February 3, 2018, contract liabilities primarily consisted of gift cards of \$31.2 million and \$43.6 million, respectively. For the thirteen weeks and twenty-six weeks ended August 4, 2018, the Company recognized \$6.9 million and \$21.9 million, respectively, of revenue that was previously included in the gift card contract liability as of February 3, 2018. The contract liability for our loyalty program was not material as of August 4, 2018 and February 3, 2018.

Performance Obligation

For the thirteen weeks and twenty-six weeks ended August 4, 2018, revenue recognized from performance obligations related to prior periods was not material. Revenue recognized in future periods related to performance obligations is not expected to be material.

4. SHARE-BASED COMPENSATION

For the twenty-six weeks ended August 4, 2018 and July 29, 2017, share-based compensation expense was \$10.2 million and \$10.2 million, respectively. As of August 4, 2018, approximately 7.0 million shares remain available for future grants of equity awards under our Amended and Restated 2012 Omnibus Stock and Incentive Plan, which was amended and restated effective June 22, 2017.

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Table of Contents**CHICO'S FAS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(In thousands, except share and per share amounts and where otherwise indicated)****(Unaudited)****Restricted Stock Awards**

Restricted stock awards vest in equal annual installments over a three-year period from the date of grant.

Restricted stock award activity for the twenty-six weeks ended August 4, 2018 was as follows:

	Number of	Weighted
	Shares	Average
		Grant Date
		Fair Value
Unvested, beginning of period	2,328,259	\$ 13.08
Granted	1,889,950	9.73
Vested	(951,795)	13.24
Forfeited	(171,282)	11.95
Unvested, end of period	3,095,132	11.05

Performance-based Stock Units

For the twenty-six weeks ended August 4, 2018, we granted performance-based restricted stock units ("PSUs"), contingent upon the achievement of Company-specific performance goals during the three fiscal years 2018-2020.

Any units earned as a result of the achievement of this goal will vest 100% three years from the date of grant and will be settled in shares of our common stock.

Performance-based restricted stock unit activity for the twenty-six weeks ended August 4, 2018 was as follows:

	Number of	Weighted
	Units/	Average
	Shares	Grant Date
		Fair Value
Unvested, beginning of period	690,950	\$ 13.65
Granted	725,300	9.87
Vested	(186,782)	13.08
Forfeited	(70,696)	13.28
Unvested, end of period	1,158,772	11.40

Stock Option Awards

For the twenty-six weeks ended August 4, 2018 and July 29, 2017, we did not grant any stock options.

Stock option activity for the twenty-six weeks ended August 4, 2018 was as follows:

	Number of	Weighted
	Options	Average
		Exercise
		Price
Outstanding, beginning of period	368,745	\$ 12.36
Granted	—	—
Exercised	(14,550)	5.22
Forfeited or expired	(109,300)	13.40
Outstanding and exercisable at August 4, 2018	244,895	12.31

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CHICO'S FAS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(In thousands, except share and per share amounts and where otherwise indicated)

(Unaudited)

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 August 4, 2018, the Company's 25.4% effective tax rate for income taxes differed from the Company's federal income tax statutory rate of 21% primarily because of the effects of state and local taxes. The Company's provisions for income taxes for the thirteen weeks ended August 4, 2018 and July 29, 2017 included favorable audit settlements of approximately \$0.2 million and \$1.1 million, respectively. These items as well as the enactment of the Tax Act resulted in an effective tax rate for the thirteen weeks ended August 4, 2018 of 25.4% compared to 35.1% for the thirteen weeks ended July 29, 2017.

For the twenty-six weeks ended August 4, 2018 and July 29, 2017, the Company's effective tax rate was 27.0% and 37.0%, respectively. The 10.0% reduction in the effective rate was primarily the result of the Tax Act, partially offset by a 130 basis point increase due to employee share-based payment accounting and a 95 basis point increase due to favorable tax audit settlements in the prior year.

In accordance with Staff Accounting Bulletin No. 118, the Company is performing an ongoing analysis of information necessary to estimate the accounting for the impacts of the Tax Act. We will continue to analyze additional information and guidance related to the Tax Act as supplemental legislation, regulatory guidance, or evolving technical interpretations become available. Consequently, reasonable estimates of the impact of the Tax Act on the Company's deferred tax balances and executive compensation deductions have been reported as provisional, as defined in Staff Accounting Bulletin No. 118. We expect to complete our analysis no later than the fourth quarter of fiscal 2018.

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 the Company, participating securities are comprised 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 shareholders 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, PSUs and restricted stock units.

Table of Contents**CHICO'S FAS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(In thousands, except share and per share amounts and where otherwise indicated)****(Unaudited)**

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

	Thirteen Weeks Ended August 4, July 29, 2018 2017		Twenty-Six Weeks Ended August 4, July 29, 2018 2017	
Numerator				
Net income	\$16,768	\$22,716	\$45,772	\$56,335
Net income and dividends declared allocated to participating securities	(444)	(537)	(1,169)	(1,286)
Net income available to common shareholders	\$16,324	\$22,179	\$44,603	\$55,049
Denominator				
Weighted average common shares outstanding – basic	124,730	125,643	125,003	125,847
Dilutive effect of non-participating securities	44	34	51	43
Weighted average common and common equivalent shares outstanding – diluted	124,774	125,677	125,054	125,890
Net Income per Share:				
Basic	\$0.13	\$0.18	\$0.36	\$0.44
Diluted	\$0.13	\$0.18	\$0.36	\$0.44

For the thirteen weeks ended August 4, 2018 and July 29, 2017, 0.8 million and 0.8 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 twenty-six weeks ended August 4, 2018 and July 29, 2017, 0.8 million and 0.7 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.

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 August 4, 2018 generally consist of corporate bonds, U.S. government agencies, municipal securities, and commercial paper with \$41.0 million of securities with maturity dates within one year or less and \$20.7 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.

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CHICO'S FAS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(In thousands, except share and per share amounts and where otherwise indicated)

(Unaudited)

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 consolidated balance sheets.

From time to time, we measure certain assets at fair value on a non-recurring basis. This includes the 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.

To assess the fair value of goodwill, we utilize both an income approach and a market approach. Inputs used to calculate the fair value based on the income approach primarily include estimated future cash flows, discounted at a rate that approximates the cost of capital of a market participant. Inputs used to calculate the fair value based on the market approach include identifying sales and EBITDA multiples based on guidelines for similar publicly traded companies and recent transactions.

To assess the fair value of trade names, we utilize a relief from royalty approach. Inputs used to calculate the fair value of the trade names primarily include future sales projections, discounted at a rate that approximates the cost of capital of a market participant and an estimated royalty rate.

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 August 4, 2018, we did not make any transfers between Level 1 and Level 2 financial assets. Furthermore, as of August 4, 2018, February 3, 2018 and July 29, 2017, we did not have any Level 3 financial assets measured on a recurring basis. 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 - CONTINUED****(In thousands, except share and per share amounts and where otherwise indicated)****(Unaudited)**

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

	Balance as of August 4, 2018	Fair Value Measurements at Reporting Date Using		
		Quoted Prices for Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Financial Assets:				
Current Assets				
<i>Cash equivalents:</i>				
Money market accounts	\$ 149	\$ 149	\$ —	\$ —
<i>Marketable securities:</i>				
Municipal securities	3,423	—	3,423	—
U.S. government agencies	6,773	—	6,773	—
Corporate bonds	46,542	—	46,542	—
Commercial paper	4,989	—	4,989	—
Noncurrent Assets				
Deferred compensation plan	7,258	7,258	—	—
Total	\$ 69,134	\$ 7,407	\$ 61,727	\$ —

Financial Liabilities:

Long-term debt ⁽¹⁾	\$ 61,250	\$ —	\$ 60,929	\$ —
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**Balance as of
February 3,
2018**

Financial Assets:**Current Assets***Cash equivalents:*

Money market accounts	\$ 1,250	\$ 1,250	\$ —	\$ —
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Marketable securities:

Municipal securities	6,557	—	6,557	—
U.S. government agencies	12,744	—	12,744	—
Corporate bonds	37,030	—	37,030	—
Commercial paper	3,729	—	3,729	—

Noncurrent Assets

Deferred compensation plan	7,315	7,315	—	—
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Total	\$ 68,625	\$ 8,565	\$ 60,060	\$ —
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Financial Liabilities:

Long-term debt ⁽¹⁾	\$ 68,601	\$ —	\$ 69,036	\$ —
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**Balance as of
July 29, 2017**

Financial Assets:**Current Assets***Cash equivalents:*

Money market accounts	\$ 288	\$ 288	\$ —	\$ —
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Marketable securities:

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Municipal securities	6,705	—	6,705	—
U.S. government agencies	16,754	—	16,754	—
Corporate bonds	20,897	—	20,897	—
Commercial paper	6,522	—	6,522	—
Noncurrent Assets				
Deferred compensation plan	6,487	6,487	—	—
Total	\$ 57,653	\$ 6,775	\$ 50,878	\$ —
<u>Financial Liabilities:</u>				
Long-term debt ⁽¹⁾	\$ 76,068	\$ —	\$ 76,552	\$ —

¹ The carrying value of long-term debt as of July 29, 2017 and February 3, 2018 includes the current and long-term portions and the remaining unamortized debt issuance costs. As of August 4, 2018, long-term debt consists only of borrowings under our revolving credit facility as further discussed in Note 8.

Table of Contents**CHICO'S FAS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(In thousands, except share and per share amounts and where otherwise indicated)****(Unaudited)****8. DEBT**

On August 2, 2018, the Company and certain of its domestic subsidiaries entered into a credit agreement (the "Agreement") as borrowers and guarantors, with Wells Fargo Bank, National Association, as Agent, letter of credit issuer and swing line lender, and certain lenders party thereto. Our obligations under the Agreement are guaranteed by the subsidiary guarantors and secured by a lien on certain assets of the Company and the subsidiary borrowers and guarantors, including inventory, accounts receivable, cash deposits, and certain insurance proceeds. The Agreement provides for a five-year asset-based senior secured revolving loan and letter of credit facility of up to \$200.0 million, maturing August 2, 2023. In addition, during the term of the Agreement, the Company may increase the commitments under the Agreement by up to an additional \$100.0 million, subject to customary conditions, including obtaining the agreements from the lenders to provide such commitment increase. The interest rate applicable to the loans under the Agreement will be equal to, at the Company's option, either a base rate, determined by reference to the federal funds rate, plus an interest rate margin, or a LIBO rate, plus an interest rate margin, in each case, depending on availability under the Agreement. The Company expects borrowings to be at a LIBO rate, plus an interest rate margin. In addition, the Company will pay a commitment fee per annum on the unused portion of the commitments under 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 August 4, 2018. As of August 4, 2018, our outstanding debt consisted of \$61.3 million in borrowings under the Agreement, resulting in \$138.7 million available for borrowings under the revolving loan and letter of credit facility. As of August 4, 2018, an unamortized debt discount of \$0.6 million was outstanding related to the Agreement and is presented in other current assets in the accompanying unaudited consolidated balance sheet.

The credit agreement entered into on May 4, 2015 with JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent and other lenders, which was unsecured and had provided for a term loan commitment in the amount of \$100 million and a \$100 million revolving credit facility, was terminated on August 2, 2018 in connection with the Company entering into the Agreement described above, and all outstanding amounts thereunder were repaid. We used the proceeds from the initial draw of the revolving loan of the Agreement to repay such obligations.

The following table provides additional detail on our outstanding debt:

	August 4, 2018	February 3, 2018	July 29, 2017
Credit Agreement, net	\$61,250	\$68,601	\$76,068
Less: current portion	—	(15,000)	(15,000)
Total Long-Term Debt	\$61,250	\$53,601	\$61,068

9. SHARE REPURCHASES

During the twenty-six weeks ended August 4, 2018, under our \$300 million share repurchase program announced in November 2015, we repurchased 3.5 million shares at a total cost of approximately \$30.8 million, at a weighted average of \$8.70 per share. As of August 4, 2018, the Company has \$105.4 million remaining for future repurchases under the 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.

10. COMMITMENTS AND CONTINGENCIES

In July 2015, White House Black Market, Inc. (WHBM) 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 WHBM, in violation of federal law, willfully published more than the last five digits of a credit or debit card number on customers' point-of-sale receipts. The plaintiff seeks an award of statutory damages of \$100 to \$1,000 for each alleged willful violation of the law, as well as attorneys' fees, costs and punitive damages. The Company denies the material allegations of the complaint and believes the case is without merit. On February 12, 2018, the District Court issued an order certifying the class.

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CHICO'S FAS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(In thousands, except share and per share amounts and where otherwise indicated)

(Unaudited)

On April 9, 2018, the District Court, *sua sponte*, issued an order granting WHBM's earlier 2016 request to appeal, to the Eleventh Circuit Court of Appeals, the District Court's ruling that the plaintiff has standing to maintain the lawsuit. On April 19, 2018, WHBM filed a petition for review in the Eleventh Circuit Court of Appeals. In the meantime, the District Court stayed all further proceedings in the case pending the outcome of the appeal in the Eleventh Circuit Court of Appeals.

On July 12, 2018, the plaintiff and WHBM notified the Eleventh Circuit Court of Appeals that the plaintiff and WHBM reached a class settlement on all claims and therefore voluntarily dismissed WHBM's appeal to the Eleventh Circuit Court of Appeals. On August 2, 2018, the United States District Court for the Northern District of Georgia reopened the proceedings on the case for purposes of reviewing/approving the proposed settlement. WHBM and the plaintiff have until September 17, 2018 to file their settlement motion with the United States District Court for the Northern District of Georgia. The proposed settlement would not have a material adverse effect on the Company's consolidated financial condition or results of operations.

However, no assurance can be given that the United States District Court for the Northern District of Georgia will approve the proposed settlement. If the proposed settlement is rejected and the case were to proceed as a class action and the Company were to be unsuccessful in its defense on the merits, then the ultimate resolution of the case could have a material adverse effect on the Company's consolidated financial condition or results of operations.

Other than as noted above, we are not currently a party to any material 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 amounts of monetary liability or financial impact with respect to these matters as of August 4, 2018 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.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto and our 2017 Annual Report on Form 10-K.

Executive Overview

We are a leading omni-channel specialty retailer of women's private branded, sophisticated, casual-to-dressy apparel, intimates and complementary accessories, operating under the Chico's, White House Black Market ("WHBM") and Soma brand names in the United States, Puerto Rico, the U.S. Virgin Islands and Canada. Our distinct lifestyle brands serve the needs of fashion-savvy women 35 years and older. We earn revenues and generate cash through the sale of merchandise in our domestic and international retail stores, our various e-commerce websites and our call center, which takes orders for all of our brands, through an unaffiliated franchise partner in Mexico and through third party channels.

We utilize an integrated, omni-channel approach to managing our business. We want our customers to experience our brands holistically and to view the various retail channels we operate as a single, integrated experience rather than as separate sales channels operating independently. 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.

Second Quarter of Fiscal 2018 Financial Highlights

- Reported second quarter EPS of \$0.13 per diluted share
- Continued focus on inventory management
- Maintained strong cash flow

Second Quarter Fiscal 2018 Business Highlights:

The Company's growth initiatives drove improved comparable sales trends across all brands and fueled a double-digit increase in its digital sales in the second quarter.

The Company made considerable progress toward becoming a fully integrated omni-channel retailer. All front-line stores have been converted to the new "Locate" tool, enhancing the ability to ship an in-store order directly to the customer. In addition, the Company made substantial progress in its roll out of the "Endless Aisle" tool, which leverages shared inventory for purchase on-line and ship from store.

Soma, the Company's intimate apparel brand, successfully launched Enbliss™, a new innovative bra that offers superior soft comfort and support. The collection is the latest addition to the Soma bra wardrobe and has exceeded expectations with healthy sales, increased customer traffic and reactivation.

Our Business Strategy

Our overall business strategy is focused on building a collection of distinct high-performing retail brands serving the fashion needs of women 35 and older. We seek to accomplish this strategy through our five focus areas: (1) evolving the customer experience, (2) strengthening our brands' positions, (3) leveraging actionable retail science, (4) building growth platforms and (5) achieving operational excellence. Over the long term, we may build our brand portfolio by organic development or acquisition of other retail concepts if research indicates that the opportunity complements our current brands and is appropriate and in the best interest of the shareholders.

We pursue improving the performance of our brands by building our omni-channel capabilities, which includes managing our store base and growing our online presence, by executing marketing plans, by effectively leveraging expenses, by considering additional sales channels and markets, and by optimizing the merchandise offerings of each of our brands. We continue to invest heavily in our omni-channel capabilities to allow customers to fully experience our brands in the manner they choose.

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We view our stores and Company-operated e-commerce websites as a single, integrated sales function rather than as separate sales channels operating independently. To that end, we often refer to our brands' respective websites as the brand's "largest store." Customers may shop in one place and consummate the purchase somewhere else. Our domestic customers can return merchandise to a store or to our distribution center ("DC"), regardless of where they purchased it. As a result, we maintain a shared inventory platform for our operations, allowing us to fulfill orders for all channels from our DC in Winder, Georgia. We also fulfill in-store orders directly from other stores.

We seek to acquire and retain customers by leveraging existing customer-specific data and through targeted marketing, including digital marketing, social media, television, catalogs and mailers. We seek to optimize the potential of our brands with improved product offerings, potential new merchandise opportunities, and brand extensions that enhance the current offerings, as well as through our continued emphasis on our "Most Amazing Personal Service" standard. We also will continue to consider potential alternative sales channels for our brands, including international franchising and licensing, wholesale opportunities and others.

In fiscal 2016, we began implementing cost reduction and operating efficiency initiatives, including realigning marketing and digital commerce, improving supply chain efficiency and reducing non-merchandise expenses. In fiscal 2017, we strengthened our brand positioning and began preparing for future growth. We are now intently focused on evolving the customer experience and leveraging actionable retail science to drive profitable retail sales. Additionally, we have launched multiple initiatives that utilize technology and new platforms to drive growth.

Table of Contents**RESULTS OF OPERATIONS*****Thirteen Weeks Ended August 4, 2018 Compared to the Thirteen Weeks Ended July 29, 2017******Net Sales***

The following table depicts net sales by Chico's, WHBM and Soma in dollars and as a percentage of total net sales for the thirteen weeks ended August 4, 2018 (the "second quarter") and the thirteen weeks ended July 29, 2017 ("last year's second quarter"):

	Thirteen Weeks Ended			
	August 4, 2018		July 29, 2017	
	(dollars in millions)			
Chico's	\$287	52.7 %	\$302	52.2 %
WHBM	169	31.0	184	31.9
Soma	89	16.3	92	15.9
Total Net Sales	\$545	100.0%	\$579	100.0%

For the second quarter of fiscal 2018, net sales were \$545 million compared to \$579 million in last year's second quarter. This decrease of 5.9% primarily reflects a comparable sales decline of 3.2%, the unfavorable impact of the calendar shift due to the fifty-third week in fiscal 2017, as well as 42 net store closures since last year's second quarter. The comparable sales decline was primarily driven by a decline in transaction count partially offset by higher average dollar sales.

The following table depicts comparable sales percentages by Chico's, WHBM and Soma for the thirteen weeks ended August 4, 2018 and July 29, 2017:

	Thirteen Weeks Ended	
	August 4, 2018	July 29, 2017
Chico's	(3.8)%	(9.0)%
WHBM	(3.5)%	(10.6)%
Soma	(0.9)%	(1.8)%
Total Company	(3.2)%	(8.4)%

(1) Comparable sales for the second quarter have been adjusted to eliminate the impact of the calendar shift due to the fifty-third week in fiscal 2017. Fiscal 2018 comparable sales represent sales for the thirteen weeks ended August 4, 2018 compared to sales for the thirteen weeks ended August 5, 2017.

Cost of Goods Sold/Gross Margin

The following table depicts cost of goods sold ("COGS") and gross margin in dollars and gross margin as a percentage of total net sales for the thirteen weeks ended August 4, 2018 and July 29, 2017:

	Thirteen Weeks Ended	
	August 4, 2018	July 29, 2017
	(dollars in millions)	
Cost of goods sold	\$348	\$369
Gross margin	197	209
Gross margin percentage	36.1 %	36.1 %

For the second quarter of fiscal 2018, gross margin was \$197 million, or 36.1% of net sales, compared to \$209 million, or 36.1% of net sales, in last year's second quarter. Gross margin rate as a percent of net sales was primarily driven by a 100 basis point improvement in maintained margin, offset by deleverage of store occupancy costs and costs related to continued expansion of our omni-channel fulfillment program.

Table of Contents*Selling, General and Administrative Expenses*

The following table depicts selling, general and administrative expenses (“SG&A”), which includes direct operating expenses, marketing expenses and National Store Support Center expenses (“NSSC”), in dollars and as a percentage of total net sales for the thirteen weeks ended August 4, 2018 and July 29, 2017:

	Thirteen Weeks Ended August 4, July 29, 2018 2017	
	(dollars in millions)	
Selling, general and administrative expenses	\$174	\$174
Percentage of total net sales	31.9 %	30.0 %

For the second quarter of fiscal 2018, SG&A was \$174 million, or 31.9% of net sales, compared to \$174 million, or 30.0% of net sales, in last year's second quarter. This 190 basis point increase primarily reflects investments in marketing and technology as well as deleverage of store operating expenses.

Provision for Income Taxes

For the second quarter of fiscal 2018, the effective tax rate was 25.4% compared to 35.1% for last year's second quarter. The 9.7% reduction in the effective tax rate for the second quarter was primarily the result of the Tax Act, which reduced the U.S. corporate income tax rate from 35% to 21%. This reduction was partially offset by a 240 basis point increase related to prior year favorable income tax settlements.

Net Income and Earnings per Diluted Share

For the second quarter of fiscal 2018, net income was \$17 million, or \$0.13 per diluted share, compared to net income of \$23 million, or \$0.18 per diluted share in last year's second quarter. The change in earnings per share reflects a decrease in net income partially offset by the impact of approximately 4.4 million shares repurchased since the end of the second quarter last year.

Twenty-Six Weeks Ended August 4, 2018 Compared to the Twenty-Six Weeks Ended July 29, 2017*Net Sales*

The following table depicts net sales by Chico's, WHBM and Soma in dollars and as a percentage of total net sales for the twenty-six weeks ended August 4, 2018 and July 29, 2017:

	Twenty-Six Weeks Ended			
	August 4, 2018		July 29, 2017	
	(dollars in millions)			
Chico's	\$588	53.1 %	\$612	52.7 %
WHBM	352	31.8	378	32.5
Soma	167	15.1	172	14.8
Total net sales	\$1,107	100.0%	\$1,162	100.0%

Net sales for the twenty-six weeks ended August 4, 2018 decreased to \$1,107 million from \$1,162 million for the twenty-six weeks ended July 29, 2017. This decrease of 4.8% primarily reflects a decline in comparable sales of 4.6% and the impact of 42 net store closures since last year's second quarter. The comparable sales decline was driven by lower transaction count.

The following table depicts comparable sales percentages by Chico's, WHBM and Soma for the twenty-six weeks ended August 4, 2018 and July 29, 2017:

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	Twenty-Six Weeks Ended August 4, July 29, 2018 ⁽¹⁾ 2017	
Chico's	(4.7)%	(9.4)%
WHBM	(5.1)	(10.1)
Soma	(3.2)	(0.8)
Total Company	(4.6)%	(8.4)%

(1) Comparable sales for the year-to-date period have been adjusted to eliminate the impact of the calendar shift due to the fifty-third week in fiscal 2017. Fiscal 2018 comparable sales represent sales for the twenty-six weeks ended August 4, 2018 compared to sales for the twenty-six weeks ended August 5, 2017.

Cost of Goods Sold/Gross Margin

The following table depicts COGS and gross margin in dollars and gross margin as a percentage of total net sales for the twenty-six weeks ended August 4, 2018 and July 29, 2017:

	Twenty-Six Weeks Ended August 4, July 29, 2018 2017	
	(dollars in millions)	
Cost of goods sold	\$683	\$716
Gross margin	424	447
Gross margin percentage	38.3 %	38.4 %

Gross margin for the twenty-six weeks ended August 4, 2018 was \$424 million, or 38.3%, compared to \$447 million, or 38.4%, for the twenty-six weeks ended July 29, 2017. This 10 basis point decrease primarily reflects costs related to continued expansion of our omni-channel fulfillment program and deleverage of store occupancy costs, partially offset by an 80 basis point improvement in maintained margin.

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 twenty-six weeks ended August 4, 2018 and July 29, 2017:

	Twenty-Six Weeks Ended August 4, July 29, 2018 2017	
	(dollars in millions)	
Selling, general and administrative expenses	\$361	\$356
Percentage of total net sales	32.6 %	30.6 %

For the twenty-six weeks ended August 4, 2018, SG&A was \$361 million compared to \$356 million for the twenty-six weeks ended July 29, 2017. This 200 basis point increase primarily reflects investments in marketing and technology as well as deleverage of store operating expenses.

Provision for Income Taxes

For the twenty-six weeks ended August 4, 2018 and July 29, 2017, the effective tax rate was 27.0% and 37.0%, respectively. For the twenty-six weeks ended August 4, 2018, the income tax provision was \$17 million compared to \$33 million for the twenty-six ended July 29, 2017. The 10% reduction in our effective tax rate was primarily the result of the Tax Act which reduced the U.S. corporate income tax rate from 35% to 21%. This reduction was partially offset by a 130 basis point increase due to employee share-based payment accounting and a 95 basis point increase due to favorable tax audit settlements in the prior year.

Net Income and Earnings per Diluted Share

Net income for the twenty-six weeks ended August 4, 2018 was \$46 million, or \$0.36 per diluted share, compared to net income of \$56 million, or \$0.44 per diluted share, for the twenty-six weeks ended July 29, 2017. The change in

earnings per share reflects a decrease in net income partially offset by the impact of approximately 4.4 million shares repurchased since the end of the second quarter last year.

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Cash and Marketable Securities

At the end of the second quarter, cash and marketable securities totaled \$239 million compared to \$186 million at the end of last year's second quarter. This \$53 million increase primarily reflects cash generated from operating activities, partially offset by cash utilized for capital expenditures, shareholder dividends and share repurchases.

Inventories

At the end of the second quarter, inventories totaled \$224 million compared to \$235 million at the end of last year's second quarter. This \$11 million decrease, or 4.6%, primarily reflects a continued focus on inventory management and the Company's ability to align inventory with sales.

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 expanded, relocated and remodeled stores; and information technology.

Operating Activities

Net cash provided by operating activities for the year-to-date period of fiscal 2018 was \$100 million, an increase of approximately \$32 million from last year's year-to-date period. This increase primarily reflects payments made in fiscal 2017 for outside services related to our previously disclosed restructuring program, the impact of lower incentive compensation payments in fiscal 2018 compared to fiscal 2017, and a decrease in inventories primarily as a result of focused inventory management.

Investing Activities

Net cash used in investing activities for the year-to-date period of fiscal 2018 was \$21 million compared to \$19 million in last year's year-to-date period, primarily reflecting a \$2 million increase in purchases of property and equipment and a \$1 million net increase in marketable securities activity related to the investment of cash from operations.

Financing Activities

Net cash used in financing activities for the year-to-date period of fiscal 2018 was \$61 million compared to \$56 million in last year's year-to-date period. The increase in net cash used in financing activities primarily reflects a \$8 million increase in share repurchases, partially offset by a \$3 million impact associated with tax withholdings upon vesting of share-based payment awards.

Credit Facility

On August 2, 2018, the Company and certain of its domestic subsidiaries entered into a credit agreement (the "Agreement") as borrowers and guarantors, with Wells Fargo Bank, National Association, as Agent, letter of credit issuer and swing line lender, and certain lenders party thereto. Our obligations under the Agreement are guaranteed by the subsidiary guarantors and secured by a lien on certain assets of the Company and the subsidiary borrowers and guarantors, including inventory, accounts receivable, cash deposits, and certain insurance proceeds. The Agreement provides for a five-year asset-based senior secured revolving loan and letter of credit facility of up to \$200 million, maturing August 2, 2023. In addition, during the term of the Agreement, the Company may increase the commitments under the Agreement by up to an additional \$100 million, subject to customary conditions, including obtaining the agreements from the lenders to provide such commitment increase. The interest rate applicable to the loans under the Agreement will be equal to, at the Company's option, either a base rate, determined by reference to the federal funds rate, plus an interest rate margin, or a LIBO rate, plus an interest rate margin, in each case, depending on availability

under the Agreement. The Company expects borrowings to be at a LIBO rate, plus an interest rate margin. In addition, the Company will pay a commitment fee per annum on the unused portion of the commitments under the Agreement.

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The credit agreement entered into on May 4, 2015 with JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent and other lenders, which was unsecured and had provided for a term loan commitment in the amount of \$100 million and a \$100 million revolving credit facility, was terminated on August 2, 2018 in connection with the Company entering into the Agreement described above, and all outstanding amounts thereunder were repaid. We used the proceeds from the initial draw of the revolving loan of the Agreement to repay such obligations.

As of August 4, 2018, \$61 million in net borrowings were outstanding under the Agreement and is reflected as long-term debt in the accompanying unaudited condensed balance sheet.

Store and Franchise Activity

During the fiscal 2018 year-to-date period, we had 20 store closures consisting of 7 Chico's stores, 8 WHBM stores and 5 Soma stores. Currently, we expect an additional 20 to 30 net store closures in fiscal 2018. We continuously evaluate the appropriate store positioning in light of economic conditions and may adjust our strategy as conditions require or as opportunities arise. As of August 4, 2018, we also sold merchandise through 57 Chico's and 20 Soma 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 February 3, 2018, are significant to reporting our results of operations and financial position. Other than adoption of recent accounting standards as discussed in Note 2 to the notes of our unaudited condensed consolidated financial statements, 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 February 3, 2018.

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, and the future success of our store concepts and our business initiatives. These statements may address items such as future sales and sales initiatives, customer traffic, gross margin expectations, SG&A expectations, including expected savings, operating margin expectations, earnings per share expectations, planned store openings, closings and expansions, proposed business ventures, new channels of sales or distribution, the expected impact of the Tax Act, expected impact of ongoing litigation, future stock repurchase plans, future plans to pay dividends, future comparable sales, future product sourcing plans, future inventory levels, including the ability to leverage inventory management and targeted promotions, planned marketing expenditures, planned capital expenditures and future cash needs.

These statements relate to expectations concerning matters that are not historical fact and may include the words or phrases such as "will," "should," "expects," "believes," "anticipates," "plans," "intends," "estimates," "approximately," "our plan," "assumptions," "future outlook" and similar expressions. Except for historical information, matters discussed in 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 13, 2018 and the following:

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The financial strength of retailing in particular and the economy in general; the extent of financial difficulties or economic uncertainty that may be experienced by customers; our ability to secure and maintain customer acceptance of styles and in-store and online 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 ability to remain competitive with customer shipping terms and costs pertaining to product deliveries and returns; 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 ability to coordinate product development with buying and planning; the quality and timeliness of merchandise received from suppliers; changes in the costs of manufacturing, raw materials, transportation, distribution, labor and advertising; the availability of quality store sites; our ability to manage our store fleet and the risk that our investments in merchandise or marketing initiatives may not deliver the results we anticipate; our ability to successfully navigate the increasing use of on-line retailers for fashion purchases and the pressure that puts on traffic and transactions in our physical stores; the ability to operate our own retail websites in a manner that produces profitable sales; the ability to successfully identify and implement additional sales and distribution channels; the ability to successfully execute our business strategies and to achieve the expected results from them; 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, motivate and retain qualified sales associates, managerial employees and other employees; the successful integration of the new members of our senior management team; 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 secure and protect trademarks and other intellectual property rights and to protect our reputation and brand images; the risk that natural disasters, public health crises, political uprisings, uncertainty or unrest, or other catastrophic events could adversely affect our operations and financial results; the impact of unanticipated changes in legal, regulatory or tax laws; the risks and uncertainties that are related to our reliance on sourcing from foreign suppliers, including significant economic (including the impact of changes in tariffs, taxes or other import regulations, particularly with respect to China), labor, political or other shifts; and changes in governmental policies in or towards foreign countries; currency exchange rates and other similar factors. All 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk of our financial instruments as of August 4, 2018 has not significantly changed since February 3, 2018. 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 August 2, 2018, we entered into a new credit agreement, as further discussed in Note 8. The Agreement, which matures on August 2, 2023, has borrowing options which accrue interest, at our election, at either a base rate, determined by reference to the federal funds rate, plus an interest rate margin, or a LIBO 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 August 4, 2018, consisted of \$41.0 million of securities with maturity dates within one year or less and \$20.7 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 August 4, 2018, 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 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 Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures were effective in providing reasonable assurance in timely alerting them to material information relating to us (including our consolidated subsidiaries) and that information required to be disclosed in our reports is recorded, processed, summarized and reported as required to be included in our periodic SEC filings.

Changes in Internal Controls

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

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PART II – OTHER INFORMATION

ITEM 1.LEGAL PROCEEDINGS

In July 2015, White House Black Market, Inc. (WHBM) 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 WHBM, in violation of federal law, willfully published more than the last five digits of a credit or debit card number on customers' point-of-sale receipts. The plaintiff seeks an award of statutory damages of \$100 to \$1,000 for each alleged willful violation of the law, as well as attorneys' fees, costs and punitive damages. The Company denies the material allegations of the complaint and believes the case is without merit. On February 12, 2018, the District Court issued an order certifying the class.

On April 9, 2018, the District Court, *sua sponte*, issued an order granting WHBM's earlier 2016 request to appeal, to the Eleventh Circuit Court of Appeals, the District Court's ruling that the plaintiff has standing to maintain the lawsuit. On April 19, 2018, WHBM filed a petition for review in the Eleventh Circuit Court of Appeals. In the meantime, the District Court stayed all further proceedings in the case pending the outcome of the appeal in the Eleventh Circuit Court of Appeals.

On July 12, 2018, the plaintiff and WHBM notified the Eleventh Circuit Court of Appeals that the plaintiff and WHBM reached a class settlement on all claims and therefore voluntarily dismissed WHBM's appeal to the Eleventh Circuit Court of Appeals. On August 2, 2018, the United States District Court for the Northern District of Georgia reopened the proceedings on the case for purposes of reviewing/approving the proposed settlement. WHBM and the plaintiff have until September 17, 2018 to file their settlement motion with the United States District Court for the Northern District of Georgia. The proposed settlement would not have a material adverse effect on the Company's consolidated financial condition or results of operations.

However, no assurance can be given that the United States District Court for the Northern District of Georgia will approve the proposed settlement. If the proposed settlement is rejected and the case were to proceed as a class action and the Company were to be unsuccessful in its defense on the merits, then the ultimate resolution of the case could have a material adverse effect on the Company's consolidated financial condition or results of operations.

Other than as noted above, we are not currently a party to any material 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 amounts of monetary liability or financial impact with respect to these matters as of August 4, 2018 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.

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 2017 Annual Report on Form 10-K filed with the SEC on March 13, 2018 should be considered as they could materially affect our business, financial condition or future results. There have not been any significant changes with respect to the risks described in our 2017 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.

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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 Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Publicly Announced Plans
May 6, 2018 - June 2, 2018	6,375	\$ 8.42	—	\$ 136,243
June 3, 2018 - July 7, 2018	1,285,049	8.51	1,269,526	125,431
July 8, 2018 - August 4, 2018	2,279,924	8.80	2,274,111	105,422
Total	3,571,348	8.69	3,543,637	

(a) Total number of shares purchased includes 27,711 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 \$105.4 million remaining under the program as of the end of the second 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. The Company has 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.

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ITEM 6. EXHIBITS

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

- Exhibit 10.49 Credit Agreement among the Company, certain of its subsidiaries, Wells Fargo Bank, National Association and the Lenders party thereto dated as of August 2, 2018 (incorporated by reference to Exhibit 10.49 to the Company's Form 8-K, as filed with the Commission on August 3, 2018)
- 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 iXBRL Instance Document
- Exhibit 101.SCH iXBRL Taxonomy Extension Schema Document
- Exhibit 101.CAL iXBRL Taxonomy Extension Calculation Linkbase Document
- Exhibit 101.DEF iXBRL Taxonomy Definition Linkbase Document
- Exhibit 101.LAB iXBRL Taxonomy Extension Label Linkbase Document
- Exhibit 101.PRE iXBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

CHICO'S FAS, INC.

Date: August 30, 2018 By: /s/ Shelley G. Broader
Shelley G. Broader
Chief Executive Officer, President and Director

Date: August 30, 2018 By: /s/ Todd E. Vogensen
Todd E. Vogensen
Executive Vice President, Chief Financial Officer and Assistant Corporate Secretary

Date: August 30, 2018 By: /s/ David M. Oliver
David M. Oliver
Senior Vice President - Finance, Controller and Chief Accounting Officer