

CHICOS FAS INC  
Form 10-K  
March 14, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended February 1, 2014**

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

**Commission file number: 001-16435**

**Chico s FAS, Inc.**

**(Exact name of registrant as specified in its charter)**

**Florida**  
**(State or other jurisdiction**  
  
**of incorporation)**

**59-2389435**  
**(IRS Employer**  
  
**Identification No.)**

**11215 Metro Parkway, Fort Myers, Florida**  
**(Address of principal executive offices)**  
  
**(239) 277-6200**

**33966**  
**(Zip code)**

**(Registrant's telephone number)**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Class</b>	<b>Name of Exchange on Which Registered</b>
<b>Common Stock, Par Value \$0.01 Per Share</b>	<b>New York Stock Exchange</b>
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K (  ).

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 Act). Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant:

Approximately \$2,743,000,000 as of August 3, 2013 (based upon the closing sales price reported by the NYSE and published in the Wall Street Journal on August 5, 2013).

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

Common Stock, par value \$.01 per share 153,099,840 shares as of March 7, 2014.

Documents incorporated by reference:

Part III Definitive Proxy Statement for the Company's Annual Meeting of Stockholders presently scheduled for June 26, 2014.

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**CHICO S FAS, INC.**

ANNUAL REPORT ON FORM 10-K

FOR THE

YEAR ENDED FEBRUARY 1, 2014

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**PART I**

**This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and are subject to risks, uncertainties, and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See Item 1A. Risk Factors.**

**ITEM 1. BUSINESS**

**Overview**

Chico's FAS, Inc., is a cultivator of brands serving the lifestyle needs of fashion-savvy women 35 years and older. The Company's portfolio of brands currently consists of four brands: Chico's, White House | Black Market (WHIBM), Soma Intimates (Soma), and Boston Proper. Our omni-channel brands are all specialty retailers of private label women's apparel, accessories, and related products, which are available to customers in stores, through our websites and via telephone through our call centers for our catalogs. While each of our brands has a distinct customer base, the overall portfolio caters to a broad age and economic demographic, with customer ages from 35 and older and household incomes ranging from \$50,000 to well over \$100,000.

Since 1983, we have grown by offering high quality and unique merchandise, supported by compelling marketing and outstanding, personalized customer service. Since 2003, we have also grown by the acquisition or organic development of other specialty retail concepts and execution of our omni-channel capabilities.

As of February 1, 2014, we operated 1,472 stores across 48 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Canada. We also mail catalogs and operate e-commerce websites and call centers, which sell our merchandise nationally and internationally.

**Our Brands**

*Chico's*

The Chico's brand, which began operations in 1983, primarily sells exclusively designed, private branded clothing focusing on women 40 and over with a moderate to high income level. The styling is chic, unique, and charismatic with on-trend, expressive, one-of-a-kind designs created to illuminate the women wearing them. Using generally easy-care fabrics and frequent deliveries of new and distinctive designs, Chico's emphasizes a comfortable, relaxed fit in a modern style. Accessories such as handbags, belts, scarves and jewelry, including earrings, necklaces and bracelets are designed to coordinate with the clothing assortment, allowing customers to easily individualize their wardrobe selections. Chico's controls almost all aspects of the apparel design process, including choices of pattern, prints, construction, design specifications, fabric, finishes and color through in-house designers, purchased designs, and independent suppliers.

The distinctive nature of Chico's clothing is carried through to its sizing. Chico's uses international sizing, comprising of sizes 000, 00 (size 0-2), 0 (size 4-6), 1 (size 8-10), 2 (size 12-14), 3 (size 16-18), and 4 (size 20-22). Chico's will occasionally offer half-sizes (up to 4.5), one-size-fits-all, petite sizes, and small, medium and large sizing for some items. The relaxed nature of the clothing allows us to utilize this kind of sizing and thus offer a wide selection of clothing without having to invest in a large number of different sizes within a single style.

<sup>1</sup> As used in this report, all references to we, us, our, and the Company, refer to Chico's FAS, Inc., a Florida corporation, and all of its wholly-owned subsidiaries.

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### *White House | Black Market*

The WHIBM brand, which began operations in 1985 and which we acquired in September 2003, primarily sells exclusively designed, private branded clothing focusing on women who are 35 years old and over with a moderate to high income level. WHIBM offers a uniquely feminine and affordable alternative to designer apparel, selling fashionable and sophisticated clothing and accessory items, from everyday basics, to wear-to-work, to elegant occasion, primarily in black and white and related shades with seasonal color splashes. The accessories at WHIBM, such as shoes, belts, scarves and jewelry, including earrings, necklaces and bracelets, are specifically designed to coordinate with the colors and patterns of the clothing, allowing customers to easily individualize their wardrobe selections. WHIBM controls almost all aspects of the apparel design process, including choices of pattern, prints, construction, design specifications, fabric, finishes and color through in-house designers, purchased designs, and independent suppliers.

WHIBM uses American sizes in the 00-14 range (with online sizes up to size 16), including petite sizing, which we believe is appropriate for the target WHIBM customer. The fit of the WHIBM clothing is tailored to complement the figure of a body-conscious woman, while still remaining comfortable.

### *Soma Intimates*

The Soma brand, which began operations in 2004, primarily sells exclusively designed, private branded lingerie, loungewear and beauty products focusing on women who are 35 years old and over with a moderate to high income level. Soma offers trend-right, innovative and expertly fitted lingerie and loungewear, with designer quality at affordable prices. The lingerie category includes bras, panties, shapewear and sleepwear while the loungewear category includes relaxed tops, bottoms and dresses. Bras range in size from 32A-44G. The sleepwear and loungewear offerings utilize extra small to extra-extra large sizing. The beauty category consists of the Oh My Gorgeous line of fine fragrance perfumes. The Soma brand product offerings are developed by working closely with a small number of its independent suppliers to design proprietary products in-house and, in some cases, it includes designs provided by its independent suppliers under labels other than the Soma label.

### *Boston Proper*

The Boston Proper brand, which began operations in 1992 and which we acquired in September 2011, primarily sells women's apparel and accessories, marketed to affluent women between 35-55 years old. Boston Proper is committed to and inspired by the women that they dress—women who are fearlessly feminine, enviably chic and who possess the poise and confidence to wear it like no one else. The catalog and website reflect an aesthetic and feeling that is aspirational, exotic and uniquely personal.

Boston Proper uses American sizes ranging from extra-extra small to extra large for many of its offerings, sizes 0-18 and short, regular and long lengths for pants and denim jeans.

## **Our Business Strategy**

Our overall growth strategy is focused on building and cultivating a portfolio of high-performing retail brands serving the fashion needs of women 35 years and older. In the near term, we are focused on increasing the sales volume and profitability of our existing brands. Over the long term, we may build our brand portfolio by considering the organic development or acquisition of other specialty retail concepts when our research indicates that the opportunity complements our current brands and is appropriate and in the best interest of the shareholders.

We pursue the growth of the brands in our portfolio by building our omni-channel capabilities, which includes integrating our expanding store base (where and when appropriate) with our growing online presence, executing innovative marketing plans, effectively leveraging expenses and optimizing the potential of each of our four brands. We have invested heavily in our omni-channel capabilities in order to allow customers to experience our brands, not a channel within our brands. 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.



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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 and we do not differentiate or promote any particular sales channel over another. Customers may shop our products through one channel and consummate the purchase through a different channel. Customers have the option to return 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 have planned and managed our business for the last several years. 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 online and catalog customers the option to return items in our stores.

We seek to acquire and retain omni-channel customers through targeted and innovative 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.

To support this overall strategy and the associated increase in revenues and expenses, we have continued to invest in our business. This includes investments in our omni-channel capabilities and expansion of our store base domestically for all brands. We are also testing international expansion of the Chico's and WHIBM brands. We will analyze the results of these tests over time to determine the appropriate cadence of further international expansion, if appropriate.

## **Our Customer Service Model**

Our customers deserve outstanding and personalized customer service, and we strive to achieve this through our trademark Most Amazing Personal Service standard. We believe this service model is one of our competitive advantages and a key to the success of our omni-channel approach. As a result, we give sales associates specialized training to help meet their customers' fashion and wardrobe needs, including clothing and accessory style, color selection, coordination of complete outfits, and suggestions on different ways in which to wear the clothing and accessories. Our sales associates are encouraged to develop long-term relationships with their customers, to know their customers' preferences, and to assist those customers in selecting merchandise best suited to their tastes and wardrobe needs.

We also serve our customers' needs and build customer loyalty through our customer rewards programs. In fiscal 2014, the Company is updating its rewards programs for all brands, including introducing a Boston Proper rewards program. Our programs are designed to reward our most loyal customers and deliver an omni-channel shopping experience by leveraging the rich data our customers share with us to deliver a relevant and engaging experience with our brands.

*Chico's and Soma.* The Chico's and Soma customer rewards program is known as the Passport Club and is designed to encourage repeat sales and foster customer loyalty for both brands. A Chico's or Soma customer signs up to join the Passport Club at no cost, initially as a preliminary member. Features of the club include discounts, special promotions, invitations to private sales, and advance notice regarding new Chico's and Soma merchandise. In fiscal 2014, we plan to re-launch brand-specific rewards programs for Chico's and Soma.

WHIBM. In fiscal 2014, the WHIBM rewards program re-launched as WHIBM Rewards and includes tier-based discounts, special promotions, and invitations to private sales based on annual spend. These benefits will be continuously evaluated in conjunction with our overall customer relationship management and marketing activities to ensure they remain a compelling reason for customers to shop at the WHIBM brand.

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Our boutiques are located in upscale outdoor destination shopping areas, indoor shopping malls, and some standalone street-front locations. Boutique locations are determined on the basis of various factors, including, but not limited to: geographic and demographic characteristics of the market, the location of the shopping venue, including the site within the shopping center, proposed lease terms, anchor or other co-tenants in a location, parking accommodations and convenience. We believe that we are innovative in the way we execute our real estate strategy, including obtaining occupancy cost reductions and negotiating better lease terms.

Our outlet stores are located in quality outlet centers. The Chico's and WHIBM brand outlets contain a mixture of made-for-outlet and clearance merchandise. The made-for-outlet product carries a higher margin than the clearance items from our boutique stores. Soma outlets contain a mix of boutique and clearance merchandise. We also sell clearance merchandise on our websites. We regularly review the appropriate ratio of made-for-outlet and clearance merchandise for our outlets and will adjust that ratio as appropriate.

In fiscal 2014, we currently expect to open approximately 104-118 net new stores. We expect 22-26 net openings of Chico's stores, including store openings in Canada, 26-30 net openings of WHIBM stores, including store openings in Canada, 38-42 net openings of Soma stores, and 18-20 net openings of Boston Proper stores.

As of February 1, 2014, we operated 1,472 retail stores in 48 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico and Canada. The following tables set forth information concerning our retail stores during the past five fiscal years:

<b>Stores</b>	<b>Fiscal Year<sup>2</sup></b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Stores at beginning of year	1,357	1,256	1,151	1,080	1,076
Opened	135	125	137	79	40
Closed	(20)	(24)	(32)	(8)	(36)
<b>Total Stores</b>	<b>1,472</b>	<b>1,357</b>	<b>1,256</b>	<b>1,151</b>	<b>1,080</b>

  

<b>Stores by Brand</b>	<b>Fiscal Year End</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Chico's boutique	611	606	601	597	599
Chico's outlet	110	99	83	63	44
<b>Chico's total</b>	<b>721</b>	<b>705</b>	<b>684</b>	<b>660</b>	<b>643</b>
WHIBM boutique	436	398	364	342	333
WHIBM outlet	59	45	27	21	17
WHIBM Canada	3				
<b>WHIBM total</b>	<b>498</b>	<b>443</b>	<b>391</b>	<b>363</b>	<b>350</b>

Soma Intimates boutique	232	193	164	120	83
Soma Intimates outlet	17	16	17	8	4
Soma Intimates total	249	209	181	128	87
Boston Proper boutique	4				
<b>Total Stores</b>	<b>1,472</b>	<b>1,357</b>	<b>1,256</b>	<b>1,151</b>	<b>1,080</b>

<sup>2</sup> Our fiscal years end on the Saturday closest to January 31 and are designated by the calendar year in which the fiscal year commences. The periods presented in these financial statements are the fiscal years ended February 1, 2014 ( fiscal 2013 , 2013 , or current period ), February 2, 2013 ( fiscal 2012 , 2012 , or prior period ), January 2, 2013 ( fiscal 2011 , or 2011 ), January 29, 2011 ( fiscal 2010 , or 2010 ), and January 30, 2010 ( fiscal 2009 , or 2009 ). These periods had 52 weeks, except for fiscal 2012, which consisted of 53 weeks.

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### **Our Websites**

Each of our brands has its own dedicated website, [www.chicos.com](http://www.chicos.com), [www.whbm.com](http://www.whbm.com), [www.soma.com](http://www.soma.com), and [www.bostonproper.com](http://www.bostonproper.com), which provide customers the ability to browse our offerings, locate our stores, and order merchandise online. Our websites are designed to complement the in-store experience we deliver and play a vital role in our omni-channel strategy. Some items are only available online, such as extended size offerings and some clearance items. Online merchandise is also available through our call centers. We offer domestic online customers the option to return items in our stores. For fiscal 2014, we will continue to focus on our omni-channel approach to retailing by enhancing website functionality to improve the customer's experience.

### **Our Catalogs**

We currently mail a Chico's, WHIBM, Soma and Boston Proper catalog or mailer to current and prospective customers approximately every month. These catalogs are designed to educate our customers about our products, assist with new customer acquisition, drive customers to our stores and websites and promote catalog sales.

Catalog sales for each of our brands are made through our call centers or online.

### **Advertising and Promotion**

Our marketing program currently consists of the following omni-channel components:

Rewards programs;

Direct marketing activities: direct mail, e-mail, and localized calling campaigns;

E-marketing efforts: paid search, banner marketing, affiliates and search engine optimization;

National print and broadcast advertising;

Social marketing; and

Outreach programs.

Over the last few years, we expanded our e-marketing efforts for our brands. We made significant investments in paid search with well-known internet search sites and appeared on banner ads on various high-traffic websites.

National print and broadcast advertising are key components of our marketing program and serve to drive traffic to our stores and websites as well as raise brand awareness for new customers.

Social marketing is another strategy by which we can actively engage with customers by offering them unique content including exclusive offers, sneak peeks into new collections, style advice, live chats and other special promotions. We

believe that there is significant opportunity to innovate and grow our social marketing efforts, including the use of websites such as Facebook, Twitter and Pinterest.

Lastly, we place great value on customer outreach programs in the communities we serve. As part of these outreach programs, we encourage our managers and sales associates to become involved in community projects. We believe that these programs, in addition to helping build and support community and charitable activities, are also effective marketing vehicles in providing introductions to new customers.

### **Information Technology**

We are committed to having information systems that enable us to obtain, analyze and act upon information on a timely basis and to maintain effective financial and operational controls. This effort includes testing of new products and applications so that we are able to take advantage of technological developments.

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### **Merchandise Distribution**

The distribution functions for all brands are handled from our Distribution Center ( DC ) in Winder, Georgia. New merchandise is generally received daily at the DC. Imported merchandise is shipped from the country of export by truck, rail, sea or air, as the circumstances require. Domestic merchandise is shipped by rail or truck. All merchandise arrives at the DC by truck. After arrival, merchandise is sorted and packaged for shipment to individual stores or is held for future store replenishment or direct shipment to customers. Merchandise is generally pre-ticketed with price and related informational tags at the point of manufacture.

During fiscal 2012, we modified our existing DC configuration to better support our anticipated omni-channel growth and to more efficiently manage our inventories and fulfill customer orders. We believe these modifications position our DC in Winder to accommodate the needs of our business over the next several years.

In fiscal 2013, our DC was granted Foreign Trade Zone status from the Department of Commerce and U.S. Customs and Border Protection. This legally permits us to move certain merchandise to the DC without paying U.S. Customs duty until the merchandise is shipped to domestic stores or online customers and to avoid paying U.S. Customs duty on certain merchandise we export internationally.

### **Product Sourcing**

All of our brands purchase a significant percentage of their clothing and accessories from companies that manufacture merchandise in foreign countries. We may take ownership in the foreign country, at a designated point of entry into the United States, or at our DC depending on the specific terms of the sale. Approximately 23% of total purchases in fiscal 2013 were made from one supplier, compared to 21% with the same supplier in fiscal 2012.

Most of our sourcing activities are performed by one shared service group. We believe that this single group, working in concert with our key supply chain partners, will deliver higher quality goods at a lower cost while providing the opportunity to lessen freight costs through consolidation. We believe that the decision to centralize our sourcing operations has helped us mitigate the impact of higher sourcing costs.

For all of our brands, we regularly evaluate where to have our goods manufactured. Beginning in fiscal 2010, in response to decreased capacity and cost of labor increases in China, we began transitioning to suppliers located in other countries. For fiscal 2013, China sources accounted for approximately 55% of our merchandise cost compared to approximately 60% in the prior fiscal year.

### **Competition**

The women's retail apparel and intimate apparel business is highly competitive and includes local, national and international department stores, specialty stores, boutique stores, catalog companies, and online retailers. We believe that our distinctively designed merchandise offerings and emphasis on customer service distinguish us from other retailers. Many of these competitors have greater name recognition as well as certain of these competitors may have greater financial, marketing and other resources compared to us.

### **Trademarks and Service Marks**

We are the owner of certain registered and common law trademarks and service marks (collectively referred to as Marks ).

Marks registered in the United States include, but are not limited to: CHICO S, PASSPORT, ZENERGY, WHITE HOUSE BLACK MARKET, WORKKIT, SOMA, SOMA INTIMATES, VANISHING BACK, VANISHING EDGE, VANISHING TUMMY, COOL NIGHTS, OH MY GORGEOUS, PERFECT FORM, BOSTON PROPER and WEAR IT LIKE NO ONE ELSE. We have registered or are seeking to register a number of these Marks in certain foreign countries as well.



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In the opinion of management, our rights in the Marks are important to our business. Accordingly, we intend to maintain our Marks and the related registrations and applications. We are not aware of any claims of infringement or other challenges to our rights to use any registered Marks in the United States or any other jurisdiction in which the Marks have been registered.

## **Available Information**

Our investor relations website is located at [www.chicosfas.com](http://www.chicosfas.com). Through this website, we make available free of charge our Securities and Exchange Commission ( SEC ) filings, including our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after those reports are electronically filed with the SEC. This website also includes recent press releases, corporate governance information, beneficial ownership reports, institutional presentations, quarterly and institutional conference calls and other quarterly financial data, including historical store square footage.

Our Code of Ethics, which is applicable to all of our associates, including the principal executive officer, the principal financial officer and the Board of Directors, is posted on our investor relations website. Any amendments to or waivers from our Code of Ethics will also be available on this website. Copies of the charters of each of the Audit Committee, Compensation and Benefits Committee and Corporate Governance and Nominating Committee as well as the Corporate Governance Guidelines, Insider Trading Policy, Terms of Commitment to Ethical Sourcing, and Stock Ownership Guidelines are available on this website or in print upon written request by any shareholder.

## **Employees**

As of February 1, 2014, we employed approximately 23,700 people, approximately 30% of whom were full-time associates and the balance of whom were part-time associates. The number of part-time associates fluctuates during peak selling periods. As of the above date, approximately 90% of our associates worked in our boutique and outlet stores. We have no collective bargaining agreements covering any of our associates, have never experienced any material labor disruption and are unaware of any efforts or plans to organize our associates. We currently contribute a significant portion of the cost of medical, dental and vision coverage for eligible associates and also maintain a 401(k) accompanied by an employer matching contribution percentage, stock incentive and stock purchase plans. All associates are also eligible to receive substantial discounts on our merchandise. We consider employee relations with our associates to be good.

## **ITEM 1A. RISK FACTORS**

An investment in our common stock involves certain risks. The risks and uncertainties described below are not the only risks that may have a material adverse effect on the Company and the risks described herein are *not* listed in order of the likelihood that the risk might occur or the severity of the impact if the risk should occur. There can be no assurance that we have identified, assessed and appropriately addressed all risks affecting our business operations. Additional risks and uncertainties also could adversely affect our business and our results. If any of the following risks actually occur, our business, consolidated financial condition or results of operations could be negatively affected, and the market price for our shares could decline. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements, identifying important factors that could cause the Company's actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company. There can also be no assurance that the actual future results, performance, benefits, or achievements that we expect from our strategies, systems, initiatives, or products will occur.



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**Risks Associated With Our Growth Strategy.**

As noted on page 3, our overall growth strategy is focused on building and cultivating a portfolio of high performing retail brands serving women 35 years and older. If we cannot successfully execute our growth strategy, our consolidated financial condition and results of operations could be materially adversely impacted. There are numerous risks associated with this strategy including, but not limited to, the following:

*Our ability to effectively implement and manage our growth strategy.*

Our omni-channel growth strategy is dependent upon a number of factors, including: testing of new retail concepts and products, locating new boutique sites at suitable locations with the proper customer demographics, negotiating favorable lease terms, having the infrastructure necessary to support growth, sourcing sufficient levels of inventory, hiring and training qualified associates, generating sufficient operating cash flows to fund expansion plans, and maintaining brand specific websites that offer the system functionality and security customers expect.

*Our ability to identify and develop new concepts, brand extensions and new markets.*

One aspect of our growth strategy involves the strategic acquisition or organic development and growth of new concepts, brand extensions and new markets. Each of these involves risks such as the failure to achieve the results that we expect, significant capital expenditures, diversion of management's attention from operational matters, difficulties integrating operations and personnel, difficulties associated with the retention of key personnel, customer acceptance, competition, product differentiation, and challenges to economies of scale in merchandise sourcing.

*Our ability to effectively manage the productivity of our stores, websites and catalogs.*

There is no guarantee that any new store we open will have similar operating results to those of our existing stores. Depending on the brand, new stores may take three to four years to reach planned operating levels due to inefficiencies typically associated with new stores, including demands on operational, managerial and administrative resources, and some new stores may never reach planned operating levels. The failure of existing or new stores to perform as predicted could result in impairment of long-lived assets.

In addition, we maintain inventory levels for our stores, websites and catalogs that we anticipate will be in line with projected demand. Inventory levels in excess of customer demand may result in inventory write-downs or the sale of excess inventory at discounted or closeout prices. Conversely, if we underestimate consumer demand for our merchandise, particularly higher volume styles, or if our suppliers fail to supply quality products in a timely manner, we may experience inventory shortages, which might result in missed sales, negatively impact customer relationships, diminish brand loyalty and result in lost revenues.

*Our ability to effectively locate new and existing stores.*

We cannot control the availability or cost of appropriate locations within existing or new shopping centers or the success of individual shopping centers. Furthermore, factors beyond our control impact shopping centers, such as general economic conditions, weather conditions, consumer acceptance of new or existing shopping centers, regional demographic shifts, and consumer spending levels. Our store sales are dependent on a certain level of shopping center traffic and any large scale decline in shopping center traffic, whether because of a slowdown in the economy, a falloff in the popularity of shopping centers among our target customers, or otherwise, could have a material adverse effect on our business.

*Our ability to anticipate and remain current with fashion trends and successfully introduce new products.*

Our success is principally dependent upon our ability to gauge the fashion tastes of our customers and to provide merchandise that is on-trend and satisfies customer demand in a timely manner. The failure to anticipate, identify or react appropriately and in a timely manner to changes in fashion trends or demands, could lead to lower sales, missed opportunities, excess inventories and more frequent markdowns or inventory write-downs, as well as have a negative impact on our image and result in reduced brand loyalty.

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*Our ability to successfully expand internationally.*

We opened 3 WHIBM stores in Canada in fiscal 2013 and plan to open Chico's stores and additional WHIBM stores in Canada and Chico's franchises in Mexico in fiscal 2014. We have limited prior international store or franchise experience, where we face numerous operational obstacles, including already established competitors and new and different employment and labor, trade, product safety, transportation and logistics, health care, tax, privacy, and environmental issues, among other things. Furthermore, consumer demand, behavior, tastes, and purchasing trends may differ from our domestic operations and, as a result, sale of our merchandise may not be successful, or the margins on those sales may not be in line with those we currently anticipate. Our consolidated results of operations and financial condition may also be adversely affected by fluctuations in currency exchange rate. Any difficulties that we encounter as we expand our geographical coverage may divert financial, operational and managerial resources from our existing operations.

### **Risks Associated with General Economic Conditions.**

Numerous economic, all of which are outside of our control, conditions could negatively affect the level of consumer spending on the merchandise that we offer. If these economic conditions persist for a sustained period, our consolidated financial condition and results of operations could be materially adversely impacted. These economic conditions include, but are not limited to, the following:

*Conditions that lead to declines in consumer spending.*

The following economic conditions are among the many that can lead to declines in consumer spending on our merchandise: threatened or actual government shut downs, higher unemployment levels, low levels of consumer credit, inflation, interest rates, recessionary pressures, increasing gas and other energy costs, taxation, decreasing housing prices, higher durable and other consumer spending, volatility in the financial markets, and low consumer confidence in future economic conditions.

*Fluctuations in costs of goods, energy and/or commodity costs.*

Fluctuations in the price, availability and quality of fabrics and other raw materials used to manufacture our products, as well as the price for labor and transportation have contributed to, and may continue to contribute to, ongoing pricing pressures throughout our supply chain. The price and availability of such inputs to the manufacturing process may fluctuate significantly, depending on several factors, including commodity costs, such as higher cotton prices, energy costs, such as fuel, shipping costs, inflationary pressures from emerging markets, increased labor costs, weather conditions and currency fluctuations.

*Impairment charges.*

Periodically, we review our long-lived assets for impairment whenever economic events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We also review our goodwill and intangible assets for indicators of impairment. Significant negative industry or general economic trends, changes in customer demand for our product, disruptions to our business and unexpected significant changes or planned changes in our operating results or use of long-lived assets (such as boutique relocations or discontinuing use of certain boutique fixtures) may result in impairments to goodwill, intangible assets and other long-lived assets.

*Fluctuating comparable sales and overall operating results.*

Our comparable sales and overall operating results have fluctuated in the past and are expected to continue to fluctuate in the future. A variety of factors affect comparable sales and operating results, including

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changes in fashion trends, changes in our merchandise mix, customer acceptance of merchandise offerings, timing of marketing activities, calendar shifts of holiday periods, the periodic impact of a fifty-three week fiscal year, actions by competitors, new boutique openings, new competitor activity, weather conditions, and general economic conditions. Past comparable sales or operating results are not an indicator of future results.

### **Risks Associated With Our Online and Catalog Operations.**

Our online and catalog operations are subject to numerous risks that could materially adversely impact our consolidated financial condition and results of operations. These risks include, but are not limited to, the following:

*Our websites rely on technology.*

We sell merchandise over the Internet through each of our brands' websites. Our websites are heavily dependent on technology, which creates numerous risks including unanticipated operating problems, system failures, rapid technological change, failure of the systems that operate the websites, reliance on third party computer hardware and software providers, computer viruses, telecommunication failures, liability for online content, systems and data breaches, denial of service attacks, spamming, phishing attacks, computer hackers and other similar disruptions. Our success is dependent on our ability to implement and maintain brand specific websites that offer the system functionality and security customers expect.

*Our online and catalog operations rely on the U.S. Postal Service and other shipping vendors.*

We use the U.S. Postal Service to mail millions of catalogs each year to educate our customers about our products, acquire new customers, drive customers to our boutiques and website and promote catalog sales. As a result, postal rate increases and paper and printing costs will affect the cost of our order fulfillment and catalog and promotional mailings. We rely on discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting. The operational and financial difficulties of the U.S. Postal Service are well documented. Any significant and unanticipated increase in postage, reduction in postal service, or slow-down in postal delivery, or increases in paper and printing costs could impair our ability to deliver catalogs in a timely or economically efficient manner and also could adversely impact our earnings if we are unable to pass such increases directly on to our customers or if we are unable to implement more efficient printing, mailing, delivery and order fulfillment systems.

We also utilize additional shipping vendors, including Federal Express, to support our online operations. Any significant and unanticipated increase in shipping costs, reduction in service, or slow-down in delivery could impair our ability to deliver merchandise in a timely or economically efficient manner and also could adversely impact our earnings if we are unable to pass such increases directly on to our customers or if we are unable to implement more efficient delivery and order fulfillment systems.

### **Risks Associated with Our Information Technology Systems.**

We rely on various information technology systems to manage our operations. Information technology systems are subject to numerous risks including unanticipated operating problems, system failures, rapid technological change, failure of the systems that operate as anticipated, reliance on third party computer hardware and software providers, computer viruses, telecommunication failures, data breaches, denial of service attacks, spamming, phishing attacks, computer hackers and other similar disruptions, any of which could materially adversely impact our consolidated financial condition and results of operations. Additional risks include, but are not limited to, the following:





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### *Disruptions in current systems or difficulties in integrating new systems.*

We regularly maintain, upgrade, enhance or replace our information technology systems to support our business strategies and provide business continuity. Replacing legacy systems with successor systems, making changes to existing systems or acquiring new systems with new functionality have inherent risks including disruptions, delays, or difficulties that may impair the effectiveness of our information technology systems.

### *Cybersecurity.*

Cybersecurity refers to the combination of technologies, processes, and procedures established to protect information technology systems and data from unauthorized access, attack, or damage. We are subject to cybersecurity risks. Our business involves the storage and transmission of customers' personal information, shopping preferences and credit card information. While we have implemented measures to prevent security breaches and cyber incidents, our measures may not be effective and any security breaches and cyber incidents could have a material adverse effect on our business. Furthermore, the storage and transmission of such data is regulated at the international, federal, state and local levels. Privacy and information security laws and regulation changes, and compliance with those changes, may result in cost increases due to system changes and the development of new administrative processes. If we or our associates fail to comply with these laws and regulations or experience a data security breach, our reputation could be damaged, possibly resulting in lost future business, and we could be subjected to fines, penalties, administrative orders and other legal risks as a result of a breach or non-compliance.

### **Risks Associated With Our Sourcing and Distribution Strategies.**

Our sourcing and distribution strategies are subject to numerous risks that could materially adversely impact our consolidated financial condition and results of operations. These risks include, but are not limited to, the following:

#### *Our significant reliance on foreign sources of production.*

The majority of our clothing and accessories are produced outside the United States. As a result, our business remains subject to the various risks of doing business in foreign markets and importing merchandise from abroad, such as: geo-political instability, the requirements of the Foreign Corrupt Practices Act, imposition of new legislation relating to import quotas that may limit the quantity of goods that may be imported into the United States from countries in which we do business, imposition of new or increased duties, taxes, and other charges on imports, foreign exchange rate challenges and pressures presented by implementation of U.S. monetary policy, local business practice and political issues, including issues relating to compliance with our Terms of Commitment to Ethical Sourcing and domestic or international labor standards, transportation disruptions, including port strikes, natural disasters, delays in the delivery of cargo due to port security considerations or government funding, and seizure or detention of goods by U.S. Customs authorities. In particular, we continue to source a substantial portion of our merchandise from China. A change in the Chinese exchange rate, other policies affecting labor laws or the costs of goods in China could negatively impact our merchandise costs.

We cannot predict whether or not any of the foreign countries in which our clothing and accessories are currently, or in the future may be produced, will be subject to import restrictions by the United States government, including the likelihood, type or effect of any trade retaliation. Trade restrictions, including increased tariffs, or more restrictive quotas, including safeguard quotas, or anything similar, applicable to apparel items could affect the importation of apparel generally and, in that event, could increase the cost, or reduce the supply, of apparel available to us.

In addition, the laws and customs protecting intellectual property rights in many foreign countries can be substantially different and potentially less protective of intellectual property than those in the United States. We have taken numerous steps to protect our intellectual property overseas, but cannot guarantee that such rights are

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not infringed. The intentional or unintentional infringement on our intellectual property rights by one of our suppliers or any other person or entity, could diminish the uniqueness of our products, tarnish our trademarks, or damage our reputation.

*Our suppliers' ability to provide quality goods in a timely manner.*

We do not own or operate any manufacturing facilities and depend on independent third parties to manufacture our merchandise. We are subject to the risk that a key supplier may become unable to address our merchandising needs due to payment terms, cost of manufacturing, adequacy of manufacturing capacity, quality control, or timeliness of delivery. If we were unexpectedly required to change suppliers or if a key supplier was unable to supply acceptable merchandise in sufficient quantities on acceptable terms, we could experience a significant disruption in the supply of merchandise. We could also experience operational difficulties with our suppliers, such as reductions in the availability of production capacity, supply chain disruptions, errors in complying with merchandise specifications, insufficient quality control, shortages of fabrics or other raw materials, failures to meet production deadlines or increases in manufacturing costs.

Furthermore, many of our suppliers rely on working capital financing to support their operations. Although the credit market has improved, lenders have still maintained tightened credit standards and terms. To the extent any of our suppliers are unable to obtain adequate credit or their borrowing costs increase, we may experience delays in obtaining merchandise, our suppliers increasing their prices or our suppliers modifying payment terms in a manner that is unfavorable to us.

*Our significant reliance upon one supplier.*

We have no material long-term or exclusive contract with any apparel or accessory manufacturer or supplier. Our business depends on our network of suppliers.