Chico's FAS, Inc.

Key Takeaways

- Barington Group and its affiliates, with an aggregate ownership of 1.5 percent of outstanding shares, are seeking shareholder support to replace two of the four nominees on the ballot at the 2016 annual meeting.
- For more than a year the board has been undertaking significant change in both the executive suite and the boardroom, and directing operating and strategic changes which are just beginning to have an effect on corporate financial performance.
- As the dissidents have not made a compelling case that additional change at the board level is warranted – and particularly because the strength of all four management nominees suggests those nominees are likely the best candidates to continue driving the necessary improvements in the company's performance - votes on the White management card FOR management nominees Broader, Brooks, Fields, and Simon are warranted.

ISS QuickScore

GOVERNANCE

3

Scores indicate decile rank relative to index or region. A decile score of 1 indicates lower governance risk, while a 10 indicates higher governance risk.

Meeting Type: Proxy Contest
Meeting Date: 21 July 2016
Record Date: 16 May 2016
Meeting ID: 1071906

New York Stock Exchange: CHS
Index: S&P 400
Sector: Apparel Retail
GICS: 25504010

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Agenda & Recommendations

Policy: United States

Incorporated: Florida, USA

Item	Code	Proposal	Board Rec.	ISS Rec.
MANAGEMENT PROXY (WHITE CARD)				
1.1	M0299	Elect Director Shelley G. Broader	FOR	FOR
1.2	M0299	Elect Director Bonnie R. Brooks	FOR	FOR
1.3	M0299	Elect Director Janice L. Fields	FOR	FOR
1.4	M0299	Elect Director William S. Simon	FOR	FOR
2	M0101	Ratify Ernst & Young, LLP as Auditors	FOR	FOR
3	M0550	Advisory Vote to Ratify Named Executive Officers' Compensation	FOR	FOR
4	M0215	Declassify the Board of Directors	FOR	FOR

Item	Code	Proposal	Diss Rec.	ISS Rec.
DISSIDENT PROXY (BLUE CARD)				
1.1	S0299	Elect Directors James A. Mitarotonda	FOR	DONOTVOTE
1.2	S0299	Elect Directors Janet E. Grove	FOR	DONOTVOTE
1.3	S0299	Management Nominee Shelley G. Broader	FOR	DONOTVOTE
1.4	S0299	Management Nominee William S. Simon	FOR	DONOTVOTE
2	M0101	Ratify Ernst & Young, LLP as Auditors	NONE	DONOTVOTE
3	M0550	Advisory Vote to Ratify Named Executive Officers' Compensation	AGAINST	DONOTVOTE
4	M0215	Declassify the Board of Directors	FOR	DONOTVOTE

Shading indicates that ISS recommendation differs from Board or Dissident recommendation

Report Contents

Engagement

Dates	With	Notes
June 30, 2016	Dissident and nominees	Understand Dissident Critique
July 1, 2016	Company directors and management	Understand Management Response

Note: ISS engages in ongoing dialogue with issuers in order to ask for additional information or clarification, but not to engage on behalf of its clients. Any draft review which may occur as part of this process is done for purposes of data verification only. All ISS recommendations are based solely upon publicly disclosed information.

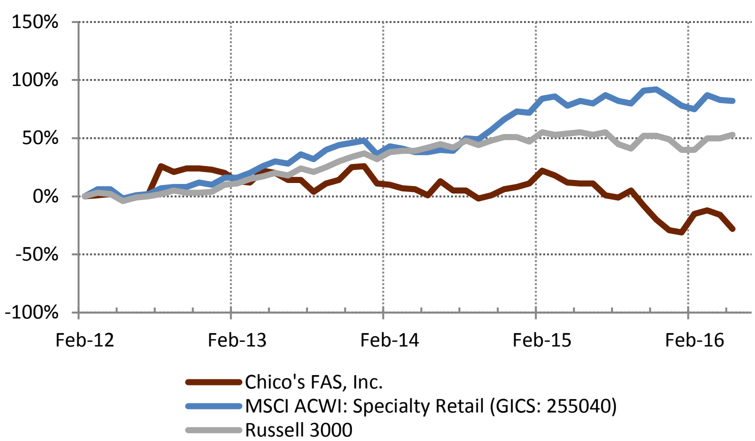
Material Company Updates

Item	Summary
Executive and Board Updates	Cynthia A. Fields was appointed as a Class I director on Sept. 30, 2015 but resigned from the board on Feb. 21, 2016. The company stated that Fields' decision to resign was not the result of any disagreement on any matter relating to its operations, policies or business practices. Effective Dec. 1, 2015, David F. Dyer resigned as president and CEO but became vice chairman of the board. On the same date, Shelley G. Broader joined the company as CEO, president, and a Class II director. In May 2016, Susan Lanigan joined the company as EVP and general counsel. Dyer and Verna K. Gibson are not standing for reelection as a director and have chosen to retire from the board upon the completion of their current terms at the 2016 annual meeting of shareholders.

Financial Highlights

Company Description: Chico's FAS, Inc. operates as an omni-channel specialty retailer of women's private branded, casual-to-dressy clothing, intimates, complementary accessories, and other non-clothing items.

STOCK PRICE PERFORMANCE



TOTAL SHAREHOLDER RETURNS

	1 Yr	3 Yr	5 Yr
Company TSR (%)	-36.38	-15.12	0.64
GICS 2550 TSR (%)	-21.20	2.38	7.31
Russell 3000 TSR (%)	-2.48	10.55	10.40

Source: Compustat. As of last day of company FY end month: 01/31/2016

COMPANY SNAPSHOT

Market Cap (M)	1,497.4
Closing Price	11.20
Annual Dividend	0.31
52-Week High	17.36
52-Week Low	9.61
Shares Outstanding (M)	133.69
Average daily trading volume (prior mo)*	2,277.68

As of May 16, 2016 (All currency in USD)
* Trading Volume in thousands of shares

FINANCIAL & OPERATIONAL PERFORMANCE

	Historical Performance (FY ending)					Compared to Peers (Compustat FY*) – **2015**				
All currency in USD	**1/2012**	**1/2013**	**1/2014**	**1/2015**	**1/2016**	**ASNA**	**BKE**	**TLRD**	**GES**	**DSW**
Earnings						Ascena Retail Group, Inc.	The Buckle, Inc.	Tailored Brands, Inc.	Guess? Inc.	DSW Inc.
Revenue (M)	2,196	2,581	2,586	2,675	2,642	4,803	1,120	3,496	2,100	2,620
Net Income (M)	141	180	66	65	2	-237	147	-1,027	82	136
EBITDA (M)	327	399	333	280	267	374	262	352	88	287
EPS (USD)	0.82	1.09	0.41	0.42	0.01	-1.46	3.06	-21.26	0.97	1.55
EPS Y/Y Growth (%)	26	33	-62	2	-98	N/A	-10	-212,500	-13	-9
Profitability										
Pretax Net Margin (%)	10	11	6	4	-1	-5	21	-34	6	8
EBITDA Margin (%)	15	16	13	11	10	8	23	10	4	11
Return on Equity (%)	14	17	7	7	0	-16	36		8	15
Return on Assets (%)	10	11	5	5	0	-8	26	-46	5	10
ROIC (%)	14	17	7	7	0	-15	36	-68	8	15
Leverage										
Debt/Assets	0	0	0	0	8	4	0	74	0	0
Debt/Equity	0	0	0	0	14	8	0	-1,655	1	0
Cash Flows										
Operating (M)	255	368	237	282	197	431	159	132	179	243
Investing (M)	0	-248	18	-130	0	-298	-35	-113	-74	-31
Financing (M)	-211	-122	-275	-56	-240	-50	-97	-47	-128	-241
Net Change (M)	44	-2	-20	97	-43	84	27	-32	-38	-27
Valuation & Performance										
Price/Earnings	14.00	16.40	40.50	39.70	1039.00	N/A	9.30	N/A	19.10	15.50
Annual TSR (%)	6.40	58.74	-6.14	2.38	-36.38	-22.04	-40.59	-69.82	3.37	-30.59

Source: Compustat. *Note: Compustat standardizes financial data and fiscal year designations to allow for meaningful comparison across companies. Compustat data may differ from companies' disclosed financials and does not incorporate non-trading equity units. Peers shown here represent closest industry peers drawn from those peers used in ISS' pay-for-performance analysis. See www.issgovernance.com/policy-gateway/company-financials-faq/ for more information.

Corporate Governance Profile

BOARD & COMMITTEE SUMMARY

	Independence	Members	Meetings
Full Board	89%	9	26
Audit	100%	3	6
Compensation	100%	4	6
Nominating	100%	3	4

Chairman classification	Independent Outsider
Separate chair/CEO	Yes
Independent lead director	N/A
Voting standard	Majority
Plurality carveout for contested elections	Yes
Resignation policy	Yes
Total director ownership (000 shares)*	1,026
Total director ownership (%)	<1
Percentage of directors owning stock	77.8%
Number of directors attending < 75% of meetings	0
Number of directors on excessive number of outside boards	0
Average director age	63 years
Average director tenure	6 years
Percentage of women on board	44%

*Representing incumbent directors' stock ownership

SHAREHOLDER RIGHTS SUMMARY

Controlled company	No
Classified board	Yes
Dual-class stock	No
Vote standard for mergers/acquisitions	Majority
Vote standard for charter/bylaw amendment	66.67%
Shareholder right to call special meetings	Yes, 25%
Material restrictions on right to call special meetings	No
Shareholder right to act by written consent	No
Cumulative voting	No
Board authorized to issue blank-check preferred stock	Yes
Poison pill	No
Proxy Access	No

Board Profile (after upcoming meeting)

Director Independence & Affiliations

EXECUTIVE DIRECTORS

On Ballot	Name	Affiliation	Independence Classification		Attend <75%	Gen-der	Age	Tenure	Term Ends	Outside		Key Committees			
			Company	ISS						Boards	CEO	Audit	Comp	Nom	Gov
✓	**Shelley Broader**	CEO	Non-Independent	Insider		F	51	0*	2019	1					

NON-EXECUTIVE DIRECTORS

On Ballot	Name	Affiliation	Independence Classification		Attend <75%	Gen-der	Age	Tenure	Term Ends	Outside		Key Committees			
			Company	ISS						Boards	CEO	Audit	Comp	Nom	Gov
	David Walker	Chair	Independent	Independent Outsider		M	62	11	2017	2		**C F**		**M**	**M**
✓	**Bonnie Brooks**		Independent	Independent Outsider		F	63	0*	2019	5					
✓	**Janice Fields**		Independent	Independent Outsider		F	60	3	2019	1			**M**	**C**	**C**
	John Mahoney		Independent	Independent Outsider		M	65	9	2017	3		**F**	**C**		
	Ross Roeder		Independent	Independent Outsider		M	78	19	2018	0				**M**	**M**
✓	**William Simon**		Independent	Independent Outsider		M	55	0*	2018	2					
	Stephen Watson		Independent	Independent Outsider		M	71	5	2017	2		**M**	**M**		
	Andrea Weiss		Independent	Independent Outsider		F	61	7	2018	2			**M**		

M = Member | C = Chair | F = Financial Expert

*Indicates director not previously submitted to shareholders for election.

DISSIDENT NOMINEES

On Ballot	Name	Affiliation	Independence Classification		Attend <75%	Gen-der	Age	Tenure	Term Ends	Outside		Key Committees			
			Company	ISS						Boards	CEO	Audit	Comp	Nom	Gov
✓	**Janet Grove**		N/D	Independent Outsider		F	65	0	2019	1					
✓	**James Mitarotonda**		N/D	Independent Outsider		M	62	0	2019	3					

Director Notes

John Mahoney — Ernst & Young LLP provides auditing services to the company and received $1,692,703 for such services during fiscal 2015. John J. Mahoney served as a partner of that firm prior to 1996. (Source: DEFC14A, 6/6/16, pp. 13, 23.)

Director Employment, Compensation & Ownership

Name	Primary Employment	Outside Boards	Total Compensation*	Shares Held	60-day Options	Total	Voting Power (%)
David Walker	Retired	Commvault Systems, Inc., CoreLogic, Inc.	289,419	78,683	20,000	98,683	<1
Shelley Broader	CEO, President - Chico's FAS, Inc.	Raymond James Financial, Inc.	**	505,690	0	505,690	<1
Bonnie Brooks	Vice/Deputy Chairman - Hudson's Bay Company	RioCan Real Estate Investment Trust, Rogers Communications Inc., Empire Company Limited, Alignvest Acquisition Corp., Abercrombie & Fitch Co.	0	0	0	0	0.00
Janice Fields	Retired	Monsanto Company	230,631	23,320	0	23,320	<1
John Mahoney	Retired	Bloomin' Brands, Inc., Burlington Stores, Inc., The Michaels Companies, Inc.	242,951	84,683	10,000	94,683	<1
Ross Roeder	Retired		242,000	178,083	20,000	198,083	<1
William Simon	Consultant	Agrium Inc., Darden Restaurants, Inc.	0	0	0	0	0.00
Stephen Watson	Prof Director	Kohl's Corporation, Regis Corporation	205,109	45,846	0	45,846	<1
Andrea Weiss	Consultant	Cracker Barrel Old Country Store, Inc., Nutrisystem, Inc.	225,275	59,729	0	59,729	<1

*Local market currency
**For executive director data, please refer to Executive Pay Overview.

DISSIDENT NOMINEES

Name	Primary Employment	Outside Boards	Total Compensation*	Shares Held	60-day Options	Total	Voting Power (%)
Janet Grove	Retired	Aeropostale, Inc., ClubCorp Holdings, Inc.	0	0	0	0	0.00
James Mitarotonda	Chairman - Barington/Hilco Acquisition Corp	A. Schulman, Inc., OMNOVA Solutions Inc., The Eastern Company, Barington/Hilco Acquisition Corp	0	1,796,959	0	1,796,959	1.36

Compensation Profile

EXECUTIVE PAY OVERVIEW

Executive	Title	Base Salary	Change in Pension, Deferred Comp, All Other Comp	Bonus & Non-equity Incentives	Restricted Stock	Option Grant	Total
S. Broader	Chief Executive Officer and President	1,100	14	275	3,000	0	4,389
C. Murray	Brand President- Chico's	725	16	107	1,800	0	2,648
D. Colaco	Brand President- White House Black Market	725	11	107	1,800	0	2,643
L. Brunt	Brand President- Soma	525	23	127	1,200	0	1,875
T. Vogensen	Executive Vice President-Chief Financial Officer and Asst. Corporate Secretary	471	9	138	800	0	1,418
Median CEO Pay	ISS Selected Peer Group	1,000	112	840	2,428	0	6,343
	Company Defined Peers	1,031	114	1,333	2,734	1,405	**7,434**

Source: ISS. Pay in $thousands. Total pay is sum of all reported pay elements, using ISS' Black-Scholes estimate for option grant-date values. Note: Median total pay will not equal sum of pay elements medians. Company Defined Peers are as disclosed. More information on ISS' peer group methodology at www.issgovernance.com/policy-gateway/us-compensation-policy-guidance/.

OPTION VALUATION ASSUMPTIONS

For CEO's last FY Grant	Company	ISS
Volatility (%)*	N/A	N/A
Dividend Yield (%)*	N/A	N/A
Term (yrs)*	N/A	N/A
Risk-free Rate (%)*	N/A	N/A
Grant date fair value per option*	N/A	N/A
Grant Date Fair Value ($ in 000)**	N/A	N/A

The CEO did not receive options for the fiscal year under review

CEO TALLY SHEET

CEO	S. Broader
CEO tenure at FYE:	0.1 year
Present value of all accumulated pension:	N/A
Value of CEO stock owned (excluding options):	$5,663,728
Potential Termination Payments	
Involuntary termination without cause:	$2,254,538
Termination after a change in control:	$4,817,959

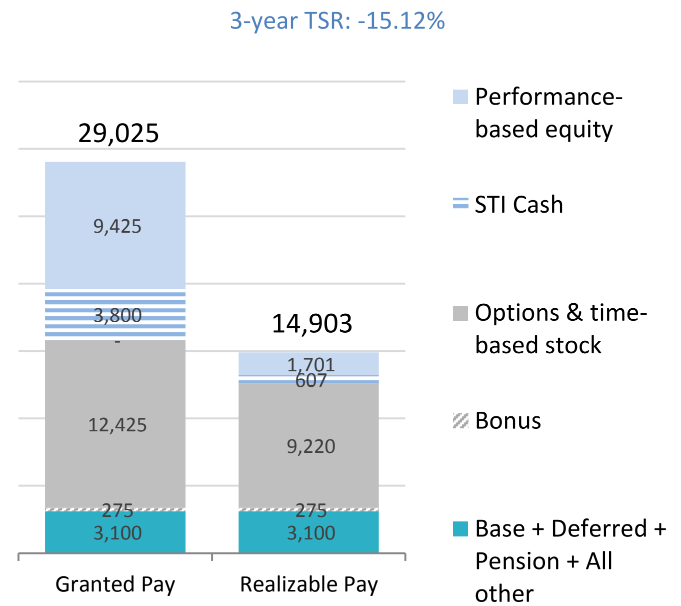
Source: DEF14A

CEO PAY MULTIPLES

Compared to	Multiple
2nd highest active executive	1.66
Average active NEO	2.05
ISS peer median	0.69
Company peer median	0.59

Source: ISS

3-YEAR GRANTED VS. REALIZABLE CEO PAY



Source: DEF14A and ISS ($ in thousands)

Granted pay equals the sum of all CEO pay, as disclosed in the proxy statement for the applicable fiscal years, except that equity grant values may be based on ISS' valuation. Realizable pay equals the sum of all cash paid (as disclosed) during the same period, plus the value of all equity grants at the end of the period (based on earned value, if applicable, or re-calculated FV of target level equity awards not yet earned/vested). For additional information, please visit www.issgovernance.com/policy-gateway/us-compensation-policy-guidance/

Dilution & Burn Rate

DILUTION

	Dilution (%)
Chico's FAS, Inc.	8.34
Peer group median	10.40
Peer group weighted average	9.55
Peer group 75th percentile	15.11

Dilution is the sum of the total amount of shares available for grant and outstanding under options and other equity awards (vested and unvested) expressed as a percentage of total basic common shares outstanding as of the record date. The dilution figure typically excludes employee stock purchase plans (ESPPs) and 401(k) shares. The underlying information for the company is based on the company's equity compensation table in the most recent proxy statement or 10-K.

BURN RATE

	Non-Adjusted (%)	Adjusted (%)
1-year	1.32	3.30
3-year average	1.41	3.54

Burn rate equals the number of shares granted in each fiscal year, including stock options, restricted stock (units), actual performance shares delivered under the long-term incentive plan or earned deferred shares, to employees and directors divided by weighted average common shares outstanding. The adjusted burn rate places a premium on grants of full-value awards using a multiplier based on the company's annual volatility.

3

ISS Governance QuickScore

A decile score of 1 indicates lower governance risk, while a 10 indicates higher governance risk.
Scores indicate decile rank relative to index or region.

ISS Governance QuickScore Pillars

Scores as of: June 26, 2016 | Last Data Profile Update: June 26, 2016

Board Structure	5	Compensation	2
Shareholder Rights	5	Audit & Risk Oversight	1

ISS Governance QuickScore is derived from publicly disclosed data on a company's governance practices. Scores indicate decile rank among relative index or region. Scores are calculated at each pillar by summing the factor scores in that pillar. Not all factors and not all subcategories have equal weight. For more information on ISS Governance QuickScore, visit www.issgovernance.com/QuickScore. For questions, please contact: Quickscore@issgovernance.com.

Vote Results

ANNUAL MEETING 25 JUNE 2015

Proposal	Board Rec	ISS Rec	Disclosed Result	Support Including Abstains (%)[1]	Support Excluding Abstains (%)[2]
1.1 Elect Director Ross E. Roeder	For	For	Majority	97.5	97.8
1.2 Elect Director Andrea M. Weiss	For	For	Majority	98.3	98.6
2 Ratify Ernst & Young, LLP as Auditors	For	For	Pass	98.9	99.2
3 Advisory Vote to Ratify Named Executive Officers' Compensation	For	For	Pass	96.2	96.6
4 Amend Executive Incentive Bonus Plan	For	For	Pass	97.8	98.2

Shaded results reflect a majority of votes cast FOR shareholder proposal or AGAINST management proposal or director election
[1]Support Including Abstains is defined as %FOR/(For + Against + Abstain), as expressed as a percentage.
[2]Support Excluding Abstains is defined as %FOR/(For + Against), as expressed as a percentage, provided if different from For + Against + Abstain.

Meeting Agenda & Proposals

Management Proxy (White Card)

Items 1.1-1.4. Elect Directors — FOR

VOTE RECOMMENDATION

For more than a year the board has been undertaking significant change in both the executive suite and the boardroom, and directing operating and strategic changes which are just beginning to have an effect on corporate financial performance. As the dissidents have not made a compelling case that additional change at the board level is warranted – and particularly because the strength of all four management nominees suggests those nominees are likely the best candidates to continue driving the necessary change to improve the company's performance - votes on the White management card FOR management nominees Broader, Brooks, Fields, and Simon are warranted.

BACKGROUND INFORMATION

Policies: Proxy Contests

Vote Requirement: The company has adopted a majority vote standard (of shares cast) for the election of directors with a plurality carve-out for contested elections, and has a director resignation policy in its governance guidelines.

Barington Group and its affiliates, with an aggregate ownership of 1.5 percent of outstanding shares, is seeking shareholder support to replace two of the four nominees on ballot at the 2016 annual meeting.

KEY EVENTS

December 2013	Barington begins purchasing shares in Chico's FAS
Sept. 22, 2014	Barington discusses company strategy with CFO and Head of Investor Relations
September 2015	Barington begins to make "sizable" investment in Chico's FAS
Oct. 28, 2015	Chico's FAS announces appointment of Shelley Broader as CEO effective Dec. 1, 2015.
March 2016	Barington discusses industry, performance, and strategy for the future with CFO and new Head of Investor Relations.
April 8, 2016	Board delays annual meeting to July 21 to permit "enough time" to evaluate prospective board nominees.
April 12, 2016	Barington discusses operating performance, and cost structure with CEO, CFO and Head of Investor Relations.
May 3, 2016	Barington sends letter to board Chairman highlighting its concerns, and expresses desire to provide company with potential candidates for appointment to the board.
May 11, 2016	Barington provides five prospective candidates for board consideration.
May 19, 2016	Board nominates Brooks and Simon to serve as new directors at the 2016 annual meeting. Later that day, Barington delivers formal nomination of three nominees.
May 24, 2016	Barington publicly announces intention to campaign for election of its two nominees to the board.

Dissident Critique

The dissident highlights the following key issues:

Share Price Performance: The dissident asserts that, under the current board, the share price performance has been extremely negative on an absolute and relative basis when compared to the company's 2016 proxy statement peers, the S&P500 Apparel Retail Index, the S&P 500 Index, and the Russell 2000 Index over the past one, three, five, and ten years. The dissident points out that the share price has declined approximately 79 percent from its all-time high of $48.90 on Feb. 21, 2006, wiping out more than $5 billion in market capitalization.

Operational Performance: The dissident highlights that the company's profitability has stagnated despite the "long list of positive attributes." The dissident emphasizes that despite an 88 percent increase in sales over the last 10 years, SG&A has grown by 129 percent resulting in EBITDA declining by 23 percent over the same period. Additionally, the dissident highlights that the company's SG&A expense as a percentage of sales is currently one of the highest among its specialty retailer peers, the company maintains a "sizeable headquarter-level cost," and advertising spend is the highest among its peers. Further, despite the industry-leading sales productivity for the company's stores, the company has reported flat to declining comparable store sales for its Chico's and White House Black Market brands in each of the past three years, including the first quarter of 2016 – the dissident believes this decline is primarily the result of the failure of management to execute an effective merchandising strategy. The dissident contends that the company's large corporate infrastructure and the unusual Board Merchant Committee is hindering the ability of its brands to be responsive to customer demands.

Capital Allocation: The dissident points to the board's "extremely poor record" in the area of capital allocation citing the Boston Proper acquisition for $205 million in 2011 and eventual sale for $10 million in January 2016, after shutting down its 20 stores and taking $215 million in goodwill and trade name impairment charges. The dissident highlights that five of the nine directors that approved the acquisition continue to serve on the board and should be held accountable for the company's return on equity declining from over 17 percent in 2012 to 0.1 percent in 2015.

Executive Compensation: The dissident believes that the board has failed to properly align CEO pay with company performance. The realized compensation for the previous CEO, David Dyer, increased by 65 percent in 2015 while EBITDA declined by 6.5 percent. His realized compensation in 2015 was also 14 percent higher than it was in 2012, despite 2015 EBITDA being 33 percent lower than in 2012. The dissident asserts that the board has also failed to properly align pay with performance for new CEO Shelley Broader in her $13.5 million compensation package with 75 percent of compensation being guaranteed and with no performance requirement. Further, the company uses a single performance metric (RONA) to determine long-term incentive compensation – the dissident emphasizes that the board should add a multi-year TSR target, use multi-year RONA, and require that at least 70 percent of long-term incentive be performance-based.

Corporate Governance: The dissident maintains that the decision to declassify the board is a reactive response to the proxy contest – had the company been "truly committed" to improving governance, it would have declassified the board sooner. Further, the dissident points to average director tenure being almost 11 years and the board currently including a director who has served for 23 years as well as the former CEO, whose presence could undermine his successor's ability to lead and pursue a new strategic direction (though both concerns are "finally being addressed," the dissident notes, at the 2016 annual meeting). Additionally, the dissident focuses on director compensation which includes health insurance coverage for directors and their dependents, an unusual perquisite which it believes could reduce a director's independence.

The dissident also highlights that incumbent directors own approximately 0.35 percent of outstanding shares, virtually all of which were granted to directors as compensation; in comparison, the dissident's ownership exceeds 1.5 percent of shares. Finally, the dissident questions the director nomination process, calling out the fact that the Nominating Committee was only open to interviewing two of the five candidates the dissident proposed. The "prominent role" the CEO played in the selection process, the dissident believes, undermined the independence of the search process, allowing the selection of William Simon – who has professional ties to and a similar skill set as the new CEO – and Bonnie Brooks – an executive of Hudson's Bay, which the dissidents believe is a Chico's competitor and whose board service would therefore create a "material conflict of interest, if not a violation of antitrust laws."

Management Response

The company asserts that its powerful portfolio of brands provides a platform of profitable growth and value creation, and highlights the following:

New Management and Strategy: The board highlights its recent initiatives to create shareholder value based on the company's strong revenue growth, strong customer loyalty, and its leadership in omni-retail capabilities. The company points to the significant positive change underway under the direction of the newly appointed CEO, who has the company executing on a new strategic plan with four focus areas – evolving the customer experience, strengthening the brands' positioning, leveraging "actionable retail science," and "sharpening financial principles" (reducing costs by leveraging a shared services model and optimizing expenses, as well as driving a higher ROI on marketing spend) – to facilitate profitable growth and value creation. The board focuses on key executive hires, and operational initiatives announced since April 2016 with aggregate estimated savings equivalent to 2.6 - 3.3 percent of LTM revenue, which would reflect significant progress towards achieving the goal of a 10 percent operating margin. The company highlights its ability to leverage deep customer data to maximize profitability.

Ongoing Initiatives: The company asserts that the recent actions complement initiatives underway prior to the new CEO's appointment and the dissident's engagement with the company. As part of the ongoing strategic review, the company announced the closure of stores (a process ongoing through 2017), with $20 million of the $65 million expected savings already achieved. The 12 percent reduction in headquarter and field management employees is expected to net a further $38 million in annualized savings. The company reduced capex in fiscal 2015 by 40 percent compared to the prior three-year average. Further, the company divested Boston Proper which eliminated a 100 basis point drag on operating margins. Finally, moderating promotions and focusing on more disciplined inventory management resulted in a 30 basis point gross margin improvement from fiscal 2014 to fiscal 2015.

Strong Corporate Governance: The board contends it has taken a proactive approach to corporate governance and shareholder engagement, noting for example that the Chairman is an independent director, the role has rotated four times over the last 10 years, and the board adopted a formal policy limiting directors to serving on no more than four public company boards in addition to Chico's. Its decision to support the declassification of the board, the company argues, highlights its commitment to shareholder-friendly corporate governance. Finally, the board asserts that its regular evaluation of skills and experience has resulted in four of the nine directors being added in the past three years. The board believes that enhancing the board with individuals who have the most relevant skills, expertise and track record would support the success and execution of the strategic plan.

Misguided Dissident Assertions: The company emphasizes that the dissident's "misguided" initiatives would jeopardize the company's plan to drive profitable growth and value creation. The dissident proposal to add 200 – 300 new Soma stores, the company asserts, is a strategy in direct conflict with the way many consumers, particularly Soma's customers, shop today. The dissident assertion that the company also needs more focus on cost reduction, the board points out, blithely ignores the reality that the has several cost reduction programs already underway which have, among other things, already exceeded the reduction in advertising costs which the dissident targets, have eliminated $10 – 20 million in non-merchandising procurement savings, and are forecasted to yield an incremental annual cost savings of between $65 and $85 million through the initiatives already underway in 2016. On return of capital, the company points out, it has returned an aggregate of $1.1 billion since 2010, or 131 percent of free cash flow, via dividends and share repurchases – significantly higher than the median rate of 103 percent for peers, which demonstrates the company's disciplined approach for capital allocation.

Board Nominee Skills: The board maintains that its nominees have the skills and experience needed to drive shareholder value. Specifically, new appointee Brooks – whose retirement from Hudson's Bay, already announced, the dissident has conveniently ignored – adds substantial, current retail, merchandising, digital marketing, e-commerce and turnaround expertise from her long career in retailing. New nominee Simon – as a former senior Walmart executive, including five years as CEO of Walmart U.S. – brings extensive supply chain expertise, and proven track record leading large, complex global retailers with best-in-class cost structures. In comparison, the board argues, the dissident nominees have no current retail and/or merchandising experience: dissident nominee Mitaratonda has no executive or director experience in retailing, while dissident nominee Grove – who the board had previously interviewed in its search for new directors – retired half a decade ago, and does not have the specific experience – particularly in operational cost cutting and in franchising experience – the board was able to add through the other candidates it ultimately selected.

Analysis

When analyzing proxy contests, ISS focuses on two central questions:

1. Have the dissidents made a compelling case that change is warranted?
2. If so, are the dissident nominees more likely to effect that change than the incumbent directors?

Question #1: Is Change Warranted?

TOTAL SHAREHOLDER RETURN

The dissident first publicly disclosed its campaign with a press release on May 24, 2016. We use the last full trading day before that public announcement as the undisturbed date, and measure performance to that undisturbed date.

In their respective arguments, both the company and the dissident measured share price performance against the peer group disclosed in the 2016 proxy statement. At a market level, the company benchmarks its TSR to the S&P500 Apparel Retail Index in its latest Form 10-K. As there is no disagreement on the peer group, we use the same peer group, and also compare the company's performance against this index.

The company has underperformed the median of its 2016 proxy peer group by 19 percentage points over the three-year period ending on the unaffected date. It underperformed the S&P 500 Apparel Retail Index, however, by a much larger margin of 71 percentage points. Extending this analysis from the same starting point through July 6, 2016, the underperformance relative to the 2016 peer group is slightly lower, at 15 percentage points, though the lag between the company and the index increases slightly to 79 percentage points.

A five-year measurement indicates an even greater underperformance relative to the index. The company underperformed the index by 138 percent points through the unaffected date, and 151 percentage points when the measurement period is extended through July 6, 2016. Compared to the 2016 peer group, however, the company's underperformance over the five-year period is essentially the same, at 18 percentage points through the unaffected date and when the measurement period is extended through July 6, 2016.

Total Shareholder Return

	Three-Year		Five-Year	
	Through Unaff. Date 5/23/2016	Extended Through 7/6/2016	Through Unaff. Date 5/23/2016	Extended Through 7/6/2016
Chico's FAS Inc.	-39.7%	-39.5%	-20.1%	-19.9%
Peer Median	-20.7%	-24.3%	-2.2%	-1.6%
S&P 500 Apparel Retail Inde	30.8%	39.0%	117.9%	131.5%
Chico's FAS Inc. B/(W)				
Peer Median	(19.0)	(15.3)	(17.8)	(18.3)
S&P 500 Apparel Retail Inde	(70.5)	(78.5)	(138.0)	(151.4)

Source: Bloomberg Financial L.P. Peers include Abercrombie & Fitch, Aeropostale Inc, American Eagle Outfitters, Ann Inc., Ascena Retail Group Inc., Caleres Inc., Coach Inc., DSW Inc., Express Inc., The Finish Line, Foot Locker Inc., Genesco Inc., Guess? Inc., L Brands Inc., The Buckle Inc., The Children'S Place Inc., The Gap Inc, Urban Outfitters Inc.

The company touts that its share price has outperformed peers, despite a weak overall retail environment, since Shelley Broader's appointment as CEO in late 2015, and points to an almost 15 percent outperformance upon Broader's announcement of the company's four priorities on Feb. 25, 2016. These may be relevant points for trend analysis – the replacement of the CEO is often a significant indication that change is coming, and the announcement of a turnaround plan can also be a credible signal to investors that obviously necessary change is now likely to result. But these measurements also benefit, at least somewhat, from a third signal that change is likely forthcoming – the dissident's public announcement it would run a proxy contest.

Perhaps the most useful inference from the TSR comparisons to the peer group, however, may be that over sustained periods it was clear to the markets – if also, more recently, to the board and, still more recently, to the dissident – that a course correction was becoming increasingly necessary. What TSR analysis cannot yet demonstrate – when the tenure of the new directors and the new CEO is still so brief – is whether the changes the board has implemented are sufficient, or whether the additional change the dissident proposes is also necessary.

OPERATING PERFORMANCE

The operating performance of the company – at least prior to the new CEO – has been characterized by rising revenues eclipsed by even faster-rising expenses. Since 2011, revenues have grown at a 6.8 percent CAGR, suggesting that the company was doing something right. Company filings indicate that the 1.2 percent decrease in net sales for the year ended Jan. 30, 2016, moreover – the only year in which revenue did not increase – was primarily driven by the decrease in comparable sales and a decline in sales at Boston Proper, a business the company sold in January 2016. However, as the dissident notes, the Cost of Goods Sold (COGS) and SG&A expenses grew at CAGRs of 7.7 and 7.8 percent, respectively, over the same period, driving declines in Gross and EBITDA Margins.

It does not appear that the board was a mere spectator watching expenses spiral and margins fall, however. Prior to either the appointment of the new CEO or the appearance of the dissident, the company announced initiatives to address the escalating expenses, beginning in February 2015 with the announcement it would close stores. That initiative ultimately targets $65 million in cost reductions; $20 million, the company reports, has already been achieved. The company also disclosed that moderating promotions and exercising better discipline on inventory management began to reduce the decline in gross margin: in 2015 it grew to 54.1 percent, up from 53.3 percent in fiscal 2014, according to Bloomberg data.

The company also implemented a corporate organizational realignment and reduced capital expenditure in 2015, which together are expected to yield a further $38 million in annualized savings. The new CEO more recently announced the realignment of the Marketing and Digital Commerce functions, which the company estimates will save $14 million, and three additional initiatives to improve supply chain efficiency, reduce non-merchandise expense, and optimize the marketing spend – which the company estimates will yield incremental annualized savings of between $50 and $70 million.

Cost reduction initiatives are not a long-term solution to a revenue problem – but as the income statement has demonstrated over a sustained period, this has not been a company with a revenue problem, it has been a company increasingly in need (to use the CEO's apt coinage) of "sharpening [its] financial principles". There are as yet few green shoots visible on the income statement, but the fact that the board had already begun to address these myriad expense issues before the dissident began building a sizeable stake, and more than a year before this proxy contest, suggest both that the incumbent board has been attentive to the right issues (even if not acting as early as some investors might have preferred), and that it is willing to take actions appropriate to the scale of the challenge.

Among these actions, replacing the CEO is a move to which the dissident attaches relatively little import. For unaffiliated shareholders, however, the selection of the replacement – a successful executive at, most recently, a retailer whose attention to expense management has been an integral part of its culture and its enormous growth – should signal the thoughtfulness with which the board undertook the challenge of CEO succession. It does not appear coincidental that the board also recently nominated two new directors, Simon and Brooks, for whom management of the entire business equation – not simply revenue growth – has been elemental in their careers turning around or growing established retailers such as Walmart's U.S. division and several divisions of Hudson's Bay. If the evidence of change is not yet fully in flower on the income statement, the evidence of the board's careful attention to effecting appropriate change, in both the executive suite and the boardroom, is abundant.

CORPORATE GOVERNANCE

The company's board is staggered at present, with directors being elected by a majority vote standard except in contested situations. The company does not have a poison pill, provides shareholders with the ability to call special meetings (at a 25 percent threshold), and requires a majority approval for mergers and business combinations.

However, a supermajority vote is required to amend certain provisions of the governing documents including the amendment to declassify the board (Item 4), and shareholders do not have the ability to vote by written consent.

The dissident highlights that the company's decision to declassify the board is "reactionary in nature." That may be true – the proposal is first appearing on the ballot at this contested election, though there is no evidence the board was acting on a proposal by the dissident or any other shareholder, nor in response to a shareholder proposal at a previous annual meeting. The proposal would declassify over a three-year period – rather than immediately upon shareholder approval, which might have been a more responsive approach. Net-net, however, declassification is a step in the right direction.

The dissident points to other issues it believes problematic, and indicative of poor governance – notably the high average tenure and the continued service of the former CEO after he stepped down from his executive role – but concedes that these issues are being addressed through the decisions of the former CEO and another long-tenured director (though not all long-tenured directors) at this annual meeting. It is apparent that significant change in underway at the board – only three of the nine directors on the management card have a tenure exceeding the average of 6 years, and three (including the new CEO) are standing for election for the first time.

Finally, the dissident argues that the provision of healthcare benefits to directors and their dependents could reduce a director's independence, and that the limited equity ownership of the directors in aggregate implies insufficient alignment of interests with shareholders. Providing healthcare insurance to directors is clearly an unusual perk for a board to offer – and in general, any kind of compensation on which a director may begin to feel in some measure dependent is unlikely to serve the interests of all shareholders by increasing director independence in the boardroom. In an engagement call, the board explained that offering this benefit to directors was a legacy benefit long predating the tenure of the chairs of the board itself and of the governance committee; that while it was available to all directors, not all used it; and that while the cost of the benefit itself is low, the company would be reviewing whether it was appropriate to continue to offer the benefit to directors.

Perhaps the most critical indicators of good or poor governance practice, however, are the ways in which a board did, or did not, make hard choices to drive the right outcome for shareholders. In the case of Chico's, shareholders may understandably wish the board had acted with more alacrity when the banner performance of fiscal 2013 decayed into a lackadaisical 2014, and continued down that trendline. At the same time, however, there is a clear track record of the board taking matters into its own hands long before the proxy contest began – including significantly refreshing its own ranks with new directors bringing clearly relevant experience, changing its own leadership while maintaining an independent chairman, changing the leadership of its executive team, and implementing cost reduction initiatives in 2014 and 2015 even as all these other changes were in process. The dissidents have criticized the new CEO's pay package as excessive and poorly-structured – but a detailed analysis by ISS (see Item 3 of this report) did not find any significant concerns that would warrant a recommendation against the advisory vote or against the directors who crafted it.

The strategic initiative that saw the company buy Boston Proper in 2011, only to sell it for a pittance and write off substantially all the purchase price five years later is clearly a red flag (though the company reports it was $187 million in after-tax goodwill and impairment write-downs – not the $215 million the dissidents cite). Given the substantial change in the boardroom and executive suite since 2011, however, the most significant signal, for unaffiliated shareholders, may be that the current board was willing to do the right thing – by exiting a failed experiment, taking the significant writedown, and refocusing management on improving the core business – even as it likely knew it would face a proxy contest. Buying Boston Proper was ultimately, as the dissidents have argued, an expensive strategic diversion five years ago; continuing to ignore that reality to the detriment of the entire business, which this board did not do, would have been worse.

CONCLUSION: IS CHANGE WARRANTED

The company underperformed peers on TSR over 3- and 5-year periods, likely as a reflection of the declining profitability as expenses increased faster than revenue over a sustained period. There clearly was a need to change course. The real issue in this election, however, is not whether change was necessary as recently as last year – but whether the significant changes the board began implementing more than a year ago – including some, like a change in executive leadership, which are too recent to have yet had a demonstrable impact on the income statement – were the right change, delivered in the right measure. The actions this board has taken certainly appear to strike at the root cause of the issues at the company: driving material cost savings, reducing capital expenditure, better aligning resources with growth opportunities, and focusing on other initiatives – like ROI on its marketing spend – that can improve gross margins.

The best evidence that these initiatives are the right response may be that the dissident case for change center on a need for many of these same initiatives – but attempts to make that case a year or more after the board itself, having recognized the same thing, began acting on it. The best evidence of the integrity of the board's response – of its commitment to seeing these changes through – is that the change the board has already introduced extends far beyond tactical business initiatives to the executive leadership of the company, and the skill mix and composition of the board itself.

This extensive, thoughtful, and proactive change from within, in total, suggests that regardless of whether shareholders might have wished it had happened sooner, that this board is – and has been for some time – credibly committed to addressing the many challenges in performance, strategy, and leadership that had grown up by early 2015, and that there is no longer a compelling case that change at the board level is warranted.

Question #2: Which Nominees Are More Likely to Effect the Necessary Change?

Two of the company's nominees, each of whom is standing for election for the first time, are not being targeted for replacement:

Shelley G. Broader, 51, CEO since December 2015. Broader joined the company after having served as president and CEO of Wal-Mart EMEA since 2014, and previously as president and CEO of Walmart Canada from 2011 to 2014. Prior to joining Walmart in 2010, Broader was president and COO of The Michaels Companies, Inc. and enjoyed a 17-year career with Delhaize Group, a food supermarket retailer, where, under the Hannaford banner, she held a range of leadership roles across the operations, merchandising, distribution, strategy and marketing divisions.

William S. Simon, 55, served as EVP of Walmart and as president and CEO of Walmart U.S. from 2010 until 2014. Previously, he served as EVP and COO of Walmart U.S. from 2007 to 2010 and EVP of Professional Services and New Business Development from 2006 to 2007. The board has nominated Simon for significant leadership and management skills in successfully managing and reducing costs in large scale retail operations.

The dissident has targeted two other management nominees, including one who is standing for election for the first time, for replacement:

Bonnie R. Brooks, 63, has more than 30 years of global retail executive leadership experience and currently serves as the Vice Chair of Hudson's Bay Company, a fashion retail group operating, having previously served as its CEO and president. The board has nominated Brooks' for her significant experience in the retail industry, including her experience as a CEO.

Janice L. Fields, 60, has been a director since May of 2013 and served as president of McDonald's USA, LLC from January 2010 until her retirement in November 2012. Prior to serving as president, she held several executive positions within McDonald's USA, including U.S. Division President for the Central Division from 2003 through 2006 and Executive Vice President and Chief Operating Officer from 2006 through January 2010. The company has nominated Fields for her extensive operational, financial, and strategic planning experience.

The dissident has nominated the following two candidates:

James A. Mitarotonda, 65, is the chairman and CEO of Barington Capital Group, L.P. He currently serves on three public boards, having represented stockholder interests on prior boards. He has been nominated for his collaborative approach in helping public companies improve their long-term financial performance, corporate governance and executive compensation practices.

Janet E. Grove, 62, who retired from Macy's in 2011, has over 40 years of retail industry experience, including serving as Vice Chairman of Macy's, Inc. and as chairman and CEO of Macy's Merchandising Group, where she was responsible for designing, sourcing, marketing and merchandising Macy's private branded products. She has been nominated for her strong operating and merchandising background, particularly with respect to ways to improve the merchandising efforts of Chico's FAS' three brands.

Compensation Arrangements for Dissident Nominees

There are no compensation arrangements or understandings between the dissident and any of the nominees.

ANALYSIS

Though analysis of the dissident critique and the management response has already demonstrated that change at the board level is not necessary, the quality of all four company nominees standing for election at this meeting is particularly noteworthy given that board refreshment has been an integral part of the company's strategic renewal. Even if the dissident had presented a compelling case that board change was necessary, it would be difficult to believe that the board's own nominees at this meeting are somehow not the best nominees to effect that change.

CEO Shelley Broader, the central player in the board's turnaround strategy, has a compelling background across a number of different retailers, most recently with the inexorable Walmart. Though she has spent a little over six months at Chico's – too short a period to effectively evaluate her performance – both she and, some months after her appointment, her public communication of her strategy for improving shareholder value have been well-received by the market. Even the dissident agrees she should continue as CEO and director.

Bill Simon, who will first join the board at this annual meeting, appears to be particularly well-suited to the challenges of this turnaround. His significant leadership and management skills in successfully managing costs at Walmart U.S. – in every aspect from supply chain management on down through the income statement – are directly relevant to the situation the company now confronts. Further, his experience running Walmart.com would be particularly valuable given the ongoing shift in the retail industry toward online and omni-channel sales. Despite arguing that his experience significantly overlaps with that of the new CEO, even the dissident is supportive of his candidacy.

Bonnie Brooks, who would also join the board if elected at this annual meeting, brings significant, current retail experience – including experience in mid- and high-end apparel – as well as successful turnaround experience at three retailers. The quality and relevance of her executive experience is underscored, ironically, by the dissident's vociferous argument that she is an inappropriate choice because she is currently Vice Chair of Hudson's Bay Company, which owns and operates two sizable department store chains the dissident contends are competitors. To support this argument, the dissident points to an 8-page opinion it solicited, from a University of Virginia assistant professor of marketing, which "conclud[es] that Hudson's Bay Company's Saks Fifth Avenue and Lord & Taylor department store chains compete with the Company's three brands: Chico's, White House Black Market and Soma." The company points out both that its own customer analysis "shows that our customers do not shop at Hudson Bay's stores (only 1.3% Share-of-Wallet), and we do not include Hudson Bay's in our routine market analyses." (Hudson's Bay apparently expressed no concern about one of its executives sitting on the Chico's board, which may be another useful datapoint about whether this truly represents a conflict of interest.)

For unaffiliated shareholders, the two most significant facts may be that Brook's planned retirement, which was publicly announced by Hudson's Bay, renders any potential conflict of interest moot – and that both sides are apparently in violent agreement that her experience and skills are directly relevant to this board.

Janice Fields, the newest incumbent on the board with a tenure of 3 years, adds relevant experience from different senior executive roles at McDonalds in dealing with global suppliers, maintaining cost effectiveness, and franchising. Perhaps more critically, as chair of the Nominating and Governance Committee she has been the architect of its renewal, including replacing one long-tenured director and the former CEO with two unusually well-qualified new nominees – Brooks and Simon – whose skills and experience are directly relevant to the new CEO's mandate.

Dissident nominee Janet Grove also appears to be a credible candidate with relevant retailing experience. It is not clear, however, that her skills and experience would not be duplicative of Brooks'. Grove does have significant experience, among other things, growing the women's private brand apparel business within Macy's; unlike Brooks, however, she has neither specific turnaround experience nor extensive international retail experience. While dissident nominee Mitarotonda has skills and experience relevant to Chico's turnaround efforts, it is not clear how his experience – as an investor and director, but never as a retailing executive – would be more useful to Chico's turnaround challenges than that of management nominee Simon, who brings extensive executive experience in retailing.

CONCLUSION

For more than a year the board has been undertaking significant change in both the executive suite and the boardroom, and directing operating and strategic changes which are just beginning to have an effect on corporate financial performance. As the dissidents have not made a compelling case that additional change at the board level is warranted – and particularly because the strength of all four management nominees suggests they are likely the best candidates to continue driving the necessary change to improve the company's performance - votes on the White management card FOR management nominees Broader, Brooks, Fields, and Simon are warranted.

Item 2. Ratify Ernst & Young, LLP as Auditors — FOR

VOTE RECOMMENDATION

A vote FOR this proposal to ratify the auditor is warranted.

BACKGROUND INFORMATION

Policies: Auditor Ratification

Vote Requirement: Majority of votes cast (abstentions and broker non-votes not counted)

Discussion

The board recommends that Ernst & Young LLP be approved as the company's independent accounting firm for the coming year.

Accountants	Ernst & Young LLP
Auditor Tenure	14 years
Audit Fees	$1,315,000
Audit-Related Fees	$1,995
Tax Compliance/Preparation*	$0
All Other	$375,708
Percentage of total fees attributable to All Other fees	22.20%

*Only includes tax compliance/tax return preparation fees. If the proxy disclosure does not indicate the nature of the tax services and provides the fees associated with tax compliance/preparation, those fees will be included in "All Other."

The auditor's report contained in the annual report is unqualified, meaning that in the opinion of the auditor, the company's financial statements are fairly presented in accordance with generally accepted accounting principles.

Analysis

This request to ratify the auditor does not raise any exceptional issues, as the auditor is independent, non-audit fees are reasonable relative to audit and audit-related fees, and there is no reason to believe the auditor has rendered an inaccurate opinion or engaged in poor accounting practices.

Item 3. Advisory Vote to Ratify Named Executive Officers' Compensation

FOR

VOTE RECOMMENDATION

Support FOR this proposal is warranted, with caution. Some problematic compensation practices were identified. The PSU is based on a one-year performance period, the company did not provide complete disclosure regarding goals and results for both the annual incentive and the PSU, and targeted compensation for the new CEO in fiscal 2016 – which includes a minimum incentive guarantee – exceeds the peer median by 45 percent. However, each incentive in fiscal 2015 was attained below target, the annual incentive was based on pre-set financial measures that require growth and half the annual equity grant is performance-conditioned sufficiently mitigating concerns.

BACKGROUND INFORMATION

Policies: Advisory Votes on Executive Compensation

Vote Requirement: Majority of votes cast (abstentions and broker non-votes not counted)

Executive Compensation Analysis

COMPONENTS OF PAY

($ in thousands)	CEO				CEO Peer Median	Other NEOS
	S. Broader		D. Dyer	D. Dyer		
	2015	**Change**	**2014**	**2013**	**2015**	**2015**
Base salary	1,100	15.8%	950	950	1,000	2,446
Deferred comp & pension	0		0	0	0	0
All other comp	14	-38.6%	22	11	112	58
Bonus	275		0	0	0	0
Non-equity incentives	0		0	0	107	479
Restricted stock	3,000	-54.7%	6,625	5,600	2,428	5,601
Option grant	0		0	0	0	0
Total	**4,389**	**-42.2%**	**7,597**	**6,561**	**6,343**	**8,584**
% of Net Income	225.1%					440.2%
% of Revenue	0.2%					0.3%

Non-Performance-Based Pay Elements (CEO)

Key perquisites ($)	None
Key tax gross-ups on perks ($)	None
Value of accumulated NQDC ($)*	N/A
Present value of all pensions ($)	N/A
Years of actual plan service	N/A
Additional years credited service	N/A

*Non-qualified Deferred Compensation

Disclosed Benchmarking Targets

Base salary	50th Percentile
Target short-term incentive	50th Percentile

Target long-term incentive (equity)	50th Percentile
Target total compensation	50th Percentile

Severance/Change-in-Control ("CIC") Arrangements (CEO unless noted)

Contractual severance arrangement	Exec Severance Plan
Non-CIC estimated severance ($)	2,254,538

Change-in-Control Severance Arrangement

*Cash severance trigger**	Double trigger
Cash severance multiple	2 times
Cash severance basis	Base Salary
*Treatment of equity***	Vest only upon employment termination
*Excise tax gross-up**	No
Estimated CIC severance($)	4,817,959

*All NEOs considered
**The company states that in accordance with the grant agreements pursuant to the 2012 Omnibus Stock and Incentive Plan (the "2012 Plan"), stock options and outstanding equity grants become 100 percent vested in the event of death, disability or CIC, as these events are defined. Under the 2012 Plan, any award subject to a time goal will become fully vested but only if either (1) the successor company does not assume, convert, continue, or otherwise replace the award on proportionate and equitable terms or (2) the participant is terminated without cause within 12 months following the CIC.

Compensation Committee Communication & Responsiveness

Disclosure of Metrics/Goals

Annual incentives	Yes
Long-term incentives	Partial

Pay Riskiness Discussion

Process discussed?	Yes
Material risks found?	No

Risk Mitigators

*Clawback policy**	No
CEO stock ownership guideline	5X
Stock holding period requirements	Until stock ownership guidelines are met

*Must apply to cash incentives and at least all NEOs.

Pledging/Hedging of Shares

Anti-hedging policy	Company has a robust policy
Anti-pledging policy	Company has a robust policy

Compensation Committee Responsiveness

MSOP vote results (F/F+A)	2015: 96.6%; 2014: 97.5%; 2013: 97.9%
Frequency approved by shareholders	Annual with 88.2% support
Frequency adopted by company	Annual (year of adoption: 2011)

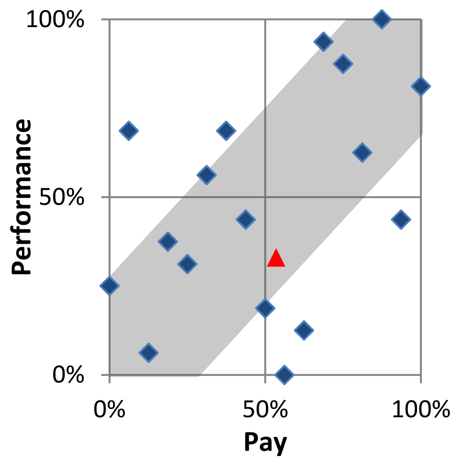
Repricing History

Repriced/exchanged underwater options last FY?	No

Pay for Performance Evaluation

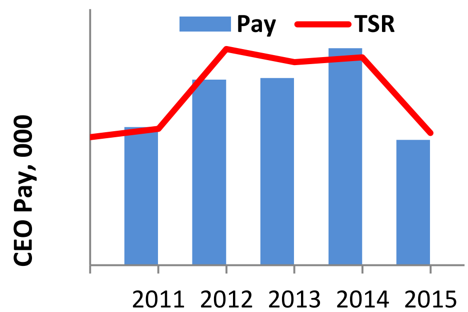
RELATIVE ALIGNMENT

The chart plots percentiles of the annualized 3-year performance and pay rankings for the company (▲) and ISS' derived peers (◆). The gray bar indicates pay and performance alignment.



ABSOLUTE ALIGNMENT

CEO granted pay trends versus value of a $100 investment made on the first day of the five-year period.

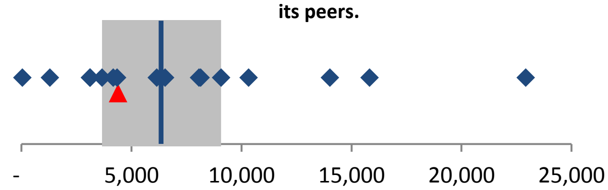


	2011	2012	2013	2014	2015
Pay($000)	4,838	6,501	6,561	7,597	4,389
Indexed TSR	106.40	168.89	158.53	162.31	103.26
CEO	Dyer	Dyer	Dyer	Dyer	Broader

PAY MAGNITUDE

Pay in $thousands. The gray band represents 25th to 75th percentile of CEO pay of ISS' selected peer group, and the blue line represents the 50thpercentile.

The company's total CEO pay is 0.69 times the median of its peers.



PAY-FOR-PERFORMANCE QUANTITATIVE SCREEN

Measure	Result	Level
Relative degree of alignment	**-21**	Better than **30%** of Companies*
Multiple of peer group median	**0.69**	Better than **79%** of Companies
Absolute alignment	**3**	Better than **37%** of Companies
Initial Quantitative Screen	Low Concern	

*Constituents of Russell 3000 Index.

For more information on ISS' quantitative pay-for-performance measures, visit http://issgovernance.com/policy/USCompensation

Peer Groups

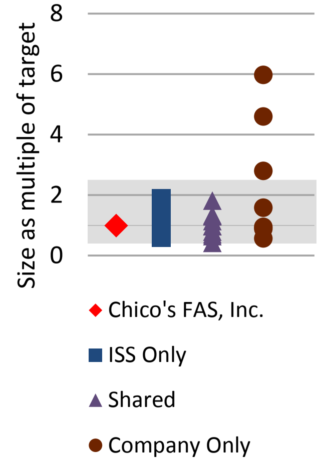
ISS AND COMPANY DISCLOSED PEER GROUPS

ISS-Selected Peers (6)	Pier 1 Imports, Inc. Tailored Brands, Inc. Ulta Salon, Cosmetics & Fragrance, Inc.	Stage Stores, Inc. Tiffany & Co. Williams-Sonoma, Inc.
Shared Peers (11)	Abercrombie & Fitch Co. Ascena Retail Group, Inc. DSW Inc. Guess? Inc. The Children's Place, Inc. Urban Outfitters, Inc.	American Eagle Outfitters, Inc. Callers, Inc. Genesco Inc. The Buckle, Inc. The Finish Line, Inc.
Company-Disclosed Peers (7)	Aeropostale, Inc. Coach, Inc. Foot Locker, Inc. L Brands, Inc.	ANN INC. Express, Inc. Gap Inc.

The shaded area represents the overlap group of companies that are in both ISS' comparison group and the company's disclosed CEO compensation benchmarking peer group. Excludes company peers for which financial data is not available. For more information on the ISS peer group methodology, visit www.issgovernance.com/policy/USCompensation

PEER GROUP SIZE ANALYSIS

Size (by revenue) of the ISS, company and overlap peer groups. Gray indicates 0.4- 2.5 times the company's revenue.



Short-Term Cash Incentives

CEO STI Opportunities	FY 2015 (S. Broader)		FY 2014 (D. Dyer)	
	Target	**Maximum**	**Target**	**Maximum**
STI targets ($)	N/A	N/A	1,425,000	2,493,750
STI targets (calculated)	N/A	N/A	150% of base salary	263% of base salary
STI targets (as disclosed)	150% of base salary			
ISS peer median	122% of base salary			
Company peer median	125% of base salary			

Actual Payouts ($)	FY 2015 (S. Broader)		FY 2014 (D. Dyer)	
	Amount	% of base salary	Amount	% of base salary
Bonus	275,000	25	0	0
Non-equity incentive	0	0	0	0
Total Bonus + Non-equity	275,000	25	0	0

STI performance metrics/goals

Metric	Form	Weight	Threshold	Target	Maximum	Actual
EPS	Absolute	40%	ND	17.8% increase over prior fiscal year's performance	ND	ND
Operating income	Absolute	30%	ND	23.8% increase over prior fiscal year's performance	ND	ND
Total sales	Absolute	30%	ND	6.4% increase over prior fiscal year's performance	ND	ND

Other Short-Term Incentive Factors

*Discretionary bonus?**	Yes

Future performance metrics	Not disclosed

*Based on the Bonus column in the SCT; per SEC rules, amounts disclosed in this column were not based on pre-set goals.

Long-Term Incentives

CEO's last FY LTI target (%)	Not disclosed			
NEOs' last FY award type(s)	Performance-based stock, Time-based stock			
Most recent performance metrics/goals	**Metric**	**Threshold**	**Target**	**Maximum**
	RONA	ND	ND	ND

Long-Term Equity Grants

CEO Equity Awards	**FY 2015**				**FY 2014**			
	Shares (#)	**% shares***	**Value ($)***	**% value**	**Shares (#)**	**% shares***	**Value($)***	**% value**
Time-based shares	246,720	100	3,000,115	100	200,640	50	3,312,566	50
Standard options	0	0	0	0	0	0	0	0
Performance shares	0	0	0	0	200,640	50	3,312,566	50
Performance Options	0	0	0	0	0	0	0	0
Total Equity	246,720		3,000,115		401,280		6,625,132	

Time-based equity vesting	RSAs: Vest 25 percent on each of the first and second anniversaries of the grant date with the remaining 50 percent vesting on the third anniversary
Perf. measurement period	N/A
CEO equity pay mix (by value)	Performance-conditioned: 0%; Time-based: 100%

Note: One-third of the common shares underlying performance share units ("PSUs") that were granted to the other NEOs in fiscal 2015 vested upon the Compensation Committee's certification of the RONA achieved (resulted in 77 percent of target shares earned), and the other two-thirds will vest in two equal installments on the second and third anniversaries of the grant date.

Executive Summary

Evaluation Component	**Level of Concern**	**Key Reason**
Non-Performance-Based Pay Elements	**Low**	
Peer Group Benchmarking	**Low**	
Severance/CIC Arrangements	**Low**	
Comp Committee Communication/Responsiveness	**Low**	
Pay for Performance Evaluation	**Low**	
ISS Recommendation: **FOR**		

Analysis

ISS' quantitative screen indicates a low level of concern. While this may be indicative of a reasonable alignment between pay and performance, the compensation concerns expressed by the dissidents warrants additional qualitative review, as follows:

Overview

TSR trails benchmarks by wide margins. The company's revenues were essentially flat in fiscal 2015 (year ended Jan. 31, 2016), while earnings and profitability measures fell year over year. ROIC declined from 7 percent to 0 while cash flow also decreased. The company returned -36.4 percent TSR for fiscal 2015, -15.1 percent for the three-year period, and 0.6 percent for the five-year period. Though TSR was negative for both the GICS peer group and broader Russell 3000 index for the year, the company lagged each benchmark by wide margins. Further, each benchmark was positive over the three year period.

CEO Transition. David F. Dyer served as CEO and president of the company from January 2009 until December 2015. Shelley G. Broader was elected as Dyer's successor while Dyer became vice chair of the board. Dyer will be retiring as a director upon the completion of his current term at the 2016 annual meeting.

Broader's compensation package included:

- Base salary: $1,100,000,
- Annual incentive target: 150 percent of base salary,
- Sign on bonus: $1,030,000 cash sign-on bonus,
- Sign-on grant: Restricted stock with a fair market value of $3,000,000,
- Long-term equity incentive target: $6.5 million (awarded Mar. 1, 2016)

In accordance with the transition plan, Dyer received four monthly installments for consultation services, totaling $295,000. Upon transition to vice chair of the board, all of his outstanding restricted stock awards vested in the amount of $4,505,329 (an additional $2,550,681 in PSUs based on actual performance also accelerated). This total is less than disclosed in the 2015 proxy statement under the termination without cause scenario.

DISSIDENT CONCERNS

The dissident lists compensation related concerns including:

- Dyer's 2015 realized compensation increased while EBITDA declined 6.5 percent
- Broader's new hire package lacked performance conditions
- The long-term incentive metric (Return on Net Assets, "RONA") has a performance period of only one year
- TSR should be added to RONA as a long-term performance measure
- At least 70 percent of long-term equity should be in PSUs.

ANNUAL COMPENSATION

Incentive earned at approximately half of target; new CEO has minimum guarantee. The annual cash bonus was contingent upon three performance goals; total company sales (30 percent), company operating income (30 percent) and EPS (40 percent). Each target is based on a percent increase over the prior fiscal year. Threshold performance earns 25 percent of target and maximum 175 percent of the target. Though the company does not provide actual results and component attainment, it disclosed that Dyer's attainment was 76 percent of his base salary compared to his 150 percent of base salary target (51 percent of target) for a total of $606,926.

For fiscal 2015, Broader was guaranteed a minimum bonus of $275,000 (which approximates a prorated target bonus for the time she worked for the company during fiscal 2015). Her 2016 bonus is also guaranteed at a minimum of $1,375,000, 125 percent of salary or 83 percent of target.

Sign-on bonus to Broader not included in summary compensation table for fiscal 2015. Broader's sign-on bonus was contingent upon establishing residency in the United States and relocating to the Fort Myers, Florida area. Payment is due 30 days after both have occurred, which did not happen in fiscal 2015. The $1 million sign-on should be reported in the proxy statement next year. Broader must repay 100 percent of the cash sign-on bonus if she resigns from the company without "good reason" prior to the first anniversary of the date of her initial employment or repay 50 percent of the bonus if such termination of employment took place after first anniversary but prior the second anniversary of the date of her initial employment.

LONG-TERM COMPENSATION

Half the equity grant is performance-conditioned; one-year performance measure used. The company targets equity in an equal mix of restricted stock and performance shares (PSUs). The restricted shares vest 25 percent each on the first and second anniversaries of the grant date with the remaining 50 percent vesting on the third anniversary. PSUs are earned based on a one year measure of RONA. One-third of earned shares vest upon the certification of results, with the remaining two thirds vesting in equal amounts on the second and third anniversary of the grant date.

Dryer was granted $6.6 million in equity in fiscal 2015, the same amount he was granted in fiscal 2014. Broader did not participate in the annual grant. Instead, her package was $3 million which consisted solely of time-based restricted stock. The company has disclosed her fiscal 2016 target equity mix was the same, with a similar grant date value of $6.5 million.

PSUs earned below target; goal and results not disclsoed. The company also disclosed that based on RONA attainment, 77 percent of PSUs were earned in fiscal 2015. However, both the goal and actual RONA results were not disclosed.

CONCLUSION

Support for this proposal is warranted, with caution. The low concern was the result of Broader's partial year and prorated compensation. Her targeted compensation for fiscal 2016 will include $1.1 million in base salary, $1.65 annual incentive and $6.5 in long-term incentives. This $9.25 million package is approximately 45 percent higher than the peer median. Further, as the dissidents contend, her sign-on bonus and equity granted in fiscal 2015 were not conditioned upon performance. Of greater concern is her guaranteed bonus for fiscal 2016, which severs a link between pay and performance. Some other problematic compensation practices were identified during the analysis. The PSU is only based on a one-year performance period; shareholders generally benefit from equity awards that measure performance over several years which helps align the long-term interests of shareholders and executives. Further, the company does not provide complete disclosure into the goals for the annual incentive or the PSU. As a result, it is difficult for investors to measure the rigor of these goals.

Despite these concerns, each incentive was below target, consistent with financial performance. Also, the annual incentive is based on pre-set financial measures that require growth while half the annual equity grant is performance-conditioned. Notwithstanding the concerns raised by the dissidents and concerns from the qualitative analysis, pay and performance are reasonably aligned. Shareholders should continue to monitor compensation decisions in subsequent years to ensure ongoing pay and performance alignment.

Item 4. Declassify the Board of Directors — FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted as it enhances board accountability to shareholders and demonstrates a commitment to shareholders' interests on the part of management.

Vote Requirement: Affirmative vote of at least 66-2/3 percent of outstanding shares (abstentions and broker non-votes count against)

Discussion

PROPOSAL

The company seeks shareholder approval to (i) amend the articles of incorporation to repeal the classified board structure and establish annual elections of all directors and (ii) make conforming amendments to Article III, Section 12 of the bylaws, relating to filling director vacancies, to remove references to the classified board.

The board currently comprises three director classes, each of which serves a three-year term. If shareholders approve this proposal, incumbent directors will serve out the remainder of their term and directors standing for election commencing with the 2017 annual meeting will be elected for a one-year term. Consequently, the entire board will be elected annually commencing with the 2019 annual meeting of shareholders.

BOARD'S RATIONALE

The board states that it considered the following factors in evaluating the continuation or discontinuation of the classified board structure: (A) growing sentiment, particularly in the institutional investor community, in favor of annual elections; (B) many other public companies of the company's size have eliminated their classified board structures in recent years; (C) many investors and commentators believe that the election of directors is the primary means for shareholders to influence corporate governance policies and hold management accountable for implementing those policies; and (D) the board's ability to continue to be effective in protecting shareholder interests under an annual election system.

Analysis

The ability to elect directors is the single most important use of the shareholder franchise. ISS believes that all directors should be accountable on an annual basis. A classified board can entrench management and effectively precludes most takeover bids or proxy contests. Moreover, annual director elections promote accountability by enabling shareholders to send a timely, targeted message to the board in cases where they have concerns about the actions or inactions of an individual director or a particular board committee. The proposed declassification assuming it can clear the supermajority hurdle would enhance board accountability to shareholders, and the resubmission of this proposal to a vote after it failed last year demonstrates a commitment to shareholders' interests on the part of management. Therefore, support for this proposal is warranted.

Dissident Proxy (Blue Card)

Items 1.1-4 — DONOTVOTE

VOTE RECOMMENDATION

DO NOT VOTE on this card.

Please see Management (White) Proxy Card for analysis and vote recommendations.

Equity Ownership Profile

Type	Votes per share	Issued
Common Stock	1.00	132,609,279

Ownership - Common Stock	Number of Shares	% of Class
Wellington Management Co. LLP	10,725,503	8.09
BlackRock Fund Advisors	10,613,424	8.00
T. Rowe Price Associates, Inc.	9,834,400	7.42
The Vanguard Group, Inc.	9,547,141	7.20
SSgA Funds Management, Inc.	5,201,246	3.92
Blue Harbour Group LP	4,087,159	3.08
Dimensional Fund Advisors LP	4,008,812	3.02
Renaissance Technologies LLC	3,891,800	2.94
JPMorgan Investment Management, Inc.	3,326,832	2.51
Sterling Capital Management LLC	3,213,490	2.42
Ceredex Value Advisors LLC	2,662,441	2.01
Fidelity Management & Research Co.	2,631,820	1.99
Citadel Advisors LLC	2,440,324	1.84
DePrince, Race & Zollo, Inc.	2,322,739	1.75
Northern Trust Investments, Inc.	2,232,710	1.68
Frontier Capital Management Co. LLC	2,190,230	1.65
Mellon Capital Management Corp.	1,969,432	1.49
D. E. Shaw & Co. LP	1,747,471	1.32
Goldman Sachs & Co. (Private Banking)	1,636,152	1.23
Lazard Asset Management LLC	1,585,422	1.20

Additional Information

Meeting Location	National Store Support Center 11215 Metro Parkway Fort Myers, Florida 33966
Meeting Time	11:00 am
Shareholder Proposal Deadline	February 7, 2017
Solicitor	INNISFREE M&A Incorporated
Security IDs	168615102(CUSIP)

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