CHICOS FAS INC
Form DEF 14A
May 01, 2006

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SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under Rule 14a-12

Chico s FAS, Inc.

(Name of Registrant as specified in its Charter)
(Name of person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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CHICO S FAS, INC.
11215 Metro Parkway
Ft. Myers, Florida 33912

April 28, 2006

TO OUR STOCKHOLDERS:

It is our pleasure to invite you to attend our 2006 Annual Meeting of Stockholders, which will be held at the Hyatt Regency Coconut Point Resort & Spa, 5001 Coconut Road, Bonita Springs, Florida on June 20, 2006 at 2:00 P.M., local time. The meeting will begin with a discussion and voting on the matters described in the attached Proxy Statement and Notice of Annual Meeting of Stockholders, followed by a report by several of our officers on Chico s financial performance and operations.

The attached Proxy Statement is a critical element of the corporate governance process. Its purpose is to answer your questions, and to provide you with information about Chico s Board of Directors and executive officers and a discussion of proposals that require your vote.

Please read these materials so that you ll know what we plan to do at the meeting. Also, please sign and return the accompanying proxy card. This way, your shares will be voted as you direct even if you can t attend the meeting.

On behalf of the management and directors of Chico s FAS, Inc., we want to thank you for your continued support and confidence in Chico s.

Marvin J. Gralnick
Chairman of the Board

Scott A. Edmonds
President and Chief Executive Officer

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CHICO S FAS, INC.
11215 Metro Parkway
Ft. Myers, Florida 33912

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JUNE 20, 2006

To the Stockholders of Chico s FAS, Inc.:

TIME	2:00 P.M., Local Time, on Tuesday, June 20, 2006
PLACE	Hyatt Regency Coconut Point Resort & Spa 5001 Coconut Road Bonita Springs, Florida 34134
ITEMS OF BUSINESS	1. To elect four Class I directors, each to serve for a three-year term; 2. To ratify the appointment of Ernst & Young LLP as the Company s independent certified public accountants for the fiscal year ending February 3, 2007 (fiscal 2006); and 3. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.
RECORD DATE	You can vote if you are a stockholder of record on April 24, 2006.
ANNUAL REPORT	Our 2005 Annual Report, which is not a part of the proxy soliciting material, is enclosed.
PROXY VOTING	It is important that your shares be represented and voted at the Annual Meeting. Please vote by dating, signing and mailing the enclosed proxy promptly in the enclosed postage paid pre-addressed envelope. If you should be present at the meeting and desire to vote in person, you may withdraw your proxy.

By Order of the Board of Directors,

A. Alexander Rhodes
Secretary

April 28, 2006

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CHICO S FAS, INC.
11215 Metro Parkway
Ft. Myers, Florida 33912

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JUNE 20, 2006

To the Stockholders of Chico s FAS, Inc.: April 28, 2006

These proxy materials are delivered in connection with the solicitation by the Board of Directors of Chico s FAS, Inc. (Chico s, the Company, we, or us), a Florida corporation, of proxies to be voted at our 2006 Annual Meeting of Stockholders and at any adjournments or postponements thereof.

You are invited to attend our Annual Meeting of Stockholders on June 20, 2006, beginning at 2:00 P.M., local time. The Annual Meeting will be held at the Hyatt Regency Coconut Point Resort & Spa, Bonita Springs, Florida. Stockholders will be admitted beginning at approximately 1:30 P.M. The operation of cameras (including cellular phones with photographic capabilities), recording devices and other electronic devices will not be permitted at the meeting.

It is important that proxies be returned promptly to avoid unnecessary expense to the Company. Therefore, regardless of whether you plan to attend the Annual Meeting or the number of shares of stock you own, please date, sign and return the enclosed proxy promptly.

ABOUT THE ANNUAL MEETING

What is the purpose of the meeting?

At the Annual Meeting, stockholders will act upon the matters outlined in the accompanying notice of meeting, including the election of directors and ratification of the Company s independent certified public accountants. In addition, the Company s management will report on the performance of the Company during the fiscal year ended January 28, 2006 and respond to questions from stockholders.

When are these materials being mailed?

This proxy statement and the form of proxy are being mailed starting on approximately May 2, 2006.

What is a proxy?

It is your legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document also is called a proxy or a proxy card. The form of proxy card included with this proxy statement designates each of Scott A. Edmonds, Charles J. Kleman and Patricia Murphy Kerstein as proxies for the 2006 Annual Meeting.

What is a proxy statement?

It is a document that the Securities and Exchange Commission (SEC) regulations require us to give you when we ask you to sign a proxy card designating individuals as proxies to vote on your behalf.

What is the difference between a stockholder of record and a stockholder who holds stock in street name?

If your shares are registered in your name, you are a stockholder of record. Owners of record receive their proxy materials from us. When you properly complete, sign and return your proxy card, you are instructing the named proxies to vote your shares in the manner you indicate on the proxy card.

If your shares are held in the name of your broker or other financial institution, which is usually the case if you hold your shares in a brokerage or similar account, your shares are held in street name. Your broker or other financial institution or its respective nominee is the stockholder of record for your shares. As the holder of record, only your broker, other institution or nominee is authorized to vote or grant a proxy for your shares. Accordingly, if you wish to vote your shares **in person,** you must contact your broker or other institution to obtain the authority to do so. Street name holders receive their proxy materials directly from their broker or other institution, not from Chico s. When you properly complete, sign and return your proxy card, you are giving your broker, other financial institution or nominee instructions on how to vote the shares they hold for you.

What is the record date and what does it mean?

The record date for the 2006 Annual Meeting is April 24, 2006. The record date is established by the Board of Directors as required by law and the Company s Articles of Incorporation and By-laws. Owners of record of common stock at the close of business on the record date are entitled to:

(a) receive notice of the meeting, and

(b) vote at the meeting and any adjournments or postponements of the meeting.

What are abstentions and broker non-votes?

An abstention occurs when a stockholder of record (which may be a broker or other nominee of a street name holder) is present at a meeting (or deemed present) but fails to vote on a proposal, indicates that the stockholder abstains from voting on the proposal, or withholds authority from proxies to vote for director nominees while failing to vote for other eligible candidates in their place. A broker non-vote occurs when a broker or other nominee who holds shares for another does not vote on a particular item because the nominee does not have discretionary voting authority for that item and has not received instructions from the street name owner of the shares.

What constitutes a quorum for the meeting?

At least a certain number of shares must be present or represented by proxy at a meeting before any stockholder vote at the meeting can be effective. A quorum is necessary to conduct business at the meeting. For the Annual Meeting, the quorum requirement will be satisfied if a majority of the outstanding shares of common stock is present and/or represented by proxy. You are part of the quorum if you have voted by proxy. Abstentions, broker non-votes and votes withheld from director nominees count as shares present at the meeting for purposes of determining a quorum. However, abstentions and broker non-votes do not count in the voting results.

Who is entitled to vote and how many votes do I have?

If you are a common stockholder of record at the close of business on the record date, you can vote. For each matter presented for vote, you have one vote for each share you own. If you are a holder in street name at the close of business on the record date, you generally will have the right to instruct your broker or other financial institution how to vote your shares, although specific procedures depend on the terms of your account arrangement. As of the record date, there were 181,370,900 common shares outstanding. Each common share is entitled to one vote on each matter properly brought before the Annual Meeting. Shares of common stock, par value $.01 per share, are the only outstanding voting securities of the Company.

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How do I vote my shares?

Stockholders of record can vote by:

- returning a completed proxy card by mail to The Registrar and Transfer Company, Attn: Proxy Department, P.O. Box 1159, Cranford, New Jersey 07016-9748;
- delivering a completed proxy card to an inspector of election prior to the Annual Meeting; or
- completing a ballot and returning it to an inspector of election during the Annual Meeting.

If you hold your shares in street name, you can vote by submitting a voting instruction card to your broker or other institution in accordance with the procedures and requirements applicable to your account. If your shares are held in street name and you wish to cast your vote in person at the Annual Meeting, you must either (i) obtain a legal proxy, executed in your favor, from the bank, broker, or nominee, as the case may be, or (ii) obtain a proxy direction form from the bank, broker, or nominee, as the case may be, and follow the instructions on the form so as to provide such bank, broker or nominee with your directions as to how you want such shares to be voted.

Can I vote by telephone or electronically?

The Company has not established procedures to allow telephone or electronic voting by stockholders of record, but may do so for future stockholder meetings if we determine that the added convenience to our stockholders would justify the additional costs to the Company associated with these voting methods.

Street name holders may vote by telephone or the Internet if their bank or broker makes those methods available, in which case your bank or broker will enclose the instructions with this proxy statement.

Can I change my vote?

You may revoke your proxy or change your voting instructions before the time of voting at the meeting in several ways.

If you are a stockholder of record, you may revoke or change your proxy instructions at any time prior to the vote at the Annual Meeting. To do so:

- mail a revised proxy card dated later than the prior one;
- give us written notice of your change or revocation; or
- attend the Annual Meeting and file with the Secretary of the Company or an inspector of election either a notice of revocation, a duly executed proxy bearing a later date, or a duly executed ballot. The powers of the proxy holders will be suspended if you attend the meeting in person and you so request, although attendance at the meeting will not by itself revoke a previously granted proxy.

If you hold your shares in street name, you may revoke or change your proxy instructions at any time prior to the vote at the Annual Meeting by submitting new voting instructions to your broker or other institution in accordance with the procedures and requirements applicable to your account.

If I submit a proxy, how will my shares be voted?

If you submit a properly executed proxy card, the individuals named on the card, as your proxies, will vote your shares in the manner you indicate. If you sign and return the card without indicating your instructions, your shares will be voted for the election of the four nominees to serve three-year terms on our Board of Directors, for ratification of the appointment of Ernst & Young LLP as the Company s independent certified public accountants for the fiscal year ending February 3, 2007 (fiscal 2006), and otherwise as recommended by the Board of Directors.

Your vote is important. Whether or not you plan to attend the meeting, we encourage you to vote by proxy as soon as possible.

My shares are held in street name. How are my shares voted if I do not return voting instructions?

Your shares may be voted if they are held in the name of a broker or other institution, even if you do not provide the broker or other institution with voting instructions. Brokers and certain other institutions have the authority, under the rules of the New York Stock Exchange, to vote shares on certain routine matters for which their customers do not provide voting instructions by the tenth day before the meeting. The election of directors and the ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company are considered routine matters and thus may be voted on the matters scheduled to come before the meeting as your broker or other institution may determine if you have not provided voting instructions within the applicable time frame.

What are the Board s recommendations?

The Board s recommendations regarding the proposals to be considered at the Annual Meeting are set forth together with the descriptions of the proposals in this proxy statement. In summary, the Board recommends a vote:

for election of the nominees for the Class I Director positions (see page 5).

for ratification of the appointment of Ernst & Young LLP as the Company s independent certified public accountants for the fiscal year ending February 3, 2007 (fiscal 2006) (see page 15).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion. At the date this proxy statement went to press, we did not know of any other matter to be raised at the Annual Meeting.

What vote is required to approve each item?

Election of Directors. Directors shall be elected by a plurality of the votes present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors. A properly executed proxy marked **WITHHOLD AUTHORITY** with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, even though it will be counted for purposes of determining whether there is a quorum present at the Annual Meeting.

Ratification of Appointment of Accountants. The appointment of Ernst & Young LLP as the Company s independent certified public accountants for the fiscal year ending February 3, 2007 will be ratified if the number of votes cast **FOR** ratification of the appointment by holders entitled to vote exceeds the number of votes cast opposing the ratification of the appointment.

Other Items. If any other item requiring a stockholder vote should come before the meeting, the item will be approved if the number of shares voting for the item is greater than the number of shares voting against the item.

Are votes confidential? Who counts the votes?

The votes of all stockholders are held in confidence from directors, officers and employees, except:

(a) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company,

(b) in case of a contested proxy solicitation,

(c) if a stockholder makes a written comment on the proxy card or otherwise communicates his/her vote to management, or

(d) to allow the independent inspectors of election to certify the results of the vote.

All votes will be tabulated by employees of The Registrar and Transfer Company, the Company s transfer agent for the common stock, whose representatives will serve as one or more of the inspectors of election.

How are abstentions and broker non-votes counted when tabulating the vote?

Abstentions (that is, a properly executed proxy marked **ABSTAIN** with respect to a particular matter) and broker non-votes with respect to a particular matter do not count in any vote totals for or against any matter, even though the shares associated with such abstentions and broker non-votes are counted for purposes of determining whether there is a quorum present at the Annual Meeting. Accordingly, for purposes of any vote, abstentions and broker non-votes will have the same effect as does a share that is not present or otherwise not voted.

Who is paying for the preparation and mailing of the proxy materials and how will solicitations be made?

We will pay the expenses of soliciting proxies. Proxies may be solicited on our behalf by directors, officers or employees in person or by telephone, mail, electronic transmission, facsimile transmission or telegram. The Company will request brokerage houses and other custodians, nominees and fiduciaries to forward soliciting material to stockholders and the Company will reimburse such institutions for their out-of-pocket expenses incurred thereby. The Company has not engaged any outside service provider to assist in the solicitation of proxies.

Does each stockholder receive his or her own copy of the 2005 Annual Report and this proxy statement?

In some cases we may send only one annual report and proxy statement to an address shared by two or more stockholders, unless we have received contrary instructions from one or more stockholders at that address. This practice, known as householding, is designed to reduce our printing and postage costs. If you are a stockholder of record residing at such an address and you wish to receive a separate copy of our 2005 Annual Report or this proxy statement, please contact Sherry Terzian by phone at (239) 274-4425 or in writing at 11215 Metro Parkway, Ft. Myers, Florida 33912 and we will promptly send you separate copies. If we have been sending only one annual report and proxy statement to your household but you or another stockholder in the household wishes to receive separate copies of annual reports and/or proxy statements in the future, please contact us in the same manner. Please also contact us if your household receives multiple copies of our annual report and proxy statement and you would prefer that we send only one copy for the entire household.

1. ELECTION OF CLASS I DIRECTORS - ITEM ONE ON YOUR PROXY CARD

Directors Standing For Election

The full Board is currently comprised of eleven directors. The Board is divided into three classes with Class I and III each having four directors and Class II having three directors. Directors are elected for three-year terms.

The term of the existing Class I directors, Scott A. Edmonds, Charles J. Kleman, Ross E. Roeder, and Michael A. Weiss, expires at the 2006 Annual Meeting.

The Class II directors, Helene B. Gralnick, Verna K. Gibson, and Betsy S. Atkins, serve until the annual meeting of stockholders in 2007 and the Class III directors, Marvin J. Gralnick, John W. Burden, III, Stewart P. Mitchell, and David F. Walker, serve until the annual meeting of stockholders in 2008.

The election of the four Class I directors will take place at the 2006 Annual Meeting. At its meeting on February 27, 2006, the Board approved the recommendation of the Corporate Governance Committee that the following persons stand for election at the 2006 Annual Meeting:

Class I Director Seats

Scott A. Edmonds
Charles J. Kleman
Ross E. Roeder
Michael A. Weiss

If elected, Scott A. Edmonds, Charles J. Kleman, Ross E. Roeder, and Michael A. Weiss, will continue their service on the Board beginning at the 2006 Annual Meeting and will serve on the Board until the annual meeting in

2009, or until their successors are duly elected and qualified. Unless otherwise directed, the persons named in the enclosed form of proxy intend to vote such proxy **FOR** the election of Scott A. Edmonds, Charles J. Kleman, Ross E. Roeder, and Michael A. Weiss as Class I directors of the Company.

Each of the proposed nominees for election as directors has consented to serve if elected. If, as a result of circumstances not now known or foreseen, any of the nominees becomes unable or unwilling to serve as a director, proxies may be voted for the election of such other person or persons as the Board of Directors may select. The Board of Directors has no reason to believe that any of the nominees will be unable or unwilling to serve.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** THE ELECTION OF THESE NOMINEES FOR ELECTION AS DIRECTORS. The nominees that receive a plurality of the votes cast by the shares entitled to vote at the Annual Meeting shall be elected as the directors.

Nominees for election at this meeting to terms expiring in 2009:

Scott A. Edmonds, 48, has been a director since 2004 and is President and Chief Executive Officer of the Company. Mr. Edmonds has been employed by the Company since September 1993, when he was hired as Operations Manager. In February 1994, he was elected to the position of Vice President-Operations and, effective January 1, 1996, he was promoted to the position of Senior Vice President-Operations. In February 2000, Mr. Edmonds was further promoted to Chief Operating Officer, in September 2001, Mr. Edmonds was promoted to President, and in September 2003, Mr. Edmonds was appointed to the additional office of Chief Executive Officer. Prior to joining the Company in 1993, Mr. Edmonds was employed by Ferguson Enterprises, Inc., a plumbing and electrical wholesale company, since 1980. His last position with Ferguson was President of the Fort Myers, Florida Division.

Charles J. Kleman, 55, has been a director since 1993 and is Executive Vice President-Finance, Chief Financial Officer and Treasurer of the Company. Mr. Kleman has been employed by the Company since January 1989, when he was hired as the Company s Controller. In 1991, he was elected as Vice President/Assistant Secretary. In 1992, Mr. Kleman was designated as the Company s Chief Financial Officer. In September 1993, he was elected to the additional position of Secretary/Treasurer. Mr. Kleman served as Secretary until October 2004. He served as Senior Vice President-Finance from January 1996 through November 1996, effective December 1996, was promoted to the position of Executive Vice President-Finance, and effective November 2003, was promoted to the additional position of Chief Operating Officer and served in such capacity until August 2005. Prior to joining the Company, Mr. Kleman was an independent accounting consultant in 1988, and from 1986 to 1988, Mr. Kleman was employed by Electronic Monitoring & Controls, Inc., a manufacturer and distributor of energy management systems, as its Vice President/Controller. Prior to 1986, Mr. Kleman was employed by various public accounting firms, spending over four years of that time with Arthur Andersen & Co.

Ross E. Roeder, 68, has been a director since 1997 and is Chairman of Smart & Final, Inc., having held this position since 1999 and having also served as a director of SFI Corporation, the parent corporation of Smart & Final, since 1984. From 1999 until 2004, Mr. Roeder also held the position of Chief Executive Officer of Smart & Final, Inc. From 1986 to 1998, Mr. Roeder served as a director of Morgan-Kaufman Publishers, Inc., a publisher of computer science text and reference books, and from 1993 to 1998 served as its Chairman of the Board. From 1986 until February 1993, Mr. Roeder was President and Chief Executive Officer of Federal Construction Company. Mr. Roeder is also a director of Mercantile Bank.

Michael A. Weiss, 65, is the retired President and Chief Executive Officer of Express, a subsidiary of Limited Brands, Inc. (Limited). He served in that capacity from 1997 to 2004. Mr. Weiss joined Limited in 1981 as merchandise manager for Express and rose to the position of President of Express, serving in that capacity from 1982 to 1993. He was named Vice Chairman of Limited in 1993, and served in that post until 1997. Mr. Weiss returned to Express in

January 1997, serving as President and Chief Executive Officer until his retirement in 2004. Previously, he had been General Manager for Trousers Up, a subsidiary of Apparel Industries, Inc., and Merchandise Manager for Casual Corner Group, Inc. Mr. Weiss began his career at Abraham & Straus, a subsidiary of Federated Department Stores. He is currently a member of the Board of Directors of Payless ShoeSource, Inc., Borders Group, Inc., and Pacific Sunwear of California, Inc. Mr. Weiss joined the Board in August 2005 to fill a vacancy created by the Board, having been recommended for service as a director by Verna Gibson, with approval by Betsy Atkins.

Directors Continuing in Office

Directors whose present terms continue until 2007 (Class II directors):

Helene B. Gralnick, 58, has been a director since 1983 and served as Senior Vice President-Design and Concept for the Company from February 1995 until March 2004 when she stepped down from her management positions. Since early March 2004, Ms. Gralnick has been engaged by the Company on an at-will basis to provide her assistance, guidance and direction, as needed. Ms. Gralnick was a co-founder of the Company, together with her husband, Marvin J. Gralnick, and has served the Company in various senior executive capacities throughout its history. She was first elected Vice President/Secretary in 1983. Ms. Gralnick was elected as Senior Vice President-Merchandise Concept in 1992. In September 1993, Ms. Gralnick stepped down from all officer positions with the Company. In connection with the resignation of the then current Chief Executive Officer and President of the Company in November 1994, Ms. Gralnick returned to the Company on a full time basis to head up merchandise design, marketing and image for the Company and took on the position of Senior Vice President-Design and Concept in February 1995.

Verna K. Gibson, 63, has been a director since 1993 and presently is a retailing consultant. From 1985 to 1991, Ms. Gibson was President and Chief Executive Officer of the Limited Stores Division of The Limited, Inc., a retail apparel specialty chain. From January 1991 through 1995, she served as President of Outlook Consulting Int., Inc. and in January 1999, she resumed the position of President of Outlook Consulting Int., Inc. From December 1994 to July 1996, Ms. Gibson was the Chairman of the Board of Petrie Retail, Inc. From 1993 to fall 1999, Ms. Gibson was a partner of Retail Options, Inc., a New York based retail consulting firm.

Betsy S. Atkins, 50, has been a director since 2004 and is the Chief Executive Officer of Baja Ventures, an independent venture capital firm focused on the technology and life sciences industry since 1994. Prior to 1994 Ms. Atkins was Chairman and Chief Executive Officer of NCI, Inc. a Functional Food/Nutraceutical company from 1991 through 1993. Ms. Atkins was a co-founder of Ascend Communications, Inc. in 1989, a member of their Board of Directors, and served as its Global Market, Sales, and International Executive Vice President prior to its acquisition by Lucent Technologies in 1999. Ms. Atkins also serves on the Boards of Directors of Polycom, Inc., Reynolds American Inc., and SunPower Corporation. Ms. Atkins publishes and keynote speaks on corporate board governance best practices for the National Association of Corporate Directors. Ms. Atkins was a Presidential-appointee to the Pension Benefit Guaranty Corporation advisory committee, and is a Governor-appointed member of the Florida International University Board of Trustees.

Directors whose present terms continue until 2008 (Class III directors):

Marvin J. Gralnick, 71, has been a director since 1983 and is Chairman of the Board of the Company. Mr. Gralnick, together with his wife, Helene B. Gralnick, founded the Company in December 1983. He served the Company as its Chief Executive Officer until he stepped down in September 1993. In connection with the resignation of the then current Chief Executive Officer and President of the Company in November 1994, Mr. Gralnick returned to the Company on a full time basis to head up merchandise design, marketing and image for the Company. In February 1995, Mr. Gralnick reassumed the role of Chief Executive Officer and served in that position until September 2003, at which time Scott A. Edmonds was promoted to Chief Executive Officer. In March 1997, Mr. Gralnick reassumed the position of President and served in that position until September 2001, at which time Mr. Edmonds was promoted to the position of President. Mr. Gralnick also served as President from the Company s founding until 1990 when he became Chairman of the Board and was given the official title of Chief Executive Officer. Mr. and Ms. Gralnick s vision and creative talents led the development and evolution of the Company s philosophy and the design and feel of

Chico s merchandise and Chico s stores through September 1, 1993 and again from November 1994 through September 2003. In addition to serving as Chairman, since early March 2004, Mr. Gralnick has been engaged by the Company on an at-will basis to provide his assistance, guidance and direction, as needed.

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John W. Burden, III, 69, has been a director since 1997 and is currently an independent retailing consultant, having served as a consultant and partner in Retail Options, Inc. from November 1993 to December 1997. From December 1990 to March 1993, Mr. Burden s principal occupation was as an officer in Pelican Palms Realty Company, a real estate sales company he owned. In 1990, he retired as the Chairman of both Federated Department Stores, Inc., and Allied Department Stores, Inc., following a 19 year career in various merchandising positions in the Federated organization, including President of Burdines and Chairman of the Abraham & Straus Division. Prior to that time, he spent 12 years with Macy s.

Stewart P. Mitchell, 56, has been a director since 2004. Mr. Mitchell had a long career with Ferguson Enterprises, Inc., the largest wholesale distributor of plumbing and related products in the United States and a subsidiary of Wolseley plc. His tenure with the Ferguson Enterprises finance group and his association with Wolseley spanned 28 years. From 1998 to 2005, Mr. Mitchell served as the Chief Financial Officer for Ferguson Enterprises, and from then until his recent retirement in January 2006, he served as Senior Vice President-Mergers and Acquisitions for Wolseley s North American operations. Prior to joining Ferguson in 1978, Mr. Mitchell was employed by Seidman & Seidman, a national public accounting firm. He received a Bachelor of Science in accounting from the University of North Carolina at Chapel Hill.

David F. Walker, 52, is currently the Director of the Accountancy Program at the University of South Florida in St. Petersburg and leads the school s Program for Social Responsibility and Corporate Governance. He has held these positions since 2002. Mr. Walker also has been an independent consultant with respect to accounting, auditing and business issues since 2002. For approximately 27 years, through 2002, Mr. Walker was with the accounting firm of Arthur Andersen LLP, having served as a partner with the firm from 1986 until 2002, and most recently until 2002 as partner in charge of the firm s assurance and business advisory services practice in the Florida/Caribbean region. Mr. Walker is a certified public accountant, certified fraud examiner, and holds a Masters of Business Administration degree from the University of Chicago Graduate School of Business. He currently also serves on the Board of Directors of First Advantage Corporation, Comm Vault Systems, Inc., and Technology Research Corporation, Inc.

Governance of the Company

Board of Directors

The members of the Board of Directors on the date of this proxy statement, and the committees of the Board on which they currently serve, are identified below:

Director	Audit Committee	Compensation and Benefits Committee	Corporate Governance Committee	Executive Committee
Marvin J. Gralnick				
Helene B. Gralnick				
Verna K. Gibson	*			*
Charles J. Kleman				
Ross E. Roeder		**	*	
John W. Burden, III		*		**
Betsy S. Atkins			**	*
Scott A. Edmonds				*
Stewart P. Mitchell	*	*		
David F. Walker	**		*	*

Michael A. Weiss	*	*

* Member

** Chair

Corporate governance is typically defined as the system that allocates duties and authority among a company s stockholders, board of directors, and management. The stockholders elect the board and vote on extraordinary

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matters. The board is the Company s governing body, responsible for hiring, overseeing and evaluating management, particularly the Chief Executive Officer; and management runs the Company s day-to-day operations. Our Board of Directors currently consists of eleven directors. The current Board members include seven independent directors and four individuals who are or who recently were members of the Company s senior management. If all of the nominees for election are elected, the Board will continue to be comprised of seven independent directors and four non-independent directors.

The primary responsibilities of the Board of Directors are oversight, counseling, and direction to the Company s management in the long-term interests of Chico s and its stockholders. To the extent appropriate under Florida law, the Board, in carrying out its duties, also may consider the interests of other constituencies, which include employees, suppliers, customers and the communities in which it does business, and the economy of the state of Florida and the United States. The Board s detailed responsibilities include: (a) selecting, regularly evaluating the performance of, and approving the compensation of the Chief Executive Officer and other senior executives; (b) planning for succession with respect to the position of Chief Executive Officer and monitoring management s succession planning for other senior executives; (c) reviewing and, where appropriate, approving Chico s major financial objectives, strategic and operating plans and actions; (d) overseeing the conduct of Chico s business to evaluate whether the business is being properly managed and whether proper internal controls are in place and effective; and (e) overseeing the processes for maintaining Chico s integrity with regard to its financial statvalign="bottom" style="padding:0in 0in .7pt 0in;width:2.0%;">

$	0.11
$	0.07
$	0.21

Weighted average number of common shares outstanding:	
Basic	11,873,397
	11,861,365
	11,868,431
	11,849,927

Diluted	
	11,921,597
	11,959,604
	11,948,994
	11,928,302

Operational Review for the Three and Six Months Ended June 30, 2004

The year ended December 31, 2003 as well as the three and six months ended June 30, 2004 was a transitional period for us. We implemented member escrow accounts beginning in the fourth quarter of 2002 and continuing through 2003 in response to the market changes in the healthcare savings industry. Our members are now required to establish and maintain escrow accounts to access and provide payment for hospital services. As of June 30, 2004, our individual members who have escrowed funds with us was approximately 31.3% (14,900 members) of our total individual healthcare membership base. This excludes our private label programs, where the escrow requirements have not been mandated.

Our healthcare membership base was approximately 75,000 members as of June 30, 2004 as compared to 89,000 members as of June 30, 2003, a decrease of approximately 14,000 members or 15.7%. This reduction in healthcare membership base was primarily due to the implementation of the escrow account requirements. As a result of the escrow healthcare program changes introduced during 2003 and 2002, our independent marketing representative base experienced a significant reduction in 2003. This reduction continued during the three and six months ended June 30, 2004.

Although these escrow requirements negatively impacted our membership base and consequently our revenues and net earnings in 2003 and for the three and six months ended June 30, 2004, these changes were required to provide assurance of payment to the healthcare providers and, accordingly, their continued willingness to provide healthcare services to our members.

Implementation of the escrow requirement was critical to our long-term operational and financial viability in the health card savings market as many healthcare providers throughout the United States will no longer accept the typical health discount card. The success of our new healthcare product offering has not been fully determined. Therefore, its long-term impact on both revenues and net earnings is currently unknown and may not be known until the latter part of 2004. The increase in our members escrow or cash-in-trust from $108,152 as of December 31, 2002 to $4,408,257 as of June 30, 2004 provides preliminary, although not conclusive, evidence of the acceptance of this form of medical savings product offering. The increase in the members escrow or cash-in-trust from June 30, 2003 to June 30, 2004 was $3,061,524.

In the fourth quarter of 2003, we began reorganizing and rebuilding our corporate sales team to be better positioned to enter into the large self-insured employer group and medical benefits market. We restructured our in-house sales team and in January 2004 hired a Vice President of Sales and Marketing to lead this area, both from a strategy and execution standpoint. Our medical savings product offering in conjunction with our Care125 medical savings account provide an alternative healthcare product offering for a growing number of companies that have chosen to move towards the self-funded and/or high deductible insurance route. Our healthcare product offering has been expanded to the self-funded government and employer markets with our recent acquisition of Access. This, along with the individual healthcare market, is a substantial portion of our overall business focus for the balance of 2004.

Comparison of the Three Months Ended June 30, 2004 and 2003

Product and Service Revenues. During the three months ended June 30, 2004, revenues were $9,403,212, a decrease of $1,560,782 or 14.2%, from $10,963,994 during the comparable 2003 period. The reduction in revenues was primarily due to (i) reductions in the members in our Care Entrée program as a result of our implementation of member escrow account requirements for hospitalized care commencing in the fourth quarter of 2002 and expanded in 2003 to include physicians and ancillary providers of $1,602,704 (offset in part by escrow maintenance fees of $128,025) and (ii) reductions in our wholesale club membership programs of $464,519. Revenues for the three months ended June 30, 2004, were positively impacted by the $208,710 revenues attributable to Access that was acquired on June 18, 2004 and revenues of $145,072 from our State of Louisiana contract.

The requirement of member escrow deposits was in response to the market changes in the healthcare savings industry. Our individual members are now required to establish and maintain escrow accounts and provide payment for hospital, physician and other healthcare services. We are then able to pre-certify the members ability to pay based upon the available escrow-account balances and to process the members payments directly to the healthcare providers to help assure their payment. As a result of these changes, we believe an enhanced healthcare product offering has been created for members and the healthcare providers. The overall success and impact on revenues and net earnings of this newly restructured product offering will not be known until the latter part of 2004. The escrowed funds referred to as cash-in-trust on our balance sheet were $4,408,257 as of June 30, 2004. The reduction in revenue in our wholesale club membership programs was due to the maturity and competitive nature of this business as compared to our healthcare membership savings business that operates in a higher growth market.

For the three months ended June 30, 2004, approximately 94% of our revenues were attributable to our healthcare membership program.

Operating Metrics

Our healthcare membership base consisted approximately of 75,000 members as of June 30, 2004, compared to 89,000 members as of June 30, 2003, a decrease of approximately 14,000 members or 15.7%. The reduction in our healthcare membership base was due to the implementation of the escrow account requirements commencing in the fourth quarter of 2002.

As a result of the escrow healthcare program changes introduced during 2002 and 2003, our independent marketing representative base experienced a significant reduction in 2003. This reduction continued during the six months ended June 30, 2004.

Cost of Operations. Cost of operations for the three months ended June 30, 2004 decreased $120,229 or 3.5%, to $3,286,918 from $3,407,147 during the 2003 comparable period.

Cost of operations was approximately 35.0% of revenues during the three months ended June 30, 2004, while during the comparable 2003 period cost of operations was 31.1% of revenues. The increase was primarily attributable to increased preferred provider costs as a result of several ancillary products introduced throughout 2003, as well as additional processing costs attributed to the administration of the escrow accounts and claims processing.

Sales and Marketing Expenses. Sales and marketing expenses decreased $1,255,850 or 30.9%, to $2,813,330 during the three months ended June 30, 2004 from $4,069,180 during the comparable 2003 period.

Sales and marketing expenses represented 29.9% and 37.1% of revenues for the three months ended June 30, 2004 and 2003, respectively. The decrease as a percentage of revenues was primarily attributable to certain threshold sales qualification requirements not being attained by our independent marketing representatives as well as a shift in the mix between private label and healthcare membership business. Our private label business has significantly lower sales and marketing expenses as a percent of revenue compared to our healthcare business which is sold to individual members.

General and Administrative Expenses. General and administrative expenses increased $1,206,192 or 80.7%, to $2,701,267, during the three months ended June 30, 2004 from $1,495,075 during the comparable 2003 period. General and administrative expenses represented 28.7% and 13.6% of revenues for the three months ended June 30, 2004 and 2003, respectively.

The increase in general and administrative expenses for the three months ended June 30, 2004 was primarily due to a number of product and market development initiatives underway. These initiatives include additional information technology, marketing and other administrative costs of $758,706 for implementation of member escrow accounts for our healthcare savings products, reorganizing and rebuilding our corporate sales team to be better positioned to enter into the large self-insured employer group and medical benefits market, introduction of our Care125 FSA and HRA products, expansion of our third-party administrator operations and administrative expenses of the recently acquired Access Healthsource, Inc. for the period after its acquisition. General and administrative expenses also increased by $265,592 due to legal and regulatory matters, including $177,206 of legal fees related to the Zermenos and Kirk lawsuits previously reported. Lastly, we incurred additional general and administrative costs of $111,653 related to the increasing cost of being a public company, primarily due to compliance with the Sarbanes-Oxley Act.

Total Operating Expenses. During the three months ended June 30, 2004, total operating expenses (consisting of cost of operations, sales and marketing expenses, and general and administrative expenses) decreased $169,887 or 1.9%, to $8,801,515 from $8,971,402 during the comparable 2003 period. Total operating expenses represented approximately 93.6% and 81.8% of revenues for the three months ended June 30, 2004 and 2003, respectively. The decrease in operating margins was due to the reasons described above.

Operating Income and Net Earnings. During the three months ended June 30, 2004, operating income was $601,697, a decrease of $1,390,895 or 69.8%, from $1,992,592 during the comparable 2003 period. Net earnings were $287,881, or 3.1% of revenues, net of provision for income taxes of $292,327. In comparison, during the three months ended June 30, 2003, net earnings were $1,266,380 or 11.6% of revenues, net of provision for income taxes of $681,285. During the three months ended June 30, 2004, net earnings per common share calculated on a fully diluted basis were $0.02 per share compared to $0.11 from the comparable 2003 period. Net earnings and net earnings per common share calculated on a fully diluted basis for the three months ended June 30, 2004 were impacted by net cost increases as a percent of revenue as well as the reduction in revenues, as previously described.

Comparison of the Six Months Ended June 30, 2004 and 2003

Product and Service Revenues. During the six months ended June 30, 2004, revenues were $19,349,343, a decrease of $2,376,960 or 10.9% from $21,726,303 during the comparable 2003 period. This reduction in revenues was primarily due to (i) reductions in the members in our Care Entrée program as a result of our implementation of member escrow account requirements for hospitalized care commencing in the fourth quarter of 2002 and expanded in 2003 to include physicians and ancillary providers of $2,408,838 (offset in part by escrow maintenance fees of $332,126) and (ii) reductions in our wholesale club membership programs of $783,752. Revenues for the six months ended June 30, 2004, were positively impacted by the $208,710 revenues attributable to Access HealthSource, Inc. that was acquired on June 18, 2004 and revenues of $242,514 from our State of Louisiana contract.

The requirement of member escrow deposits was in response to the market changes in the healthcare savings industry. Our individual members are now required to establish and maintain escrow accounts and provide payment for hospital services, physician and other healthcare. We are then able to pre-certify the members ability to pay based upon the available escrow account-balances and to process the members payments directly to the providers to help assure the payment of the healthcare providers. As a result of these changes, we believe an enhanced healthcare product offering has been created for members and the healthcare providers. The overall success and impact on revenues and net earnings of this newly restructured product offering will not be known until the latter part of 2004. The escrowed funds referred to as cash-in-trust on our balance sheet were $4,408,257 as of June 30, 2004. The reduction in revenue in our wholesale club membership programs was due to the maturity and competitive nature of this business as compared to our healthcare membership savings business that operates in a higher growth market.

For the six months ended June 30, 2004, approximately 95% of our revenues were attributable to our healthcare membership program.

Operating Metrics

Our healthcare membership base consisted approximately of 75,000 members as of June 30, 2004, compared to 89,000 members as of June 30, 2003, a decrease of approximately 14,000 members or 15.7%. The reduction in our healthcare membership base was due to the implementation of the escrow account requirements commencing in the fourth quarter of 2002.

As a result of the escrow healthcare program changes introduced during 2002 and 2003, our independent marketing representative base experienced a significant reduction in 2003. This reduction continued during the six months ended June 30, 2004.

Cost of Operations. Cost of operations for the six months ended June 30, 2004 increased $16,103 or less than 1%, to $6,588,035 from $6,571,932 during the 2003 comparable period. Cost of operations was approximately 34.0% of revenues during the six months ended June 30, 2004, while during the comparable 2003 period cost of operations was 30.2% of revenues. The increase was primarily attributable to increased preferred provider costs as a result of several ancillary products introduced throughout 2003, as well as additional processing costs attributed to the administration of the escrow accounts and claims processing.

Sales and Marketing Expenses. Sales and marketing expenses decreased $2,272,157 or 27.4%, to $6,011,277 during the six months ended June 30, 2004 from $8,283,434 during the comparable 2003 period.

Sales and marketing expenses represented 31.1% and 38.1% of revenues for the six months ended June 30, 2004 and 2003, respectively. The decrease as a percentage of revenues was primarily attributable to certain threshold sales qualification requirements not being attained by our independent marketing representatives as well as a mix between private label and healthcare membership business. Our private label business has significantly lower sales and marketing expenses as a percent of revenue compared to our healthcare business which is sold to individual members.

General and Administrative Expenses. General and administrative expenses increased $1,938,662 or 62.7%, to $5,030,548 during the six months ended June 30, 2004 from $3,091,886 during the comparable 2003 period. General and administrative expenses represented 26.0% and 14.2% of revenues for the six months ended June 30, 2004 and 2003, respectively.

The increase in general and administrative expenses for the six months ended June 30, 2004 was primarily due to a number of product and market development initiatives underway. These initiatives include additional information technology, marketing and other administrative costs of $1,171,587 for implementation of member escrow accounts for our healthcare savings products, reorganizing and rebuilding our corporate sales team to be better positioned to enter into the large self-insured employer group and medical benefits market, introduction of our Care125 FSA and HRA products, expansion of our third-party administrator operations and administrative expenses of the recently acquired Access Healthsource, Inc. for the period after its acquisition. General and administrative expenses also increased by $434,988 due to legal and regulatory matters, including $284,601 of legal fees related to the Zermenos and Kirk lawsuits previously reported. Lastly, we incurred additional general and administrative costs of $180,089 related to the increasing cost of being a public company primarily due to the Sarbanes-Oxley Act.

Total Operating Expenses. During the six months ended June 30, 2004, total operating expenses (consisting of cost of operations, sales and marketing expenses, and general and administrative expenses) decreased $317,392 or 1.8%, to $17,629,860 from $17,947,252 during the comparable 2003 period. Total operating expenses represented approximately 91.1% and 82.6% of revenues for the six months ended June 30, 2004 and 2003, respectively. The decrease in operating margins was due to the reasons described above.

Operating Income and Net Earnings. During the six months ended June 30, 2004, operating income was $1,719,483, a decrease of $2,059,568 or 54.5%, from $3,779,051 during the comparable 2003 period. Net earnings were $893,803, or 4.6% of revenues, net of provision for income taxes of $775,185. In comparison, during the six months ended June 30, 2003, net earnings were $2,453,140 or 11.3% of revenues, net of provision for income taxes of $1,252,003. During the six months ended June 30, 2004, net earnings per common share calculated on a fully diluted basis were $0.07 per share compared to $0.21 from the comparable 2003 period. Net earnings and net earnings per common share calculated on a fully diluted basis for the six months ended June 30, 2004 were impacted by net cost increases as a percent of revenue as well as the reduction in revenues, as previously described.

Income Tax Provision

SFAS 109, *Accounting for Income Taxes*, requires the separate recognition, measured at currently enacted tax rates, of deferred tax assets and deferred tax liabilities for the tax effect of temporary differences between the financial reporting and tax reporting bases of assets and liabilities, and net operating loss carryforwards for tax purposes. A valuation allowance must be established for deferred tax assets if it is more likely than not that all or a portion will not be realized. At June 30, 2004 and December 31, 2003, we had deferred tax benefits consisting primarily of net operating loss carryforwards of $760,681. The tax benefit was attributable to net operating loss carryforwards of approximately $2,174,000, as of December 31, 2003, which, if not utilized, will expire at various dates through 2020. The cumulative net deferred tax asset as of June 30, 2004 and December 31, 2003 was $623,409.

Liquidity and Capital Resources

Operating Activities. Net cash provided by operating activities for the six months ended June 30, 2004 and 2003 was $2,016,964 and $4,386,880, respectively, a decrease of $2,369,916. The decrease in net cash provided by operating activities for the six months ended June 30, 2004 was due to the reduced net earnings during the period as well as certain working capital timing differences incurred during the six months ended June 30, 2003. These working capital timing differences primarily included accounts receivable, accounts payable and accrued liabilities, prepaid expenses offset in part by notes receivable and income taxes payable.

Investing Activities. Net cash used in investing activities for the six months ended June 30, 2004 and 2003 was $2,262,425 and $438,093, respectively. On June 18, 2004, net cash of $1,901,764 was used in connection with the acquisition of Access Healthsource, Inc. The remaining cash used in investing activities for the six months ended June 30, 2004 and 2003 was used to purchase fixed assets necessary to accommodate and support our operations.

Financing Activities. Net cash used in financing activities for the six months ended June 30, 2004 and 2003, was $707,253 and $706,956, respectively. During the six months ended June 30, 2004 and 2003, net cash used in financing activities was used for repayments of capital leases.

At June 30, 2004 and December 31, 2003, we had working capital of $8,004,342 and $8,818,823, respectively. Other than our capital lease obligations of $1,154,582, we do not have any capital commitments. We do not anticipate that our capital expenditures for the remainder of 2004 will exceed the amount incurred during 2003. We believe that our existing cash and cash equivalents, and cash provided by operations will be sufficient to fund our normal operations and capital expenditures for the next 12 months.

Because our capital requirements cannot be predicted with certainty, there is no assurance that we will not require any additional financing during the next 12 months, and if required, that any additional financing will be available on terms satisfactory to us or advantageous to our shareholders.

Stock Repurchase Plan

On July 8, 2004, our Board of Directors authorized the repurchase of up to 500,000 shares of our common Stock through open market or private purchase transactions over the next year depending on prevailing market conditions. As of the filing of this Report, we have purchased 50,000 shares under this authorization for a total consideration of $128,230 an average price of $2.57 per share. Given the current interest rate environment, the nature of other available investments and our expected cash flows, we believe that purchasing our common stock shares enhances shareholder value. Any additional treasury stock purchases will be made at prices that we are considered attractive and at such times that we believe will not unduly impact our liquidity.

Cautionary Statement Relating to Forward Looking Information

We have included some forward-looking statements in this section and other places in this report regarding our expectations. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements, or industry results, to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Some of these forward-looking statements can be identified by the use of forward-looking terminology including believes, expects, may, will, should or anticipates or the negative thereof or other variations the comparable terminology, or by discussions of strategies that involve risks and uncertainties. You should read statements that contain these words carefully because they:

discuss our future expectations;

contain projections of our future operating results or of our future financial condition; or

state other forward-looking information.

We believe it is important to discuss our expectations; however, it must be recognized that events may occur in the future over which we have no control and which we are not accurately able to predict. Readers are cautioned to consider the specific business risk factors described in our annual report on Form 10-K for the fiscal year ended December 31, 2003 and our Schedule 14A Proxy Statement for our 2003 annual shareholders meeting, and not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. We undertake no obligation to publicly revise forward-looking statements to reflect events or circumstances that may arise after the date hereof.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not have any investments in market risk sensitive instruments.

Item 4. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer are responsible primarily for establishing and maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission. These controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Furthermore, our Chief Executive Officer and Chief Financial Officer are responsible for the design and supervision of our internal controls over financial reporting that are then effected by and through our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. These policies and procedures (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our Executive Officer and Chief Financial Officer, based upon their evaluation of the effectiveness of our disclosure controls and procedures and the internal controls over financial reporting as of the last day of the period covered by this report, concluded that our disclosure controls and procedures and internal controls over financial reporting were fully effective as of the last day of the period covered by this report and reported to our auditors and the audit committee of our board of directors that no change occurred in our disclosure controls and procedures and internal control over financial reporting occurred during the period covered by this report that would materially affect or is reasonably likely to materially affect our disclosure controls and procedures or internal control over financial reporting. In conducting their evaluation of our disclosure controls and procedures and internal controls over financial reporting, these executive officers did not discover any fraud that involved management or other employees who have a significant role in our disclosure controls and procedures and internal controls over financial reporting. As a result of our acquisition of Access, we have made a number of significant changes to our internal controls over financial reporting beginning in the second quarter of 2004. The changes involved combining the financial reporting process and the attendant personnel and system changes. Because no significant deficiencies or material weaknesses were discovered, no corrective actions were necessary or taken to correct significant deficiencies and material weaknesses in our internal controls and disclosure controls and procedures.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to the legal proceedings we have previously reported. Except as previously reported, we are not a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

Item 2. **Changes in Securities and Use of Proceeds**

(a) None.

(b) None.

(c) None.

(d) None.

Item 3. **Defaults Upon Senior Securities**

None.

Item 4. **Submission of Matters to a Vote of Security Holders**

None.

Item 5. **Other Information**

None.

Item 6. **Exhibits and Reports on Form 8-K**

(a) Exhibits:

Exhibit No.	Description
3.1	Registrant s Certificate of Incorporation, incorporated by reference to Exhibit 3.2 of Registrant s Form 8-K/A filed with the Commission on June 25, 2003.
3.2	Registrant s Bylaws as amended and restated on April 30, 2003 incorporated by reference to Exhibit 3.2 of Registrant's Form 10-Q filed with the Commission on May 14, 2003.
4.1	Form of certificate of the common stock of Registrant is incorporated by reference to Exhibit 1.1 of Amendment to Registration Statement on Form 8-A, as filed with the Commission on July 31, 2001.
4.2	Precis SmartCard, Inc. 1999 Stock Option Plan (amended and restated), incorporated by reference to the Schedule 14A filed with the Commission on May 16, 2001.
4.3	Precis, Inc. 2002 IMR Stock Option Plan, incorporated by reference to the Schedule 14A filed with the Commission on June 26, 2002.
4.4	Precis, Inc. 2002 Non-Employee Stock Option Plan, incorporated by reference to the Schedule 14A filed with the Commission on June 26, 2002.
4.5	Stock Purchase Agreement dated June 18, 2004, by and among Precis, Inc., Precis-Access Acquisition Corporation, National Center for the Employment of the Disabled, Access HealthSource, Inc., Access HealthSource Administrators, Inc., Access Administrators, Inc., and Advantage Care Network, Inc., incorporated by reference to Exhibit 2.1 of the Company s Report on Form 8-K filed with the Commission on July 2, 2004.
4.6	Employment Agreement dated June 18, 2004, among Frank Apodaca, Precis, Inc., and Access HealthSource, Inc., incorporated by reference to Exhibit 2.2 of the Company s Report on Form 8-K filed with the Commission on July 2, 2004.
31.1	Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of Judith H. Henkels as Chief Executive Officer.
31.2	Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of Dino Eliopoulos as Chief Financial Officer.

32.1	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of Judith H. Henkels as Chief Executive Officer.
32.2	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of Dino Eliopoulos as Chief Financial Officer.

(b) Reports on Form 8-K:

On April 29, 2004, Registrant filed a report on Form 8-K reporting the following items:

Item 7 Financial statements and exhibits: Registrant s April, 2004 press release announcing results of operations for the three months ended March 31, 2004.

Item 12 Results of operations and financial condition for a completed quarter Reporting registrant s April 29, 2004 press release announcing results of operations for the three months ended March 31, 2004.

On June 17, 2004, Registrant filed a report on Form 8-K reporting the following items:

Item 7 Financial statements and exhibits: Registrant s June 17, 2004, press release announcing the resignation of Dino Eliopoulos, the Registrant s Chief Financial Officer and a member of the Board of Directors.

Item 9 Regulation FD Disclosure: Reporting the resignation of Dino Eliopoulos from his position as Chief Financial Officer and Director of Registrant on June 18, 2004 8-K.

On June 18, 2004, Registrant filed a report on Form 8-K reporting the following items:

Item 2 Acquisition on Disposition of Assets: Reporting Registrant s acquisition of Access HealthSource, Inc.

Item 7 Financial Statements and Exhibits: (i) Stock Purchase Agreement evidencing the transaction reported in Item 2, (ii) Employment Agreement with Frank Apodaca, and (iii) Registrant s June 21, 2004, press release announcing the transaction reported in Item 2.

SIGNATURES:

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRECIS, INC.
(Registrant)

Date: August 16, 2004	/s/ JUDITH H. HENKELS Judith H. Henkels Chief Executive Officer
Date: August 16, 2004	/s/ JUDITH H. HENKELS Judith H. Henkels Chief Financial Officer

INDEX TO FINANCIAL STATEMENTS

PRECIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2004 (unaudited)	December 31, 2003 (audited)
ASSETS		
Current assets:		
Cash in trust	$ 4,408,257	$ 2,768,447
Cash and cash equivalents	10,135,206	11,087,920
Accounts receivable	670,764	620,026
Income tax receivable	133,398	120,642
Notes receivable	351,238	467,904
Inventory	160,915	175,735
Prepaid expenses	379,171	377,015
Total current assets	16,238,949	15,617,689
Fixed assets, net	3,004,052	3,324,410
Goodwill	22,873,310	21,077,284
Deferred tax asset, net	760,681	760,681
Other assets	74,635	33,600
Total assets	$ 42,951,627	$ 40,813,664
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 288,643	$ 387,824
Accrued liabilities	1,921,253	1,848,407
Income taxes payable	532,262	236,022
Member liabilities	4,408,257	2,768,447
Deferred fees	9,013	171,156
Current portion of capital leases	1,075,179	1,387,010
Total current liabilities	8,234,607	6,798,866
Capital lease obligation, net of current portion	79,403	275,422
Deferred income tax	137,272	137,272
Total liabilities	8,451,282	7,211,560
Stockholders equity:		
Preferred stock, $1 par value, 2,000,000 shares authorized; 0 shares issued and outstanding		
Common stock, $.01 par value, 100,000,000 shares authorized; 11,873,397 issued and outstanding (11,872,147 issued and outstanding as of December 31, 2003)	118,735	118,722
Additional paid-in capital	25,825,320	25,820,895
Accumulated earnings	8,556,290	7,662,487
Total stockholders equity	34,500,345	33,602,104
Total liabilities and stockholders equity	$ 42,951,627	$ 40,813,664

See Accompanying Notes to Condensed Consolidated Financial Statements

PRECIS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2004	**2003**
Product and service revenues	$ 9,403,212	$ 10,963,994
Operating expenses:		
Cost of operations	3,286,918	3,407,147
Sales and marketing	2,813,330	4,069,180
General and administrative	2,701,267	1,495,075
Total operating expenses	8,801,515	8,971,402
Operating income	601,697	1,992,592
Other expenses:		
Interest income and expense, net	21,489	44,927
Total other expenses	21,489	44,927
Net earnings before taxes	580,208	1,947,665
Provision for income taxes	292,327	681,285
Net earnings	$ 287,881	$ 1,266,380
Earnings per share:		
Basic	$ 0.02	$ 0.11
Diluted	$ 0.02	$ 0.11
Weighted average number of common shares outstanding:		
Basic	11,873,397	11,861,365
Diluted	11,921,579	11,959,604

See Accompanying Notes to Condensed Consolidated Financial Statements

PRECIS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE SIX MONTHS ENDED JUNE 30, 2004	2003
Product and service revenues	$ 19,349,343	$ 21,726,303
Operating expenses:		
Cost of operations	6,588,035	6,571,932
Sales and marketing	6,011,277	8,283,434
General and administrative	5,030,548	3,091,886
Total operating expenses	17,629,860	17,947,252
Operating income	1,719,483	3,779,051
Other expenses:		
Interest income and expense, net	50,495	73,908
Total other expenses	50,495	73,908
Net earnings before taxes	1,668,988	3,705,143
Provision for income taxes	775,185	1,252,003
Net earnings	$ 893,803	$ 2,453,140
Earnings per share:		
Basic	$ 0.08	$ 0.21
Diluted	$ 0.07	$ 0.21
Weighted average number of common shares outstanding:		
Basic	11,868,431	11,849,927
Diluted	11,948,994	11,928,302

See Accompanying Notes to Condensed Consolidated Financial Statements

PRECIS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	COMMON STOCK SHARES		COMMON STOCK AMOUNT		ADDITIONAL PAID-IN CAPITAL		ACCUMU-LATED EARNINGS		TOTAL STOCK-HOLDERS EQUITY
Balance, December 31, 2003	11,872,147	$	118,722	$	25,820,895	$	7,662,487	$	33,602,104
Stock options exercised	1,250		13		4,425		—		4,438
Net earnings	—		—		—		893,803		893,803
Balance, June 30, 2004	11,873,397	$	118,735	$	25,825,320	$	8,556,290	$	34,500,345

See Accompanying Notes to Condensed Consolidated Financial Statements

PRECIS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE SIX MONTHS ENDED JUNE 30, 2004	FOR THE SIX MONTHS ENDED JUNE 30, 2003
Operating activities:		
Net earnings	$ 893,803	$ 2,453,140
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,094,483	1,019,410
Change in allowance for doubtful accounts	(117,419)	(23,260)
Changes in assets and liabilities (net of business acquired):		
Accounts receivable	94,296	740,801
Income taxes receivable	(12,756)	
Notes receivable	116,666	(327,069)
Inventory	14,820	51,931
Prepaid expenses	70,874	149,017
Other current assets		25,000
Other assets	(28,034)	(2,775)
Accounts payable	(133,897)	313,287
Accrued liabilities	(109,969)	31,721
Deferred fees	(162,143)	(111,579)
Income taxes payable	296,240	67,256
Net cash provided by operating activities	2,016,964	4,386,880
Investing activities:		
Cash used in business combination, net of cash acquired	(1,901,764)	
Purchase of fixed assets	(360,661)	(438,093)
Net cash used in investing activities	(2,262,425)	(438,093)
Financing activities:		
Exercise of stock options	4,438	1,657
Payments on capital leases	(711,691)	(708,613)
Net cash used in financing activities	(707,253)	(706,956)
Net (decrease) increase in cash and cash equivalents	(952,714)	3,241,831
Cash and cash equivalents at beginning of year	11,087,920	5,611,803
Cash and cash equivalents at end of period	$ 10,135,206	$ 8,853,634
Supplemental Disclosure:		
Acquisition (replacement) of fixed assets through issuance of capital leases, net of retirements	$ 7,032	$ 507,912

See Accompanying Notes to Condensed Consolidated Financial Statements

PRECIS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Interim Financial Information

The accompanying condensed consolidated financial statements are unaudited, but include all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position at such dates and of the operations and cash flows for the periods then ended. The financial information is presented in a condensed format, and it does not include all of the footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America.. Operating results for the three and six months ended June 30, 2004 and 2003 are not necessarily indicative of results that may be expected for the entire year. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and reported amounts of revenues and expenses during the reporting periods under consideration. Actual results could differ materially from such assumptions and estimates. The accompanying condensed consolidated financial statements and related footnotes should be read in conjunction with the Company s audited financial statements, included in its December 31, 2003 Form 10-K filed with the Securities and Exchange Commission.

Note 2 Business Acquisition

On June 18, 2004, the Company completed its acquisition of Access Healthsource, Inc. (Access), a third party administrator. Access results of operations have been included in the Company s results of operations from that date. The terms of the transaction are such that the Company acquired all of the outstanding capital stock of Access for a purchase price of $3.4 million, consisting of 488,486 shares of common stock of the Company valued at $1.4 million ($2.866 per share), and $2 million in cash, excluding acquisition costs of investment banking, valuation and legal and accounting fees. Investment banking, valuation and legal and accounting fees both paid and accrued were approximately $310,000. In addition to the closing date purchase price consideration, there is a contingency payout should the earnings before interest, taxes, depreciation and amortization (EBITDA) of Access reach certain amounts after the closing of the transaction and before December 31, 2006. EBITDA, while not considered a measure under accounting principles generally accepted in the United States of America, is the financial measurement utilized for the basis of the contingency payout and additional purchase price payments are dependent on Access achieving certain EBITDA levels. The maximum amount of the consideration that may be paid to the seller of Access, National Center for the Employment of the Disabled, including the closing date purchase price consideration and investment banking, valuation and legal and accounting fees, is $9,773,500. The contingency payout will be accounted for as a decrease in the Company s cash and cash equivalents, an increase to stockholders equity and a corresponding increase in goodwill. With respect to the closing purchase price consideration, the 488,486 shares of the Company s stock, valued at $1.4 million, have been placed in escrow pending the renewal of one of Access public sector contracts. Upon contract renewal, the majority of the escrow shares valued at $1.4 million will be allocated to contracts and amortized over 10 years with a corresponding increase of $1.4 million in the Company s stockholders equity.

Of the closing purchase price consideration of $2,310,000, $1,796,000 has been allocated to goodwill. The Company anticipates that the amortization of this goodwill will not be deductible for federal income tax purposes. The remaining closing purchase price consideration has been allocated to working capital of $308,000 and fixed assets of $206,000. The allocation to goodwill is considered appropriate, as Access strategically complements the Company s healthcare service offering. Access completes the Company s healthcare offering which is to provide individuals and employee group markets access to preferred provider networks, medical escrow accounts and third party administration capabilities to adjudicate and pay for the medical claims. From a sales distribution standpoint, the Company has the ability to grow Access regional business as the Company has numerous independent marketing representatives who sell both to the individual and employer groups throughout the United States. The Company s acquisition of Access serves to complement its most recent entry into the public sector market, with the State of Louisiana. Access primary area of expertise is in the public sector market.

The following financial condensed results of operations presents the Company s acquisition of Access prepared on a pro-forma basis.

	For the Three Months Ended June 30, Unaudited		For the Six Months Ended June 30, Unaudited	
	2004	2003	2004	2003
Revenues	$ 10,946,332	$ 12,475,129	$ 22,228,618	$ 24,837,747
Net earnings	$ 342,441	$ 1,288,085	$ 997,850	$ 2,770,635
Earnings per common share				
Basic	$ 0.03	$ 0.11	$ 0.08	$ 0.23
Diluted	$ 0.03	$ 0.11	$ 0.08	$ 0.23
Weighted average number of common shares outstanding				
Basic	11,873,397	11,861,365	11,868,431	11,849,927
Diluted	11,921,597	11,959,604	11,948,944	11,928,302

Note 3 Common Stock Options

As of June 30, 2004, the Company has three stock-based compensation plans. The Company applies APB 25 and related interpretations in accounting for its plans. Under APB 25, compensation for services that a corporation receives through stock-based compensation plans should be measured by the excess, if any, of the quoted market price of the stock at the measurement date less the amount, that the individual is required to pay. No compensation expense was recorded during the three and six months ended June 30, 2004 and 2003 related to its stock option plans under APB 25. If the Company had elected to recognize compensation based on the fair value of the options granted at the grant date as prescribed by Statement of Financial Accounting Standards No. 123 (SFAS 123) Accounting for Stock-Based Compensation , net earnings and net earnings per share would have decreased as shown in the pro forma amounts below for the three and six months ended June 30, 2004 and 2003.

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2004	2003
Net earnings applicable to stockholders	$ 287,881	$ 1,266,380
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(210,376)	$ (42,862)
Pro forma net earnings	$ 77,505	$ 1,223,518

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2004	2003
Earnings per share:		
Basic - as reported	$ .02	$ 0.11
Basic - pro forma	$ .01	$ 0.10

Diluted - as reported	$	.02	$	0.11
Diluted - pro forma	$	.01	$	0.10

	FOR THE SIX MONTHS ENDED JUNE 30, 2004		FOR THE SIX MONTHS ENDED JUNE 30, 2003	
Net earnings applicable to stockholders	$	893,803	$	2,453,140
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects		(242,466)		(108,410)
Pro forma net earnings	$	651,337	$	2,344,730

	FOR THE SIX MONTHS ENDED JUNE 30, 2004		FOR THE SIX MONTHS ENDED JUNE 30, 2003	
Earnings per share:				
Basic - as reported	$	0.08	$	0.21
Basic - pro forma	$	0.05	$	0.20
Diluted - as reported	$	0.07	$	0.21
Diluted - pro forma	$	0.05	$	0.20

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants: weighted average risk free interest rate of 4.49% (June 30, 2003 3.74%); no dividend yield; volatility of 86% (June 30, 2003 40%); and expected life less than five years. The fair values of the options were based on the difference between the present value of the exercise price of the option and the estimated fair value price of the common share.

The intent of the Black-Scholes option valuation model is to provide estimates of fair values of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the use of highly subjective assumptions including expected stock price volatility. The Company has utilized the Black-Scholes method to produce the pro forma disclosures required under SFAS 123. In management s opinion, existing valuation models do not necessarily provide a reliable single measure of the fair value of its employee stock options because the Company s employee stock options have significantly different characteristics from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate. The effects of applying SFAS 123 in this pro forma are not indicative of future amounts.

Note 4 Earnings Per Share

The Company s earnings per share data was computed as follows:

	For the Three Months Ended June 30, 2004		For the Three Months Ended June 30, 2003	
Basic earnings per share				
Net earnings	$	287,881	$	1,266,380
Weighted average number of common shares outstanding during the period		11,873,397		11,861,365
Basic earnings per share	$	0.02	$	0.11

Diluted earnings per share				
Net earnings	$	287,881	$	1,266,380
Weighted average number of common shares outstanding during the period		11,873,397		11,861,365
Stock Options		48,182		98,239
Weighted average number of shares outstanding during the period-assumed conversion		11,921,579		11,959,604
Diluted earnings per share	$	0.02	$	0.11

		For the Six Months Ended June 30, 2004		2003
Basic earnings per share				
Net earnings	$	893,803	$	2,453,140
Weighted average number of common shares outstanding during the period		11,868,431		11,849,927
Basic earnings per share	$	0.08	$	0.21
Diluted earnings per share				
Net earnings	$	893,803	$	2,453,140
Weighted average number of common shares outstanding during the period		11,868,431		11,849,927
Stock Options		80,563		78,375
Weighted average number of shares outstanding during the period-assumed conversion		11,948,994		11,928,302
Diluted earnings per share	$	0.07	$	.021

The number of stock options and warrants that were considered out-of-the-money for purposes of the diluted earnings per share calculation for the three months ended June 30, 2004 and 2003 was 1,101,198 and 564,741, respectively.

Note 5 Contingencies

In September 2003, the Company was served with a lawsuit. The plaintiffs of this lawsuit have alleged that in May 2002 they were not allowed to exercise stock options and warrants issued by the Company. The plaintiffs are claiming damages based on the difference of the fair market value of the stock price of $15.75 and their exercise prices of $9.00 per share of common stock for each of the 61,000 warrants and $9.37 per share of common stock for each of the 185,000 stock options of the Company for potential damages of approximately $1.6 million. Although the lawsuit is in discovery, the Company believes that there are no merits to the plaintiffs arguments, as the plaintiffs neither rendered their stock option and warrant exercise documents to the Company, nor did they comply with the terms of their agreements regarding the manner in which the stock options and warrants were to be exercised. However, we can give no assurance as to the outcome of this case.

In August and September 2003, the Company was served with two lawsuits arising out of the same set of facts. The two lawsuits were consolidated into one case now pending in the United States District Court for the Central District of California. The principal plaintiffs were members of our Care Entrée program. They allege that a provider listed as participating in our program refused to honor their membership card. The plaintiffs, in addition to seeking damages for the alleged failure of our services, also seek damages under various consumer protection statutes in the State of California and for injunctive relief that may affect our ability to do business in California. These damages may include all fees the Company received from members in California for the past four (4) years. Management believes that it has complied with all applicable regulations. However, we can give no assurance as to the outcome of this case.

In January 1999, the former parent of Foresight, Inc., Universal Marketing Services, Inc., purchased the outstanding common stock of Foresight, Inc. for $4,540,000. Universal Marketing Services agreed to indemnify the former owners of the common stock of Foresight, Inc. for the increase in federal income taxes and any applicable penalties to the extent that $4,540,000 of the purchase price does not qualify for long-term capital gain treatment. These former shareholders reported $4,540,000 of the purchase price as long-term capital gain. In connection with the Company s merger- acquisition of Foresight, Inc., the Company assumed the indemnification obligation of Universal Marketing Services. Upon examination, the Internal Revenue Service may take the position that a portion of the $4,540,000 should be classified as ordinary income taxable at the maximum federal income tax rate of 39.6% rather than the long-term capital gain rate of 20%. In the event the Internal Revenue Service successfully asserts that long-term capital gain classification was improper, the Company will be required to indemnify the former shareholders.

Note 6 Subsequent Event Stock Repurchase Plan

On July 8, 2004, the Company s Board of Directors authorized the repurchase of up to 500,000 shares of the Company s common Stock through open market or private purchase transactions over the next year depending on prevailing market conditions. As of August 16, 2004, the Company had purchased 50,000 shares under this authorization for a total consideration of $128,230 an average price of $2.57 per share.