United States Brent Oil Fund, LP
Form 10-K
March 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2017.**

OR

.. **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .**

Commission file number: 001-34704

United States Brent Oil Fund, LP

(Exact name of registrant as specified in its charter)

Delaware	**27-0925904**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1999 Harrison Street, Suite 1530

Oakland, California 94612

(Address of principal executive offices) (Zip code)

(510) 522-9600

(Registrant's telephone number, including area code)

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

Shares of United States Brent Oil Fund, LP	**NYSE Arca, Inc.**
(Title of each class)	**(Name of exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨		Accelerated filer	x
Non-accelerated filer	¨(Do not check if a smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided to Section 7(a)(2)(B) of the Securities Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨ Yes x No

The aggregate market value of the registrant’s shares held by non-affiliates of the registrant as of June 30, 2017 was: $115,700,000.

The registrant had 5,100,000 outstanding shares as of March 12, 2018.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

UNITED STATES BRENT OIL FUND, LP

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Part I

Item 1. Business.

What is BNO?

The United States Brent Oil Fund, LP ("BNO") is a Delaware limited partnership organized on September 2, 2009. BNO maintains its main business office at 1999 Harrison Street, Suite 1530, Oakland, California 94612. BNO is a commodity pool that issues limited partnership interests ("shares") traded on the NYSE Arca, Inc. (the "NYSE Arca"). It operates pursuant to the terms of the Fourth Amended and Restated Agreement of Limited Partnership dated as of December 15, 2017 (as amended from time to time, the "LP Agreement"), which grants full management control to its general partner, United States Commodity Funds LLC ("USCF").

The investment objective of BNO is for the daily changes in percentage terms of its shares' per share net asset value ("NAV") to reflect the daily changes in percentage terms of the spot price of Brent crude oil, as measured by the daily changes in the price of a specific short-term futures contract for Brent crude oil traded on the ICE Futures Europe Exchange (the "ICE Futures"), that is the near month contract to expire, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire (the "Benchmark Futures Contract"), plus interest earned on BNO's collateral holdings, less BNO's expenses. BNO's investment objective is not for its NAV or market price of shares to equal, in dollar terms, the spot price of Brent crude oil or any particular futures contract based on Brent crude oil or any particular futures contract based on Brent crude oil, nor is BNO's investment objective for the percentage change in its NAV to reflect the percentage change of the price of any particular futures contract as measured over a time period greater than one day.

USCF believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in Futures Contracts (as defined below) and Other Crude Oil-Related Investments (as defined below). BNO's shares began trading on June 2, 2010. USCF is the general partner of BNO and is responsible for the management of BNO.

Who is USCF?

USCF is a single member limited liability company that was formed in the state of Delaware on May 10, 2005. USCF maintains its main business office at 1999 Harrison Street, Suite 1530, Oakland, California 94612. USCF is a wholly-owned subsidiary of Wainwright Holdings, Inc., a Delaware corporation ("Wainwright"), which is a wholly

owned subsidiary of Concierge Technologies, Inc. (publicly traded under the ticker CNCG ("Concierge"). Mr. Nicholas Gerber (discussed below), along with certain family members and certain other shareholders, owns the majority of the shares in Concierge. Wainwright is a holding company that currently holds both USCF, as well as USCF Advisers LLC, an investment adviser registered under the Investment Advisers Act of 1940, as amended. USCF Advisers LLC serves as the investment adviser for the USCF SummerHaven SHPEN Index Fund ("BUYN"), the USCF SummerHaven SHPEI Index Fund ("BUY"), each a series of the USCF ETF Trust as well as the USCF Commodity Strategy Fund, a series of the USCF Mutual Funds Trust. USCF ETF Trust and USCF Mutual Funds Trust are registered under the Investment Company Act of 1940, as amended (the "1940 Act"). USCF Advisers LLC was also the investment adviser for the Stock Split Index Fund ("TOFR") and the USCF Restaurant Leaders Fund ("MENU"), each a series of the USCF ETF Trust, until October 2017 when both funds liquidated all of their assets and distributed cash pro rata to all remaining shareholders. The Board of Trustees for USCF ETF Trust and USCF Mutual Funds Trust consist of different independent trustees than those independent directors who serve on the Board of Directors of USCF. USCF is a member of the National Futures Association (the "NFA") and registered as a commodity pool operator ("CPO") with the Commodity Futures Trading Commission (the "CFTC") on December 1, 2005 and as a swaps firm on August 8, 2013.

USCF serves as general partner of the United States Oil Fund, LP ("USO"), the United States Natural Gas Fund, LP ("UNG"), the United States 12 Month Oil Fund, LP ("USL"), the United States Gasoline Fund, LP ("UGA"), the United States Diesel-Heating Oil Fund, LP ("UHN"), the United States Short Oil Fund, LP ("DNO"), the United States 12 Month Natural Gas Fund, LP ("UNL") and the United States Brent Oil Fund, LP ("BNO"). USCF is also the sponsor of the United States Commodity Index Fund ("USCI"), the United States Copper Index Fund ("CPER"), the United States Agriculture Index Fund ("USAG"), and the USCF Canadian Crude Oil Index Fund ("UCCO"), each a series of the United States Commodity Index Funds Trust. UCCO is currently in registration and has not commenced operations.

In addition, USCF is the sponsor of the USCF Funds Trust, a Delaware Statutory Trust, and each of its series, the REX S&P MLP Fund ("RMLP") and the REX S&P MLP Inverse Fund ("MLPD"), which are currently in registration and have not commenced operations (together, the "REX Funds"), and the United States 3x Oil Fund ("USOU") and the United States 3x Short Oil Fund ("USOD"), which commenced operations on July 20, 2017.

All funds listed previously, other than UCCO and the REX Funds, are referred to collectively herein as the "Related Public Funds."

The Related Public Funds are subject to reporting requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For more information about each of the Related Public Funds, investors in BNO may call 1-800-920-0259 or visit www.uscfinvestments.com or the Securities and Exchange Commission's (the "SEC") website at www.sec.gov.

USCF, as the sponsor of United States Commodity Index Funds Trust (the "Trust") and its series United States Metals Index Fund ("USMI"), terminated USMI effective March 18, 2015 and USMI was also delisted from NYSE Arca. On March 24, 2015, USMI liquidated all its assets and distributed cash pro rata to all remaining shareholders as of such date.

USCF is required to evaluate the credit risk of BNO to the futures commission merchant ("FCM"), oversee the purchase and sale of BNO's shares by certain authorized purchasers ("Authorized Participants"), review daily positions and margin requirements of BNO and manage BNO's investments. USCF also pays the fees of ALPS Distributors, Inc. ("ALPS Distributors"), which serves as the marketing agent for BNO (the "Marketing Agent"), and Brown Brothers Harriman & Co. ("BBH&Co."), which serves as the administrator (the "Administrator") and the custodian (the "Custodian") for BNO.

Limited partners have no right to elect USCF as the general partner on an annual or any other continuing basis. If USCF voluntarily withdraws as general partner, however, the holders of a majority of BNO's outstanding shares (excluding for purposes of such determination shares owned, if any, by the withdrawing USCF and its affiliates) may elect its successor. USCF may not be removed as general partner except upon approval by the affirmative vote of the holders of at least 66 and 2/3 percent of BNO's outstanding shares (excluding shares owned, if any, by USCF and its affiliates), subject to the satisfaction of certain conditions set forth in the LP Agreement.

BNO has no executive officers or employees. Pursuant to the terms of the LP Agreement, BNO's affairs are managed by USCF.

The business and affairs of USCF are managed by a board of directors (the "Board"), which is comprised of four management directors (the "Management Directors"), each of whom are also executive officers or employees of USCF, and three independent directors who meet the independent director requirements established by the NYSE Arca Equities Rules and the Sarbanes-Oxley Act of 2002. The Management Directors have the authority to manage USCF pursuant to the terms of the Sixth Amended and Restated Limited Liability Company Agreement, of USCF, dated as of May 15, 2015 (as amended from time to time, the "LLC Agreement"). Through its Management Directors, USCF manages the day-to-day operations of BNO. The Board has an audit committee which is made up of the three independent directors (Gordon L. Ellis, Malcolm R. Fobes III and Peter M. Robinson). For additional information relating to the audit committee, please see "*Item 10. Directors, Executive Officers and Corporate Governance – Audit Committee*" in this annual report on Form 10-K.

How Does BNO Operate?

An investment in the shares provides a means for diversifying an investor's portfolio or hedging exposure to changes in Brent crude oil prices. An investment in the shares allows both retail and institutional investors to easily gain this exposure to the Brent crude oil market in a transparent, cost-effective manner.

The net assets of BNO consist primarily of investments in futures contracts for crude oil, diesel-heating oil, gasoline, natural gas and other petroleum-based fuels that are traded on the ICE Futures, the NYMEX, or other U.S. and foreign exchanges (collectively, "Futures Contracts") and, to a lesser extent, in order to comply with regulatory requirements or in view of market conditions, other crude oil-related investments such as cash-settled options on Futures Contracts, forward contracts for oil, cleared swap contracts and non-exchange traded over-the-counter ("OTC") transactions that are based on the price of crude oil, other petroleum-based fuels, Futures Contracts and indices based on the foregoing (collectively, "Other Crude Oil-Related Investments"). For convenience and unless otherwise specified, Futures Contracts and Other Crude Oil-Related Investments collectively are referred to as "Crude Oil Interests" in this annual report on Form 10-K. BNO invests substantially the entire amount of its assets in Futures Contracts while supporting such investments by holding the amounts of its margin, collateral and other requirements relating to these obligations-in short-term obligations of the United States of two years or less ("Treasuries"), cash and cash equivalents. The daily holdings of BNO are available on BNO's website at www.uscfinvestments.com.

The investment objective of BNO is for the daily changes in percentage terms of its per share NAV to reflect the daily changes in percentage terms of the spot price of Brent crude oil as measured by the daily changes in the price of a specified short-term futures contract on Brent crude oil traded on the ICE Futures that is the near month contract to expire, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire (the "Benchmark Futures Contract"), plus interest earned on BNO's collateral holdings, less BNO's expenses. BNO's investment objective is not for its NAV or market price of shares to equal, in dollar terms, the spot price of Brent crude oil or any particular futures contract based on Brent crude oil nor is BNO's investment objective for the percentage change in its NAV to reflect the percentage change of the price of any particular futures contract as measured over a time period greater than one day. BNO may invest in interests other than the Benchmark Futures Contract to comply with accountability levels and position limits. For a detailed discussion of accountability levels and position limits, see *"Item 1. Business – What are Futures Contracts?"* below in this annual report on Form 10-K.

USCF employs a "neutral" investment strategy in order to track changes in the price of the Benchmark Futures Contract regardless of whether the price goes up or goes down. BNO's "neutral" investment strategy is designed to permit investors generally to purchase and sell BNO's shares for the purpose of investing indirectly in Brent crude oil in a cost-effective manner, and/or to permit participants in the oil or other industries to hedge the risk of losses in their Brent crude oil-related transactions. Accordingly, depending on the investment objective of an individual investor, the risks generally associated with investing in Brent crude oil and/or the risks involved in hedging may exist. In addition, an investment in BNO involves the risk that the daily changes in the price of BNO's shares, in percentage terms, will not accurately track the daily changes in the Benchmark Futures Contract, in percentage terms, and that daily changes in the Benchmark Futures Contract, in percentage terms, will not closely correlate with daily changes in the spot prices of crude oil, in percentage terms.

The Benchmark Futures Contract is changed from the near month contract to the next month contract over a four-day period. Each month the Benchmark Futures Contract changes starting at the end of the day on the date two weeks prior to expiration of the near month contract for that month. During the first three days of the period, the applicable value of the Benchmark Futures Contract is based on a combination of the near month contract and the next month

contract as follows: (1) day 1 consists of 75% of the then near month contract's price plus 25% of the price of the next month contract, divided by 75% of the near month contract's prior day's price plus 25% of the price of the next month contract, (2) day 2 consists of 50% of the then near month contract's price plus 50% of the price of the next month contract, divided by 50% of the near month contract's prior day's price plus 50% of the price of the next month contract and (3) day 3 consists of 25% of the then near month contract's price plus 75% of the price of the next month contract, divided by 25% of the near month contract's prior day's price plus 75% of the price of the next month contract. On day 4, the Benchmark Futures Contract is the next month contract to expire at that time and that contract remains the Benchmark Futures Contract until the beginning of the following month's change in the Benchmark Futures Contract over a four-day period.

On each day during the four-day period, USCF anticipates it will "roll" BNO's positions in Crude Oil Interests by closing, or selling, a percentage of BNO's positions in Crude Oil Interests and reinvesting the proceeds from closing those positions in new Crude Oil Interests that reflect the change in the Benchmark Futures Contract.

The anticipated dates that the monthly four-day roll period will commence are posted on BNO's website at www.uscfinvestments.com, and are subject to change without notice.

BNO's total portfolio composition is disclosed on its website each business day that the NYSE Arca is open for trading. The website disclosure of portfolio holdings is made daily and includes, as applicable, the name and value of each Crude Oil Interest, the specific types of Other Crude Oil-Related Investments and characteristics of such Other Crude Oil-Related Investments, the name and value of each Treasury and cash equivalent, and the amount of cash held in BNO's portfolio. BNO's website is publicly accessible at no charge. BNO's assets used for margin and collateral are held in segregated accounts pursuant to the Commodity Exchange Act (the "CEA") and CFTC regulations.

The shares issued by BNO may only be purchased by Authorized Participants and only in blocks of 50,000 shares, called "Creation Baskets". The amount of the purchase payment for a Creation Basket is equal to the aggregate NAV of the shares in the Creation Basket. Similarly, only Authorized Participants may redeem shares and only in blocks of 50,000 shares, called "Redemption Baskets". The amount of the redemption proceeds for a Redemption Basket is equal to the aggregate NAV of shares in the Redemption Basket. The purchase price for Creation Baskets and the redemption price for Redemption Baskets are the actual per share NAV calculated at the end of the business day when a request for a purchase or redemption is received by BNO. The NYSE Arca publishes an approximate per share NAV intra-day based on the prior day's per share NAV and the current price of the Benchmark Futures Contract, but the price of Creation Baskets and Redemption Baskets is determined based on the actual per share NAV calculated at the end of the day.

While BNO issues shares only in Creation Baskets, shares are listed on the NYSE Arca and investors may purchase and sell shares at market prices like any listed security.

What is BNO's Investment Strategy?

In managing BNO's assets, USCF does not use a technical trading system that issues buy and sell orders. USCF instead employs a quantitative methodology whereby each time a Creation Basket is sold, USCF purchases Crude Oil Interests, such as the Benchmark Futures Contract, that have an aggregate market value that approximates the amount of Treasuries and/or cash received upon the issuance of the Creation Basket.

By remaining invested as fully as possible in Futures Contracts or Other Crude Oil-Related Investments, USCF believes that the daily changes in percentage terms in BNO's per share NAV will continue to closely track the daily changes in percentage terms in the price of the Benchmark Futures Contract. USCF believes that certain arbitrage opportunities result in the price of the shares traded on the NYSE Arca closely tracking the per share NAV of BNO. Additionally, Futures Contracts traded on the ICE Futures have closely tracked the spot price of Brent crude oil. Based on these expected interrelationships, USCF believes that the daily changes in the price of BNO's shares traded on the NYSE Arca, on a percentage basis, have closely tracked and will continue to closely track on a daily basis, the changes in the spot price of Brent crude oil, on a percentage basis. For performance data relating to BNO's ability to track its benchmark, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of*

Operations – Tracking BNO's Benchmark" in this annual report on Form 10-K.

USCF endeavors to place BNO's trades in Futures Contracts and Other Crude Oil-Related Investments and otherwise manage BNO's investments so that "A" will be within plus/minus ten percent (10%) of "B", where:

- A is the average daily change in BNO's per share NAV for any period of 30 successive valuation days; i.e., any NYSE Arca trading day as of which BNO calculates its per share NAV; and
- B is the average daily percentage change in the price of the Benchmark Futures Contract over the same period.

USCF believes that market arbitrage opportunities will cause the daily changes in BNO's share price on the NYSE Arca, on a percentage basis, to closely track the daily changes in BNO's per share NAV on a percentage basis. USCF further believes that the net effect of these two expected relationships and the relationships described above between BNO's per share NAV and the Benchmark Futures Contract, will be that the daily changes in the price of BNO's shares on the NYSE Arca on a percentage basis will closely track the daily changes in the spot price of a barrel of Brent crude oil on a percentage basis, plus interest earned on BNO's collateral holdings, less BNO's expenses. For performance data relating to BNO's ability to track its benchmark, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Tracking BNO's Benchmark"* in this annual report on Form 10-K.

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The specific Futures Contracts purchased depend on various factors, including a judgment by USCF as to the appropriate diversification of BNO's investments in futures contracts with respect to the month of expiration, and the prevailing price volatility of particular contracts. While USCF has made significant investments in ICE Futures Contracts, for various reasons, including the ability to enter into the precise amount of exposure to the crude oil market, position limits or other regulatory requirements limiting BNO's holdings, and market conditions, it may invest in futures contracts traded on other exchanges or invest in Other Crude Oil-Related Investments. To the extent that BNO invests in Crude Oil Interests, it would prioritize investments in contracts and instruments that are economically equivalent to the Benchmark Futures Contract, including cleared swaps that satisfy such criteria, and then, to a lesser extent, it would invest in other types of cleared swaps and other contracts, instruments and non-cleared swaps, such as swaps in the OTC market. If BNO is required by law or regulation, or by one of its regulators, including a futures exchange, to reduce its position in the Benchmark Futures Contracts to the applicable position limit or to a specified accountability level or if market conditions dictate it would be more appropriate to invest in Other Crude Oil-Related Investments, a substantial portion of BNO's assets could be invested in accordance with such priority in Other Crude Oil-Related Investments that are intended to replicate the return on the Benchmark Futures Contract. As BNO's assets reach higher levels, it is more likely to exceed position limits, accountability levels or other regulatory limits and, as a result, it is more likely that it will invest in accordance with such priority in Other Crude Oil-Related Investments at such higher levels. In addition, market conditions that USCF currently anticipates could cause BNO to invest in Other Crude Oil-Related Investments include those allowing BNO to obtain greater liquidity or to execute transactions with more favorable pricing. See *"Item 1. Business – Commodities Regulation"* in this annual report on Form 10-K for a discussion of the potential impact of regulation on BNO's ability to invest in OTC transactions and cleared swaps.

USCF may not be able to fully invest BNO's assets in the Futures Contracts having an aggregate notional amount exactly equal to BNO's NAV. For example, as standardized contracts, the Futures Contracts are for a specified amount of a particular commodity, and BNO's NAV and the proceeds from the sale of a Creation Basket are unlikely to be an exact multiple of the amounts of those contracts. As a result, in such circumstances, BNO may be better able to achieve the exact amount of exposure to changes in price of the Benchmark Futures Contract through the use of Other Crude Oil-Related Investments, such as OTC contracts that have better correlation with changes in price of the Benchmark Futures Contract.

BNO anticipates that to the extent it invests in Futures Contracts other than contracts on Brent crude oil (such as futures contracts for diesel-heating oil, natural gas, and other petroleum-based fuels) and Other Crude Oil-Related Investments, it will enter into various non-exchange-traded derivative contracts to hedge the short-term price movements of such Futures Contracts and Other Crude Oil-Related Investments against the current Benchmark Futures Contract.

USCF does not anticipate letting BNO's Futures Contracts expire and taking delivery of the underlying commodity. Instead, USCF closes existing positions, e.g., when it changes the Benchmark Futures Contract or Other Crude Oil-Related Investments or it otherwise determines it would be appropriate to do so and reinvests the proceeds in new Futures Contracts or Other Crude Oil-Related Investments. Positions may also be closed out to meet orders for Redemption Baskets and in such case proceeds for such baskets will not be reinvested.

What is the Crude Oil Market and the Petroleum-Based Fuel Market?

BNO may purchase Futures Contracts traded on the ICE Futures that are based on Brent crude oil. It may also purchase contracts on other exchanges, including the NYMEX, ICE Futures Exchanges or other U.S. and Foreign exchanges. The contracts provide for delivery of several grades of domestic and internationally traded foreign crudes, and, among other things, serve the diverse needs of the physical market. In Europe, Brent crude oil is the standard for futures contracts and is primarily traded on the ICE Futures Europe. Brent crude oil is the price reference for two-thirds of the world's traded oil. The ICE Brent Futures is a deliverable contract with an option to cash settle which trades in units of 1,000 barrels (42,000 U.S. gallons). The ICE Futures also offers a West Texas Intermediate ("WTI") crude oil futures contract which trades in units of 1,000 barrels. The WTI crude oil futures contract is cash settled against the prevailing market price for U.S. light, sweet crude oil.

Brent Crude Oil. Crude oil is the world's most actively traded commodity. The futures contracts for Brent crude oil that are traded on the ICE Futures are the world's second most liquid forum for crude oil trading, as well as the world's second largest volume futures contract trading on a physical commodity. Due to the liquidity and price transparency of light, sweet crude oil futures contracts, they are used as a principal international pricing benchmark. The futures contracts for Brent crude oil trade on the ICE Futures in units of 1,000 U.S. barrels and, if not closed out before maturity, will result in delivery of oil to Sullom Voe, an oil terminal located in the Shetland Island near Scotland, which is also accessible to the international spot markets by tanker.

The price of crude oil is established by the supply and demand conditions in the global market overall, and more particularly, in the main refining centers of Singapore, Northwest Europe, and the U.S. Gulf Coast. Demand for petroleum products by consumers, as well as agricultural, manufacturing and transportation industries, determines demand for crude oil by refiners. Since the precursors of product demand are linked to economic activity, crude oil demand will tend to reflect economic conditions. However, other factors such as weather also influence product and crude oil demand. The price of Brent crude oil has historically exhibited periods of significant volatility.

Diesel-Heating Oil. Diesel-heating oil, also known as No. 2 fuel oil, accounts for 25% of the yield of a barrel of crude oil, the second largest "cut" from oil after gasoline. The diesel-heating oil Futures Contract listed and traded on the NYMEX trades in units of 42,000 gallons (1,000 barrels) and is based on delivery in the New York harbor, the principal cash market center. The ICE Futures also offers a diesel-heating oil Futures Contract which trades in units of 42,000 U.S. gallons (1,000 barrels). The diesel-heating oil Futures Contract is cash-settled against the prevailing market price for heating oil delivered to the New York Harbor.

Gasoline. Gasoline is the largest single volume refined product sold in the U.S. and accounts for almost half of national oil consumption. The gasoline futures contract listed and traded on the NYMEX, trades in units of 42,000 gallons (1,000 barrels) and is based on delivery at petroleum products terminals in the New York harbor, the major East Coast trading center for imports and domestic shipments from refineries in the New York harbor area or from the Gulf Coast refining centers. The price of gasoline has historically been volatile.

Natural Gas. Natural gas accounts for almost a quarter of U.S. energy consumption. The natural gas futures contract listed and traded on the NYMEX trades in units of 10,000 million British thermal units and is based on delivery at the Henry Hub in Louisiana, the nexus of 16 intra- and interstate natural gas pipeline systems that draw supplies from the region's prolific gas deposits. The pipelines serve markets throughout the U.S. East Coast, the Gulf Coast, the Midwest, and up to the Canadian border. The price of natural gas has historically been volatile.

What are Futures Contracts?

Futures contracts are agreements between two parties. One party agrees to buy a commodity such as Brent crude oil from the other party at a later date at a price and quantity agreed-upon when the contract is made. Futures Contracts are traded on futures exchanges, including the ICE Futures. For example, the Benchmark Futures Contract is traded on the ICE Futures in units of 1,000 barrels. The Brent crude Futures Contracts traded on the ICE Futures are priced by an electronic, screen-based system that determines the price by matching electronically offers to purchase and sell. Additional risks of investing in Futures Contracts are included in "*Item 1A. Risk Factors*" in this annual report on Form 10-K.

Accountability Levels, Position Limits and Price Fluctuation Limits. Designated contract markets, such as the NYMEX and ICE, have established accountability levels and position limits on the maximum net long or net short futures contracts in commodity interests that any person or group of persons under common trading control (other than as a hedge, which an investment by BNO is not) may hold, own or control. These levels and position limits apply to the futures contracts that BNO invests in to meet its investment objective. In addition to accountability levels and position limits, the NYMEX and ICE Futures also set daily price fluctuation limits on futures contracts. The daily price fluctuation limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price. Once the daily price fluctuation limit has been reached in a particular futures contract, no trades may be made at a price beyond that limit.

The accountability levels for the Benchmark Futures Contract and other Futures Contracts traded on U.S.-based futures exchanges, such as the NYMEX, are not a fixed ceiling, but rather a threshold above which the NYMEX may exercise greater scrutiny and control over an investor's positions. The current accountability level for net long or short positions at any one time in the NYMEX Contract for light, sweet crude oil Futures Contracts is 20,000 net future contracts. In addition, the ICE Futures maintains the same accountability levels, position limits and monitoring authority for its light, sweet crude oil contracts as the NYMEX. If BNO and the Related Public Funds exceed this accountability level for investments in the futures contracts for light, sweet crude oil, the NYMEX and ICE Futures will monitor such exposure and may ask for further information on their activities, including the total size of all positions, investment and trading strategy, and the extent of liquidity resources of BNO and the Related Public Funds. If deemed necessary by the NYMEX and/or ICE Futures, BNO could be ordered to reduce its net futures contracts back to the accountability level. In contrast, the position limits for the ICE Futures maintain that when 100 lots or more are traded, the activity must be reported to the exchange on a daily basis. ICE Futures also maintains that an Expiration Limit of 6,000 lots, long or short, will apply for the five business days up to and including the expiration date. There are no specific position accountability levels or limits, nor are there are any maximum daily price fluctuation limits for the ICE Brent Crude Oil (physically settled) futures contract. BNO did not exceed accountability levels of the NYMEX or ICE Futures during the year ended December 31, 2017. As of December 31, 2017, BNO held 1,414 Futures Contracts for Brent crude oil traded on the ICE Futures. BNO did not hold any Futures Contracts traded on exchanges other than ICE as of December 31, 2017.

Position limits differ from accountability levels in that they represent fixed limits on the maximum number of futures contracts that any person may hold and cannot allow such limits to be exceeded without express CFTC authority to do so. In addition to accountability levels and position limits that may apply at any time, the ICE Futures Exchange and the NYMEX impose position limits on contracts held in the last few days of trading in the near month contract to expire. It is unlikely that BNO will run up against such position limits because BNO's investment strategy is to close out its positions and "roll" from the near month contract to expire to the next month contract during a four-day period beginning two weeks from expiration of the contract. For the year ended December 31, 2017, BNO did not exceed any position limits imposed by NYMEX and ICE Futures.

The CFTC has proposed to adopt limits on speculative positions in 25 physical commodity futures and option contracts as well as swaps that are economically equivalent to such contracts in the agriculture, energy and metals markets (the "Position Limit Rules"). The Position Limit Rules would, among other things: identify which contracts are subject to speculative position limits; set thresholds that restrict the size of speculative positions that a person may hold in the spot month, other individual months, and all months combined; create an exemption for positions that constitute bona fide hedging transactions; impose responsibilities on designated contract markets ("DCMs") and swap execution facilities ("SEFs") to establish position limits or, in some cases, position accountability rules; and apply to both futures and swaps across four relevant venues: OTC, DCMs, SEFs as well as certain non-U.S. located platforms. The CFTC's first attempt at finalizing the Position Limit Rules, in 2011, was successfully challenged by market participants in 2012 and, since then, the CFTC has re-proposed them and solicited comments from market participants multiple times. At this time, it is unclear how the Position Limit Rules may affect BNO, but the effect may be substantial and adverse. By way of example, the Position Limit Rules may negatively impact the ability of BNO to meet its investment objectives through limits that may inhibit USCF's ability to sell additional Creation Baskets of BNO. See *"The Commodity Interest Markets-Commodities Regulation"* in this annual report on Form 10-K for additional information.

Until such time as the Position Limit Rules are adopted, the regulatory architecture in effect prior to the adoption of the Position Limit Rules will govern transactions in commodities and related derivatives. Under that system, the CFTC enforces federal limits on speculation in nine agricultural products (e.g., corn, wheat and soy), while futures exchanges establish and enforce position limits and accountability levels for other agricultural products and certain energy products (e.g., oil and natural gas). As a result, BNO may be limited with respect to the size of its investments in any commodities subject to these limits.

Under existing and recently adopted CFTC regulations, for the purpose of position limits, a market participant is generally required, subject to certain narrow exceptions, to aggregate all positions for which that participant controls the trading decisions with all positions for which that participant has a 10 percent or greater ownership interest in an account or position, as well as the positions of two or more persons acting pursuant to an express or implied agreement or understanding with that participant (the “Aggregation Rules”). The Aggregation Rules will also apply with respect to the Position Limit Rules if and when such Position Limit Rules are adopted.

Price Volatility. The price volatility of Futures Contracts generally has been historically greater than that for traditional securities such as stocks and bonds. Price volatility often is greater day-to-day as opposed to intra-day. Futures Contracts tend to be more volatile than stocks and bonds because price movements for crude oil are more currently and directly influenced by economic factors for which current data is available and are traded by crude oil futures traders throughout the day. Because BNO invests a significant portion of its assets in Futures Contracts, the assets of BNO, and therefore the prices of BNO shares, may be subject to greater volatility than traditional securities.

Marking-to-Market Futures Positions. Futures Contracts are marked to market at the end of each trading day and the margin required with respect to such contracts is adjusted accordingly. This process of marking-to-market is designed to prevent losses from accumulating in any futures account. Therefore, if BNO's futures positions have declined in value, BNO may be required to post "variation margin" to cover this decline. Alternatively, if BNO futures positions have increased in value, this increase will be credited to BNO's account.

Why Does BNO Purchase and Sell Futures Contracts?

BNO's investment objective is for the daily changes in percentage terms of its shares' per share NAV to reflect the daily changes in percentage terms of the Benchmark Futures Contract, plus interest earned on BNO's collateral holdings, less BNO's expenses. BNO invests primarily in Futures Contracts. BNO seeks to have its aggregate NAV approximate at all times the aggregate market value of the Futures Contracts and Other Crude Oil-Related Investments it holds.

In connection with investing in Futures Contracts and Other Crude Oil-Related Investments, BNO holds Treasuries, cash and/or cash equivalents that serve as segregated assets supporting BNO's positions in Futures Contracts and Other Crude Oil-Related Investments. For example, the purchase of a Futures Contract with a notional value of $10 million would not require BNO to pay $10 million upon entering into the contract; rather, only a margin deposit, generally of 5% to 30% of the stated value of the Futures Contract, would be required. To secure its Futures Contract obligations, BNO would deposit the required margin with the FCM and would separately hold, through its Custodian or FCM, Treasuries, cash and/or cash equivalents in an amount equal to the balance of the current market value of the contract, which at the contract's inception would be $10 million minus the amount of the margin deposit, or $9.5 million (assuming a 5% margin).

As a result of the foregoing, typically 5% to 30% of BNO's assets are held as margin in segregated accounts with an FCM. In addition to the Treasuries and cash it posts with the FCM for the Futures Contracts it owns, BNO may hold, through the Custodian, Treasuries, cash and/or cash equivalents that can be posted as additional margin or as other collateral to support its OTC contracts. BNO earns income from the Treasuries and/or cash equivalents that it purchases, and on the cash it holds through the Custodian or FCM. BNO anticipates that the earned income will increase the NAV and limited partners' capital contribution accounts. BNO reinvests the earned income, holds it in

cash, or uses it to pay its expenses. If BNO reinvests the earned income, it makes investments that are consistent with its investment objective.

What are the Trading Policies of BNO?

Liquidity

BNO invests only in Futures Contracts and Other Crude Oil-Related Investments that, in the opinion of USCF, are traded in sufficient volume to permit the ready taking and liquidation of positions in these financial interests.

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Spot Commodities

While the Futures Contracts traded on the exchange can be physically settled, BNO does not intend to take or make physical delivery. BNO may from time to time trade in Other Crude Oil-Related Investments, including contracts based on the spot price of crude oil.

Leverage

USCF endeavors to have the value of BNO's Treasuries, cash and cash equivalents, whether held by BNO or posted as margin or other collateral, at all times approximate the aggregate market value of its obligations under its Futures Contracts and Other Crude Oil-Related Investments. Commodity pools' trading positions in futures contracts or other related investments are typically required to be secured by the deposit of margin funds that represent only a small percentage of a futures contract's (or other commodity interest's) entire market value. While USCF has not and does not intend to leverage BNO's assets, it is not prohibited from doing so under the LP Agreement.

Borrowings

Borrowings are not used by BNO unless BNO is required to borrow money in the event of physical delivery, if BNO trades in cash commodities, or for short-term needs created by unexpected redemptions.

OTC Derivatives (Including Spreads and Straddles)

In addition to Futures Contracts, there are also a number of listed options on the Futures Contracts on the principal futures exchanges. These contracts offer investors and hedgers another set of financial vehicles to use in managing exposure to the crude oil market. Consequently, BNO may purchase options on crude oil Futures Contracts on these exchanges in pursuing its investment objective.

In addition to the Futures Contracts and options on the Futures Contracts, there also exists an active non-exchange-traded market in derivatives tied to crude oil. These derivatives transactions (also known as OTC contracts) are usually entered into between two parties in private contracts. Unlike most of the exchange-traded Futures Contracts or exchange-traded options on the Futures Contracts, each party to such contract bears the credit

risk of the other party, i.e., the risk that the other party may not be able to perform its obligations under its contract.

To reduce the credit risk that arises in connection with such contracts, BNO will generally enter into an agreement with each counterparty based on the Master Agreement published by the International Swaps and Derivatives Association, Inc. ("ISDA") that provides for the netting of its overall exposure to its counterparty.

USCF assesses or reviews, as appropriate, the creditworthiness of each potential or existing counterparty to an OTC contract pursuant to guidelines approved by USCF's Board.

BNO may enter into certain transactions where an OTC component is exchanged for a corresponding futures contract ("Exchange for Related Position" or "EFRP" transactions). In the most common type of EFRP transaction entered into by BNO, the OTC component is the purchase or sale of one or more baskets of BNO's shares. These EFRP transactions may expose BNO to counterparty risk during the interim period between the execution of the OTC component and the exchange for a corresponding futures contract. Generally, the counterparty risk from the EFRP transaction will exist only on the day of execution.

BNO may employ spreads or straddles in its trading to mitigate the differences in its investment portfolio and its goal of tracking the price of the Benchmark Futures Contract. BNO would use a spread when it chooses to take simultaneous long and short positions in futures written on the same underlying asset, but with different delivery months.

During the reporting period of this annual report on Form 10-K, BNO limited its derivatives activities to Futures Contracts and EFRP transactions.

Pyramiding

BNO has not and will not employ the technique, commonly known as pyramiding, in which the speculator uses unrealized profits on existing positions as variation margin for the purchase or sale of additional positions in the same or another commodity interest.

Who are the Service Providers?

In its capacity as the Custodian for BNO, BBH&Co. may hold BNO's Treasuries, cash and/or cash equivalents pursuant to a custodial agreement. BBH&Co. is also the registrar and transfer agent for the shares. In addition, in its capacity as Administrator for BNO, BBH&Co. performs certain administrative and accounting services for BNO and prepares certain SEC, NFA and CFTC reports on behalf of BNO. USCF pays BBH&Co.'s fees for these services.

BBH&Co.'s principal business address is 50 Post Office Square, Boston, MA 02110-1548. BBH&Co., a private bank founded in 1818, is neither a publicly held company nor insured by the Federal Deposit Insurance Corporation. BBH&Co. is authorized to conduct a commercial banking business in accordance with the provisions of Article IV of the New York State Banking Law, New York Banking Law §§160–181, and is subject to regulation, supervision, and examination by the New York State Department of Financial Services. BBH&Co. is also licensed to conduct a commercial banking business by the Commonwealths of Massachusetts and Pennsylvania and is subject to supervision and examination by the banking supervisors of those states.

BNO also employs ALPS Distributors as its marketing agent. USCF pays the Marketing Agent an annual fee. In no event may the aggregate compensation paid to the Marketing Agent and any affiliate of USCF for distribution-related services in connection with the offering of shares exceed ten percent (10%) of the gross proceeds of the offering.

ALPS Distributors' principal business address is 1290 Broadway, Suite 1100, Denver, CO 80203. ALPS Distributors is a broker-dealer registered with the Financial Industry Regulatory Authority ("FINRA") and a member of the Securities Investor Protection Corporation.

On October 8, 2013, USCF entered into a Futures and Cleared Derivatives Transactions Customer Account Agreement with RBC Capital Markets, LLC ("RBC Capital") to serve as BNO's FCM, effective October 10, 2013. This agreement requires RBC Capital to provide services to BNO, as of October 10, 2013, in connection with the purchase and sale of Futures Contracts and Other Crude Oil-Related Investments that may be purchased or sold by or through

RBC Capital for BNO's account. For the period October 10, 2013 and after, BNO pays RBC Capital commissions for executing and clearing trades on behalf of BNO.

RBC Capital's primary address is 500 West Madison Street, Suite 2500, Chicago, Illinois 60661. Effective October 10, 2013, RBC Capital became the futures clearing broker for BNO. RBC Capital is registered in the United States with FINRA as a broker-dealer and with the CFTC as an FCM. RBC Capital is a member of various U.S. futures and securities exchanges.

Royal Bank of Canada ("RBC"), and its subsidiary, RBC Capital Markets LLC ("RBC Capital"), are large financial institutions subject to many different complex legal and regulatory requirements. As a result, certain of RBC's regulators may from time to time conduct investigations, initiate enforcement proceedings and/or enter into settlements with RBC with respect to issues raised in various investigations. RBC complies fully with its regulators in all investigations being conducted and in all settlements it reaches. In addition, RBC is and has been subject to a variety of civil legal claims in various jurisdictions, a variety of settlement agreements and a variety of orders, awards and judgments made against it by courts and tribunals, both in regard to such claims and investigations. RBC complies fully with all settlements it reaches and all orders, awards and judgments made against it.

RBC has been named as a defendant in various legal actions, including arbitrations, class actions and other litigation including those described below, arising in connection with its activities as a broker-dealer. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. RBC is also involved, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding RBC's business, including among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

RBC contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, RBC cannot predict the loss or range of loss, if any, related to such matters; how or if such matters will be resolved; when they will ultimately be resolved; or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, RBC believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of RBC.

On April 27, 2017, pursuant to an offer of settlement, a Panel of the Chicago Board of Trade Business Conduct Committee ("Panel") found that RBC Capital engaged in EFRP transactions which failed to satisfy the Rules of the Chicago Board of Trade (the "Exchange") in one or more ways. Specifically, the Panel found that RBC Capital traders entered into EFRP trades in which RBC Capital accounts were on both sides of the transactions. While the purpose of the transactions was to transfer positions between the RBC Capital accounts, the CME Group found that the manner in which the trades occurred violated the Exchange's prohibition on wash trades. The Panel found that RBC Capital thereby violated CBOT Rules 534 and (legacy) 538.B. and C. In accordance with the settlement offer, the Panel ordered RBC Capital to pay a $175,000 fine.

On June 18, 2015, in connection with the Municipalities Continuing Disclosure Cooperation initiative of the U.S. Securities and Exchange Commission ("SEC"), the SEC commenced and settled an administrative proceeding against RBC Capital for willful violations of Sections 17(a)(2) of the Securities Act of 1933, as amended ("Securities Act") after the firm self-reported instances in which it conducted inadequate due diligence in certain municipal securities offerings and as a result, failed to form a reasonable basis for believing the truthfulness of certain material representations in official statements issued in connection with those offerings. RBC Capital paid a fine of $500,000.

RBC and certain affiliates were named as defendants in a lawsuit relating to their role in transactions involving investments made by a number of Wisconsin school districts in certain collateralized debt obligations. These transactions were also the subject of a regulatory investigation, which was resolved in 2011. RBC reached a final settlement with all parties in the civil litigation, and the civil action against RBC was dismissed with prejudice on December 6, 2016.

On July 31, 2015, RBC Capital was added as a new defendant in a pending putative class action initially filed in November 2013 in the United States District Court for the Southern District of New York. The action is brought against multiple foreign exchange dealers and alleges collusive behavior, among other allegations, in foreign exchange trading. Various regulators are also conducting inquiries regarding potential violations of law by a number of banks and other entities, including RBC, regarding foreign exchange trading. In September 2017, the U.S. District Court entered an order preliminarily approving a pending settlement with class plaintiffs. Canadian class actions and one other U.S. action that is purportedly brought on behalf of different classes of plaintiffs remain pending.

On April 13, 2015, RBC's affiliate, Royal Bank of Canada Trust Company (Bahamas) Limited (RBC Bahamas), was charged in France with complicity in tax fraud. RBC Bahamas believes that its actions did not violate French law and contested the charge in the French court. The trial of this matter has concluded and a verdict was delivered on January 12, 2017, acquitting the company and the other defendants. The French prosecutor's office has appealed.

Thornburg Mortgage Inc. (now known as "TMST") and RBC were parties to a master repurchase agreement executed in September 2003 whereby TMST financed its purchase of residential mortgage-backed securities. Upon TMST's

default during the financial crisis, RBC valued TMST's collateral at allegedly deflated prices. After TMST's bankruptcy filing, TMST's trustee brought suit against RBC in 2011 for breach of contract. In 2015, TMST was awarded more than $45 million in damages. RBC has appealed. The appeals court set a briefing schedule and simultaneously ordered the parties to participate in a mediation. The parties have subsequently reached an agreement to settle the matter; a motion to approve the settlement was filed with the bankruptcy court on January 10, 2016 and granted on February 27, 2017.

On October 14, 2014, the Delaware Court of Chancery (the "Court of Chancery") in a class action brought by former shareholders of Rural/Metro Corporation, held RBC Capital liable for aiding and abetting a breach of fiduciary duty by three Rural/Metro directors, but did not make an additional award for attorney's fees. A final judgment was entered on February 19, 2015 in the amount of US$93 million plus post judgment interest. RBC appealed the Court of Chancery's determination of liability and quantum of damages, and the plaintiffs cross-appealed the ruling on additional attorneys' fees. On November 30, 2015, the Delaware Supreme Court affirmed the Court of Chancery with respect to both the appeal and cross-appeal. RBC is cooperating with an investigation by the SEC relating to this matter. In particular, the SEC contended that RBC caused materially false and misleading information to be included in the proxy statement that Rural filed to solicit shareholder approval for the sale in violation of section 14(A) of the Securities Exchange Act of 1934 and Rule 14A-9 thereunder. On August 31, 2016, RBC was ordered by the SEC to cease and desist and paid $500,000 in disgorgement, plus interest of $77,759 and a civil penalty of $2 million.

On March 11, 2013, the New Jersey Bureau of Securities entered a consent order settling an administrative complaint against RBC, which alleged that RBC failed to follow its own procedures with respect to monthly account reviews and failed to maintain copies of the monthly account reviews with respect to certain accounts that James Hankins Jr. maintained at the firm in violation of N.J.S.A. 49:3-58(a)(2)(xi) and 49:3-59(b). Without admitting or denying the findings of fact and conclusions of law, RBC consented to a civil monetary penalty of $150,000 (of which $100,000 was suspended as a result of the firm's cooperation) and to pay disgorgement of $300,000.

Please see RBC's Form BD, which is available on the FINRA BrokerCheck program, for more details.

RBC will act only as clearing broker for BNO and as such will be paid commissions for executing and clearing trades on behalf of BNO. RBC has not passed upon the adequacy or accuracy of this annual report on Form 10-K. RBC will not act in any supervisory capacity with respect to USCF or participate in the management of USCF or BNO.

RBC is not affiliated with BNO or USCF. Therefore, neither USCF nor BNO believes that there are any conflicts of interest with RBC or its trading principals arising from its acting as BNO's FCM.

Currently, USCF does not employ commodity trading advisors for trading of BNO contracts. USCF currently does, however, employ SummerHaven Investment Management, LLC as a trading advisor for USCI, CPER and USAG. If, in the future, USCF does employ commodity trading advisors for BNO, it will choose each advisor based on arm's-length negotiations and will consider the advisor's experience, fees and reputation.

Fees of BNO

Fees and Compensation Arrangements with USCF and Non-Affiliated Service Providers[(1)]

Service Provider	Compensation Paid by USCF
BBH&Co., Custodian and Administrator	Minimum amount of $75,000 annually for its custody, fund accounting and fund administration services rendered to all funds, as well as a $20,000 annual fee for its transfer agency services. In addition, an asset-based charge of (a) 0.06% for the first $500 million of BNO's and the Related Public Funds' combined net assets, (b) 0.0465% for BNO's and the Related Public Funds' combined net assets greater than $500 million but less than $1 billion, and (c) 0.035% once BNO's and the Related Public Funds' combined net assets exceed $1 billion.[(2)]

ALPS Distributors - Marketing Agent	0.06% on BNO's assets to $3 billion and 0.04% on BNO's assets in excess of $3 billion.

(1) USCF pays this compensation.

(2) The annual minimum amount will not apply if the asset-based charge for all accounts in the aggregate exceeds $75,000. USCF also will pay transaction charge fees to BBH&Co., ranging from $7 to $15 per transaction for the funds.

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Compensation to USCF

BNO is contractually obligated to pay USCF a management fee based on 0.75% per annum on its average daily total net assets. Fees are calculated on a daily basis (accrued at 1/365 of the applicable percentage of total net assets on that day) and paid on a monthly basis. Total net assets are calculated by taking the current market value of BNO's total assets and subtracting any liabilities.

Fees and Compensation Arrangements between BNO and Non-Affiliated Service Providers[3]

Service Provider	Compensation Paid by BNO
RBC Capital Futures Commission Merchant	Approximately $3.50 per buy or sell; charges may vary

(3) BNO pays this compensation.

Expenses Paid or Accrued by BNO from Inception through December 31, 2017 in dollar terms:

Expenses:	Amount in Dollar Terms	
Amount Paid or Accrued to USCF:	$ 3,623,206	
Amount Paid or Accrued in Portfolio Brokerage Commissions:	$ 540,865	
Other Amounts Paid or Accrued[4]:	$ 1,446,486	
Total Expenses Paid or Accrued:	$ 5,610,557	
Expenses Waived [5]:	$ (1,151,496	)
Total Expenses Paid or Accrued Excluding Expenses Waived [5]:	$ 4,459,061	

(4) Includes expenses relating to legal fees, auditing fees, printing expenses, tax reporting fees, prepaid insurance expenses and miscellaneous expenses and fees and expenses paid to the independent directors of USCF.

(5) USCF paid certain expenses typically borne by BNO on a discretionary basis, to the extent that such expenses exceeded 0.15% (15 basis points) of BNO's NAV, on an annualized basis. USCF has no obligation to pay such expenses in subsequent periods.

Expenses Paid or Accrued by BNO from Inception through December 31, 2017 as a Percentage of Average Daily Net Assets:

Expenses:	Amount as a Percentage of Average Daily Net Assets
Amount Paid or Accrued to USCF:	0.75% annualized
Amount Paid or Accrued in Portfolio Brokerage Commissions:	0.11% annualized
Other Amounts Paid or Accrued[6]:	0.30% annualized
Total Expenses Paid or Accrued:	1.16% annualized
Expenses Waived [7]:	(0.24)% annualized
Total Expenses Paid or Accrued Excluding Expenses Waived [7]:	0.92% annualized

(6) Includes expenses relating to legal fees, auditing fees, printing expenses, tax reporting fees, prepaid insurance expenses and miscellaneous expenses and fees and expenses paid to the independent directors of USCF.

(7) USCF paid certain expenses typically borne by BNO on a discretionary basis, to the extent that such expenses exceeded 0.15% (15 basis points) of BNO’s NAV, on an annualized basis. USCF has no obligation to pay such expenses in subsequent periods.

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Other Fees. BNO also pays the fees and expenses associated with its audit expenses, tax accounting and reporting requirements. These fees were approximately $190,000 for the fiscal year ended December 31, 2017. In addition, BNO is responsible for paying its portion of the directors' and officers' liability insurance for BNO and the Related Public Funds and the fees and expenses of the independent directors who also serve as audit committee members of BNO and the Related Public Funds organized as limited partnerships and, as of July 8, 2011, those Related Public Funds organized as a series of a Delaware statutory trust. BNO shares the fees and expenses on a pro rata basis with each Related Public Fund, as described above, based on the relative assets of each fund computed on a daily basis. These fees and expenses for the year ended December 31, 2017 were $536,375 for BNO and the Related Public Funds. BNO's portion of such fees and expenses for the year ended December 31, 2017 was $13,325.

Form of Shares

Registered Form. Shares are issued in registered form in accordance with the LP Agreement. The Administrator has been appointed registrar and transfer agent for the purpose of transferring shares in certificated form. The Administrator keeps a record of all limited partners and holders of the shares in certificated form in the registry. USCF recognizes transfers of shares in certificated form only if done in accordance with the LP Agreement. The beneficial interests in such shares are held in book-entry form through participants and/or accountholders in the Depository Trust Company ("DTC").

Book Entry. Individual certificates are not issued for the shares. Instead, shares are represented by one or more global certificates, which are deposited by the Administrator with DTC and registered in the name of Cede & Co., as nominee for DTC. The global certificates evidence all of the shares outstanding at any time. Shareholders are limited to (1) participants in DTC such as banks, brokers, dealers and trust companies ("DTC Participants"), (2) those who maintain, either directly or indirectly, a custodial relationship with a DTC Participant ("Indirect Participants"), and (3) those banks, brokers, dealers, trust companies and others who hold interests in the shares through DTC Participants or Indirect Participants, in each case who satisfy the requirements for transfers of shares. DTC Participants acting on behalf of investors holding shares through such participants' accounts in DTC will follow the delivery practice applicable to securities eligible for DTC's Same-Day Funds Settlement System. Shares are credited to DTC Participants' securities accounts following confirmation of receipt of payment.

DTC. DTC has advised BNO as follows: It is a limited purpose trust company organized under the laws of the State of New York and is a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC Participants and facilitates the clearance and settlement of transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants.

Calculating Per Share NAV

BNO’s per share NAV is calculated by:

- Taking the current market value of its total assets;

	Remaining	Aggregate Intrinsic		
	Number of Shares	**Exercise Price**	**Contractual Term**	**Value (in thousands)**
Outstanding, beginning of period	4,843,492	$ 18.43		
Granted	846,162	34.61		
Exercised	(345,161)	13.06		
Canceled or expired	(132,236)	25.50		
Outstanding, end of period	5,212,257	21.23	7.48 years	$ 30,014
Vested and expected to vest in the future at October 28, 2006	5,039,706	21.01	7.50 years	$ 29,747
Exercisable at October 28, 2006	2,831,700	15.34	6.55 years	$ 26,625
Available for grant at October 28, 2006	2,064,378			

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company s closing stock price on the last trading day of the third quarter of fiscal 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on October 28, 2006. This amount changes based on the fair market value of the Company s common stock. Total intrinsic value of options exercised for the three and nine months ended October 28, 2006 (based on the difference between the Company s stock price on the respective exercise date and the respective exercise price, multiplied by the number of respective options exercised) was $44 thousand and $9.4 million, respectively.

As of October 28, 2006, there was $22.8 million of total unrecognized compensation expense related to unvested stock options granted under the Company s share-based compensation plans. That expense is expected to be recognized over a weighted average period of 1.7 years.

Cash received from option exercises and purchases under the ESPP for the first nine months ended October 28, 2006 was an aggregate of $6.2 million. The actual tax benefit realized for the tax deduction from option exercises of stock option awards totaled $3.5 million for the nine months ended October 28, 2006.

CHICO S FAS, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 28, 2006
(Unaudited)
(in thousands, except share and per share amounts)

Note 5. Stock-Based Compensation (continued)

Restricted stock awards as of October 28, 2006 and changes during the nine months ended October 28, 2006 were as follows:

	Thirty-Nine Weeks Ended October 28, 2006	
	Number of Shares	**Weighted Average Grant Date Fair Value**
Nonvested, beginning of period	194,798	$ 27.33
Granted	284,175	35.38
Vested	(11,662)	26.34
Canceled	(16,950)	35.18
Nonvested, end of period	450,361	32.14

Total fair value of shares of restricted stock that vested during the nine months ended October 28, 2006 was $0.3 million. As of October 28, 2006, there was $9.7 million of unrecognized stock-based compensation expense related to nonvested restricted stock awards. That cost is expected to be recognized over a weighted average period of 2.0 years.

For the thirty-nine and thirteen weeks ended October 28, 2006, stock-based compensation expense was allocated as follows (in thousands):

	Thirty-Nine Weeks Ended October 28, 2006	**Thirteen Weeks Ended October 28, 2006**
Cost of goods sold	$ 4,833	$ 1,689
General, administrative and store operating expenses	12,052	4,292
Stock based compensation expense before income taxes	$ 16,885	$ 5,981
Income tax benefit	6,072	2,106
Total stock-based compensation expense after income taxes	$ 10,813	$ 3,875

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CHICO S FAS, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 28, 2006
(Unaudited)
(in thousands, except share and per share amounts)

Note 6. Net Income Per Share

Basic Earnings Per Share (EPS) is computed by dividing net income by the weighted-average number of common shares outstanding. Restricted stock grants to employees and directors are not included in the computation of basic EPS until the securities vest. Diluted EPS reflects the dilutive effect of potential common shares from securities such as stock options and unvested restricted stock. The following is a reconciliation of the denominators of the basic and diluted EPS computations shown on the face of the accompanying consolidated statements of income:

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	October 28, 2006	October 29, 2005	October 28, 2006	October 29, 2005
Weighted average common shares outstanding basic	178,036,341	180,217,818	175,234,410	180,638,524
Dilutive effect of stock options and unvested restricted stock outstanding	1,202,122	1,897,354	950,012	1,917,280
Weighted average common and common equivalent shares outstanding diluted	179,238,463	182,115,172	176,184,422	182,555,804

For the three and nine month periods ended October 28, 2006, of the options then outstanding, options to purchase 2,351,433 and 801,213 shares of common stock, respectively, were excluded from the computation of diluted EPS on the basis that such options were antidilutive.

For each of the three and nine month periods ended October 29, 2005, of the options then outstanding, options to purchase 51,000 and 303,070 shares of common stock, respectively, were excluded from the computation of diluted EPS on the basis that such options were antidilutive.

Note 7. Stock Repurchase Programs

In March 2006, the Company s Board of Directors (the Board) approved the repurchase, over a twelve-month period ending in March 2007, of up to $100 million of the Company s outstanding common stock. During the thirty-nine weeks ended October 28, 2006, the Company repurchased 3,081,104 shares of its common stock in connection with this stock repurchase program, which represented the entire $100 million initial stock repurchase program authorized by the Company s Board.

In May 2006, the Company announced that its Board had approved the repurchase of an additional $100 million of the Company s common stock over a twelve month period ending in May 2007. During the thirty-nine weeks ended October 28, 2006, the Company repurchased 3,591,352 shares of its common stock in connection with this stock repurchase program, which represented the entire additional $100 million program authorized by the Company s Board.

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

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the accompanying unaudited consolidated financial statements and notes thereto and the Company s 2005 Annual Report to Stockholders.

Executive Overview

Chico s FAS, Inc. (together with its subsidiaries, the Company) is a specialty retailer of private label, sophisticated, casual-to-dressy clothing, intimates, complementary accessories, and other non-clothing gift items operating under the Chico s, White House | Black Market (WH|BM), Soma by Chico s (Soma) and Fitigues brand names.

Chico s, which began operations in 1983, focuses on fashion conscious women who are 35 and over with a moderate to high income level. The styling interprets fashion trends in a unique, relaxed, figure-flattering manner using mainly easy-care fabrics. WH|BM, which began operations in 1985 but which the Company acquired in September 2003, targets middle-to-upper income women who are 25 years old and up. The styling is contemporary, feminine and unique, assorted primarily in the classic and timeless colors of white and black and related shades. Soma was initially launched in August 2004. This concept offers foundation products in intimate apparel, sleepwear, and activewear that is aimed at the Chico s target customer, but with focus and styling that is expected to ultimately appeal to a broader customer base. Fitigues, which began operations in 1988, but which the Company acquired in early fiscal 2006, targets women who are 25 years old and up, and to a much lesser degree, men and children. Fitigues is a fitness inspired brand, offering stylish yet comfortable activewear clothing.

The Company earns revenues and generates cash through the sale of merchandise in its retail stores, through its remaining Chico s franchisees, and through its call centers, which handle sales related to catalog and online operations for all brands.

The primary factors which historically have influenced the Company s profitability and success have been its growth in number of stores and selling square footage, its positive comparable store sales, and its strong operating margin. The Company has grown from 250 stores as of January 30, 2001 to 871 stores as of October 28, 2006, which includes the store growth resulting from the acquisition of WH|BM in fiscal 2003 (107 stores) and Fitigues (12 stores) in fiscal 2006 as well as the launch of the Soma brand in fiscal 2004. The Company continues to expand its presence through the opening of new stores, through the expansion and relocation of existing stores, through the development of new opportunities such as Soma, through the acquisition of existing store concepts such as Fitigues and through the extension of its merchandise line in each of its brands. The Company anticipates that its rate of growth (measured by overall growth in sales, growth in comparable store sales, and other factors) can be expected to decrease from the rate of overall sales growth experienced in recent years (which has been in the range of 30-40%), such anticipated decrease in rate of growth reflecting in large part the Company s significantly increased size, its more manageable 30% net square footage growth goal for fiscal 2006 and its 25% net square footage growth goal for fiscal 2007 and the expectation that its same store sales may continue to experience more moderate and flatter increases and may experience decreases from time to time, as was the case in the third quarter of fiscal 2006. The Company generally expects to continue to generate the necessary cash flow to fund its expansion and to take advantage of new opportunities. The Company has no long-term debt and foresees no current need to incur long-term debt to support its continued growth.

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Factors that will be critical to determining the Company s future success include, among others, managing the overall growth strategy, including the ability to open and operate stores effectively, maximizing efficiencies in the merchandising, product development and sourcing processes, maintaining high standards for customer service and assistance, maintaining newness, fit and comfort in its merchandise offerings, matching merchandise offerings to customer preferences and needs, effectuating customer acceptance of new store concepts, integrating acquired businesses, maturing the newer brand concepts, implementing the process of senior management succession, and generating cash to fund the Company s expansion needs. In order to monitor the Company s success, the Company s senior management monitors certain key performance indicators, including:

Comparable same store sales growth - For the thirteen-week period ended October 28, 2006, the Company s consolidated comparable store sales results (sales from stores open for at least twelve full months, including stores that have been expanded or relocated within the same general market) decreased 1.2%. For the thirty-nine week period ended October 28, 2006, the Company s consolidated comparable store sales results increased 3.6%. The thirteen-week period decrease of 1.2% follows nine consecutive years of positive same store sales growth, eight of which were double digit. The Company believes that the decline in same store sales for the core Chico s brand was principally due to missteps in fashion merchandising, an aggressive store opening/relocation/expansion program that we believe contributed to less than acceptable store service levels and a refocusing in the direction of the Company s marketing initiatives. The Company s current strategy is to target a general overall trend towards positive, but more moderate, comparable store sales growth. The Company believes that its ability to realize such a general overall positive trend in comparable store sales will prove to be a key factor in determining its future levels of success (i) particularly in terms of the Company s success in effectively operating its stores across all brands, (ii) in managing its continuing store expansion program across all brands, and (iii) in maturing and developing its newer brands.

Positive operating cash flow - For the thirty-nine week period ended October 28, 2006 (the current period), cash flow from operations totaled $214 million compared with $215 million for the prior year s thirty-nine week period ended October 29, 2005 (the prior period) (see Liquidity and Capital Resources section of this MD&A for discussion of the differences between SFAS 123R cash flow presentation for the current period and presentation under APB 25 for the prior period). The Company believes that a key strength of its business is the ability to consistently generate cash flow from operations. Strong cash flow generation is critical to the future success of the Company, not only to support the general operating needs of the Company, but also to fund capital expenditures related to new store openings, relocations, expansions and remodels, costs associated with the Company s proposed expansions of its existing corporate headquarters and its existing distribution center, any future stock repurchase programs, costs associated with continued improvement of information technology tools, including the conversions to the SAP software platform, and costs associated with potential strategic acquisitions that may arise from time to time. See further discussion of the Company s cash flows in the Liquidity and Capital Resources section of this MD&A.

Loyalty Clubs and Customer Development - Management believes that a significant indicator of the Company s success is the extent of the growth of its loyalty programs, the Passport Club and The Black Book , and support for such loyalty programs that is provided through its personalized customer service training programs and its marketing initiatives. The Passport Club, the Chico s and Soma frequent shopper club, features discounts and other special promotions for its members. Preliminary members may join the Passport Club at no cost and, upon spending $500, customers automatically become permanent members and are entitled to a lifetime 5% discount and other

benefits. The Black Book loyalty program, the WH|BM frequent shopper club, is similar to the Passport Club in most key respects except that customers become permanent members upon spending $300, compared to $500 for the Passport Club. The Company believes that the continued growth in new members and repeat shopping of its existing Passport and Black Book club members indicates that the Company is still generating strong interest from its customers due in large part to the Company s commitment to personalized customer service and constant newness of product.

In mid 2006, the marketing team studied the customer acquisition approach to find ways designed to optimize the return on investment. At that time, the Chico s brand had been investing in mass marketing (e.g. TV advertisements and Magazine Catalog Sections) to encourage consumers to call and request a catalog. Names of customers acquired in this fashion were called Inquiries and were included in the database as preliminary Passport Club members. As a second step, the Company mailed introductory offers to convert these Inquiries into shopping customers. As a result of its study, management concluded that the cost of acquiring a consumer name (i.e. leads) via mass marketing inquiries was significantly greater than gathering names using third party databases. Furthermore, the new customers acquired as Inquiries showed similar profitability to the new customers gathered through third party databases. Based on these findings, the marketing strategy was adjusted to use third party databases for potential names, rather than mass marketing, to reduce the cost per acquired customer. Historically, the Company has reported new preliminary Passport Club membership inclusive of Inquiry names and exclusive of third party database names. However, increased investments in third party database names means fewer Inquiry names are being added beginning in the third quarter of fiscal 2006. Although the overall number of new preliminary members is likely to slow, the Company s change in direction is already producing solid increases in the number of shoppers that have made a purchase in the past 12 months (i.e. active customers).

For the thirteen-week and thirty-nine week periods ended October 28, 2006, the Company added approximately 81,000 and 268,000, net permanent Passport Club members, respectively. Also, for the thirteen-week and the thirty-nine week periods ended October 28, 2006, the Company added approximately 143,000 and 667,000 new preliminary Passport Club members respectively. During the third quarter, the Company performed various routine database hygiene activities that purged the database of approximately 250,000 member records.

For the thirteen-week and thirty-nine week periods ended October 28, 2006, the Company added approximately 67,000 and 225,000, net permanent Black Book members, respectively, and approximately 195,000 and 752,000, net preliminary Black Book members, respectively.

Quality of merchandise offerings To monitor and maintain the acceptance of its merchandise offerings, the Company monitors sell-through levels, inventory turns, gross margins and markdown rates on a classification and style level. Although the Company does not disclose these statistics for competitive reasons, this analysis helps identify comfort, fit, newness and assortment issues at an early date and helps the Company plan future product development and buying.

In addition to the key performance indicators mentioned above, the Company s operational strategies are focused on qualitative factors as well. The Company s ability to manage its multiple brands, to develop and grow its newer concepts (Soma and to a lesser extent, Fitigues), to expand the Company s direct to consumer business, to secure new store locations including relocations and/or expansions of

existing stores and to launch new product categories within all brands, are all important strategies that, if successful, should contribute to the continued growth of the Company.

The Company continues to evaluate and monitor the progress of its intimate apparel initiative with its Soma brand. The Company recognizes that the Soma business can be seen as complementary to its basic apparel business, but also understands that many aspects of this business require unique attention. The Company monitors Soma merchandise offerings in a manner similar to its other brands with special emphasis on repeat purchases in the foundation category. The Company anticipates that additional investment will be required to establish the Soma brand as a suitable business that meets the profitability goals of the Company over the longer term. The Company believes the Soma brand reduced the Company s earnings per share by $.02 and $.04 for the thirteen and thirty-nine weeks ended October 28, 2006, respectively. The Company further believes that an impact on earnings per share of this order is acceptable when balanced against the possibility of the brand s perceived longer term potential.

For the thirteen weeks ended October 28, 2006, the Company reported net sales, operating income and net income of $404 million, $64 million and $42 million, respectively. Net sales increased by 12.5% from the comparable period in the prior fiscal year, while operating income and net income decreased by 22.1% and 20.8%, respectively, from the comparable period in the prior fiscal year. The Company s gross profit percentage decreased to 59.7% for the current period from 62.8% in the prior period primarily due to decreased merchandise margins at the Chico s and WH|BM stores, attributable primarily to a higher markdown rate compared to the prior period, offset slightly by improved initial markups. The gross profit percentage was also negatively impacted by the mix effect of WH|BM and Soma sales becoming a larger percentage of overall net sales, by increased inventory shrinkage costs, by the continued investment in the Company s product development teams (specifically WH|BM), and by incremental stock-based compensation expense due to the adoption of SFAS 123R and the related change in accounting for stock-based compensation. General, administrative and store operating expenses (including depreciation and amortization) increased as a percentage of net sales over the prior period by approximately 390 basis points primarily due to increased store operating expenses for both the Chico s and WH|BM brands (primarily personnel, fringe benefits and occupancy costs) attributable mainly to additional store openings/relocations/expansions as well as the deleverage associated with the decline in comparable store sales, the impact of the incremental stock-based compensation expense due to the adoption of SFAS 123R and the related change in accounting for stock-based compensation and the increased depreciation and amortization expense due to capital expenditures for new, remodeled and expanded stores, which generally are larger in size than in prior years and consequently require increased capital expense, and, to a lesser extent, from the accelerated depreciation associated with the Company s decision to move to the SAP software platform and discontinue the use of some of its existing software at that time. These increases to general, administrative and store operating expenses as a percentage of net sales were offset slightly by a decrease in marketing expenses as a percentage of net sales, particularly for the Chico s brand.

For the thirty-nine weeks ended October 28, 2006, the Company reported net sales, operating income and net income of $1.20 billion, $226 million and $148 million, respectively. Net sales increased by 16.7% from the comparable period in the prior fiscal year, while operating income and net income decreased by 2.5% and 0.7%, respectively, from the comparable period in the prior fiscal year. The Company s gross profit percentage decreased to 60.5% for the current period from 61.6% in the prior period primarily due to the mix effect of WH|BM and Soma sales becoming a larger portion of the Company s overall net sales, increased inventory shrinkage costs and the continued investment in the Company s product development teams. Gross profit percentage was also negatively impacted by incremental stock-based compensation expense, which reduced the gross margin by approximately 40 basis points due to the adoption of SFAS 123R and the related change in accounting for stock-based compensation. These decreases to the gross profit percentage were slightly offset by improved

merchandise margins at the Chico s and WH|BM stores, attributable primarily to improved initial markups offset in part by a higher markdown rate compared to the prior period. General, administrative and store operating expenses (including depreciation and amortization) increased as a percentage of net sales over the prior period by approximately 260 basis points primarily due to increased store operating expenses for both the Chico s and WH|BM brands (primarily personnel and occupancy costs) attributable mainly to additional store openings/relocations/expansions as well as the deleverage associated with the relatively flat comparable store sales in the Chico s stores, the incremental stock-based compensation expense due to the adoption of SFAS 123R and the related change in accounting for stock-based compensation and, the increased depreciation and amortization expense due to capital expenditures for new, remodeled and expanded stores, which generally are larger in size than in prior years and consequently require increased capital expense, and, to a lesser extent, from the accelerated depreciation associated with the Company s decision to move to the SAP software platform described above.

Results of Operations Thirteen Weeks Ended October 28, 2006 Compared to the Thirteen Weeks Ended October 29, 2005.

Net Sales

The following table shows net sales by Company-owned Chico s/Soma stores, net sales by WH|BM stores, net sales by catalog and Internet and other net sales (which includes net sales by Fitigues stores and net sales to franchisees) in dollars and as a percentage of total net sales for the thirteen weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirteen Weeks Ended			
	October 28, 2006		October 29, 2005	
Net sales by Chico s/Soma stores	$ 296,820	73.6%	$ 277,601	77.4%
Net sales by WH|BM stores	89,788	22.2	68,450	19.1
Net sales by catalog and Internet	12,659	3.1	9,534	2.6
Other net sales	4,296	1.1	3,080	0.9
Net sales	$ 403,563	100.0%	$ 358,665	100.0%

Net sales by Company-owned Chico s, Soma and WH|BM stores increased in the current period from the prior period, both in the aggregate and separately by brand, primarily due to new store openings. Net sales by Company-owned Chico s, Soma and WH|BM stores was also impacted by decreases in the Chico s brand comparable store net sales, offset in part by increases in the WH|BM comparable store net sales. A summary of the factors impacting year-over-year sales increases is provided in the table below (dollar amounts in thousands):

	Thirteen Weeks Ended	
	October 28, 2006	October 29, 2005
Comparable store sales (decreases) increases	$ (4,091)	$ 40,752
Comparable same store sales %	-1.2%	16.0%
New store sales increase, net	$45,842	$ 44,878

The comparable store sales decrease of 1.2% was driven primarily by a decrease of 4.3% in the Chico s average unit retail price (which average unit retail price is a financial indicator, the percentage change of which is believed by management to represent a reasonable approximation of the percentage change in Company store net sales attributable to price changes or mix), due to increased markdowns resulting from missteps in fashion merchandising, an aggressive store opening/relocation/expansion program that we believe contributed to less than acceptable store service levels and a refocusing in the direction of the Company s marketing initiatives. In the current period, WH|BM same store sales represent approximately 21% of the total same store sales base compared to 17% in the prior

period. The WH|BM same store sales increase for the current period was approximately 5% while the Chico s same store sales decrease for the current period was approximately negative 3%. Sales from Soma stores in the current period were included in the comparable store sales calculation beginning in September 2005 but did not have a material impact on the calculation. The recently acquired Fitigues stores will not enter into the comparable store base until February 2007; therefore, all net sales from Fitigues stores are included in new store sales for the current period.

Net sales by catalog and Internet for the current period, which included merchandise from all of the Company s brands increased by $3.1 million, or 32.8%, compared to net sales by catalog and Internet for the prior period. It is believed that the increase was principally attributable to significant increases in the WH|BM and Soma merchandise items available on the website, a more focused effort on the Chico s merchandise available for sale through the Internet, and to a lesser extent, the acquisition of Fitigues and the increased circulation of catalog mailings.

Cost of Goods Sold/Gross Profit

The following table shows cost of goods sold and gross profit in dollars and the related gross profit percentages for the thirteen weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	October 28, 2006	**October 29, 2005**
Cost of goods sold	$162,826	$ 133,308
Gross profit	240,737	225,357
Gross profit percentage	59.7%	62.8%

The decrease in the gross profit percentage during the current period resulted primarily from a decrease in the merchandise margins for Chico s and WH|BM front-line stores of approximately 110 and 80 basis points, respectively (attributable primarily to a higher markdown rate for both brands compared to the prior period, offset slightly by improved initial markups for both brands). The gross profit percentage was also negatively impacted by increased inventory shrinkage costs as a percentage of net sales, principally due to the Company s aggressive store opening plans as well as the deleverage associated with the decline in comparable store sales, as well as the Company s continued investment in the product development and merchandising functions, particularly for its WH|BM brand, and to a lesser extent, by the recognition of approximately $1.6 million of incremental stock-based compensation expense due to the adoption of SFAS 123R and the related change in accounting for stock-based compensation, or an impact of approximately 40 basis points, when compared to the prior period.

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General, Administrative and Store Operating Expenses

The following table shows general, administrative and store operating expenses in dollars and as a percentage of total net sales for the thirteen weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	October 28, 2006	**October 29, 2005**
General, administrative and store operating expenses	$161,373	$ 131,711
Percentage of total net sales	40.0%	36.7%

The increase in general, administrative and store operating expenses was, for the most part, the result of increases in the Company s store operating expenses, including associate compensation, occupancy and other costs associated with additional store openings and, to a lesser degree, the adoption of SFAS 123R and the related change in accounting for stock-based compensation, and other general corporate infrastructure costs to support the Company s growth. General, administrative and store operating expenses as a percentage of net sales increased 330 basis points over the prior period primarily due to increased store operating expenses in the Chico s and WH|BM stores (primarily personnel, fringe benefits and occupancy costs) attributable mainly to additional store openings/relocations/expansions as well as the deleverage associated with the decline in comparable store sales, and to a lesser extent, to the recognition of approximately $4.0 million of incremental stock-based compensation expense due to the adoption of SFAS 123R and the related change in accounting for stock-based compensation, or an impact of approximately 100 basis points, when compared to the prior period. These increases to general, administrative and store operating expenses as a percentage of net sales were slightly offset by a reduction in marketing expenses, particularly for the Chico s brand, as a percentage of net sales.

Depreciation and Amortization

The following table shows depreciation and amortization in dollars and as a percentage of total net sales for the thirteen weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	October 28, 2006	**October 29, 2005**
Depreciation and amortization	$15,224	$ 11,339
Percentage of total net sales	3.8%	3.2%

The increase in depreciation and amortization expense as a percentage of total net sales was due primarily to capital expenditures related to new, remodeled and expanded stores, which generally are larger in size than in prior years and consequently require an increased capital expense as well as from the deleverage associated with the decline in comparable store sales, and, to a lesser extent, from the accelerated depreciation associated with the Company s decision to move to the SAP software platform, and from newly installed hardware and software packages and discontinuation of the use of some of its existing software at that time.

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Interest Income, net

The following table shows interest income, net in dollars and as a percentage of total net sales for the thirteen weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	October 28, 2006	**October 29, 2005**
Interest income, net	$2,339	$ 2,154
Percentage of total net sales	0.6%	0.6%

The increase in net interest income during the current period was primarily the result of the impact of higher interest rates, which offset the effect of a decrease in the total amount of marketable securities resulting in large part from the implementation of the Company s stock repurchase programs earlier this year.

Provision for Income Taxes

The Company s effective tax rate for the current period was 36.6% compared to an effective tax rate of 37.0% for the prior period. The decrease is primarily due to an increase in estimated favorable permanent differences for fiscal 2006 as compared to fiscal 2005.

Net Income

The following table shows net income in dollars and as a percentage of total net sales for the thirteen weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirteen Weeks Ended	
	October 28, 2006	**October 29, 2005**
Net income	$42,147	$ 53,210
Percentage of total net sales	10.4%	14.8%

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Results of Operations Thirty-Nine Weeks Ended October 28, 2006 Compared to the Thirty-Nine Weeks Ended October 29, 2005.

Net Sales

The following table shows net sales by Company-owned Chico s/Soma stores, net sales by WH|BM stores, net sales by catalog and Internet and other net sales (which includes net sales by Fitigues stores and net sales to franchisees) in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended			
	October 28, 2006		October 29, 2005	
Net sales by Chico s/Soma stores	$ 894,423	74.5%	$ 816,672	79.4%
Net sales by WH|BM stores	257,171	21.4	179,545	17.4
Net sales by catalog and Internet	37,192	3.1	24,526	2.4
Other net sales	11,410	1.0	8,102	0.8
Net sales	$ 1,200,196	100.0%	$ 1,028,845	100.0%

Net sales by Company-owned Chico s, Soma and WH|BM stores increased in the current period from the prior period, both in the aggregate and separately by brand, primarily due to new store openings, as well as from increases in the Company s comparable store net sales for each brand. A summary of the factors impacting year-over-year sales increases is provided in the table below (dollar amounts in thousands):

	Thirty-Nine Weeks Ended	
	October 28, 2006	October 29, 2005
Comparable store sales increases	$ 35,724	$ 105,303
Comparable same store sales %	3.6%	14.2%
New store sales increase, net	$123,101	$ 135,325

The comparable store sales increase of 3.6% was driven primarily by an increase of 3.3% in the Chico s average unit retail price and an increase of 7.7% in the average unit retail price for WH|BM (which average unit retail price is a financial indicator, the percentage change of which is believed by management to represent a reasonable approximation of the percentage change in Company store net sales attributable to price changes or mix), attributable primarily to a focused effort to increase the average unit retail, partially offset by increased markdowns. In the current period, WH|BM same store sales represent approximately 20% of the total same store sales base compared to 15% in the prior period. The WH|BM same store sales increase for the current period was approximately 18% while the Chico s same store sales increase for the current period was relatively flat. Sales from Soma stores in the current period were included in the comparable store sales calculation beginning in September 2005 but did not have a material impact on the calculation. The recently acquired Fitigues stores will not enter into the comparable store base until February 2007; therefore, all net sales from Fitigues stores are included in new store sales for the current period.

Net sales by catalog and Internet for the current period, which included merchandise from all of the Company s brands increased by $12.7 million, or 51.6%, compared to net sales by catalog and Internet for the prior period. It is believed that the increase was principally attributable to the launch of the WH|BM website in August 2005, significant increases in WH|BM and Soma merchandise items available on the website, a general increase in catalog and Internet sales, and to a lesser extent, the acquisition of Fitigues and the increased circulation of catalog mailings.

Cost of Goods Sold/Gross Profit

The following table shows cost of goods sold and gross profit in dollars and the related gross profit percentages for the thirty-nine weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended	
	October 28, 2006	**October 29, 2005**
Cost of goods sold	$474,151	$ 394,935
Gross profit	726,045	633,910
Gross profit percentage	60.5%	61.6%

The decrease in the gross profit percentage in the current period resulted primarily from the mix effect resulting from the WH|BM and Soma sales becoming a larger portion of the Company s overall net sales (both brands operate with lower gross margins than the Chico s brand), increased inventory shrinkage costs principally due to the Company s aggressive store opening plans as well as the deleverage associated with the relatively flat comparable store sales in the Chico s stores as well as the continued investment in the Company s product development teams. Gross profit percentage was also negatively impacted by the recognition of approximately $4.5 million of incremental stock-based compensation expense due to the adoption of SFAS 123R and the related change in accounting for stock-based compensation, which reduced the gross margin by approximately 40 basis points. These decreases to the gross profit percentage were slightly offset by improved merchandise margins at the Chico s and WH|BM stores, attributable primarily to improved initial markups offset in part by a higher markdown rate compared to the prior period.

General, Administrative and Store Operating Expenses

The following table shows general, administrative and store operating expenses in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended	
	October 28, 2006	**October 29, 2005**
General, administrative and store operating expenses	$456,183	$ 371,041
Percentage of total net sales	38.0%	36.1%

The increase in general, administrative and store operating expenses was, for the most part, the result of increases in the Company s store operating expenses, including associate compensation, occupancy and other costs associated with additional store openings and, to a lesser degree, incremental stock-based compensation due to the adoption of SFAS 123R and the related change in accounting for stock-based compensation, an increase in marketing expenses, and other general corporate infrastructure costs to support the Company s growth. General, administrative and store operating expenses as a percentage of net sales increased 190 basis points over the prior period primarily due to increased store operating expenses in the Chico s stores (primarily personnel and occupancy costs) attributable mainly to additional store openings/relocations/expansions as well as the deleverage associated with the relatively flat comparable store sales in the Chico s stores and to a lesser extent, to the recognition of approximately $11.2 million of incremental stock-based compensation expense due to the adoption of SFAS 123R and the related change in accounting for stock-based compensation, or an impact of approximately 90 basis points,

when compared to the prior period and to an even lesser extent, by a planned increase in marketing expenses as a percentage of total net sales. These increases in general, administrative and store operating expenses as a percentage of net sales were offset slightly by an improvement in WH|BM store operating expenses (primarily personnel and occupancy costs) as a percentage of net sales compared to the prior period resulting primarily from leverage associated with the WH|BM comparable store sales increase in the high teens percent range.

Depreciation and Amortization

The following table shows depreciation and amortization in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended	
	October 28, 2006	**October 29, 2005**
Depreciation and amortization	$44,007	$ 31,192
Percentage of total net sales	3.7%	3.0%

The increase in depreciation and amortization expense as a percentage of total net sales was due primarily to capital expenditures related to new, remodeled and expanded stores, which generally are larger in size than in prior years and consequently require an increased capital expense as well as from the deleverage associated with the relatively flat comparable store sales in the Chico s stores, and, to a lesser extent, from the accelerated depreciation associated with the Company s decision to move to the SAP software platform, and, from newly installed hardware and software packages and discontinuation of the use of some of its existing software at that time.

Interest Income, net

The following table shows interest income, net in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended	
	October 28, 2006	**October 29, 2005**
Interest income, net	$8,303	$ 5,658
Percentage of total net sales	0.7%	0.5%

The increase in net interest income during the current period was primarily the result of the impact of higher interest rates which offset the effect of a decrease in the total amount of marketable securities resulting in large part from the implementation of the Company s stock repurchase programs earlier this year.

Provision for Income Taxes

The Company s effective tax rate for the current period was 36.6% compared to an effective tax rate of 37.0% for the prior period. The decrease is primarily due to an increase in estimated favorable permanent differences for fiscal 2006 as compared to fiscal 2005.

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Net Income

The following table shows net income in dollars and as a percentage of total net sales for the thirty-nine weeks ended October 28, 2006 and October 29, 2005 (dollar amounts in thousands):

	Thirty-Nine Weeks Ended	
	October 28, 2006	**October 29, 2005**
Net income	$148,454	$ 149,521
Percentage of total net sales	12.4%	14.5%

Comparable Company Store Net Sales

Comparable Company store net sales decreased by 1.2% in the current quarter and increased by 3.6% in the first nine months of this fiscal year, when compared to the comparable prior periods. Comparable Company store net sales data is calculated based on the change in net sales of currently open Company-owned stores that have been operated as a Company store for at least twelve full months, including stores that have been expanded or relocated within the same general market area (approximately five miles).

The comparable store percentages reported above include 37 and 73 stores, respectively, that were expanded or relocated within the last twelve months from the beginning of the respective prior period by an average of 1,268 and 1,141 net selling square feet, respectively. If the stores that were expanded and relocated had been excluded from the comparable Company-owned store base, the decrease in comparable Company-owned store net sales would have been 2.4% for the current quarter and the increase in comparable Company-owned store net sales would have been 2.4% for the first nine months (versus a decrease of 1.2% and an increase of 3.6% as reported, respectively). The Company does not consider the effect to be material to the overall comparable store sales results and believes the inclusion of expanded stores in the comparable store net sales to be an acceptable practice, consistent with the practice followed by the Company in prior periods and by some other retailers. Soma stores began entering into the comparable store sales calculation in September 2005 and due to the small number of stores have not had a material impact on the comparable store sales calculation. The recently acquired Fitigues stores will not enter into the comparable store base until February 2007.

The Company believes that the overall decrease in comparable Company store net sales (an approximate 3% decrease for the Chico s brand, partially offset by an approximate 5% increase for the WH|BM brand) for the current quarter resulted primarily from missteps in fashion merchandising, an aggressive store opening/relocation/expansion program that we believe contributed to less than acceptable store service levels and a refocusing of the direction of the Company s marketing initiatives.

Liquidity and Capital Resources

The Company s ongoing capital requirements have been and are for funding capital expenditures for new, expanded, relocated and remodeled stores and increased merchandise inventories, for planned expansion of its headquarters, distribution center and other central support facilities, to fund stock repurchases under the Company s previous stock repurchase programs, and for continued improvement in information technology tools, including the conversions the Company is planning to the SAP software platform.

The following table shows the Company s capital resources as of October 28, 2006 and October 29, 2005 (amounts in thousands):

	October 28, 2006	October 29, 2005
Cash and cash equivalents	$ 2,606	$ 18,121
Marketable securities	251,297	382,160
Working capital	320,770	389,487

Working capital decreased from October 29, 2005 to October 28, 2006 primarily due to the Company s share repurchase programs during fiscal 2006 which totaled $200 million. This decrease in working capital was partially offset by the Company s cash generated from operating activities, which cash was more than necessary to satisfy the Company s investment in capital expenditures. The significant components of the Company s working capital are cash and cash equivalents, marketable securities, and inventories reduced by accounts payable and accrued liabilities.

Based on past performance and current expectations, the Company believes that its cash and cash equivalents, marketable securities and cash generated from operations will satisfy the Company s working capital needs, capital expenditure needs (see New Store Openings, Headquarters & Distribution Center Expansion and Information Systems Upgrade discussed below), commitments, and other liquidity requirements associated with the Company s operations through at least the next 12 months.

Operating Activities

Net cash provided by operating activities was approximately $214 million and $215 million for the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively. The cash provided by operating activities for the current and prior periods was due to the Company s net income adjusted for non-cash charges and changes in working capital such as:

- Depreciation and amortization expense;
- Deferred tax benefits;
- Stock-based compensation expense and the related income tax effects thereof;
- Normal fluctuations in accounts receivable, inventories, prepaid and other current assets, accounts payable and accrued liabilities.

In addition, prior to the adoption of SFAS 123R, the Company presented all tax benefits related to tax deductions resulting from the exercise of stock options as operating activities in the consolidated statement of cash flows. SFAS 123R requires that cash flows resulting from tax benefits related to tax deductions in excess of the compensation expense recognized for those options (excess tax benefits) be classified as financing cash flows. As a result, the Company classified $2.6 million of excess tax benefits as a financing cash inflow and a corresponding operating cash outflow for the thirty-nine weeks ended

October 28, 2006. The $13.3 million of tax benefit of stock options exercised for the thirty-nine weeks ended October 29, 2005 is presented as an operating cash inflow in the prior period in accordance with APB 25.

Investing Activities

Net cash used in investing activities was $23.2 million and $228.5 million for the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively.

The Company s investment in capital expenditures during the current thirty-nine week period primarily related to the planning and opening of new, relocated, remodeled and expanded Chico s, WH|BM, Soma and Fitigues stores ($110.0 million), costs and improvements associated with the purchase of a 22 acre property adjacent to the Company s current headquarters campus ($26.4 million - see New Store Openings, Headquarters & Distribution Center Expansion and Information Systems Upgrade below), costs associated with system upgrades and new software implementations ($19.4 million), distribution center infrastructure costs ($3.0 million) and other miscellaneous capital expenditures ($6.3 million).

The Company sold $150.2 million, net, of marketable securities during the current thirty-nine week period primarily to fund the Company s stock repurchase programs. In contrast, in the prior period, the Company invested $130.9 million, net, in marketable securities.

In addition, during the current thirty-nine week period, the Company completed the purchase of most of the assets of the Fitigues brand stores for $7.5 million and paid $0.8 million for the purchase of the net assets of one of its franchise stores, while in the prior period, the Company purchased an equity investment in a privately held company for business and strategic purposes totaling $10.4 million.

Financing Activities

Net cash used in financing activities for the thirty-nine weeks ended October 28, 2006 was $191.2 million compared to net cash provided by financing activities for the thirty-nine weeks ended October 29, 2005 of $16.9 million. The Company received proceeds in both periods from the issuance of common stock related to current and former employee option exercises and employee participation in its employee stock purchase plan.

In March 2006, the Company s Board of Directors (the Board) approved the repurchase, over a twelve-month period ending in March 2007, of up to $100 million of the Company s outstanding common stock. During the thirty-nine weeks ended October 28, 2006, the Company repurchased 3,081,104 shares of its common stock in connection with this stock repurchase program, which represented the entire $100 million initial stock repurchase program authorized by the Company s Board.

In May 2006, the Company announced that its Board had approved the repurchase of an additional $100 million of the Company s common stock over a twelve month period ending in May 2007. During the thirty-nine weeks ended October 28, 2006, the Company repurchased 3,591,352 shares of its common stock in connection with this stock repurchase program, which represented the entire additional $100 million program authorized by the Company s Board.

As discussed above, prior to the adoption of SFAS 123R, the Company presented all tax benefits related to tax deductions attributable to the exercise of stock options as operating activities in the consolidated statement of cash flows. SFAS 123R requires that cash flows resulting from tax benefits

related to such tax deductions in excess of the compensation expense recognized for those options (excess tax benefits) be classified as financing cash flows. As a result, the Company classified $2.6 million of excess tax benefits as a financing cash inflow for the thirty-nine weeks ended October 28, 2006 with no comparable amount for the thirty-nine weeks ended October 29, 2005.

During the first nine months of the current fiscal year, certain of the Company s current and former officers exercised an aggregate of 228,835 stock options at prices ranging from $5.42 to $26.34 and certain employees and former employees exercised an aggregate of 116,326 options at prices ranging from $0.1805 to $22.10. Also, during this period, the Company sold 9,790 and 81,760 shares of common stock during the March and September offering periods under its employee stock purchase plan at prices of $40.00 and $15.68, respectively. The proceeds from these issuances of stock, exclusive of the tax benefit realized by the Company, amounted to approximately $6.2 million.

New Store Openings, Headquarters & Distribution Center Expansion and Information Systems Upgrade

The Company is planning a 30% increase in its selling square footage for fiscal 2006, which is expected to result from approximately 140-150 net new Company-owned stores and 64 to 68 relocations and expansions of existing stores. The anticipated breakdown of net new stores by brand for fiscal 2006 is as follows: 56 to 60 WH|BM stores, 46 to 49 Chico s stores and 33 to 36 Soma stores in fiscal 2006. Of the net new stores to be opened, 127 had been opened as of November 28, 2006.

The Company s fiscal 2007 plan includes a 25% growth in selling square feet, with an estimated 165 to 190 net new stores and 40 to 60 relocations/expansions. At this time, the Company estimates these new openings will be broken down by brand as follows: 55 to 65 Soma stores, 60 to 70 WH|BM stores, 45 to 50 Chico s stores and approximately 5 new Fitigues stores.

The Company believes that the liquidity needed for its planned new store growth (including the continued investment associated with the decision to grow its new concept, Soma and to begin the planned growth of its Fitigues brand), its continuing store remodel/expansion program, the infrastructure investments associated with the recently acquired Fitigues brand, the investments required for its Headquarters and Distribution Center expansions, its continued installation and upgrading of new and existing software packages, and maintenance of proper inventory levels associated with this growth will be funded primarily from cash flow from operations and its existing strong cash and marketable securities balances.

During the first quarter of fiscal 2006, the Company completed the purchase of approximately 22 acres of property adjacent to the Company s current headquarters site on Metro Parkway in Fort Myers, Florida to serve as the base for expansion of the Company s corporate headquarters operations. The property includes seven existing buildings aggregating approximately 200,600 square feet of space, most of which is leased to unrelated third parties. As leases expire, the Company anticipates it will be utilizing the vacant space for its expanding corporate headquarters needs. The total cost for this property, along with the buildings, is approximately $26.4 million, which includes all transaction costs. The acquisition was funded from the Company s existing cash and marketable securities balances. With respect to addressing the needs for additional distribution center space, the Company is evaluating its requirements and the appropriate timing to make additional distribution center capacity available. The Company s present goal in this regard is to begin design work in late fiscal 2006. It is currently anticipated that the Company will require additional distribution space in early fiscal 2008 and, initially, the Company is focusing its evaluation on the expansion of its current distribution center on existing adjacent land that is already owned by the Company.

During fiscal 2005, the Company completed the purchase of 105 acres in south Fort Myers, Florida originally intended for the location of a new corporate headquarters campus for a total cost of $38.1 million, which included all transaction costs and $5.4 million of road impact fees. When the 22 acre property adjacent to its current headquarters site became available, the Company decided to plan its expansion at its current location and to hold the 105 acre property for investment. During the third quarter of fiscal 2006, management committed to a plan to sell the 105 acre property and the Company anticipates that the land will be sold within the next 12 months. The Company does not expect that any such sale will have any material impact on its statements of operations or overall financial position.

In May 2006, the Company announced that it will work with SAP, a third party vendor, to implement an enterprise resource planning system (ERP) for its retail stores, beginning first with its Soma brand. This fully integrated system is expected to support and coordinate all aspects of product development, merchandising, finance and accounting and to be fully scalable to accommodate rapid growth. Following successful implementation of the ERP system for its Soma brand, the Company anticipates a roll out and utilization of this new system in each of its other brands, beginning as early as the last half of fiscal 2007 or the first half of fiscal 2008. The Company expects that the costs associated with the implementation of the ERP system will be funded from the Company s existing cash and marketable securities balances.

The Company believes that its liquidity will be sufficient, based on the above, to fund anticipated capital needs over the near-term. Given the Company s existing cash and marketable securities balances and the capacity included in its bank credit facilities, the Company does not believe that it would need to seek other sources of financing to conduct its operations or pursue its expansion plans even if cash flow from operations should prove to be less than anticipated or if there should arise a need for additional letter of credit capacity due to establishing new and expanded sources of supply, or if the Company were to increase the number of new Company-owned stores planned to be opened in future periods.

Seasonality and Inflation

Although the operations of the Company are influenced by general economic conditions, the Company does not believe that inflation has had a material effect on the results of operations during the current or prior periods. The Company does not consider its business to be seasonal.

The Company reports its sales on a monthly basis in line with other public companies in the women s apparel industry. Although the Company believes this regular reporting of interim sales may provide for greater transparency to investors, the Company is concerned that these interim results tend to be relied upon too heavily as a trend. For example, such factors as the weather (numerous hurricanes in fiscal 2005 and 2004), national events (elections), international events (9/11 and developments in Iraq), interest rates, increased oil and other energy costs, changes in the nature of its merchandise promotions, and similar factors can significantly affect the Company for a particular period. In addition, the Company s periodic results can be directly and significantly impacted by the extent to which the Company s new merchandise offerings are accepted by its customers and by the timing of the introduction of such new merchandise.

Critical Accounting Policies and Estimates

The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The critical accounting matters that are particularly important to the portrayal of the Company s financial condition and results of operations and

require some of management s most difficult, subjective and complex judgments are described in detail in the Company s Annual Report on Form 10-K for the fiscal year ended January 28, 2006. The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to customer product returns, inventories, income taxes, insurance reserves, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes that other than the adoption of SFAS 123R, there have been no other significant changes to the Company s critical accounting policies as disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

Stock-Based Compensation Expense

Effective January 29, 2006, the Company adopted the provisions of SFAS 123R using the modified prospective transition method. Under this transition method, stock-based compensation expense recognized for share-based awards during the thirty-nine and thirteen weeks ended October 29, 2006 includes: (a) compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of, January 29, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all stock-based compensation awards granted subsequent to January 29, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective transition method, results for the prior period have not been restated. Prior to the adoption of SFAS 123R, the Company recognized stock-based compensation expense in accordance with APB 25 and related Interpretations, as permitted by SFAS 123.

The calculation of share-based employee compensation expense involves estimates that require management s judgments. These estimates include the fair value of each of the stock option awards granted, which is estimated on the date of grant using a Black-Scholes option pricing model. There are two significant inputs into the Black-Scholes option pricing model: expected volatility and expected term. The Company estimates expected volatility based on the historical volatility of the Company s stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company s stock option plans and represents the period of time that stock option awards granted are expected to be outstanding. The assumptions used in calculating the fair value of share-based payment awards represent management s best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate, and only recognize expense for those shares expected to vest. If the Company s actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period. See Note 5 to the consolidated financial statements for a further discussion on stock-based compensation.

Certain Factors That May Affect Future Results

This Form 10-Q may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect the current views of the Company with respect to certain events that could have

an effect on the Company s future financial performance, including but without limitation, statements regarding future growth rates of the established Company store concepts, the roll out of the Soma concept and the decision concerning expansion of the Fitigues operations. The statements may address items such as future sales, gross profit expectations, operating margin expectations, earnings per share expectations, planned store openings, closings and expansions, future comparable store sales, future product sourcing plans, inventory levels, planned marketing expenditures, planned capital expenditures and future cash needs. In addition, from time to time, the Company may issue press releases and other written communications, and representatives of the Company may make oral statements, which contain forward-looking information.

These statements, including those in this Form 10-Q and those in press releases or made orally, may include the words expects, believes, and similar expressions. Except for historical information, matters discussed in such oral and written statements, including this Form 10-Q, are forward-looking statements. These forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from historical results or those currently anticipated. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and in Item 1A, Risk Factors of the Company s most recent Form 10-K filed with the Securities and Exchange Commission on April 7, 2006.

These potential risks and uncertainties include the financial strength of retailing in particular and the economy in general, the extent of financial difficulties that may be experienced by customers, the ability of the Company to secure and maintain customer acceptance of the Company s styles and store concepts, the propriety of inventory mix and sizing, the quality of merchandise received from vendors, the extent and nature of competition in the markets in which the Company operates, the extent of the market demand and overall level of spending for women s private label clothing and related accessories, the adequacy and perception of customer service, the ability to coordinate product development with buying and planning, the ability of the Company s suppliers to timely produce and deliver clothing and accessories, the changes in the costs of manufacturing, labor and advertising, the rate of new store openings, the buying public s acceptance of any of the Company s new store concepts, the performance, implementation and integration of management information systems, the ability to hire, train, energize and retain qualified sales associates and other employees, the availability of quality store sites, the ability to expand headquarters, distribution center and other support facilities in an efficient and effective manner, the ability to hire and train qualified managerial employees, the ability to effectively and efficiently establish and operate catalog and Internet sales, the ability to secure and protect trademarks and other intellectual property rights, the ability to effectively and efficiently operate the Chico s, WH|BM, Soma and Fitigues merchandise divisions, the ability to integrate acquired businesses such as Fitigues, risks associated with terrorist activities, risks associated with natural disasters such as hurricanes and other risks. In addition, there are potential risks and uncertainties that are peculiar to the Company s reliance on sourcing from foreign vendors, including the impact of work stoppages, transportation delays and other interruptions, political or civil instability, imposition of and changes in tariffs and import and export controls such as import quotas, changes in governmental policies in or towards foreign countries, currency exchange rates and other similar factors.

The forward-looking statements included herein are only made as of the date of this Quarterly Report on Form 10-Q. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Litigation

In the normal course of business, the Company is subject to proceedings, lawsuits and other claims including proceedings under laws and government regulations relating to labor, product, intellectual property and other matters, including the matters described in Item 1 of Part II of this Quarterly Report on Form 10-Q. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at October 28, 2006, cannot be ascertained. Although these matters could affect the operating results of any one quarter when resolved in future periods, and although there can be no assurance with respect thereto, management believes that, after final disposition, any monetary liability or financial impact to the Company would not be material to the annual consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk of the Company s financial instruments as of October 28, 2006 has not significantly changed since January 28, 2006. The Company is exposed to market risk from changes in interest rates on any future indebtedness and its marketable securities.

The Company s exposure to interest rate risk relates in part to its revolving line of credit with its bank; however, as of October 28, 2006, the Company did not have any outstanding borrowings on its line of credit and, given its strong liquidity position, does not expect to utilize its line of credit in the foreseeable future except for its continuing use of the letter of credit facility portion thereof.

The Company s investment portfolio is maintained in accordance with the Company s investment policy which identifies allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. The Company s investment portfolio consists of cash equivalents and marketable securities, including variable rate demand notes and auction rate securities, which are highly liquid, variable rate municipal debt securities. Although these securities have long-term nominal maturity dates ranging from 2011 to 2042, the interest rates are reset, depending on the type of security, either daily, every 7, 28 or 35 days. Despite the long-term nature of the underlying securities, the Company has the ability to quickly liquidate these securities based on the Company s cash needs thereby creating a short-term instrument. Accordingly, the Company s investments are classified as available-for-sale securities. As of October 28, 2006, an increase or decrease of 100 basis points in interest rates would have had an immaterial impact on the fair value of the marketable securities portfolio.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company was named as the defendant in a suit filed in October 2004 in the Circuit Court of Lee County, Florida, Ajit Patel v. Chico s FAS, Inc. The Complaint alleges that the Company breached an implied contract with the plaintiff, the Company s former Vice President Chief Information Officer, and, alternatively, that the Company fraudulently induced the plaintiff to work for the Company. It is the Company s position that no contract, express or implied, existed between the Company and the plaintiff and that the Company did not engage in any fraudulent conduct**.** Based on testimony and information that has been obtained in the discovery process, the Company has asserted certain counterclaims against the plaintiff. No trial date has yet been set. The Company believes the plaintiff s case is without merit and will continue to vigorously defend the litigation and prosecute its counterclaims.

The Company was named as defendant in a putative class action suit filed in June 2005 in the Superior Court for the State of California, County of San Bernardino, Carol Schaffer v. Chico s FAS, Inc. *et al*. The Complaint alleged that the Company, in violation of California law, failed to: (1) pay overtime wages, (2) permit rest and meal periods, and (3) timely pay separation wages, among other claims. Although the Company believed it had strong defenses to the allegations in this case, the Company agreed to participate in a voluntary private mediation on March 16, 2006. The parties reached a settlement at the mediation, notice was given to class members regarding the filing of claim forms to participate in the settlement, the period for filing claims lapsed, no class members filed objections to the settlement and the Court gave its final approval to the settlement. The Company has made all required payments under the settlement. The Court was notified that administration of the settlement has been completed. The total settlement costs were not material to the Company s results of operations or financial condition.

The Company is not a party to any other legal proceedings, other than various claims and lawsuits arising in the normal course of business, none of which the Company believes should have a material adverse effect on its financial condition or results of operations.

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ITEM 1A. RISK FACTORS

In addition to the other information discussed in this report, the factors described in Part I, Item 1A., Risk Factors in the Company s 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 7, 2006 should be considered as they could materially affect the Company s business, financial condition or future results. Other than the risk factor included herein, there have not been any significant changes with respect to the risks described in our 2005 Form 10-K, but these are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may adversely affect the Company s business, financial condition or operating results.

The Company s results may be adversely affected by fluctuations in the price of oil.

Oil prices have fluctuated dramatically in the past and have risen substantially in fiscal 2006. If the previous trend of increasing oil prices were to continue, this trend may result in an increase in the Company s transportation costs for distribution, utility costs for its retail stores and costs to purchase apparel from its manufacturers. In addition, rising oil prices could adversely affect consumer spending and demand for the Company s products and increase its operating costs, both of which could have a material adverse effect on the Company s business, financial condition and results of operations.

ITEM 6. EXHIBITS

(a) The following documents are filed as exhibits to this Quarterly Report on Form 10-Q (exhibits marked with an asterisk have been previously filed with the Commission as indicated and are incorporated herein by this reference):

Exhibit 10.1*	Employment letter agreement between the Company and Michele M. Cloutier, with employment commencing on September 12, 2006 (Filed as Exhibit 10.1 to the Company s Form 8-K, as filed with the Commission on September 13, 2006)
Exhibit 31.1	Chico s FAS, Inc. and Subsidiaries Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Chief Executive Officer
Exhibit 31.2	Chico s FAS, Inc. and Subsidiaries Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Chief Financial Officer
Exhibit 32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

CHICO S FAS, INC.

Date: November 28, 2006

By: /s/ Scott A. Edmonds
Scott A. Edmonds
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 28, 2006

By: /s/ Charles J. Kleman
Charles J. Kleman
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: November 28, 2006

By: /s/ Michael J. Kincaid
Michael J. Kincaid
Senior Vice President Finance, Chief Accounting Officer, and Assistant Secretary
(Principal Accounting Officer)

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