

Ascena Retail Group, Inc.  
Form 10-Q  
March 01, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended January 28, 2012**

or

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

**Commission File Number: 0-11736**

**ASCENA RETAIL GROUP, INC.**

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

|                                                                       |                                             |
|-----------------------------------------------------------------------|---------------------------------------------|
| Delaware                                                              | 30-0641353                                  |
| <i>(State or other jurisdiction of incorporation or organization)</i> | <i>(I.R.S. Employer Identification No.)</i> |

|                                                 |                   |
|-------------------------------------------------|-------------------|
| 30 Dunnigan Drive, Suffern, New York            | 10901             |
| <i>(Address of principal executive offices)</i> | <i>(Zip Code)</i> |

**(845) 369-4500**

*(Registrant's telephone number, including area code)*

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The Registrant had 76,792,918 shares of common stock outstanding as of February 23, 2012.

**ASCENA RETAIL GROUP, INC.**

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**ASCENA RETAIL GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**

|                                                                                                       | January<br>28,<br>2012                              | July 30,<br>2011 |
|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------|------------------|
|                                                                                                       | (millions, except<br>per share data)<br>(unaudited) |                  |
| <b>ASSETS</b>                                                                                         |                                                     |                  |
| Current assets:                                                                                       |                                                     |                  |
| Cash and cash equivalents                                                                             | \$378.9                                             | \$243.5          |
| Short-term investments                                                                                | 50.7                                                | 54.1             |
| Inventories                                                                                           | 313.0                                               | 365.3            |
| Deferred tax assets                                                                                   | 25.4                                                | 25.3             |
| Prepaid expenses and other current assets                                                             | 67.6                                                | 72.3             |
| Total current assets                                                                                  | 835.6                                               | 760.5            |
| Non-current investments                                                                               | 148.0                                               | 138.5            |
| Property and equipment, net                                                                           | 487.2                                               | 489.0            |
| Goodwill                                                                                              | 234.3                                               | 234.3            |
| Other intangible assets, net                                                                          | 183.6                                               | 184.2            |
| Other assets                                                                                          | 32.4                                                | 33.1             |
| Total assets                                                                                          | \$1,921.1                                           | \$1,839.6        |
| <b>LIABILITIES AND EQUITY</b>                                                                         |                                                     |                  |
| Current liabilities:                                                                                  |                                                     |                  |
| Accounts payable                                                                                      | \$155.5                                             | \$181.9          |
| Accrued expenses and other current liabilities                                                        | 153.2                                               | 162.4            |
| Deferred income                                                                                       | 42.8                                                | 32.3             |
| Income taxes payable                                                                                  | 3.3                                                 | 5.6              |
| Total current liabilities                                                                             | 354.8                                               | 382.2            |
| Long-term debt                                                                                        | --                                                  | --               |
| Lease-related liabilities                                                                             | 169.0                                               | 169.2            |
| Deferred income taxes                                                                                 | 54.2                                                | 45.7             |
| Other non-current liabilities                                                                         | 85.6                                                | 84.5             |
| Commitments and contingencies (Note 11)                                                               |                                                     |                  |
| Total liabilities                                                                                     | 663.6                                               | 681.6            |
| Equity:                                                                                               |                                                     |                  |
| Common stock, par value \$0.01 per share; 76.7 million and 77.4 million shares issued and outstanding | 0.8                                                 | 0.7              |
| Additional paid-in capital                                                                            | 498.0                                               | 472.8            |
| Retained earnings                                                                                     | 760.9                                               | 686.9            |
| Accumulated other comprehensive (loss)                                                                | (2.2 )                                              | (2.4 )           |
| Total equity                                                                                          | 1,257.5                                             | 1,158.0          |
| Total liabilities and equity                                                                          | \$1,921.1                                           | \$1,839.6        |
| See accompanying notes.                                                                               |                                                     |                  |

## ASCENA RETAIL GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

|                                                                                                                      | Three Months<br>Ended             |                        | Six Months Ended       |                        |
|----------------------------------------------------------------------------------------------------------------------|-----------------------------------|------------------------|------------------------|------------------------|
|                                                                                                                      | January<br>28,<br>2012            | January<br>29,<br>2011 | January<br>28,<br>2012 | January<br>29,<br>2011 |
|                                                                                                                      | (millions, except per share data) |                        |                        |                        |
|                                                                                                                      | (unaudited)                       |                        |                        |                        |
| <b>Net sales</b>                                                                                                     | \$862.0                           | \$752.1                | \$1,630.3              | \$1,465.4              |
| Cost of goods sold, including occupancy and buying costs<br>(excluding depreciation which is shown separately below) | (504.2)                           | (447.9)                | (947.7 )               | (856.4 )               |
| Selling, general and administrative expenses                                                                         | (232.3)                           | (211.1)                | (456.5 )               | (415.2 )               |
| Depreciation and amortization expense                                                                                | (25.5 )                           | (21.6 )                | (49.6 )                | (44.5 )                |
| <b>Operating income</b>                                                                                              | 100.0                             | 71.5                   | 176.5                  | 149.3                  |
| Interest expense                                                                                                     | (0.3 )                            | (0.7 )                 | (0.5 )                 | (1.3 )                 |
| Interest and other income, net                                                                                       | 1.0                               | 0.9                    | 1.9                    | 1.7                    |
| <b>Income before provision for income taxes</b>                                                                      | 100.7                             | 71.7                   | 177.9                  | 149.7                  |
| Provision for income taxes                                                                                           | (37.0 )                           | (29.2 )                | (66.7 )                | (59.2 )                |
| <b>Net income</b>                                                                                                    | \$63.7                            | \$42.5                 | \$111.2                | \$90.5                 |
| Net income per common share:                                                                                         |                                   |                        |                        |                        |
| Basic                                                                                                                | \$0.83                            | \$0.54                 | \$1.45                 | \$1.15                 |
| Diluted                                                                                                              | \$0.81                            | \$0.52                 | \$1.41                 | \$1.12                 |
| Weighted average common shares outstanding:                                                                          |                                   |                        |                        |                        |
| Basic                                                                                                                | 76.3                              | 78.4                   | 76.7                   | 78.4                   |
| Diluted                                                                                                              | 78.8                              | 81.1                   | 79.1                   | 81.1                   |

See accompanying notes.

## ASCENA RETAIL GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                                   | Six Months<br>Ended       |                        |
|-----------------------------------------------------------------------------------|---------------------------|------------------------|
|                                                                                   | January<br>28,<br>2012    | January<br>29,<br>2011 |
|                                                                                   | (millions)<br>(unaudited) |                        |
| Cash flows from operating activities:                                             | \$ 111.2                  | \$ 90.5                |
| Net income                                                                        |                           |                        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                        |
| Depreciation and amortization expense                                             | 49.6                      | 44.5                   |
| Deferred income tax expense                                                       | 0.5                       | 6.3                    |
| Deferred rent and other occupancy costs                                           | (13.6 )                   | (12.9 )                |
| Non-cash stock-based compensation expense                                         | 15.1                      | 8.6                    |
| Non-cash impairments of assets                                                    | 1.1                       | 3.4                    |
| Non-cash interest expense                                                         | 0.5                       | 0.6                    |
| Other non-cash expense                                                            | (6.6 )                    | (2.6 )                 |
| Excess tax benefits from stock-based compensation                                 | (1.8 )                    | (1.4 )                 |
| Changes in operating assets and liabilities:                                      |                           |                        |
| Inventories                                                                       | 52.3                      | 49.1                   |
| Accounts payable and accrued liabilities                                          | (22.1 )                   | (44.0 )                |
| Deferred income liabilities                                                       | 18.7                      | 16.7                   |
| Lease-related liabilities                                                         | 11.6                      | 6.6                    |
| Other balance sheet changes                                                       | 5.5                       | 1.6                    |
| <b>Net cash provided by operating activities</b>                                  | <b>222.0</b>              | <b>167.0</b>           |
| <b>Cash flows from investing activities:</b>                                      |                           |                        |
| Purchases of investments                                                          | (36.4 )                   | (93.3 )                |
| Proceeds from sales and maturities of investments                                 | 29.1                      | 57.6                   |
| Investment in life insurance policies                                             | (0.1 )                    | (0.1 )                 |
| Capital expenditures                                                              | (52.1 )                   | (47.7 )                |
| <b>Net cash used in investing activities</b>                                      | <b>(59.5 )</b>            | <b>(83.5 )</b>         |
| Cash flows from financing activities:                                             |                           |                        |
| Repayments of debt                                                                | --                        | (0.7 )                 |
| Payment of deferred financing costs                                               | --                        | (1.3 )                 |
| Repurchases of common stock                                                       | (37.2 )                   | (26.1 )                |
| Proceeds from stock options exercised and employee stock purchases                | 8.3                       | 4.9                    |
| Excess tax benefits from stock-based compensation                                 | 1.8                       | 1.4                    |
| <b>Net cash used in financing activities</b>                                      | <b>(27.1 )</b>            | <b>(21.8 )</b>         |
| Net increase in cash and cash equivalents                                         | 135.4                     | 61.7                   |
| Cash and cash equivalents at beginning of period                                  | 243.5                     | 240.7                  |

|                                                   |                |                |
|---------------------------------------------------|----------------|----------------|
| <b>Cash and cash equivalents at end of period</b> | <b>\$378.9</b> | <b>\$302.4</b> |
|---------------------------------------------------|----------------|----------------|

See accompanying notes.

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ASCENA RETAIL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Description of Business

Ascena Retail Group, Inc., a Delaware corporation (“Ascena” or the “Company”), is a leading national specialty retailer of apparel for women and tween girls operating, through its wholly owned subsidiaries, the **dressbarn**, **maurices**, and **Justice** brands. The Company operates (through its subsidiaries) over 2,500 stores throughout the United States, Puerto Rico and Canada, with annual revenues of over \$2.9 billion for the fiscal year ended July 30, 2011. Ascena and its subsidiaries are collectively referred to herein as the “Company,” “we,” “us,” “our” and “ourselves,” unless the context indicates otherwise.

The Company classifies its businesses into three segments following a brand-oriented approach: **dressbarn**, **maurices** and **Justice**. The **dressbarn** segment includes approximately 825 specialty retail stores, as well as an e-commerce operation that was launched in the first quarter of Fiscal 2011. The **dressbarn** brand primarily attracts female consumers in the mid-30’s to mid-50’s age range and offers moderate-to-better quality career and casual fashion to the working woman. The **maurices** segment includes approximately 803 specialty retail stores, and e-commerce operations. The **maurices** brand offers up-to-date fashion designed to appeal to the 17 to 34 year-old female, with stores concentrated in small markets (approximately 25,000 to 100,000 people). The **Justice** segment includes approximately 917 specialty retail stores, e-commerce operations, and certain licensed franchises in international territories. The **Justice** brand offers fashionable apparel to girls who are ages 7 to 14 in an environment designed to match the energetic lifestyle of tween girls.

### 2. Basis of Presentation

#### *Interim Financial Statements*

The interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). The interim consolidated financial statements are unaudited. In the opinion of management, however, such consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial condition, results of operations and changes in cash flows of the Company for the interim periods presented. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with the accounting principles generally accepted in the U.S. (“US GAAP”) have been condensed or omitted from this report as is permitted by the SEC’s rules and regulations. However, the Company believes that the disclosures herein are adequate to make the information presented not misleading.

The consolidated balance sheet data as of July 30, 2011 is derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended July 30, 2011 (the "Fiscal 2011 10-K"), which should be read in conjunction with these interim financial statements. Reference is made to the Fiscal 2011 10-K for a complete set of financial statements.

### ***Basis of Consolidation***

The consolidated financial statements are prepared in accordance with US GAAP and present the financial position, results of operations and cash flows of the Company and all entities in which the Company has a controlling voting interest. The consolidated financial statements also include the accounts of any variable interest entities in which the Company is considered to be the primary beneficiary and such entities are required to be consolidated in accordance with US GAAP.

All significant intercompany balances and transactions have been eliminated in consolidation.

### ***Use of Estimates***

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the consolidated financial statements include; the realizability of inventory; reserves for litigation and other contingencies; useful lives and impairments of long-lived tangible and intangible assets; accounting for income taxes and related uncertain tax positions; the valuation of stock-based compensation and related expected forfeiture rates; insurance reserves; and accounting for business combinations.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

***Fiscal Year***

The Company utilizes a 52-53 week fiscal year ending on the last Saturday in July. As such, fiscal year 2012 will end on July 28, 2012 and will be a 52-week period (“Fiscal 2012”). Fiscal 2011 ended on July 30, 2011 and reflected a 52-week period (“Fiscal 2011”). The second quarter for Fiscal 2012 ended on January 28, 2012 and was a 13-week period. The second quarter for Fiscal 2011 ended on January 29, 2011 and was also a 13-week period.

***Seasonality of Business***

The Company’s business is typically affected by seasonal sales trends primarily resulting from the timing of holiday and back-to-school shopping periods. In particular, the **dressbarn** and **maurices** brands have historically experienced proportionately lower earnings in the second fiscal quarter ending in January than during the three other fiscal quarters, reflecting the intense promotional environment that generally has characterized the holiday shopping season in recent years. **Justice** sales and operating profits tend to be significantly higher during the fall season which occurs during the first and second quarters of the Company’s fiscal year, as this includes the back-to-school period and the holiday selling period which is focused on gift giving merchandise. In addition, the Company’s operating results and cash flows may fluctuate materially in any quarterly period depending on, among other things, increases or decreases in comparable store sales, adverse weather conditions, shifts in the timing of certain holidays, and changes in merchandise mix. Accordingly, the Company’s operating results and cash flows for the three-month and six-month periods ended January 28, 2012 are not necessarily indicative of the operating results and cash flows that may be expected for the full year of Fiscal 2012.

***Reclassifications***

***Segment Information***

Historically, the Company was a single-brand retailer operating under the name of **dressbarn**. As such, all corporate overhead costs were reported historically within the **dressbarn** operating segment. As the Company’s legal entity structure evolved with the acquisitions of the **maurices** brand in Fiscal 2005 and the **Justice** brand in Fiscal 2010, the Company allocated approximately \$2 million of corporate overhead costs annually to each of those operating segments from the **dressbarn** operating segment. The remainder of the corporate overhead costs continued to be

reported primarily within the **dressbarn** operating segment.

In January 2011, the Company completed an internal corporate reorganization and established a new holding company, named Ascena Retail Group, Inc., to own the interests of each of the **dressbarn**, **maurices**, and **Justice** brands through wholly owned subsidiaries. In connection therewith, beginning in Fiscal 2012, the Company implemented a new methodology to allocate corporate overhead costs to each of its operating segments on a reasonable basis.

In order to conform to this new cost allocation methodology, the Company has recasted historically reported segment operating results in order to enhance the comparability of its segmental operating performance. There have been no changes in total net sales, total operating income, or total depreciation and amortization expense as a result of this change. See Note 12 for further discussion of the Company's segment information and the effect of this change.

#### *Other Reclassifications*

Certain other immaterial reclassifications have been made to the prior period's financial information in order to conform to the current period's presentation.

### **3. Summary of Significant Accounting Policies**

#### *Revenue Recognition*

Revenue is recognized across all segments of the business when there is persuasive evidence of an arrangement, delivery has occurred, price has been fixed or is determinable, and collectability is reasonably assured.

Retail store revenue is recognized net of estimated returns at the time of sale to consumers. E-commerce revenue from sales of products ordered through the Company's retail internet sites and revenue from direct-mail orders through **Justice's** catazine are recognized upon delivery and receipt of the shipment by our customers. Such revenue also is reduced by an estimate of returns.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Reserves for estimated product returns are recorded based on historical return trends and are adjusted for known events, as applicable.

Gift cards, gift certificates and merchandise credits (collectively, “gift cards”) issued by the Company are recorded as a deferred income liability until they are redeemed, at which point revenue is recognized. Gift cards do not have expiration dates. The Company recognizes income for unredeemed gift cards when the likelihood of a gift card being redeemed by a customer is remote and the Company determines that it does not have a legal obligation to remit the value of the unredeemed gift card to the relevant jurisdiction as unclaimed or abandoned property. Gift card breakage is included in net sales in the consolidated statements of operations, and historically has not been material.

In addition to retail-store and e-commerce sales, the **Justice** segment recognizes revenue from licensing arrangements with franchised stores, advertising and other “tween-right” marketing arrangements with partner companies, as well as merchandise shipments to other third-party retailers. Revenue associated with merchandise shipments is recognized at the time title passes and risk of loss is transferred to customers, which generally occurs at the date of shipment. Royalty payments received under license agreements for the use of the **Justice** trade name and amounts received in connection with advertising and marketing arrangements with partner companies are recognized when earned in accordance with the terms of the underlying agreements.

The Company accounts for sales and other related taxes on a net basis, thereby excluding such taxes from revenue.

***Cost of Goods Sold***

Cost of goods sold (“COGS”) consists of all costs of merchandise (net of purchase discounts and vendor allowances), merchandise acquisition costs (primarily commissions and import fees), freight (including costs to ship merchandise between our distribution centers and our retail stores), store occupancy costs (excluding utilities and depreciation), changes in reserve levels for inventory realizability and shrinkage, and all costs associated with the buying and distribution functions.

Our COGS may not be comparable to those of other entities. Some entities, like us, include costs related to their distribution network, buying function and all store occupancy costs in their COGS, whereas other entities exclude costs related to their distribution network buying function and store occupancy costs from COGS and include them in

selling, general and administrative expenses.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses (“SG&A expenses”) consist of compensation and benefit-related costs for sales and store operations personnel, administrative personnel and other employees not associated with the functions described above under COGS. SG&A expenses also include advertising and marketing costs, information technology and communication costs, supplies for our stores and administrative facilities, utility costs, insurance costs, legal costs and costs related to other administrative services.

### ***Income Taxes***

Income taxes are provided using the asset and liability method. Under this method, income taxes (i.e., deferred tax assets and liabilities, current taxes payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year, and include the results of any differences between US GAAP and tax reporting. Deferred income taxes reflect the tax effect of certain net operating loss, capital loss and general business credit carry forwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The Company accounts for the financial effect of changes in tax laws or rates in the period of enactment.

In addition, valuation allowances are established when management determines that it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized. Tax valuation allowances are analyzed periodically and adjusted as events occur, or circumstances change, that warrant adjustments to those balances.

In determining the income tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions. If the Company considers that a tax position is “more-likely-than-not” of being sustained upon audit, based solely on the technical merits of the position, it recognizes the tax benefit. The Company measures the tax benefit by determining the largest amount that is greater than 50% likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. These assessments can be complex and the Company often obtains assistance from external advisors. To the extent that the Company’s estimates change or the final tax outcome of these matters is different than the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made. If the initial assessment fails to result in the recognition of a tax benefit, the Company regularly monitors its position and subsequently recognizes the tax benefit if (i) there are changes in tax law or analogous case law that sufficiently raise the likelihood of prevailing on the technical merits of the position to “more-likely-than-not,” (ii) the statute of limitation expires, or (iii) there is a completion of an audit resulting in a settlement of that tax year with the appropriate agency. Uncertain tax positions are classified as current only when the Company expects to pay cash within the next twelve months. Interest and penalties, if any, are recorded within the provision for income taxes in the Company’s consolidated statements of operations and are classified on the consolidated balance sheets with the related

liability for unrecognized tax benefits.

## ASCENA RETAIL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's liability for unrecognized tax benefits (including accrued interest and penalties), which is included in other non-current liabilities in the accompanying consolidated balance sheets, was \$14.4 million as of January 28, 2012 and \$21.9 million as of July 30, 2011. The amount of this liability is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, the Company anticipates that the balance of the liability for unrecognized tax benefits will decrease by approximately \$7.1 million, excluding interest and penalties, during the next twelve months. However, changes in the occurrence, expected outcomes and timing of those events could cause the Company's current estimate to change materially in the future.

*Net Income Per Common Share*

Basic net income per common share is computed by dividing the net income applicable to common shares after preferred dividend requirements, if any, by the weighted-average number of common shares outstanding during the period. Diluted net income per common share adjusts basic net income per common share for the effects of outstanding stock options, restricted stock, restricted stock units, convertible debt securities and any other potentially dilutive financial instruments, only in the periods in which such effect is dilutive under the treasury stock method.

The weighted-average number of common shares outstanding used to calculate basic net income per common share is reconciled to those shares used in calculating diluted net income per common share as follows:

|                                                                                                            | Three Months<br>Ended<br>January<br>28,<br>2012 |      | Six Months<br>Ended<br>January<br>28,<br>2012 |      |
|------------------------------------------------------------------------------------------------------------|-------------------------------------------------|------|-----------------------------------------------|------|
|                                                                                                            | January<br>29,<br>2011                          |      | January<br>29,<br>2011                        |      |
|                                                                                                            | (millions)                                      |      |                                               |      |
| Basic                                                                                                      | 76.3                                            | 78.4 | 76.7                                          | 78.4 |
| Dilutive effect of stock options, restricted stock, restricted stock units and convertible debt securities | 2.5                                             | 2.7  | 2.4                                           | 2.7  |
| Diluted shares                                                                                             | 78.8                                            | 81.1 | 79.1                                          | 81.1 |

Options to purchase shares of common stock at an exercise price greater than the average market price of the common stock during the reporting period are anti-dilutive, and therefore not included in the computation of diluted net income

per common share. In addition, the Company has outstanding restricted stock units that are issuable only upon the achievement of certain service and/or performance or market-based goals. Such performance or market-based restricted stock units are included in the computation of diluted shares only to the extent the underlying performance or market conditions (a) are satisfied prior to the end of the reporting period or (b) would be satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. As of January 28, 2012 and January 29, 2011, there was an aggregate of approximately 2.2 million and 2.1 million, respectively, of additional shares issuable upon the exercise of anti-dilutive options and/or the contingent vesting of performance-based and market-based restricted stock units that were excluded from the diluted share calculations.

#### **4. Recently Issued Accounting Standards**

##### ***Presentation of Comprehensive Income***

Under existing US GAAP, entities are permitted to present other comprehensive income and its components under one of three alternative presentations, including within the statement of changes in equity which is how the Company currently presents such financial information. In June 2011, the Financial Accounting Standards Board ("FASB") issued amended guidance for presenting comprehensive income. Under that new guidance, entities will be required to present other comprehensive income and its components as either one continuous statement of net income and comprehensive income, or in two separate but consecutive statements. The new guidance does not change the items that must be reported as part of comprehensive income or when those items should be reclassified to net income. The new guidance will be effective for the Company beginning on July 29, 2012 ("Fiscal 2013"), and will be applied retrospectively.

## ASCENA RETAIL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

***Testing Goodwill for Impairment***

In September 2011, the FASB issued amended guidance that allows an entity to use a qualitative approach to test goodwill for impairment. Previously, the carrying value of goodwill was subject to a required quantitative assessment comparing such carrying value to its respective fair value. Under the new guidance, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then performing the quantitative assessment is unnecessary. In addition, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the quantitative assessment to determine if the carrying amount of goodwill is recoverable. The new guidance is required to be adopted by the Company no later than the beginning of Fiscal 2013. As the Company's fair value of its reporting units substantially exceed their respective carrying value as of the last assessment date during the fourth quarter of Fiscal 2011, the Company does not expect that this new accounting guidance will have a material impact on the Company's consolidated financial statements.

**5. Inventories**

Inventories substantially consist of finished goods merchandise. Inventory by brand is set forth below:

|                   | January<br>28,<br>2012 | July<br>30,<br>2011 | January<br>29,<br>2011 |
|-------------------|------------------------|---------------------|------------------------|
|                   | (millions)             |                     |                        |
| dressbarn         | \$ 105.3               | \$ 126.2            | \$ 107.0               |
| maurices          | 85.0                   | 90.8                | 67.7                   |
| Justice           | 122.7                  | 148.3               | 96.6                   |
| Total inventories | \$ 313.0               | \$ 365.3            | \$ 271.3               |

**6. Investments**

Investments in securities of companies in which the Company does not have a controlling interest, or is unable to exert significant influence, are accounted for as either held-to-maturity, available-for-sale investments or trading investments.

The Company classifies its investments in securities at the time of purchase into one of three categories: held-to-maturity, available-for-sale or trading. The Company re-evaluates such classifications on a quarterly basis. Held-to-maturity investments would normally consist of debt securities that the Company has the intent and ability to retain until maturity. These securities are recorded at cost, as adjusted for the amortization of premiums and discounts, and approximate fair value. Available-for-sale investments primarily consist of municipal bonds and auction rate securities (“ARS”), which are recorded at fair value. Unrealized gains and losses on available-for-sale investments are classified as a component of accumulated other comprehensive income in the consolidated balance sheets, and realized gains or losses are classified as a component of interest and other income, net, in the consolidated statement of operations. Trading securities would normally consist of securities that are acquired by the Company with the intent of selling in the near term. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income and classified within interest and other income, net, in the accompanying consolidated statements of operations.

No material unrealized gains or losses on available-for-sale investments were recognized during any of the periods presented. As of the end of each period, the Company had no securities classified as held-to-maturity or trading.

## ASCENA RETAIL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the Company's short-term and non-current investments by maturity date that were recorded in the consolidated balance sheets as of January 28, 2012 and July 30, 2011.

|                                                  | January 28, 2012 |               |                    |         | July 30, 2011 |               |                    |         |
|--------------------------------------------------|------------------|---------------|--------------------|---------|---------------|---------------|--------------------|---------|
|                                                  | <1<br>year       | 1- 3<br>years | Over<br>3<br>years | Total   | <1<br>year    | 1- 3<br>years | Over<br>3<br>years | Total   |
|                                                  | (millions)       |               |                    |         |               |               |                    |         |
| Available-for-sale investments - short-term:     |                  |               |                    |         |               |               |                    |         |
| Municipal bonds                                  | \$48.0           | \$--          | \$--               | \$48.0  | \$52.7        | \$--          | \$--               | \$52.7  |
| Restricted cash                                  | 2.7              | --            | --                 | 2.7     | 1.4           | --            | --                 | 1.4     |
| Total short-term investments                     | 50.7             | --            | --                 | 50.7    | 54.1          | --            | --                 | 54.1    |
| Available-for-sale investments - non-current:    |                  |               |                    |         |               |               |                    |         |
| Municipal bonds                                  | --               | 109.0         | 26.1               | 135.1   | --            | 102.7         | 23.8               | 126.5   |
| Auction rate securities                          | --               | --            | 8.9                | 8.9     | --            | --            | 12.0               | 12.0    |
| Total non-current available-for-sale investments | --               | 109.0         | 35.0               | 144.0   | --            | 102.7         | 35.8               | 138.5   |
| Other non-current investments                    | 4.0              | --            | --                 | 4.0     | --            | --            | --                 | --      |
| Total non-current investments                    | 4.0              | 109.0         | 35.0               | 148.0   | --            | 102.7         | 35.8               | 138.5   |
| Total Investments                                | \$54.7           | \$109.0       | \$35.0             | \$198.7 | \$54.1        | \$102.7       | \$35.8             | \$192.6 |

ARS are variable-rate debt securities. ARS have a long-term maturity with the interest rate being reset through Dutch auctions that are typically held every 7, 28 or 35 days. Interest is paid at the end of each auction period. The vast majority of our ARS are AAA/Aaa rated, with the majority collateralized by student loans guaranteed by the U.S. government under the Federal Family Education Loan Program and the remaining securities backed by monoline insurance companies. Our net \$8.9 million of investments in available-for-sale ARS are classified as non-current assets in our consolidated balance sheets as of January 28, 2012 because of our inability to determine when our investments in ARS could be sold. On occasion an ARS is called by its issuer as was the case during the first six months of Fiscal 2012, when \$3.4 million of ARS were called for redemption. The Company believes that the current lack of liquidity in the ARS market will not have an impact on our ability to fund our ongoing operations and growth initiatives; for that reason, we have no intent to sell, nor is it more likely than not that we will be required to sell these ARS investments until a recovery of the auction process, redemption by the issuer or, if necessary, maturity. These securities are currently paying in accordance with their contractual terms, and as such, management does not believe any individual unrealized loss at January 28, 2012 represents an other-than-temporary impairment, as management attributes the declines in value to changes in interest rates and recent market volatility, not credit quality or other factors.

## 7. Impairments

### *Long-Lived Assets Impairment*

Property and equipment, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable. In evaluating long-lived assets for recoverability, the Company uses its best estimate of future cash flows expected to result from the use of the asset and its eventual disposition. To the extent that estimated future undiscounted net cash flows attributable to the asset are less than the carrying amount, an impairment loss is recognized equal to the difference between the carrying value of such asset and its fair value.

### *Fiscal 2012 Impairment*

During the six months ended January 28, 2012, the Company recorded an aggregate of \$1.1 million in non-cash impairment charges, including \$0.5 million in its **dressbarn** segment, \$0.4 million in its **maurices** segment, and \$0.2 million in its **Justice** segment. These charges reduced the net carrying value of certain long-lived assets to their estimated fair value, which was determined based on discounted expected cash flows. These impairment charges were primarily related to the lower-than-expected operating performance of certain retail stores. Of the above amount, \$0.2 million was recorded during the three months ended January 28, 2012.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

### ***Fiscal 2011 Impairment***

During the six month ended January 29, 2011, the Company recorded an aggregate \$3.4 million in non-cash impairment charges, including \$1.5 million in its **dressbarn** segment, \$0.7 million in its **maurices** segment, and \$1.2 million in its **Justice** segment. These charges reduced the net carrying value of certain long-lived assets to their estimated fair value, which was determined based on discounted expected cash flows. These impairment charges were primarily related to the lower-than-expected operating performance of certain retail stores. Of the above amount, \$1.8 million was recorded during the three months ended January 29, 2011.

Such impairment charges are included as a component of SG&A expenses in the accompanying consolidated statements of operations for all periods.

## **8. Fair Value Measurements**

### ***Fair Value Measurements of Financial Instruments***

Certain financial assets and liabilities are required to be carried at fair value. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. In determining fair value, the Company utilizes market data or assumptions that it believes market participants would use in pricing the asset or liability, which would maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

In evaluating the fair value measurement techniques for recording certain financial assets and liabilities, there is a three-level valuation hierarchy under which financial assets and liabilities are designated. The determination of the applicable level within the hierarchy of a particular financial asset or liability depends on the inputs used in valuation as of the measurement date. Valuations based on observable or market-based inputs for identical assets or liabilities (Level 1 measurement) are given the highest level of priority, whereas valuations based on unobservable or internally derived inputs (Level 3 measurement) are given the lowest level of priority. The three levels of the fair value hierarchy are defined as follows:

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active Level 1 markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Financial instruments lacking unadjusted, quoted prices from active market exchanges, including Level 2 over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Financial instruments that are not actively traded on a market exchange. This category includes situations Level 3 where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

## ASCENA RETAIL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the Company's financial assets measured at fair value on a recurring basis:

|                                                | January<br>28,<br>2012 | July<br>30,<br>2011 |
|------------------------------------------------|------------------------|---------------------|
| <i>Financial assets carried at fair value:</i> | <b>(millions)</b>      |                     |
| Municipal bonds <sup>(a)</sup>                 | \$183.1                | \$179.2             |
| Auction rate securities <sup>(b)</sup>         | 8.9                    | 12.0                |
| Total                                          | \$192.0                | \$191.2             |

(a) Based on Level 1 measurements.

(b) Based on Level 3 measurements.

Financial assets utilizing Level 3 inputs consist of ARS. The fair value measurements for items in Level 3 have been estimated using an income-approach model. The model considers factors that reflect assumptions market participants would use in pricing, including, among others: the collateralization underlying the investments; the creditworthiness of the counterparty; expected future cash flows, including the next time the security is expected to have a successful auction; and risks associated with the uncertainties in the current market.

The following table provides a reconciliation of the beginning and ending balances of the investment securities measured at fair value using significant unobservable inputs (Level 3):

|                                                                                 | Three Months<br>Ended<br>January<br>28,<br>2012 |         | Six Months<br>Ended<br>January<br>28,<br>2012 |         |
|---------------------------------------------------------------------------------|-------------------------------------------------|---------|-----------------------------------------------|---------|
|                                                                                 | January<br>29,<br>2011                          |         | January<br>29,<br>2011                        |         |
| Level 3 (Unobservable inputs)                                                   | (millions)                                      |         |                                               |         |
| Balance at beginning of period                                                  | \$8.9                                           | \$ 15.9 | \$12.0                                        | \$ 22.7 |
| Change in temporary valuation adjustment included in other comprehensive income | --                                              | 0.8     | 0.3                                           | 0.9     |
| Redemptions at par                                                              | --                                              | (2.6 )  | (3.4 )                                        | (9.5 )  |
| Balance at end of period                                                        | \$8.9                                           | \$ 14.1 | \$8.9                                         | \$ 14.1 |

Cash, cash equivalents and restricted cash are recorded at carrying value, which approximates fair value. Available-for-sale investments in debt securities, which consist primarily of municipal bonds and ARS, are recorded at fair value, which was lower than the related cost basis in the investments by approximately \$2.0 million at January 28, 2012 and \$2.4 million at July 30, 2011.

The Company's non-financial instruments, which primarily consist of goodwill, intangible assets, and property and equipment, are not required to be measured at fair value on a recurring basis and are reported at carrying value. However, on a periodic basis whenever events or changes in circumstances indicate that their carrying value may not be recoverable (and at least annually for goodwill), non-financial instruments are assessed for impairment and, if applicable, written-down to (and recorded at) fair value.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**9. Equity***Summary of Changes in Equity*

|                                                                                 | Six Months Ended    |                                               |
|---------------------------------------------------------------------------------|---------------------|-----------------------------------------------|
|                                                                                 | January<br>28, 2012 | <b>January<br/>29,<br/>2011<sup>(a)</sup></b> |
|                                                                                 | (millions)          |                                               |
| Balance at beginning of period                                                  | \$1,158.0           | \$1,014.7                                     |
| Comprehensive income:                                                           |                     |                                               |
| Net income                                                                      | 111.2               | 90.5                                          |
| Foreign currency translation adjustment                                         | (0.2 )              | --                                            |
| Net unrealized loss on available-for-sale investments                           | 0.4                 | 0.6                                           |
| Total comprehensive income                                                      | 111.4               | 91.1                                          |
| Change in non-controlling interest                                              | --                  | (0.1 )                                        |
| Purchases of common stock                                                       | (37.2 )             | (26.1 )                                       |
| Shares issued and equity grants made pursuant to stock-based compensation plans | 25.3                | 14.9                                          |
| Balance at end of period                                                        | \$1,257.5           | \$1,094.5                                     |

<sup>(a)</sup> Includes amounts attributable to a non-controlling interest of \$1.4 million as of July 31, 2010 and \$1.5 million as of January 29, 2011. The Company sold its interest in its majority-owned investment during the fourth quarter of Fiscal 2011, thereby eliminating the non-controlling interest.

*Common Stock Repurchase Program*

On September 22, 2011, the Company's Board of Directors authorized an expansion of its existing stock repurchase program (the "Stock Repurchase Program") by \$100 million. When taken with the existing availability under the previous program, the availability to repurchase shares of common stock was increased to \$127.1 million as of the date of authorization.

During the six months ended January 28, 2012, we purchased 1.4 million shares at an aggregate cost of \$37.2 million. The remaining availability under the Stock Repurchase Program was approximately \$89.9 million at January 28, 2012. Treasury (reacquired) shares are retired and treated as authorized but unissued shares.

## **10. Stock-based Compensation**

### ***Long-term Stock Incentive Plan***

On September 23, 2010, the Board of Directors approved the 2010 Stock Incentive Plan (the “2010 Stock Plan”) to amend and restate the former 2001 Stock Incentive Plan (the “2001 Stock Plan”). The 2010 Stock Plan was approved by the Company’s shareholders and became effective on December 17, 2010. The Company’s 2001 Stock Plan provided for the granting of either Incentive Stock Options or non-qualified options to purchase shares of common stock, as well as the award of shares of restricted stock. The 2010 Stock Plan generally incorporates the provisions of the 2001 Stock Plan and includes certain modifications to: increase the aggregate number of shares that may be issued under the plan to 18 million shares; add the ability to grant other stock-based awards; expand the classification of employees and directors eligible to receive awards; modify certain change in control provisions; and extend the term of the 2010 Stock Plan to September 30, 2021.

As of January 28, 2012, there were approximately 3.6 million shares under the 2010 Stock Plan available for future grants. All of the Company’s prior stock option plans have expired as to the ability to grant new options. The Company issues new shares of common stock when stock option awards are exercised.

## ASCENA RETAIL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

***Impact on Results***

A summary of the total compensation expense and associated income tax benefit recognized related to stock-based compensation arrangements is as follows:

|                      | Three Months<br>Ended<br>January<br>28, 2012 |             | Six Months<br>Ended<br>January<br>28, 2011 |          |
|----------------------|----------------------------------------------|-------------|--------------------------------------------|----------|
|                      |                                              | <b>2011</b> |                                            |          |
|                      | (millions)                                   |             |                                            |          |
| Compensation expense | \$7.6                                        | \$ 4.5      | \$15.1                                     | \$ 8.6   |
| Income tax benefit   | \$(2.9)                                      | \$(1.8 )    | \$(5.7 )                                   | \$(3.3 ) |

***Stock Options***

Stock option awards outstanding under the Company's current plans have been granted at exercise prices that are equal to or exceed the market value of its common stock on the date of grant. Such options generally vest over four or five years and expire no later than ten years after the grant date. The Company recognizes compensation expense ratably over the vesting period, net of estimated forfeitures. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted, which requires the input of both subjective and objective assumptions as follows:

***Expected Term*** — The estimate of expected term is based on the historical exercise behavior of grantees, as well as the contractual life of the option grants.

***Expected Volatility*** — The expected volatility factor is based on the historical volatility of the Company's common stock for a period equal to the stock options expected term.

***Expected Dividend Yield*** — The expected dividend yield is based on the Company's historical practice of not paying dividends on its common stock.

*Risk-free Interest Rate* — The risk-free interest rate is determined using the implied yield for a traded zero-coupon U.S. Treasury bond with a term equal to the option's expected term.

The Company's weighted-average assumptions used to estimate the fair value of stock options granted during the six months ended January 28, 2012 and January 29, 2011 are presented as follows:

|                                        | Six Months<br>Ended |      |         |      |
|----------------------------------------|---------------------|------|---------|------|
|                                        | January             |      | January |      |
|                                        | 28,                 | 29,  | 2012    | 2011 |
| Expected term (years)                  | 3.9                 | 3.9  |         |      |
| Expected volatility                    | 41.7%               | 52.5 | %       |      |
| Risk-free interest rate                | 0.9                 | %    | 1.3     | %    |
| Expected dividend yield                | 0                   | %    | 0       | %    |
| Weighted-average grant date fair value | \$9.44              |      | \$ 8.67 |      |

## ASCENA RETAIL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

A summary of the stock option activity under all plans during the six months ended January 28, 2012 is as follows:

| January 28, 2012                                        |                                  |                                              |                                          |
|---------------------------------------------------------|----------------------------------|----------------------------------------------|------------------------------------------|
| Number of Shares                                        | Weighted- Average Exercise Price | Weighted-Average Remaining Contractual Terms | Aggregate Intrinsic Value <sup>(a)</sup> |
| (thousands)                                             |                                  | (years)                                      | (millions)                               |
| Options outstanding- July 31, 2011                      |                                  |                                              |                                          |
| 6,914.8                                                 | \$16.93                          | 6.4                                          | \$106.4                                  |
| Granted                                                 | 26.30                            |                                              |                                          |
| Exercised                                               | 15.76                            |                                              |                                          |
| Canceled/Forfeited                                      | 21.93                            |                                              |                                          |
| Options outstanding – January 28, 2012                  | \$18.76                          | 6.7                                          | \$130.6                                  |
| Options vested and expected to vest at January 28, 2012 | \$19.51                          | 6.6                                          | \$126.9                                  |
| Options exercisable at January 28, 2012                 | \$14.33                          | 4.7                                          | \$80.4                                   |

<sup>(a)</sup> The intrinsic value is the amount by which the market price at the end of the period of the underlying share of stock exceeds the exercise price of the stock option.

(b) The number of options expected to vest takes into consideration estimated expected forfeitures.

As of January 28, 2012, there was \$30.5 million of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a remaining weighted-average vesting period of 2.8 years. The total intrinsic value of options exercised during the six months ended January 28, 2012 was approximately \$8.5 million and during the six months ended January 29, 2011 was approximately \$5.2 million. Of these amounts, \$6.8 million was recorded during the three months ended January 28, 2012 and \$4.1 million was recorded during the three months ended January 29, 2011. The total fair value of options that vested during the six months ended January 28, 2012 was approximately \$9.1 million and during the six months ended January 29, 2011 was approximately \$8.1 million. Of these amounts, \$1.9 million was recorded during the three months ended January 28, 2012 and \$2.0 million was recorded during the three months ended January 29, 2011.

### ***Restricted Equity Awards***

The 2010 Stock Plan also allows for the issuance of shares of restricted stock and restricted stock units (“RSUs”). Any shares of restricted stock or RSUs are counted against the shares available for future grant limit as three shares for every one restricted share or RSU granted. In general, if options are cancelled for any reason or expire, the shares covered by such options again become available for grant. If a share of restricted stock or an RSU is forfeited for any reason, three shares become available for grant.

Shares of restricted stock and RSUs are issued with either service-based or performance-based conditions and, in the past, some even had market-based conditions (collectively, “Restricted Equity Awards”). Service-based Restricted Equity Awards entitle the holder to receive unrestricted shares of common stock of the Company at the end of a vesting period, subject to the grantee’s continuing employment. Service-based Restricted Equity Awards generally vest over a 4 year period of time.

Performance-based or market-based Restricted Equity Awards also entitle the holder to receive shares of common stock of the Company at the end of a vesting period. However, such awards are subject to (a) the grantee’s continuing employment, (b) the Company’s achievement of certain performance goals over a pre-defined performance period and (c) in the case of market-based conditions, the Company’s achievement of certain market-based goals over the pre-defined performance period. Both performance-based and market-based Restricted Equity Awards generally vest over a 3 year period of time.

The fair values of both service-based and performance-based Restricted Equity Awards are based on the fair value of the Company’s unrestricted common stock at the date of grant. However, for market-based Restricted Equity Awards, the effect of the market conditions is reflected in the fair value of the awards on the date of grant using a Monte-Carlo simulation model. A Monte-Carlo simulation model estimates the fair value of the market-based award based on the expected term, risk-free interest rate, expected dividend yield and expected volatility measure for the Company and its peer group.



## ASCENA RETAIL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Compensation expense for both service-based and performance-based Restricted Equity Awards is recognized over the vesting period based on the grant-date fair values of the awards that are expected to vest based upon the service and performance-based conditions. However, compensation expense for market-based Restricted Equity Awards is recognized over the vesting period regardless of whether the market conditions are expected to be achieved.

A summary of Restricted Equity Awards activity during the six months ended January 28, 2012 is as follows:

|                               | Service-based<br>Restricted Equity<br>Awards |                                                                  | Performance-based<br>Restricted Equity<br>Awards |                                                                  | Market-based<br>Restricted Equity<br>Awards |                                                                  |
|-------------------------------|----------------------------------------------|------------------------------------------------------------------|--------------------------------------------------|------------------------------------------------------------------|---------------------------------------------|------------------------------------------------------------------|
|                               | Number<br>of<br>Shares                       | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value Per<br>Share | Number<br>of<br>Shares                           | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value Per<br>Share | Number<br>of<br>Shares                      | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value Per<br>Share |
|                               | (thousands)                                  |                                                                  | (thousands)                                      |                                                                  | (thousands)                                 |                                                                  |
| Nonvested at July 31, 2011    | 461.2                                        | \$ 25.27                                                         | 676.4                                            | \$ 24.49                                                         | 218.5                                       | \$ 24.68                                                         |
| Granted                       | 346.9                                        | 28.05                                                            | 287.3                                            | 25.49                                                            | 27.4                                        | 24.67                                                            |
| Vested                        | (121.7)                                      | 23.25                                                            | --                                               | --                                                               | --                                          | --                                                               |
| Cancelled/Forfeited           | (60.9 )                                      | 25.21                                                            | (141.8 )                                         | 20.48                                                            | (65.5 )                                     | 20.25                                                            |
| Nonvested at January 28, 2012 | 625.5                                        | \$ 27.22                                                         | 821.9                                            | \$ 25.50                                                         | 180.4                                       | \$ 28.29                                                         |

|                                                                | Service-based<br>Restricted<br>Equity<br>Awards | Performance-based<br>Restricted Equity<br>Awards | Market-based<br>Restricted<br>Equity<br>Awards |
|----------------------------------------------------------------|-------------------------------------------------|--------------------------------------------------|------------------------------------------------|
| Total unrecognized compensation at January 28, 2012 (millions) | \$ 11.0                                         | \$ 16.2                                          | \$ 3.9                                         |
| Weighted-average years expected to be recognized over (years)  | 4.2                                             | 1.9                                              | 1.8                                            |

**11. Commitments and Contingencies**

On January 21, 2010, Tween Brands was sued in the U.S. District Court for the Eastern District of California. This purported class action alleged, among other things, that Tween Brands violated the Fair Labor Standards Act by not properly paying its employees for overtime and missed rest breaks. The parties agreed to a settlement of this wage and hour lawsuit. The court granted final approval of the settlement on August 10, 2011. The Company had previously established a reserve for this settlement. During the first quarter of Fiscal 2012, the settlement funds were disbursed to Class Members, and the excess reserve was reversed into income. The effect of the settlement and the reversal of excess reserve was not material to the consolidated financial statements.

In addition to the litigation discussed above, the Company is, and in the future may be, involved in various other lawsuits, claims and proceedings incident to the ordinary course of business. The results of litigation are inherently unpredictable. Any claims against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, the Company believes that the ultimate resolution of these matters, including the matter discussed above, will not have a material effect on the Company's consolidated financial statements taken as a whole.

## **12. Segment Information**

The Company's segment reporting structure reflects a brand-focused approach, designed to optimize the operational coordination and resource allocation of its businesses across multiple functional areas including specialty retail, e-commerce and licensing. The three reportable segments described below represent the Company's brand-based activities for which separate financial information is available and which is utilized on a regular basis by the Company's executive team to evaluate performance and allocate resources. In identifying reportable segments, the Company considers economic characteristics, as well as products, customers, sales growth potential and long-term profitability. As such, the Company's reports its operations in three reportable segments as follows:

## ASCENA RETAIL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

- **dressbarn segment** – consists of the specialty retail and e-commerce operations of the **dressbarn** brand.
- **maurices segment** – consists of the specialty retail and e-commerce operations of the **maurices** brand.
- **Justice segment** – consists of the specialty retail, e-commerce and licensing operations of the **Justice** brand

The accounting policies of the Company's reporting segments are consistent with those described in Notes 2 and 3 to the Company's consolidated financial statements included in the Fiscal 2011 10-K. All intercompany revenues are eliminated in consolidation. Corporate overhead expenses are allocated to the segments based upon specific usage or other reasonable allocation methods.

Due to changes in the Company's corporate overhead cost allocation methodology implemented in Fiscal 2012 as discussed in Note 2, segment information for the three-month and six-month periods ended January 29, 2011 have been recasted to conform to the current period's presentation. These changes entirely related to the reallocation of corporate overhead costs to each of its three segments, and had no impact on total net sales, total operating income or total depreciation and amortization expense.

Net sales, operating income, and depreciation and amortization expense for each segment under the Company's new (recasted) basis of reporting are as follows:

|                        | Three Months Ended |                  | Six Months Ended |                  |
|------------------------|--------------------|------------------|------------------|------------------|
|                        | January 28, 2012   | January 29, 2011 | January 28, 2012 | January 29, 2011 |
|                        | (millions)         |                  |                  |                  |
| Net sales:             |                    |                  |                  |                  |
| dressbarn              | \$230.2            | \$211.6          | \$475.6          | \$451.7          |
| maurices               | 224.6              | 202.8            | 427.5            | 385.3            |
| Justice                | 407.2              | 337.7            | 727.2            | 628.4            |
| Total net sales        | \$862.0            | \$752.1          | \$1,630.3        | \$1,465.4        |
| Operating income:      |                    |                  |                  |                  |
| dressbarn              | \$(3.4)            | \$(5.2)          | \$1.6            | \$2.1            |
| maurices               | 26.4               | 24.5             | 50.1             | 49.8             |
| Justice                | 77.0               | 52.2             | 124.8            | 97.4             |
| Total operating income | \$100.0            | \$71.5           | \$176.5          | \$149.3          |

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Depreciation and amortization expense:

|                                             |        |         |        |        |
|---------------------------------------------|--------|---------|--------|--------|
| dressbarn                                   | \$8.2  | \$ 6.9  | \$15.9 | \$14.2 |
| maurices                                    | 6.2    | 5.5     | 12.7   | 11.1   |
| Justice                                     | 11.1   | 9.2     | 21.0   | 19.2   |
| Total depreciation and amortization expense | \$25.5 | \$ 21.6 | \$49.6 | \$44.5 |

A reconciliation of the Company's operating income for each segment under the historical and recasted basis of reporting for the three-month and six-month periods ended January 29, 2011 is as follows:

|                        | January 29, 2011<br>Three Months Ended     |            |                | Six Months Ended             |            |                |
|------------------------|--------------------------------------------|------------|----------------|------------------------------|------------|----------------|
|                        | As<br>Previously<br>Reported<br>(millions) | Adjustment | As<br>Recasted | As<br>Previously<br>Reported | Adjustment | As<br>Recasted |
| Operating income:      |                                            |            |                |                              |            |                |
| dressbarn              | \$(10.3)                                   | \$ 5.1     | \$ (5.2 )      | \$(6.8 )                     | \$ 8.9     | \$ 2.1         |
| maurices               | 27.1                                       | (2.6 )     | 24.5           | 55.0                         | (5.2 )     | 49.8           |
| Justice                | 54.7                                       | (2.5 )     | 52.2           | 101.1                        | (3.7 )     | 97.4           |
| Total operating income | \$71.5                                     | \$ --      | \$ 71.5        | \$149.3                      | \$ --      | \$ 149.3       |

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

13. Additional Financial Information

|                                        | Six Months<br>Ended<br>JanuaryJanuary<br>28, 29,<br>2012 2011<br>(millions) |         |
|----------------------------------------|-----------------------------------------------------------------------------|---------|
| <b><i>Cash Interest and Taxes:</i></b> |                                                                             |         |
| Cash paid for interest                 | \$--                                                                        | \$ 0.7  |
| Cash paid for income taxes             | \$56.6                                                                      | \$ 58.0 |

***Non-cash Transactions***

Significant non-cash investing activities included the capitalization of fixed assets and recognition of related obligations in the net amount of \$6.3 million for the six months ended January 28, 2012 and \$6.7 million for the six months ended January 29, 2011.

Significant non-cash investing and financing activities for the six months ended January 29, 2011 included the Ascena Reorganization. For further information regarding the Ascena Reorganization see Note 5 to the Company's consolidated financial statements included in the Fiscal 2011 10-K.

There were no significant non-cash investing or financing activities for the six months ended January 28, 2012 or January 29, 2011.

## **Item 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward-Looking Statements**

Various statements in this Form 10-Q, in future filings by us with the Securities and Exchange Commission (the "SEC"), in our press releases and in oral statements made from time to time by us or on our behalf constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "estimate," "expect," "project," "we believe," "is or remains optimistic," "currently envisions" and similar words or phrases and involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from the future results, performance or achievements expressed in or implied by such forward-looking statements.

These forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. A detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations is included in our Annual Report on Form 10-K for the fiscal year ended July 30, 2011 (the "Fiscal 2011 10-K"). There are no material changes to such risk factors, nor are there any identifiable previously undisclosed risks as set forth in Part II, Item 1A — "Risk Factors" of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **INTRODUCTION**

Management discussion and analysis of financial condition and results of operations ("MD&A") is provided as a supplement to the accompanying unaudited interim consolidated financial statements and footnotes to help provide an understanding of our financial condition and liquidity, changes in financial condition and results of our operations. MD&A is organized as follows:

*Overview.* This section provides a general description of our business and a summary of financial performance for the three-month and six-month periods ended January 28, 2012. In addition, this section includes a discussion of recent developments and transactions affecting comparability that we believe are important in understanding our results of operations and financial condition, and in anticipating future trends.

*Results of operations.* This section provides an analysis of our results of operations for the three-month and six-month periods ending January 28, 2012 and January 29, 2011.

*Financial condition and liquidity.* This section provides an analysis of our cash flows for the six-month periods ending January 28, 2012 and January 29, 2011, as well as a discussion of our financial condition and liquidity as of January 28, 2012. The discussion of our financial condition and liquidity includes (i) our available financial capacity

under our credit facility, (ii) a summary of our key debt compliance measures and (iii) any material changes in financial condition and commitments since the end of Fiscal 2011.

*Market risk management.* This section discusses any significant changes in our risk exposures related to interest rates, foreign currency exchange rates and our investments, as well as the underlying market conditions since the end of Fiscal 2011.

*Critical accounting policies.* This section discusses any significant changes in our accounting policies since the end of Fiscal 2011. Significant changes include those considered to be important to our financial condition and results of operations, which require significant judgment and estimation on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Notes 3 and 4 to our audited consolidated financial statements included in our Fiscal 2011 10-K.

*Recently issued accounting pronouncements.* This section notes that we have assessed the potential impact to our reported financial condition and results of operations of accounting standards that have been recently issued, as discussed in more detail in Note 4 to the unaudited consolidated financial statements.

In this Form 10-Q, references to "Ascena," "ourselves," "we," "our," "us" and the "Company" refer to Ascena Retail Group, Inc. and its subsidiaries, unless the context indicates otherwise. We utilize a 52-53 week fiscal year ending on the last Saturday in July. As such, fiscal year 2012 will end on July 28, 2012 and will be a 52-week period ("Fiscal 2012"). Fiscal 2011 ended on July 30, 2011 and reflected a 52-week period ("Fiscal 2011"). The second quarter for Fiscal 2012 ended on January 28, 2012 and was a 13-week period. The second quarter for Fiscal 2011 ended on January 29, 2011 and was also a 13-week period.

## OVERVIEW

### *Our Business*

Our Company is a leading national specialty retailer of apparel for women and tween girls operating, through its wholly owned subsidiaries, the **dressbarn**, **maurices**, and **Justice** brands. We operate (through our subsidiaries) over 2,500 stores throughout the United States, Puerto Rico and Canada, with annual revenues of over \$2.9 billion for Fiscal 2011.

We classify our businesses into three segments following a brand-oriented approach: **dressbarn**, **maurices** and **Justice**. The **dressbarn** segment includes approximately 825 specialty retail stores, as well as an e-commerce operation that was launched in the first quarter of Fiscal 2011. The **dressbarn** brand primarily attracts female consumers in the mid-30's to mid-50's age range and offers moderate-to-better quality career and casual fashion to the working woman. The **maurices** segment includes approximately 803 specialty retail stores, and e-commerce operations. The **maurices** brand offers up-to-date fashion designed to appeal to the 17 to 34 year-old female, with stores primarily concentrated in small markets (approximately 25,000 to 100,000 people). The **Justice** segment includes approximately 917 specialty retail stores, e-commerce operations, and certain licensed franchises in international territories. The **Justice** brand stores offer fashionable apparel to girls who are ages 7 to 14 in an environment designed to match the energetic lifestyle of tween girls.

### *Seasonality of Business*

Our business is typically affected by seasonal sales trends primarily resulting from the timing of holiday and back-to-school shopping periods. In particular, the **dressbarn** and **maurices** brands have historically experienced proportionally lower earnings in the second fiscal quarter ending in January than during the three other fiscal quarters, reflecting the intense promotional environment that generally has characterized the holiday shopping season in recent years. **Justice** sales and operating profits tend to be significantly higher during the fall season which occurs during the first and second quarters of our fiscal year, as this includes the back-to-school period and the holiday selling period which is focused on gift giving merchandise. In addition, our operating results and cash flows may fluctuate materially in any quarterly period depending on, among other things, increases or decreases in comparable store sales, adverse weather conditions, shifts in the timing of certain holidays, and changes in merchandise mix.

### *Summary of Financial Performance*

#### *General Economic Conditions*

Our performance is subject to macroeconomic conditions and their impact on levels of consumer spending. Some of the factors negatively impacting discretionary consumer spending include general economic conditions, wages and high unemployment, high consumer debt, reductions in net worth based on severe market declines (such as in residential real estate markets), increased taxation, higher fuel, energy and other prices, increasing interest rates, and low consumer confidence. In addition, the recent significant volatility in our financial markets related, in part, to the downgrade in the credit rating of U.S. government-issued debt and the European sovereign debt crisis could also negatively impact the levels of future discretionary consumer spending. While the U.S. and certain other international economies have improved since the global financial crisis experienced in Fall 2008, a prolonged economic downturn and slow recovery, including high rates of unemployment, rising commodity prices and declining real estate market values, could have a material effect on our business, financial condition and results of operations.

### *Operating Results*

#### *Three Months Ended January 28, 2012 compared to Three Months Ended January 29, 2011*

For the three months ended January 28, 2012, we reported net sales of \$862.0 million, net income of \$63.7 million and net income per diluted share of \$0.81. This compares to net sales of \$752.1 million, net income of \$42.5 million and net income per diluted share of \$0.52 for the three months ended January 29, 2011.

Our operating performance for the three months ended January 28, 2012 was positively affected by a 14.6% increase in net sales. The increase in net sales was driven by both our comparable store sales and new store growth, as well as strong growth in all e-commerce brand sales. Our operating income benefited from the increase in net sales and an increase in our gross profit rate of 110 basis points to 41.5%. The increase in our gross profit rate was mainly due to the leveraging of buying and occupancy costs, offset in part by higher markdowns, for increased holiday promotional activity. SG&A expenses increased by \$21.2 million, but decreased by 120 basis points, to 26.9% of net sales in for the second quarter of Fiscal 2012. SG&A expenses as a percentage of net sales were leveraged during the period principally as a result of the higher sales volume.

The provision for income taxes increased by \$7.8 million to \$37.0 million. The effective tax rate decreased 400 basis points, to 36.7% for the three months ended January 28, 2012 from 40.7% for the three months ended January 29, 2011. The decrease was primarily the result of lower non-deductible expenses and higher tax benefits relating to the accounting for discrete items in Fiscal 2012.

Net income per diluted share increased by \$0.29, or 55.8%, to \$0.81 per share for the three months ended January 28, 2012 from \$0.52 per share for the three months ended January 29, 2011. The increase in diluted per share results was primarily due to the higher level of net income and a reduction in the weighted average diluted common shares outstanding relating to our common stock repurchase program.

*Six Months Ended January 28, 2012 compared to Six Months Ended January 29, 2011*

For the six months ended January 28, 2012, we reported net sales of \$1,630.3 million, net income of \$111.2 million and net income per diluted share of \$1.41. This compares to net sales of \$1,465.4 million, net income of \$90.5 million and net income per diluted share of \$1.12 for the six months ended January 29, 2011.

Our operating performance for the six months ended January 28, 2012 was positively affected by an 11.3% increase in net sales. The increase in net sales was driven by both our comparable store sales and new store growth, as well as strong growth in all e-commerce brand sales. Our increase in net sales was complemented by an increase in our gross profit rate of 30 basis points to 41.9%. The increase in our gross profit rate was mainly due to the leveraging of buying and occupancy costs, partially offset by higher markdowns, for increased promotional activity. SG&A expenses increased by \$41.3 million, but decreased 30 basis points, to 29.2% of net sales in the six months ended January 29, 2011. SG&A expenses as a percentage of net sales were leveraged during the period principally as a result of the higher sales volume.

The provision for income taxes increased by \$7.5 million to \$66.7 million. The effective tax rate decreased 200 basis points, to 37.5% for the six months ended January 28, 2012 from 39.5% for the six months ended January 29, 2011. The decrease was primarily the result of higher tax benefits relating to the accounting for discrete items in Fiscal 2012.

Net income per diluted share increased by \$0.29, or 25.9%, to \$1.41 per share for the six months ended January 28, 2012 from \$1.12 per share for the six months ended January 29, 2011. The increase in diluted earnings per share results was primarily due to the higher level of net income and a reduction in the weighted average diluted common shares outstanding relating to our common stock repurchase program.

*Financial Condition and Liquidity*

Our financial position reflects the overall relative strength of our business results. We ended the second quarter of Fiscal 2012 in a net cash and investments position (total cash and cash equivalents, plus short-term and non-current investments less total debt) of \$577.6 million, compared to \$436.1 million as of the end of Fiscal 2011.

The increase in our financial position was primarily due to our operating cash flows, which were partially offset by our treasury stock repurchases and capital expenditures. Our equity increased to \$1.258 billion as of January 28, 2012, compared to \$1.158 billion as of July 30, 2011, primarily due to our net income during Fiscal 2012, offset in part by our share repurchase activity.

We generated \$222.0 million of cash from operations during the six months ended January 28, 2012, compared to \$167.0 million during the six months ended January 29, 2011. During the first six months of Fiscal 2012, we used \$37.2 million of our cash to repurchase 1.4 million shares of common stock and \$52.1 million for capital expenditures, primarily associated with our retail store expansion and investments in our facilities and technological infrastructure.

*Transactions Affecting Comparability of Results of Operations and Financial Condition*

The comparability of the Company's operating results for three-month and six-month periods ended January 28, 2012 and January 29, 2011 presented herein has been affected by certain transactions, including:

Pretax charges related to certain one-time, executive contractual obligation costs incurred during the first quarter of Fiscal 2012, market-based expenses for our deferred compensation plan and certain merger and integration-related costs incurred in the fiscal periods presented.

A summary of the effect of these items on pretax income for each applicable period presented is noted below:

|                                                       | Three Months<br>Ended<br>January 28,<br>2012 |           | Six Months<br>Ended<br>January 29,<br>2012 |           |
|-------------------------------------------------------|----------------------------------------------|-----------|--------------------------------------------|-----------|
|                                                       | January 29,<br>2011                          |           | January 29,<br>2011                        |           |
|                                                       | (millions)                                   |           |                                            |           |
| Executive contractual obligation costs                | \$--                                         | \$ --     | \$ (5.4)                                   | \$ --     |
| Market-based expenses for deferred compensation plan  | 0.3                                          | (2.1 )    | (0.4)                                      | (3.4 )    |
| Merger, integration, and reorganization-related costs | (1.7)                                        | (2.7 )    | (2.4)                                      | (4.8 )    |
| Total                                                 | \$(1.4)                                      | \$ (4.8 ) | \$ (8.2)                                   | \$ (8.2 ) |

The following discussion of results of operations highlights, as necessary, the significant changes in operating results arising from these items and transactions. However, unusual items or transactions may occur in any period. Accordingly, investors and other financial statement users individually should consider the types of events and transactions that have affected operating trends.

## RESULTS OF OPERATIONS

Our segment reporting structure reflects a brand-focused approach, designed to optimize the operational coordination and resource allocation of our businesses across multiple functional areas, including specialty retail, e-commerce and licensing. The three reportable segments described below represent our brand-based activities for which separate financial information is available, and which is utilized on a regular basis by our executive team to evaluate performance and allocate resources. In identifying our reportable segments, we consider economic characteristics, as well as products, customers, sales growth potential and long-term profitability. As such, we report our operations in three reportable segments as follows:

- **dressbarn** segment – consists of the specialty retail and e-commerce operations of our **dressbarn** brand.
- **maurices** segment – consists of the specialty retail and e-commerce operations of our **maurices** brand.
- **Justice** segment – consists of the specialty retail, e-commerce and licensing operations of our **Justice** brand.

Due to changes in the Company's corporate overhead allocation methodology implemented in Fiscal 2012, as discussed in Notes 2 and 12, segment information for the three-month and six-month periods ended January 29, 2011 have been recasted to conform to the current period's presentation. These changes entirely related to the reallocation of corporate overhead costs to each of its three segments, and had no impact on total net sales, total operating income or total depreciation and amortization expense.



*Three Months Ended January 28, 2012 compared to Three Months Ended January 29, 2011*

The following table summarizes our results of operations and expresses the percentage relationship to net sales of certain financial statement captions:

|                                              | Three Months<br>Ended             |                        |              |             |    |
|----------------------------------------------|-----------------------------------|------------------------|--------------|-------------|----|
|                                              | January<br>28,<br>2012            | January<br>29,<br>2011 | \$<br>Change | %<br>Change |    |
|                                              | (millions, except per share data) |                        |              |             |    |
| Net Sales                                    | \$862.0                           | \$752.1                | \$109.9      | 14.6        | %  |
| Cost of goods sold <sup>(a)</sup>            | (504.2)                           | (447.9)                | (56.3 )      | 12.6        | %  |
| Cost of goods sold as % of net sales         | 58.5 %                            | 59.6 %                 |              |             |    |
| Selling, general and administrative expenses | (232.3)                           | (211.1)                | (21.2 )      | 10.0        | %  |
| SG&A expenses as % of net sales              | 26.9 %                            | 28.1 %                 |              |             |    |
| Depreciation and amortization expense        | (25.5 )                           | (21.6 )                | (3.9 )       | 18.1        | %  |
| Operating income                             | 100.0                             | 71.5                   | 28.5         | 39.9        | %  |
| Operating income as % of net sales           | 11.6 %                            | 9.5 %                  |              |             |    |
| Interest expense                             | (0.3 )                            | (0.7 )                 | 0.4          | (57.1       | %) |
| Interest and other income, net               | 1.0                               | 0.9                    | 0.1          | 11.1        | %  |
| Income before provision for income taxes     | 100.7                             | 71.7                   | 29.0         | 40.4        | %  |
| Provision for income taxes                   | (37.0 )                           | (29.2 )                | (7.8 )       | 26.7        | %  |
| Effective tax rate <sup>(b)</sup>            | 36.7 %                            | 40.7 %                 |              |             |    |
| Net income                                   | \$63.7                            | \$42.5                 | \$21.2       | 49.9        | %  |
| Net income per common share:                 |                                   |                        |              |             |    |
| Basic                                        | \$0.83                            | \$0.54                 | \$0.29       | 53.7        | %  |
| Diluted                                      | \$0.81                            | \$0.52                 | \$0.29       | 55.8        | %  |

<sup>(a)</sup> Includes buying and occupancy costs and excludes depreciation.

<sup>(b)</sup> Effective tax rate is calculated by dividing the provision for income taxes by income before provision for income taxes.

*Net Sales.* Net sales increased by \$109.9 million, or 14.6%, to \$862.0 million for the three months ended January 28, 2012 from \$752.1 million for the three months ended January 29, 2011. The increase in net sales was driven by both our comparable store sales growth and new store growth, as well as strong growth in all e-commerce brand sales. On a

consolidated basis, comparable store sales increased 8% during the three months ended January 28, 2012. The sales increases at each of our brands were as follows: **Justice** sales increased by \$69.5 million; **maurices** sales increased by \$21.8 million; and **dressbarn** sales increased by \$18.6 million.

Net sales and comparable store sales data for our three business segments is presented below.

|                 | Three Months Ended |                  |            |          |    | Comparable  |     |
|-----------------|--------------------|------------------|------------|----------|----|-------------|-----|
|                 | January 28, 2012   | January 29, 2011 | \$ Change  | % Change |    | Store Sales | (a) |
|                 | (millions)         | (millions)       | (millions) |          |    |             |     |
| Net sales:      |                    |                  |            |          |    |             |     |
| dressbarn       | \$230.2            | \$211.6          | \$18.6     | 8.8 %    | 8  | %           |     |
| maurices        | 224.6              | 202.8            | 21.8       | 10.7 %   | 3  | %           |     |
| Justice         | 407.2              | 337.7            | 69.5       | 20.6 %   | 12 | %           |     |
| Total net sales | \$862.0            | \$752.1          | \$109.9    | 14.6 %   | 8  | %           |     |

(a) Comparable store sales refer to the growth of sales on stores open throughout the full period and throughout the full prior period (including stores relocated within the same shopping center and stores with minor square footage additions). The determination of which stores are included in the comparable store sales calculation only changes at the beginning of each fiscal year, except for stores that close during the fiscal year, which are excluded from comparable store sales beginning with the fiscal month the store actually closes.

***dressbarn net sales.*** The net increase primarily reflects:

- an increase of \$15.2 million, or 8%, in comparable store sales during the three months ended January 28, 2012; a \$0.4 million increase in non-comparable stores sales, primarily driven by 16 stores opened during the last twelve months. The positive effect of new store openings was partially offset by 20 stores closings in the last twelve months; and
- an increase of \$3.0 million in revenues from e-commerce operations.

***maurices net sales.*** The net increase primarily reflects:

- an increase of \$4.8 million, or 3%, in comparable store sales during the three months ended January 28, 2012; a \$11.5 million increase in non-comparable stores sales, primarily driven by an increase related to 42 net new store openings during the last twelve months; and
- an increase of \$5.5 million in revenues from e-commerce operations.

***Justice net sales.*** The net increase primarily reflects:

- an increase of \$34.8 million, or 12%, in comparable store sales during the three months ended January 28, 2012; a \$13.6 million increase in non-comparable stores sales, primarily driven by an increase related to 29 net new store openings during the last twelve months;
- an increase of \$11.0 million in revenues from its e-commerce operations;
- a \$6.2 million increase in revenue from gift card breakage; and
- a \$3.9 million increase in wholesale, licensing operations, and other revenues.

*Cost of Goods Sold, including occupancy and buying costs, excluding depreciation.* Cost of goods sold consists of all costs of merchandise (net of purchase discounts and vendor allowances), merchandise acquisition costs (primarily commissions and import fees), freight (including costs to ship merchandise between our distribution centers and our retail stores), store occupancy costs (excluding utilities and depreciation), direct costs changes in reserve levels for inventory realizability and shrinkage, and all costs associated with the buying and distribution functions, including the costs for e-commerce.

Cost of goods sold increased by \$56.3 million, or 12.6%, to \$504.2 million for the three months ended January 28, 2012 from \$447.9 million for the three months ended January 29, 2011. Cost of goods sold as a percentage of net sales decreased by 110 basis points to 58.5% in the three months ended January 28, 2012 from 59.6% for the three months ended January 29, 2011. Gross profit, which represents the difference between net sales and cost of goods sold, expressed as a percentage of net sales, increased by 110 basis points to 41.5% for the three months ended January 28, 2012 from 40.4% for the three months ended January 29, 2011. The increase in the gross profit rate was mainly due to the leveraging of buying and occupancy costs and the effect of higher-margin gift card breakage, offset in part by higher markdowns for increased holiday promotional activity.

Cost of goods sold as a percentage of net sales is dependent upon a variety of factors, including changes in the relative sales mix among brands, changes in the mix of products sold, the timing and level of promotional activities, and fluctuations in material costs. These factors, among others, may cause cost of goods sold as a percentage of net revenues to fluctuate from year to year.

*Selling, General and Administrative (“SG&A”) Expenses.* SG&A expenses consist of compensation and benefit-related costs for sales and store operations personnel, administrative personnel and other employees not associated with the functions described above under cost of goods sold. SG&A expenses also include advertising and marketing costs, information technology and communication costs, supplies for our stores and administrative facilities, utility costs, insurance costs, legal costs and costs related to other administrative services.

SG&A expenses increased by \$21.2 million, or 10.0%, to \$232.3 million in for the three months ended January 28, 2012 from \$211.1 million for the three months ended January 29, 2011. SG&A expenses as a percentage of net sales decreased by 120 basis points to 26.9% for the three months ended January 28, 2012 from 28.1% for the three months ended January 29, 2011 primarily due to leverage on higher net sales. The increase in SG&A expenses was mainly due to (i) increased payroll-related costs and other store expenses, which resulted from the higher net sales growth, (ii) increased incentive compensation costs related to the better than planned earnings results, (iii) increased administrative expenses related to e-commerce growth, (iv) increased marketing costs, and (v) higher costs due to new and on-going business initiatives during the three months ended January 28, 2012.

*Depreciation and Amortization Expense.* Depreciation and amortization expense increased by \$3.9 million, or 18.1%, to \$25.5 million for the three months ended January 28, 2012 from \$21.6 million for the three months ended January 29, 2011. The increase was primarily due to an increase in capital expenditures, which resulted, in part, from the net opening of 67 stores during the past twelve months.

**Operating Income.** Operating income increased by \$28.5 million, or 39.9%, to \$100.0 million for the three months ended January 28, 2012 from \$71.5 million for the three months ended January 29, 2011. Operating income as a percentage of net sales increased 210 basis points, to 11.6% in the three months ended January 28, 2012 from 9.5% in the three months ended January 29, 2011. The increase was primarily due to the higher gross profit, which resulted from a combination of higher merchandise margins and higher sales levels, and the leveraging of SG&A expenses.

Operating income data for our three business segments is presented below.

|                               | Three Months<br>Ended                |                                      |                            |             |  |
|-------------------------------|--------------------------------------|--------------------------------------|----------------------------|-------------|--|
|                               | January<br>28,<br>2012<br>(millions) | January<br>29,<br>2011<br>(millions) | \$<br>Change<br>(millions) | %<br>Change |  |
| Operating income (loss):      |                                      |                                      |                            |             |  |
| dressbarn                     | \$(3.4 )                             | \$(5.2 )                             | \$1.8                      | (34.6 %)    |  |
| maurices                      | 26.4                                 | 24.5                                 | 1.9                        | 7.8 %       |  |
| Justice                       | 77.0                                 | 52.2                                 | 24.8                       | 47.5 %      |  |
| Total operating income (loss) | \$100.0                              | \$71.5                               | \$28.5                     | 39.9 %      |  |

**dressbarn operating loss** decreased by approximately \$1.8 million primarily as a result of a combination of a higher gross profit rate and an increase in sales, offset in part by an increase in SG&A expenses. The higher gross profit rate was mainly due to the leveraging of buying and occupancy costs, offset in part by higher markdowns. The increase in SG&A expenses during the three months ended January 28, 2012 was mainly due to increased payroll-related costs and other store expenses, relating to the overall net sales increases.

**maurices operating income** increased by approximately \$1.9 million primarily as a result of a strong increase in sales and a marginally higher gross profit rate, offset in part by an increase in SG&A expenses. The increase in SG&A expenses during the three months ended January 28, 2012 was due to a number of factors including the following: an increase in store payroll-related and other store expenses and e-commerce administrative costs, relating to the overall net sales increases; and increased marketing expenses.

**Justice operating income** increased by approximately \$24.8 million primarily as a result of an increase in sales and related gross profit rates, offset in part by an increase in SG&A expenses. The higher gross profit rate benefited from

selected price increases, merchandise mix, and better leveraging of buying and occupancy costs, offset in part by higher markdowns for increased holiday promotional activity. The increase in SG&A expenses during the three months ended January 28, 2012 was due to a number of factors including the following: an increase in store payroll-related and other store expenses and e-commerce administrative costs, relating to the overall net sales increases; and higher marketing expenses.

*Interest Expense.* Interest expense decreased by \$0.4 million, or 57.1%, to \$0.3 million for the three months ended January 28, 2012 from \$0.7 million for the three months ended January 29, 2011. The decrease was primarily the result of the fourth quarter Fiscal 2011 prepayment of the entire mortgage debt on our Suffern, New York facility.

*Interest and Other Income, Net.* Interest and other income, net was relatively flat, increasing by \$0.1 million, to \$1.0 million for the three months ended January 28, 2012 from \$0.9 million for the three months ended January 29, 2011. As such, there were no significant fluctuations warranting further discussion and analysis.

*Provision for Income Taxes.* The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes increased by \$7.8 million, or 26.7%, to \$37.0 million for the three months ended January 28, 2012 from \$29.2 million for the three months ended January 29, 2011. The increase in provision for income taxes was primarily a result of higher pretax income for the three months ended January 28, 2012. The reported effective tax rate decreased by 400 basis points, to 36.7% for the three months ended January 28, 2012 from 40.7% for the three months ended January 29, 2011. The decrease was primarily the result of lower non-deductible expenses and higher tax benefits relating to the accounting for discrete items in Fiscal 2012.

**Net Income.** Net income increased by \$21.2 million, or 49.9%, to \$63.7 million for the three months ended January 28, 2012 from \$42.5 million for the three months ended January 29, 2011. The increase was primarily due to growth in operating income for the three months ended January 28, 2012 at all three segments, including strong growth at our **Justice** segment. These net increases were offset in part by a increase in the provision for income taxes of \$7.8 million.

**Net Income Per Diluted Common Share.** Net income per diluted share increased by \$0.29, or 55.8%, to \$0.81 per share for the three months ended January 28, 2012 from \$0.52 per share for the three months ended January 29, 2011. The increase in diluted per share results was primarily due to the higher level of net income, as previously discussed. Weighted-average diluted common shares outstanding decreased to 78.8 million shares during the three months ended January 28, 2012 from 81.1 million shares during the three months ended January 29, 2011 relating to our common stock repurchase program, which also had a positive effect on net income per diluted share.

*Six Months Ended January 28, 2012 compared to Six Months Ended January 29, 2011*

The following table summarizes our results of operations and expresses the percentage relationship to net sales of certain financial statement captions:

|                                              | Six Months Ended                  |           |         |        |    |  |
|----------------------------------------------|-----------------------------------|-----------|---------|--------|----|--|
|                                              | January                           | January   | \$      | %      |    |  |
|                                              | 28,                               | 29,       | Change  | Change |    |  |
|                                              | 2012                              | 2011      |         |        |    |  |
|                                              | (millions, except per share data) |           |         |        |    |  |
| Net Sales                                    | \$1,630.3                         | \$1,465.4 | \$164.9 | 11.3   | %  |  |
| Cost of goods sold <sup>(a)</sup>            | (947.7 )                          | (856.4 )  | (91.3 ) | 10.7   | %  |  |
| Cost of goods sold as % of net sales         | 58.1 %                            | 58.4 %    |         |        |    |  |
| Selling, general and administrative expenses | (456.5 )                          | (415.2 )  | (41.3 ) | 9.9    | %  |  |
| SG&A expenses as % of net sales              | 28.0 %                            | 28.3 %    |         |        |    |  |
| Depreciation and amortization expense        | (49.6 )                           | (44.5 )   | (5.1 )  | 11.5   | %  |  |
| Operating income                             | 176.5                             | 149.3     | 27.2    | 18.2   | %  |  |
| Operating income as % of net sales           | 10.8 %                            | 10.2 %    |         |        |    |  |
| Interest expense                             | (0.5 )                            | (1.3 )    | 0.8     | (61.5  | %) |  |
| Interest and other income, net               | 1.9                               | 1.7       | 0.2     | 11.8   |    |  |
| Income before provision for income taxes     | 177.9                             | 149.7     | 28.2    | 18.8   | %  |  |
| Provision for income taxes                   | (66.7 )                           | (59.2 )   | (7.5 )  | 12.7   | %  |  |
| Effective tax rate <sup>(b)</sup>            | 37.5 %                            | 39.5 %    |         |        |    |  |
| Net income                                   | \$111.2                           | \$90.5    | \$20.7  | 22.9   | %  |  |

Net income per common share:

|         |        |        |        |      |   |
|---------|--------|--------|--------|------|---|
| Basic   | \$1.45 | \$1.15 | \$0.30 | 26.1 | % |
| Diluted | \$1.41 | \$1.12 | \$0.29 | 25.9 | % |

(a) Includes buying and occupancy costs and excludes depreciation.

(b) Effective tax rate is calculated by dividing the provision for income taxes by income before provision for income taxes.

*Net Sales.* Net sales increased by \$164.9 million, or 11.3%, to \$1,630.3 million for the six months ended January 28, 2012 from \$1,465.4 million for the six months ended January 29, 2011. The increase in net sales was driven by both our comparable store sales growth and new store growth, as well as strong growth in all e-commerce brand sales. On a consolidated basis, comparable store sales increased 6% during the six months ended January 28, 2012. The sales increases at each of our brands were as follows: **Justice** sales increased by \$98.8 million; **maurices** sales increased by \$42.2 million; and **dressbarn** sales increased by \$23.9 million.

Net sales and comparable store sales data for our three business segments is presented below.

|                 | Six Months Ended |           |            |          |   | Comparable  |   |
|-----------------|------------------|-----------|------------|----------|---|-------------|---|
|                 | January          | January   | \$ Change  | % Change |   | Store Sales |   |
|                 | 28,              | 29,       |            |          |   | (a)         |   |
|                 | 2012             | 2011      |            |          |   |             |   |
|                 | (millions)       |           | (millions) |          |   |             |   |
| Net sales:      |                  |           |            |          |   |             |   |
| dressbarn       | \$475.6          | \$451.7   | \$ 23.9    | 5.3      | % | 4           | % |
| maurices        | 427.5            | 385.3     | 42.2       | 11.0     | % | 3           | % |
| Justice         | 727.2            | 628.4     | 98.8       | 15.7     | % | 10          | % |
| Total net sales | \$1,630.3        | \$1,465.4 | \$ 164.9   | 11.3     | % | 6           | % |

Comparable store sales refer to the growth of sales on stores open throughout the full period and throughout the full prior period (including stores relocated within the same shopping center and stores with minor square footage (a) additions). The determination of which stores are included in the comparable store sales calculation only changes at the beginning of each fiscal year, except for stores that close during the fiscal year, which are excluded from comparable store sales beginning with the fiscal month the store actually closes.

**dressbarn net sales.** The net increase primarily reflects:

- an increase of \$15.7 million, or 4%, in comparable store sales during the six months ended January 28, 2012; a \$2.1 million increase in non-comparable stores sales, primarily driven by 16 stores opened during the last twelve months. The positive effect of new store openings was partially offset by 20 stores closings in the last twelve months; and
- an increase of \$6.1 million in revenues from e-commerce operations.

**maurices net sales.** The net increase primarily reflects:

- an increase of \$11.0 million, or 3%, in comparable store sales during the six months ended January 28, 2012; a \$22.0 million increase in non-comparable stores sales, primarily driven by an increase related to 42 net new store openings during the last twelve months; and
- an increase of \$9.2 million in revenues from e-commerce operations.

**Justice net sales.** The net increase primarily reflects:

- an increase of \$54.6 million, or 10%, in comparable store sales during the six months ended January 28, 2012;
- a \$21.0 million increase in non-comparable stores sales, primarily driven by an increase related to 29 net new store openings during the last twelve months;
- an increase of \$15.0 million in revenues from its e-commerce operations;
- a \$6.3 million increase in revenue from gift card breakage; and
- a \$1.9 million increase in wholesale, licensing operations, and other revenues.

*Cost of Goods Sold, including occupancy and buying costs, excluding depreciation.* Cost of goods sold increased by \$91.3 million, or 10.7%, to \$947.7 million for the six months ended January 28, 2012 from \$856.4 million for the six months ended January 29, 2011. Cost of goods sold as a percentage of net sales decreased by 30 basis points to 58.1% in the six months ended January 28, 2012 from 58.4% for the six months ended January 29, 2011. Gross profit, which represents the difference between net sales and cost of goods sold, expressed as a percentage of net sales, increased by 30 basis points to 41.9% for the six months ended January 28, 2012 from 41.6% for the six months ended January 29, 2011. The increase in our gross profit rate was mainly due to the leveraging of buying and occupancy costs and the effect of higher-margin gift card breakage, partially offset by higher markdowns for increased promotional activity.

Cost of goods sold as a percentage of net sales is dependent upon a variety of factors, including changes in the relative sales mix among brands, changes in the mix of products sold, the timing and level of promotional activities, and fluctuations in material costs. These factors, among others, may cause cost of goods sold as a percentage of net revenues to fluctuate from year to year.

SG&A expenses increased by \$41.3 million, or 9.9%, to \$456.5 million for the six months ended January 28, 2012 from \$415.2 million for the six months ended January 29, 2011. SG&A expenses as a percentage of net sales decreased by 30 basis points to 28.0% for the six months ended January 28, 2012 from 28.3% for the six months ended January 29, 2011 primarily due to leverage on higher net sales. The increase in SG&A expenses was mainly due to (i) store payroll-related costs and other store expenses, which resulted from the higher net sales growth, (ii) increased incentive compensation costs related to the better than planned earnings results, (iii) increased third-party administrative expenses related to e-commerce growth, (iv) increased marketing costs, (v) higher costs due to new business initiatives, and (vi) a \$5.4 million one-time executive contractual obligation incurred during the first quarter of Fiscal 2012.

**Depreciation and Amortization Expense.** Depreciation and amortization expense increased by \$5.1 million, or 11.5%, to \$49.6 million for the six months ended January 28, 2012 from \$44.5 million for the six months ended January 29, 2011. The increase was primarily due to an increase in capital expenditures, which resulted, in part, from the net opening of 67 stores during the past twelve months.

**Operating Income.** Operating income increased by \$27.2 million, or 18.2%, to \$176.5 million for the six months ended January 28, 2012 from \$149.3 million for the six months ended January 29, 2011. Operating income as a percentage of net sales increased 60 basis points, to 10.8% for the six months ended January 28, 2012 from 10.2% for the six months ended January 29, 2011. The increase was primarily due to the higher gross profit, which resulted from a combination of higher merchandise margins and higher sales levels, and the leveraging of SG&A expenses.

Operating income data for our three business segments is presented below.

|                        | Six Months<br>Ended |                     |            |             |   |
|------------------------|---------------------|---------------------|------------|-------------|---|
|                        | January 28,<br>2012 | January 29,<br>2011 | \$ Change  | %<br>Change |   |
|                        | (millions)          | (millions)          | (millions) |             |   |
| Operating income:      |                     |                     |            |             |   |
| dressbarn              | \$1.6               | \$2.1               | \$ (0.5)   | (23.8)      | % |
| maurices               | 50.1                | 49.8                | 0.3        | 0.6         | % |
| Justice                | 124.8               | 97.4                | 27.4       | 28.1        | % |
| Total operating income | \$176.5             | \$149.3             | \$ 27.2    | 18.2        | % |

**dressbarn operating income** decreased by approximately \$0.5 million primarily as a result of a lower gross profit rate and an increase in SG&A expenses, which more than offset the increase in sales. The lower gross profit rate was mainly attributable to the de-leveraging of buying and occupancy costs. The increase in SG&A expenses during the six months ended January 28, 2012 was mainly due to an increase in store payroll-related costs and other store expenses, relating to the overall net sales increases, increased third-party administrative expenses related to e-commerce growth and higher marketing costs.

**maurices operating income** increased by approximately \$0.3 million primarily as a result of a strong increase in sales, offset in part by a lower gross profit rate and an increase in SG&A expenses. The lower gross profit rate was mainly attributable to higher markdowns. The increase in SG&A expenses during the six months ended January 28, 2012 was due store payroll-related costs and other store expenses, relating to the overall net sales increases, increased third-party administrative expenses related to e-commerce growth and higher marketing costs.

**Justice operating income** increased by approximately \$27.4 million primarily as a result of an increase in sales and gross profit rates, offset in part by an increase in SG&A expenses. The higher gross profit rate benefited from selected price increases, merchandise mix, and the leveraging of buying and occupancy costs, offset in part by higher markdowns on promotional activity. The increase in SG&A expenses during the six months ended January 28, 2012 was due to a number of factors including (i) an increase in store payroll-related costs and other store expenses, relating to the overall net sales increases (ii) increased incentive compensation costs related to the better than planned earnings results, (iii) increased third-party administrative expenses related to e-commerce growth, (iv) increased marketing costs, (v) and \$5.4 million one-time executive contractual obligation incurred during the first quarter of Fiscal 2012.

**Interest Expense.** Interest expense decreased by \$0.8 million, or 61.5%, to \$0.5 million for the six months ended January 28, 2012 from \$1.3 million for the six months ended January 29, 2011. The decrease was primarily the result of the fourth quarter Fiscal 2011 prepayment of the entire mortgage debt on our Suffern, New York facility.

**Interest and Other Income, Net.** Interest and other income, net was relatively flat, increasing by \$0.2 million, to \$1.9 million for the six months ended January 28, 2012 from \$1.7 million for the six months ended January 29, 2011. As such, there were no significant fluctuations warranting further discussion and analysis.

**Provision for Income Taxes.** The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes increased by \$7.5 million, or 12.7%, to \$66.7 million for the six months ended January 28, 2012 from \$59.2 million for the six months ended January 29, 2011. The increase in provision for income taxes was primarily a result of higher pretax income for the six months ended January 28, 2012. The reported effective tax rate decreased 200 basis points, to 37.5% for the six months ended January 28, 2012 from 39.5% for the six months ended January 29, 2011. The decrease was primarily the result of higher tax benefits relating to the accounting for discrete items in Fiscal 2012.

*Net Income.* Net income increased by \$20.7 million, or 22.9%, to \$111.2 million for the six months ended January 28, 2012 from \$90.5 million for the six months ended January 29, 2011. Growth in operating income for the six months ended January 28, 2012 at our **Justice** and **maurices** segments was offset in part by lower operating income at our **dressbarn** segment. These net increases were offset in part by an increase in the provision for income taxes of \$7.5 million.

*Net Income Per Diluted Common Share.* Net income per diluted share increased by \$0.29, or 25.9%, to \$1.41 per share for the six months ended January 28, 2012 from \$1.12 per share for the six months ended January 29, 2011. The increase in diluted earnings per share results was primarily due to the higher level of net income, as previously discussed. Weighted-average diluted common shares outstanding decreased to 79.1 million shares during the six months ended January 28, 2012 from 81.1 million shares during the three months ended January 29, 2011 relating to our common stock repurchase program, which also had a positive effect on net income per diluted share.

## FINANCIAL CONDITION AND LIQUIDITY

### *Financial Condition*

|                                         | <b>January<br/>28,<br/>2012</b> | <b>July 30,<br/>2011</b> | <b>\$<br/>Change</b> |
|-----------------------------------------|---------------------------------|--------------------------|----------------------|
|                                         | <b>(millions)</b>               |                          |                      |
| Cash and cash equivalents               | \$378.9                         | \$243.5                  | \$ 135.4             |
| Short-term investments                  | 50.7                            | 54.1                     | (3.4 )               |
| Non-current investments                 | 148.0                           | 138.5                    | 9.5                  |
| Total debt                              | --                              | --                       | --                   |
| Net cash and investments <sup>(a)</sup> | \$577.6                         | \$436.1                  | \$ 141.5             |
| Equity                                  | \$1,257.5                       | \$1,158.0                | \$ 99.5              |

<sup>(a)</sup> "Net cash and investments" is defined as total cash and cash equivalents, plus short-term and non-current investments, less total debt.

The increase in our net cash and investments position as of January 28, 2012 as compared to July 30, 2011 was primarily due to our operating cash flows, which were partially offset by our use of cash to support common stock repurchases and capital expenditures. During the six months ended January 28, 2012, we used \$37.2 million to repurchase 1.4 million shares of common stock and \$52.1 million for capital expenditures.

The increase in equity was primarily due to the Company's net income in Fiscal 2012, offset in part by the Fiscal 2012 effects of the Company's common stock repurchase program.

### *Cash Flows*

The table below summarizes our cash flows for the six months ended presented as follows:

|                                                          | Six Months<br>Ended    |                        |
|----------------------------------------------------------|------------------------|------------------------|
|                                                          | January<br>28,<br>2012 | January<br>29,<br>2011 |
|                                                          | (millions)             |                        |
| Net cash provided by operating activities                | \$ 222.0               | \$ 167.0               |
| Net cash used in investing activities                    | (59.5 )                | (83.5 )                |
| Net cash used in financing activities                    | (27.1 )                | (21.8 )                |
| Net increase in cash and cash equivalents <sup>(a)</sup> | \$ 135.4               | \$ 61.7                |

<sup>(a)</sup> Excludes changes in short-term and non-current investments, which increased in the aggregate by \$6.1 million during the six months ended January 28, 2012.

*Net Cash Provided by Operating Activities.* Net cash provided by operations was \$222.0 million for the six months ended January 28, 2012, compared with \$167.0 million during the six months ended January 29, 2011. The increase was primarily driven an increase in net income, an increase in non-cash stock-based compensation expense and lower working capital requirements.

*Net Cash Used in Investing Activities.* Net cash used in investing activities for the six months ended January 28, 2012 was \$59.5 million, consisting primarily of \$52.1 million of capital expenditures and \$7.3 million of net cash used in the purchases of investment securities. Net cash used in investing activities for six months ended January 29, 2011 was \$83.5 million, consisting primarily of \$35.7 million of net cash used in the purchases of investment securities and \$47.7 million of capital expenditures.

*Net Cash Used in Financing Activities.* Net cash used in financing activities was \$27.1 million during the six months ended January 28, 2012, consisting primarily of \$37.2 million for the repurchase of common stock, offset in part by proceeds relating to our stock-based compensation plans. Net cash used in activities for the six months ended January 29, 2011 was \$21.8 million, consisting primarily of \$26.1 million for the repurchase of common stock, offset in part by proceeds relating to our stock-based compensation plans.

### ***Liquidity***

Our primary sources of liquidity are the cash flow generated from our operations, \$200 million of availability under our Credit Agreement (as defined below), available cash and cash equivalents, investments and other available financing options. These sources of liquidity are used to fund our ongoing cash requirements, including working capital requirements, retail store expansion, construction and renovation of stores, any future dividend requirements, investment in technological infrastructure, acquisitions, debt repayment, stock repurchases, any future debt requirements, contingent liabilities (including uncertain tax positions) and other corporate activities. Management believes that our existing sources of cash will be sufficient to support our operating, capital requirements and any debt service for the foreseeable future.

As discussed in the “*Debt*” section below, we had no revolving credit borrowings outstanding under our Credit Agreement as of January 28, 2012. As discussed further below, we may elect to draw on our Credit Agreement or other potential sources of financing for, among other things, a material acquisition, settlement of a material contingency (including uncertain tax positions) or a material adverse business development, as well as for other general corporate business purposes. We believe that our Credit Agreement is adequately diversified with no undue concentrations in any one financial institution. In particular, as of January 28, 2012, there were five financial institutions participating in the Credit Facility, with no one participant maintaining a maximum commitment percentage in excess of approximately 29%. Management has no reason at this time to believe that the participating institutions will be unable to fulfill their obligations to provide financing in accordance with the terms of the Credit Agreement in the event of our election to draw funds in the foreseeable future.

***Debt***

*Credit Agreement*

See Note 15 of the audited consolidated financial statements included in the Fiscal 2011 10-K for further information regarding Ascena's \$200 million revolving credit facility (the "Credit Agreement"). As of January 28, 2012, we had no borrowings outstanding and \$193.1 million available under the Credit Agreement. The amount available under the Credit Agreement is net of \$6.9 million of outstanding letters of credit. As of January 28, 2012, the Company also had issued \$15.4 million of private label letters of credit relating to the importation of merchandise.

Our Credit Agreement has financial covenants with respect to a fixed charge coverage ratio, which is defined as a ratio of consolidated EBITDAR less capital expenditures to consolidated fixed charges. For such purposes, consolidated EBITDAR is defined generally as net income plus (i) income tax expense, (ii) interest expense, (iii) depreciation and amortization expense and (iv) rent expense. Consolidated fixed charges are defined generally as the sum of (a) cash interest expense, (b) rent expense, (c) cash tax expense, (d) capital lease payments, (e) mandatory cash contributions to any employee benefit plan and (f) any restricted payments paid in cash. We are required to maintain a minimum fixed charge coverage ratio for any period of four fiscal quarters of at least 1.10 to 1.00. As of January 28, 2012, the actual fixed charge coverage ratio was 1.70 to 1.00. We were in compliance with all financial covenants contained in the Credit Agreement as of January 28, 2012, and expect to be in compliance in all periods during the next twelve months.

In addition to the above, the Credit Agreement contains customary negative covenants, subject to negotiated exceptions, on (i) liens and guarantees, (ii) investments, (iii) indebtedness, (iv) significant corporate changes including mergers and acquisitions, (v) dispositions, and (vi) restricted payments and certain other restrictive agreements. The Credit Agreement also contains customary events of default, such as payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a defined change in control, or the failure to observe the negative covenants and other covenants related to the operation of the Company's business.

The Company's obligations under the Credit Agreement are guaranteed by certain of its domestic subsidiaries (the "Subsidiary Guarantors"). As collateral security under the Credit Agreement and the guarantees thereof, the Company and the Subsidiary Guarantors have granted to the administrative agent for the benefit of the lenders, a first priority lien on substantially all of their tangible and intangible assets, including, without limitation, certain domestic inventory, but excluding real estate.

### ***Payment of Dividends***

Our Credit Agreement does not permit cash dividends, but allows us to pay stock dividends subject to certain restrictions contained in the Credit Agreement. Dividends are payable when declared by our Board of Directors. Currently, the Board of Directors does not plan to pay any dividends.

### ***Common Stock Repurchase Program***

On September 22, 2011, the Company's Board of Directors authorized an expansion of its existing stock repurchase program (the "Stock Repurchase Program") by \$100 million. When taken with the existing availability under the previous program, the availability to repurchase shares of common stock was increased to \$127.1 million as of the date of authorization.

During the six months ended January 28, 2012, we purchased 1.4 million shares at an aggregate cost of \$37.2 million. The remaining availability under the Stock Repurchase Program was approximately \$89.9 million at January 28, 2012. Treasury (reacquired) shares are retired and treated as authorized but unissued shares.

### ***Contractual and Other Obligations***

#### ***Firm Commitments***

There have been no material changes during the period covered by this report to the firm commitments specified in the contractual and other obligations section of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Fiscal 2011 10-K.

*Off-Balance Sheet Arrangements*

There have been no material changes during the period covered by this report to the off-balance sheet arrangements specified in the contractual and other obligations section of the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Fiscal 2011 10-K.

**MARKET RISK MANAGEMENT**

The Company is exposed to a variety of market-based risks, representing our potential exposure to losses arising from adverse changes in market rates and prices. These market risks include, but are not limited to, changes in foreign currency exchange rates relating to our expanding Canadian and other international operations, changes in interest rates, and changes in both the value and liquidity of our cash, cash equivalents and investment portfolio.

Consequently, in the normal course of business, we employ a number of established policies and procedures to manage such risks, including considering, at times, the use of derivative financial instruments to hedge such risks. However, as a matter of policy, we do not enter into derivative financial instruments for speculative or trading purposes. As of January 28, 2012 the Company did not have any outstanding derivative financial instruments.

*Foreign Currency Risk Management*

We currently do not have any significant risks to the fluctuation of foreign currency exchange rates. Purchases of inventory for resale in our retail stores normally are transacted in U.S. dollars. In addition, our wholly owned international retail operations represented less than 1% of our consolidated revenues for the first half of Fiscal 2012. In the future, as our international operations continue to expand, we would consider the use of forward foreign currency exchange contracts to manage any significant risks to changes in foreign currency exchange rates.

### ***Interest Rate Risk Management***

Our Company currently has no debt outstanding. However, we have approximately \$200 million of borrowing availability under our Credit Agreement. Borrowings under our Credit Agreement are subject to interest charges at variable rates. Accordingly, to the extent we borrow under the Credit Agreement, we are subject to market risks related to changes in interest rates. See *Debt* section included above for a summary of the terms and conditions of our Credit Agreement.

### ***Investment Risk Management***

As of January 28, 2012, our Company had cash and cash equivalents on-hand of \$378.9 million, primarily invested in money market funds and commercial paper with original maturities of 90 days or less. The Company's other significant investments included \$50.7 million of short-term investments, primarily municipal bonds with original maturities greater than 90 days; and \$148.0 million of non-current investments, primarily municipal bonds and auction rate securities issued through various municipalities with maturities greater than one year.

We maintain cash deposits and cash equivalents with well-known and stable financial institutions; however, there were significant amounts of cash and cash equivalents at these financial institutions in excess of federally insured limits at January 28, 2012. This represents a concentration of credit risk. With the current financial environment and the instability of some financial institutions, we cannot be assured we will not experience losses on our deposits in the future. However, there have been no losses recorded on deposits of cash and cash equivalents to date.

## **CRITICAL ACCOUNTING POLICIES**

The Company's significant accounting policies are described in Notes 3 and 4 to the audited consolidated financial statements included in the Company's Fiscal 2011 10-K. The SEC's Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to the Company's financial condition and results of operations and requires significant judgment and estimates on the part of management in its application. The Company's estimates are often based on complex judgments, probabilities and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. For a detailed discussion of the Company's critical accounting policies, see the "Critical Accounting Policies" section of the MD&A in the Company's Fiscal 2011 10-K. There have been no material changes in the application of the Company's critical accounting policies since July 30, 2011.

## **RECENTLY ISSUED ACCOUNTING PROUNCEMENTS**

See Note 4 to the accompanying unaudited consolidated financial statements for a description of certain recently issued or proposed accounting standards which may impact our financial statements in future periods.

## **Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For a discussion of our exposure to, and management of our market risks, see “Market Risk Management” in Item 2 included elsewhere in this report on Form 10-Q.

## **Item 4 - CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

The Company carried out an evaluation, under the supervision and with the participation of its 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 pursuant to Rules 13(a)-15(e) and 15(d)-15(e) of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective at the reasonable assurance level as January 28, 2012. There has been no change in the Company’s internal control over financial reporting during the fiscal quarter ended January 28, 2012 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**

On January 21, 2010, Tween Brands was sued in the U.S. District Court for the Eastern District of California. This purported class action alleged, among other things, that Tween Brands violated the Fair Labor Standards Act by not properly paying its employees for overtime and missed rest breaks. The parties agreed to a settlement of this wage and hour lawsuit. The court granted final approval of the settlement on August 10, 2011. The Company had previously established a reserve for this settlement. During the first quarter of Fiscal 2012, the settlement funds were disbursed to Class Members, and the excess reserve was reversed into income. The effect of the settlement and the reversal of excess reserve was not material to the consolidated financial statements.

In addition to the litigation discussed above, the Company is, and in the future may be, involved in various other lawsuits, claims and proceedings incident to the ordinary course of business. The results of litigation are inherently unpredictable. Any claims against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, the Company believes that the ultimate resolution of these matters, including the matter discussed above, will not have a material effect on the Company's consolidated financial statements taken as a whole.

### **Item 1A – Risk Factors**

There are many risks and uncertainties that can affect our future business, financial performance or share price. In addition to the other information set forth in this report, you should review and consider the information regarding certain factors which could materially affect our business, financial condition or future results set forth under Part I, Item 1A "Risk Factors" in our Fiscal 2011 10-K. There have been no material changes during the quarter ended January 28, 2012 to the Risk Factors set forth in Part I, Item 1A of the Fiscal 2011 10-K.

### **Item 2 –UNREGISTERED SALES OF EQUITY Securities and Use of Proceeds**

#### **Issuer Purchases of Equity Securities<sup>(1), (2)</sup>**

The following table provides information about the Company's repurchases of common stock during the fiscal quarter ended January 28, 2012.

| Period                                            | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs <sup>(1)</sup><br>(2) | Approximate<br>Dollar Value<br>of Shares<br>that May Yet<br>Be<br>Purchased<br>Under the<br>Plans or<br>Programs <sup>(2)</sup> |
|---------------------------------------------------|-------------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Month # 1 (October 30, 2011 – November 26, 2011)  | --                                        | \$ --                                 | --                                                                                                                             | \$ 98 million                                                                                                                   |
| Month # 2 (November 27, 2011 – December 31, 2011) | 308,900                                   | 27.69                                 | 308,900                                                                                                                        | 90 million                                                                                                                      |
| Month # 3 (January 1, 2012 – January 28, 2012)    | --                                        | --                                    | --                                                                                                                             | 90 million                                                                                                                      |

On September 23, 2010, our Board of Directors authorized a \$100 million share repurchase program (the “2010 Stock Repurchase Program”). Under the 2010 Stock Repurchase Program, purchases of shares of our common stock may be made at our discretion from time to time, subject to overall business and market conditions. Purchases will be made at prevailing market prices, through open market purchases or in privately negotiated transactions and will be subject to applicable SEC rules.

(1) common stock may be made at our discretion from time to time, subject to overall business and market conditions. Purchases will be made at prevailing market prices, through open market purchases or in privately negotiated transactions and will be subject to applicable SEC rules.

(2) On September 22, 2011, the Company’s Board of Directors authorized an expansion of its existing 2010 Stock Repurchase Program by \$100 million. When taken with the existing availability under the 2010 Stock Repurchase Program, the availability to repurchase shares of common stock was increased to \$127.1 million as of the date of authorization.

**Item 6 - EXHIBITS**

Exhibit Description

- |      |                                                                                                                                           |
|------|-------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.                        |
| 31.2 | Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.                        |
| 32.1 | Certification of David Jaffe pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.    |
| 32.2 | Certification of Armand Correia pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

101.INS XBRL Instance Document\*

101.SCH XBRL Taxonomy Extension Schema Document\*

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*

101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*

101.LAB XBRL Taxonomy Extension Label Linkbase Document\*

XBRL Taxonomy Extension Presentation Linkbase Document\*

101.PRE

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

## 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.

ASCENA RETAIL GROUP, INC.

Date: March 1, 2012 BY: /s/ David Jaffe  
David Jaffe  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: March 1, 2012 BY: /s/ Armand Correia  
Armand Correia  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)