

Ascena Retail Group, Inc.
Form 10-Q
June 03, 2014

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 April 26, 2014

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
(State or other jurisdiction of
incorporation or organization)

30-0641353
(I.R.S. Employer
Identification No.)

933 MacArthur Boulevard, Mahwah, New Jersey
(Address of principal executive offices)

07430
(Zip Code)

(551) 777-6700
(Registrant's telephone number, including area code)

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 161,662,135 shares of common stock outstanding as of May 29, 2014.

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ASCENA RETAIL GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	April 26, 2014	July 27, 2013
	(millions, except per share data) (unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$213.2	\$186.4
Short-term investments	3.6	3.0
Inventories	564.7	540.9
Assets related to discontinued operations	—	38.8
Deferred tax assets	52.1	53.0
Prepaid expenses and other current assets	126.6	120.7
Total current assets	960.2	942.8
Property and equipment, net	1,044.0	824.8
Goodwill	581.4	581.4
Other intangible assets, net	449.2	451.1
Other assets	74.9	71.6
Total assets	\$3,109.7	\$2,871.7
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$224.0	\$259.2
Accrued expenses and other current liabilities	305.3	301.4
Deferred income	72.0	61.2
Liabilities related to discontinued operations	3.0	21.5
Income taxes payable	7.5	8.7
Current portion of long term debt	0.6	0.6
Total current liabilities	612.4	652.6
Long-term debt	224.4	135.0
Lease-related liabilities	243.8	242.9
Deferred income taxes	156.2	131.7
Other non-current liabilities	159.0	153.1
Commitments and contingencies (Note 11)		
Total liabilities	1,395.8	1,315.3
Equity:		
Common stock, par value \$0.01 per share; 161.6 million and 159.5 million shares issued and outstanding	1.6	1.6
Additional paid-in capital	635.2	592.8
Retained earnings	1,080.5	963.2
Accumulated other comprehensive loss	(3.4)	(1.2)
Total equity	1,713.9	1,556.4
Total liabilities and equity	\$3,109.7	\$2,871.7

See accompanying notes.

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ASCENA RETAIL GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	April 26, 2014	April 27, 2013	April 26, 2014	April 27, 2013
	(millions, except per share data) (unaudited)			
Net sales	\$1,145.1	\$1,142.2	\$3,608.2	\$3,517.2
Cost of goods sold	(470.1	) (484.4	) (1,534.9	) (1,540.7
Gross margin	675.0	657.8	2,073.3	1,976.5
Other costs and expenses:				
Buying, distribution and occupancy costs	(219.6	) (208.1	) (670.9	) (613.0
Selling, general and administrative expenses	(340.4	) (332.4	) (1,048.2	) (1,013.9
Acquisition-related, integration and restructuring costs	(12.7	) (6.9	) (24.9	) (20.1
Depreciation and amortization expense	(48.6	) (44.6	) (141.0	) (122.5
Total other costs and expenses	(621.3	) (592.0	) (1,885.0	) (1,769.5
Operating income	53.7	65.8	188.3	207.0
Interest expense	(1.7	) (2.9	) (4.8	) (12.5
Interest and other (expense) income, net	(0.7	) 0.1	(1.2	) 0.6
Loss on extinguishment of debt (Note 8)	—	(7.9	) —	(9.3
Income from continuing operations before provision for income taxes	51.3	55.1	182.3	185.8
Provision for income taxes from continuing operations	(15.7	) (22.2	) (60.0	) (68.9
Income from continuing operations	35.6	32.9	122.3	116.9
(Loss) income from discontinued operations, net of taxes ⁽¹⁾	(2.4	) (1.7	) (4.6	) 4.6
Net income	\$33.2	\$31.2	\$117.7	\$121.5
Net income per common share - basic:				
Continuing operations	\$0.22	\$0.21	\$0.76	\$0.74
Discontinued operations	(0.02	) (0.01	) (0.03	) 0.03
Total net income per basic common share	\$0.20	\$0.20	\$0.73	\$0.77
Net income per common share – diluted:				
Continuing operations	\$0.22	\$0.20	\$0.74	\$0.72
Discontinued operations	(0.02	) (0.01	) (0.03	) 0.03
Total net income per diluted common share	\$0.20	\$0.19	\$0.71	\$0.75
Weighted average common shares outstanding:				
Basic	161.4	158.0	160.4	156.9
Diluted	164.7	163.3	164.9	162.8

⁽¹⁾ (Loss) income from discontinued operations is presented net of a \$0.1 million and \$2.9 million income tax benefit for the three and nine months ended April 26, 2014, respectively, and a \$1.2 million income tax benefit and a \$1.8 million income tax expense for the three and nine months ended April 27, 2013, respectively.

See accompanying notes.

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ASCENA RETAIL GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended	
	April 26, 2014	April 27, 2013	April 26, 2014	April 27, 2013
	(millions)			
	(unaudited)			
Net income	\$33.2	\$31.2	\$117.7	\$121.5
Other comprehensive income (loss), net of tax ⁽¹⁾				
Net change in unrealized gains on available-for-sale investments	—	—	—	1.2
Foreign currency translation adjustment	1.0	(0.2)	(2.2)	(0.6)
Total other comprehensive income (loss)	1.0	(0.2)	(2.2)	0.6
Total comprehensive income	\$34.2	\$31.0	\$115.5	\$122.1

⁽¹⁾ No tax benefits have been provided in any period primarily due to the Company's assertion regarding its indefinitely reinvested current year earnings and the uncertainty of realization of cumulative capital loss tax benefits.

See accompanying notes.

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ASCENA RETAIL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	April 26, 2014	April 27, 2013
	(millions)	
	(unaudited)	
Cash flows from operating activities:		
Net income	\$117.7	\$121.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	141.0	122.5
Deferred income tax benefit	(13.1)	(6.4)
Deferred rent and other occupancy costs	(28.1)	(26.9)
Loss on extinguishment of debt	—	9.3
Non-cash stock-based compensation expense	23.7	23.2
Non-cash impairments of assets	3.5	3.8
Non-cash interest expense	1.0	1.4
Other non-cash income	(5.8)	(7.3)
Excess tax benefits from stock-based compensation	(4.3)	(12.8)
Changes in operating assets and liabilities:		
Inventories	(23.8)	(7.3)
Accounts payable, accrued liabilities and income tax liabilities	(9.7)	65.2
Deferred income liabilities	17.1	24.4
Lease-related liabilities	31.2	29.0
Other balance sheet changes	12.5	(6.1)
Changes in net assets related to discontinued operations	(19.4)	(0.3)
Net cash provided by operating activities	243.5	333.2
Cash flows from investing activities:		
Capital expenditures	(368.9)	(171.3)
Proceeds from sale of assets	42.2	15.9
Purchase of investments	(0.7)	(2.3)
Proceeds from sales and maturities of investments	0.1	4.9
Net cash used in investing activities	(327.3)	(152.8)
Cash flows from financing activities:		
Proceeds from borrowings	1,094.3	426.7
Repayments of debt	(1,004.9)	(601.4)
Payment of deferred financing costs	—	(3.7)
Proceeds from stock options exercised and employee stock purchases	16.9	23.8
Excess tax benefits from stock-based compensation	4.3	12.8
Net cash provided by (used in) financing activities	110.6	(141.8)
Net increase in cash and cash equivalents	26.8	38.6
Cash and cash equivalents at beginning of period	186.4	164.3
Cash and cash equivalents at end of period	\$213.2	\$202.9

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 and boys. The Company operates, through its 100% owned subsidiaries, the following principal retail brands: Justice, Lane Bryant, maurices, dressbarn and Catherines. The Company operates approximately 3,900 stores throughout the United States, Puerto Rico and Canada, with annual revenues of over \$4.7 billion for the fiscal year ended July 27, 2013. 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 five segments following a brand-oriented approach: Justice, Lane Bryant, maurices, dressbarn, and Catherines. The Justice segment includes approximately 998 specialty retail and outlet 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, and fashionable apparel to boys who are ages 7 to 14 under the Brothers brand. The Lane Bryant segment includes approximately 770 specialty retail and outlet stores, and e-commerce operations. The Lane Bryant brand offers fashionable and sophisticated plus-size apparel under multiple private labels to female customers in the 25 to 45 age range. The maurices segment includes approximately 907 specialty retail and outlet 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 dressbarn segment includes approximately 831 specialty retail and outlet stores, and e-commerce operations. 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, special occasion and casual fashion to the working woman. The Catherines segment includes approximately 389 specialty retail and outlet stores, and e-commerce operations. The Catherines brand offers classic apparel and accessories for wear-to-work and casual lifestyles in a full range of plus sizes, generally catering to the female customer 45 years and older.

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, comprehensive income and 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 27, 2013 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 27, 2013 (the “Fiscal 2013 10-K”), which should be read in conjunction with these interim financial statements. Reference is made to the Fiscal 2013 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, comprehensive income 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. There were no variable interest entities as of April 26, 2014.

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

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

Fiscal Year

The Company utilizes a 52-53 week fiscal year ending on the last Saturday in July. As such, fiscal year 2014 will end on July 26, 2014 and will be a 52-week period (“Fiscal 2014”). Fiscal 2013 ended on July 27, 2013 and reflected a 52-week period (“Fiscal 2013”). The third quarter of Fiscal 2014 ended on April 26, 2014 and was a 13-week period. The third quarter of Fiscal 2013 ended on April 27, 2013 and was also a 13-week period.

Prior to Fiscal 2014, the financial position and results of operations of the sourcing operations of Charming Shoppes, Inc. (“Charming Shoppes”) located in Hong Kong (“Charming Sourcing”), which was acquired in the June 2012 acquisition of Charming Shoppes (the “Charming Shoppes Acquisition”), were reported on a one-month lag. The Company’s operating results for the three and nine months ended April 27, 2013 include the operating results of Charming Sourcing for the three-month period from January 1, 2013 through March 31, 2013 and nine-month period from July 1, 2012 through March 31, 2013. Effective with the beginning of Fiscal 2014, the fiscal year-end of Charming Sourcing was changed to conform to the Company’s fiscal year-end. The change was recorded as an adjustment to the Company’s opening balance of retained earnings as of the beginning of Fiscal 2014. The net effect of such adjustment, and the prior reporting lag, was not material to the consolidated financial statements of the Company.

Discontinued Operations

Contemporaneously with the closing of the Charming Shoppes Acquisition, the Company announced its intent to cease operating the acquired Fashion Bug business and its intent to sell the acquired Figi’s business. Accordingly, these businesses have been classified as a component of discontinued operations within the consolidated financial statements.

The Fashion Bug business ceased operations in February 2013. Additionally, as discussed in the Fiscal 2013 10-K, in August 2013, the Company entered into an agreement to sell the principal net assets of the Figi’s business (the “Figi’s Sale”) and recorded an \$8.0 million pretax charge during the fourth quarter of Fiscal 2013 to reduce the carrying value of the Figi’s net assets to an amount approximating the net sales proceeds. The Figi’s Sale closed during the first quarter of Fiscal 2014. Additional pretax charges of \$2.3 million and \$4.5 million for the three and nine months ended April 26, 2014, respectively, reflect transaction costs and the adjustment of certain liabilities which existed at the date it was sold. These charges have been classified as components of discontinued operations in the accompanying consolidated statement of operations. No material charges related to the finalization of the remaining liabilities are anticipated.

Operating results for the discontinued businesses, including \$7.4 million of revenues for the first quarter of Fiscal 2014 (only consisting of revenues from the Figi's business) and \$13.4 million and \$400.3 million of revenues for the three and nine months ended April 27, 2013, respectively, have been segregated and reported separately as a component of discontinued operations in the accompanying consolidated statements of operations.

As of April 26, 2014 the only balance remaining related to the discontinued businesses consists of accrued expenses and other current liabilities of \$3.0 million.

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, sales at Justice 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 December holiday season that is focused on gift-giving merchandise. The maurices brand experiences peak sales during the December holiday season as well as

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

during the early spring which includes the Easter holiday season. The dressbarn brand has historically experienced higher sales in the spring, which includes the Easter and Mother's Day holidays. The Lane Bryant and Catherines brands typically experience peak sales during the Easter, Mother's Day and December holiday seasons. Lane Bryant's peak sales around Mother's Day typically extend through Memorial Day and into early summer. In addition, our results of operations and cash flows may fluctuate materially in any quarterly period depending on, among other things, adverse weather conditions, shifts in the timing of certain holidays and changes in merchandise mix.

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 catalog are recognized upon delivery and receipt of the shipment by our customers. Such revenue also is reduced by an estimate of returns.

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 accompanying 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), in-bound freight to our distribution centers and changes in reserve levels for inventory realizability and shrinkage. These costs are determined to be directly or indirectly incurred in bringing an article to its existing condition and location.

Our cost of goods sold and gross margin may not be comparable to those of other entities. Some entities, like us, exclude costs related to their distribution network, buying function, store occupancy costs and depreciation and amortization expenses from cost of goods sold and include them in other costs and expenses, whereas other entities include these costs in their cost of goods sold.

Buying, Distribution and Occupancy costs

Buying, distribution and occupancy costs consist of store occupancy and utility costs (excluding depreciation), out-bound freight and all costs associated with the buying and distribution functions.

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

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Buying, distribution and occupancy costs. SG&A expenses also include advertising and marketing costs, information technology and communication costs, supplies for our stores and administrative facilities, 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 accompanying consolidated statements of operations and are classified on the accompanying consolidated balance sheets with the related liability for uncertain tax positions.

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 \$39.1 million as of April 26, 2014 and \$44.9 million as of July 27, 2013. The Company’s liability for uncertain tax positions decreased by \$5.8 million primarily as a result of the reversal of certain liabilities associated with uncertain tax positions due largely to the expiration of applicable federal and state income tax statutes of limitations for certain years in the first quarter and settlements in the third quarter of Fiscal 2014. 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 \$4.6 million, excluding interest and penalties, during the next twelve months. However, changes in the occurrence, expected outcome 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 and any other potentially dilutive financial instruments, only in the periods in which such effect is dilutive under the treasury stock method.

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ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 Ended		Nine Months Ended	
	April 26, 2014	April 27, 2013	April 26, 2014	April 27, 2013
	(millions)			
Basic	161.4	158.0	160.4	156.9
Dilutive effect of stock options, restricted stock and restricted stock units	3.3	5.3	4.5	5.9
Diluted shares	164.7	163.3	164.9	162.8

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 April 26, 2014 and April 27, 2013, there was an aggregate of approximately 5.6 million and 2.9 million, respectively, of additional shares issuable upon the exercise of anti-dilutive options and/or the contingent vesting of restricted stock units that were excluded from the diluted share calculations.

4. Inventories

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

	April 26, 2014	July 27, 2013	April 27, 2013
	(millions)		
Justice	\$152.7	\$196.2	\$141.3
Lane Bryant	157.0	119.7	152.4
maurices	101.4	92.0	84.9
dressbarn	112.3	106.9	119.6
Catherines	41.3	26.1	39.9
Total inventories	\$564.7	\$540.9	\$538.1

5. 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.

Cash, cash equivalents and restricted cash are recorded at carrying value, which approximates fair value.

Available-for-sale investments in debt securities have historically been recorded at fair value. As the Company's primary debt obligations are variable rate, there are no significant differences between the fair value and carrying value of the Company's debt obligations.

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 their 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 and other indefinite-lived intangible assets), 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)

6. Property and Equipment

Property and equipment, net, consist of the following:

	April 26, 2014 (millions)	July 27, 2013
Property and Equipment:		
Land	\$33.3	\$29.4
Buildings and improvements	136.2	47.2
Leasehold improvements	591.3	531.4
Furniture, fixtures and equipment	534.1	401.0
Information technology	244.8	213.1
Construction in progress	149.3	165.3
	1,689.0	1,387.4
Less: accumulated depreciation	(645.0)	(562.6)
Property and equipment, net	\$1,044.0	\$824.8

The increase in property and equipment is primarily due to current period expenditures for store-related capital improvements, investments in our technological and supply chain infrastructure and investments in corporate office space to support our growing operations. These initiatives resulted in the expanded distribution centers in Ohio and Indiana, as well as the Mahwah, NJ office space, being placed into service in the third quarter of Fiscal 2014, as discussed below.

Buildings

Corporate Office Space

During the third quarter of Fiscal 2014, the Company completed the renovation and expansion of its Mahwah, NJ property. This space now serves as the corporate office for the dressbarn brand and a newly constructed building serves as the corporate office for ascena.

Distribution Centers

During the third quarter of Fiscal 2014, the Company's expanded distribution centers in Etna Township, Ohio and Greencastle, Indiana became operational. The Etna distribution center will centralize all of the Company's brick-and-mortar store distribution into one location while the Greencastle distribution center will centralize all of the Company's e-commerce distribution into one location.

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. Impairment losses for retail store-related assets are included as a component of SG&A expenses in the accompanying consolidated statements of operations for all periods and are discussed below.

Fiscal 2014 Impairment