Ascena Retail Group, Inc.
Form 10-Q
May 31, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended April 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
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
30 Dunnigan Drive, Suffern, New York	10901
(Address of principal executive offices)	*(Zip Code)*

(845) 369-4500

(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 x 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 x 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 x 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 x

The Registrant had 153,967,373 shares of common stock outstanding as of May 24, 2012.

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ASCENA RETAIL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	April 28, 2012	July 30, 2011
	(millions, except per share data)	
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 363.2	$ 243.5
Short-term investments	246.6	54.1
Inventories	348.9	365.3
Assets held for sale	29.9	—
Deferred tax assets	29.6	25.3
Prepaid expenses and other current assets	76.2	72.3
Total current assets	1,094.4	760.5
Non-current investments	6.7	138.5
Property and equipment, net	485.6	489.0
Goodwill	234.3	234.3
Other intangible assets, net	183.3	184.2
Other assets	34.1	33.1
Total assets	$ 2,038.4	$ 1,839.6
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 184.8	$ 181.9
Accrued expenses and other current liabilities	167.1	162.4
Deferred income	35.8	32.3
Income taxes payable	4.0	5.6
Total current liabilities	391.7	382.2
Long-term debt	—	—
Lease-related liabilities	169.3	169.2
Deferred income taxes	62.2	45.7
Other non-current liabilities	89.9	84.5
Commitments and contingencies (Note 13)		
Total liabilities	713.1	681.6
Equity:		
Common stock, par value $0.01 per share; 154.0 million and 154.8 million shares issued and outstanding	1.5	1.5
Additional paid-in capital	514.3	472.0
Retained earnings	810.4	686.9
Accumulated other comprehensive (loss)	(0.9)	(2.4)
Total equity	1,325.3	1,158.0

Total liabilities and equity	$ 2,038.4	$ 1,839.6

See accompanying notes.

ASCENA RETAIL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
	(millions, except per share data) (unaudited)			
Net sales	$783.3	$722.8	$2,413.6	$2,188.2
Cost of goods sold, including occupancy and buying costs (excluding depreciation which is shown separately below)	(443.4)	(404.9)	(1,391.1)	(1,261.3)
Selling, general and administrative expenses	(229.0)	(210.5)	(685.5)	(625.7)
Depreciation and amortization expense	(25.6)	(21.0)	(75.2)	(65.5)
Operating income	85.3	86.4	261.8	235.7
Interest expense	(0.2)	(0.6)	(0.7)	(1.9)
Interest and other income, net	0.8	0.9	2.7	2.6
Acquisition-related costs	(6.8)	—	(6.8)	—
Income before provision for income taxes	79.1	86.7	257.0	236.4
Provision for income taxes	(29.7)	(34.9)	(96.4)	(94.1)
Net income	$49.4	$51.8	$160.6	$142.3
Net income per common share:				
Basic	$0.32	$0.33	$1.05	$0.91
Diluted	$0.31	$0.32	$1.01	$0.88
Weighted average common shares outstanding:				
Basic	153.3	155.7	153.3	156.5
Diluted	159.9	161.7	159.1	162.3

See accompanying notes

ASCENA RETAIL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended April 28, 2012 (millions) (unaudited)	April 30, 2011
Cash flows from operating activities:		
Net income	$ 160.6	$ 142.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	75.2	65.5
Deferred income tax expense	1.3	14.2
Deferred rent and other occupancy costs	(15.9)	(18.8)
Non-cash stock-based compensation expense	21.2	12.8
Non-cash impairments of assets	1.8	5.0
Non-cash interest expense	0.7	1.8
Other non-cash expense	(6.4)	(4.4)
Excess tax benefits from stock-based compensation	(8.1)	(4.7)
Changes in operating assets and liabilities:		
Inventories	16.4	19.4
Accounts payable and accrued liabilities	3.0	(4.8)
Deferred income liabilities	12.2	11.0
Lease-related liabilities	14.2	8.9
Other balance sheet changes	24.4	6.9

Net cash provided by operating activities		300.6		255.1
Cash flows from investing activities:				
Purchases of investments		(101.2)		(137.6)
Proceeds from sales and maturities of investments		39.3		66.3
Investment in life insurance policies		(0.1)		(5.0)
Capital expenditures		(102.7)		(74.3)
Net cash used in investing activities		(164.7)		(150.6)
Cash flows from financing activities:				
Repayments of debt		—		(1.1)
Payment of deferred financing costs		—		(1.3)
Repurchases of common stock		(37.2)		(47.4)
Proceeds from stock options exercised and employee stock purchases		12.9		14.2
Excess tax benefits from stock-based compensation		8.1		4.7
Net cash used in financing activities		(16.2)		(30.9)
Net increase in cash and cash equivalents		119.7		73.6
Cash and cash equivalents at beginning of period		243.5		240.6
Cash and cash equivalents at end of period	$	363.2	$	314.2

See accompanying notes

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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) approximately 2,600 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 838 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 813 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 920 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. There were no variable interest entities as of April 28, 2012.

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

Common Stock Split

On April 3, 2012, the Company issued a two-for-one common stock split, effected in the form of a 100% stock dividend, to stockholders of record at the close of business on March 20, 2012. All common share and per common share data, except par value per share, presented in the unaudited consolidated financial statements and the accompanying notes has been adjusted to reflect the stock split. See Note 11 for further discussion of the Company’s stock split and the effect of this change.

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.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 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 third quarter for Fiscal 2012 ended on April 28, 2012 and was a 13-week period. The third quarter for Fiscal 2011 ended on April 30, 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 nine-month periods ended April 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 14 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.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

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.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

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 $11.3 million as of April 28, 2012 and $21.9 million as of July 30, 2011. The Company's liability for uncertain tax positions decreased by $10.6 million in the nine months ended April 28, 2012 primarily as a result of the Company filing certain accounting method changes for federal income tax purposes and the settlement of certain federal and state income tax audits, including the resolution of certain items arising from the federal income tax audits for 2006, 2007 and 2008. 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 statues 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 $4.8 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 Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
	(millions)			
Basic	153.3	155.7	153.3	156.5
Dilutive effect of stock options, restricted stock, restricted stock units and convertible debt securities	6.6	6.0	5.8	5.8
Diluted shares	159.9	161.7	159.1	162.3

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 28, 2012 and April 30, 2011, there was an aggregate of approximately 3.2 million and 3.6 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.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

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. 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. Acquisitions and Dispositions

Charming Shoppes Acquisition

On May 1, 2012, the Company entered into an Agreement and Plan of Merger (“Merger Agreement”) with Charming Shoppes, Inc. (“Charming Shoppes”), which owns and operates multiple retail brands through over 1,800 retail stores and e-commerce including: **Lane Bryant**; **Catherines**; **Fashion Bug**; and **Figi’s**. On May 15, 2012, the Company commenced a cash tender offer for all the outstanding shares of Charming Shoppes common stock at $7.35 per share, for an aggregate purchase price of approximately $890 million (collectively, the “Charming Shoppes Acquisition”). The acquisition is expected to be funded with $475 million from new debt borrowings, available cash and equivalents and the liquidation of substantially all of the Company’s investment portfolio.

The acquisition is subject to customary conditions and approvals, including that holders of a minimum of a majority of the fully diluted shares of Charming Shoppes tender, and do not withdraw, their shares prior to expiration of the tender offer. In the event a majority, but not 80%, of Charming Shoppes’ fully diluted shares are tendered, the Company will have the option to acquire additional, newly issued shares of Charming Shoppes such that, after giving effect to the exercise of the option, the Company will own more than 80% of the outstanding shares. This will enable the Company to merge its acquisition subsidiary into Charming Shoppes in a short-form merger that will not require any further vote of shareholders. In addition, the Merger Agreement contains certain termination rights for both the Company and Charming Shoppes, including the termination of the Merger Agreement by Charming Shoppes, in which case Charming Shoppes would be required to pay the Company $30 million.

The transaction is expected to close in mid-June 2012. Acquisition-related costs of $6.8 million were expensed as incurred during the third quarter of Fiscal 2012, and are reported separately in the consolidated statements of operations.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

6. Inventories

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

	April 28, 2012	July 30, 2011	April 30, 2011
	(millions)		
dressbarn	$133.6	$126.2	$126.9
maurices	87.1	90.8	73.4
Justice	128.2	148.3	100.6
Total inventories	$348.9	$365.3	$300.9

7. 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. 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 recognized by the specific identification method and 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.

In anticipation of the funding requirements to consummate the Charming Shoppes Acquisition, the Company started liquidating substantially all of its investment portfolio in May 2012. Proceeds from the sale of the investment portfolio are expected to be approximately $240 million, and such amounts will be held as cash and cash equivalents. The Company expects to recognize a realized gain of approximately $1 million in the fourth quarter of Fiscal 2012 as a result of the sale of such investments. Because of the change in the Company’s intent to no longer hold such securities to maturity, substantially all of the Company’s non-current investments have been reclassified to short-term investments in the accompanying balance sheet at April 28, 2012.

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 April 28, 2012 and July 30, 2011.

	April 28, 2012				July 30, 2011			
	<1 year	1- 3 years	Over 3 years	Total	<1 year	1- 3 years	Over 3 years	Total
				(millions)				
Available-for-sale investments - short-term:								
Municipal bonds	$66.3	$129.6	$ 41.1	$237.0	$52.7	$—	$ —	$52.7
Auction rate securities	—	—	6.9	6.9	—	—	—	—
Restricted cash	2.7	—	—	2.7	1.4	—	—	1.4
Total short-term investments	69.0	129.6	48.0	246.6	54.1	—	—	54.1
Available-for-sale investments - non-current:								
Municipal bonds	—	—	—	—	—	102.7	23.8	126.5
Auction rate securities	—	—	2.7	2.7	—	—	12.0	12.0
Total non-current available-for-sale investments	—	—	2.7	2.7	—	102.7	35.8	138.5
Other non-current investments	4.0	—	—	4.0	—	—	—	—
Total non-current investments	4.0	—	2.7	6.7	—	102.7	35.8	138.5
Total investments	$73.0	$129.6	$ 50.7	$253.3	$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 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. A net $2.7 million of investments in available-for-sale ARS are classified as non-current assets in our consolidated balance sheets as of April 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 nine months of Fiscal 2012, when $3.7 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 April 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.

In May 2012, two of the three remaining ARS, with a combined book value of $6.9 million and par value of $8.0 million as of April 28, 2012, were called for redemption at par. After these securities are redeemed, there will be one non-investment grade ARS remaining with a book value of $2.7 million and par value of $3.9 million as of April 28, 2012.

8. 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 nine months ended April 28, 2012, the Company recorded an aggregate of $1.8 million in non-cash impairment charges, including $0.9 million in its **dressbarn** segment, $0.7 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, $0.7 million was recorded during the three months ended April 28, 2012.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Fiscal 2011 Impairment

During the nine months ended April 30, 2011, the Company recorded an aggregate $5.0 million in non-cash impairment charges, including $2.8 million in its **dressbarn** segment, $0.8 million in its **maurices** segment, and $1.4 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, $1.6 million was recorded during the three months ended April 30, 2011.

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

9. 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:

Level 1	Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active 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.
Level 2	Financial instruments lacking unadjusted, quoted prices from active market exchanges, including 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.
Level 3	Financial instruments that are not actively traded on a market exchange. This category includes situations 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	April 28, 2012	July 30, 2011
	(millions)	
Financial assets carried at fair value:		
Municipal bonds[(a)]	$237.0	$179.2
Auction rate securities[(b)]	9.6	12.0
Total	$246.6	$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 Ended		Nine Months Ended	
Level 3 (Unobservable inputs)	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
	(millions)			
Balance at beginning of period	$8.9	$ 14.1	$ 12.0	$ 22.7
Change in temporary valuation adjustment included in other comprehensive income	1.0	0.1	1.3	1.0
Redemptions at par	(0.3)	(0.2)	(3.7)	(9.7)

Balance at end of period	$9.6	$ 14.0	$ 9.6	$ 14.0

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 $1.0 million at April 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)

10. Property and Equipment

Property and equipment, net, consist of the following:

	April 28, 2012	July 30, 2011
	(millions)	
Property and Equipment:		
Land	$16.9	$16.5
Buildings and improvements	47.5	78.0
Leasehold improvements	350.8	332.0
Furniture, fixtures and equipment	304.7	271.3
Information technology	158.5	148.8
Construction in progress	36.6	36.6
	915.0	883.2
Less accumulated depreciation	(429.4)	(394.2)
Property and equipment, net	$485.6	$489.0

Buildings

Sale of New York Facility

In April 2012, the Company entered into an agreement to sell its 900,000 square-foot building and 16 acres of adjacent land (the “New York Facility”) in Suffern, NY, which contains Ascena and Dressbarn’s administrative offices and the former warehouse space of Dressbarn, for approximately $40.0 million. Simultaneously, the Company entered into a two-year leaseback for a minor portion of the building of approximately 124,000 square-feet of office space, which is cancelable at any time subject to a 10-day notice period. The transaction is expected to close on or about May 31, 2012, and will result in a gain in the range of approximately $5 to $10 million. The transaction is subject to normal and customary closing conditions.

As a result of this pending transaction, the Company reclassified the net book value of the New York Facility of $29.9 million as an asset held-for-sale in the accompanying consolidated balance sheet at April 28, 2012.

Purchase of New Jersey Office Building

In April 2012, the Company purchased a 129,000 square-foot building in Mahwah, NJ, for $14.6 million. Upon completion of the Company's planned renovations and expansion, which are anticipated to be completed by the summer of 2013, the building will become the new administrative offices for Ascena and the Dressbarn brand.

As an incentive for the Company to relocate its offices to New Jersey, the Company was approved, under the Grow New Jersey Assistance Program, for up to an annual $3.2 million tax credit for ten years, aggregating to an amount no greater than $32.4 million. The tax credits are subject to certain requirements including: (i) a required capital expenditure spending threshold for qualified improvements to the facility, (ii) a continued maintenance of certain employee levels for ten years in the new facility and in the State of New Jersey, and (iii) certain average employee compensation thresholds, as well as other stated requirements. In the event the Company fails to comply with the program rules, the credit will be suspended starting in the year when the Company fails to comply and until the Company is deemed again to be in compliance by the State of New Jersey, at which time it will be reinstated. The credits obtained from the program will be used by the Company to reduce its New Jersey corporate income tax liability and, to the extent not used, carried forward or sold to a third party for an amount not less than 75% of face value.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

11. Equity

Summary of Changes in Equity:	Nine Months Ended	
	April 28, 2012	**April 30, 2011[a]**
	(millions)	
Balance at beginning of period	$ 1,158.0	$ 1,014.7
Comprehensive income:		
Net income	160.6	142.3
Foreign currency translation adjustment	0.1	—
Net change in unrealized gains (losses) on available-for-sale investments	1.4	0.9
Total comprehensive income	162.1	143.2
Other, including change in non-controlling interest in Fiscal 2011	2.7	(0.2)
Purchases of common stock	(37.2)	(47.4)
Shares issued and equity grants made pursuant to stock-based compensation plans	39.7	31.8
Balance at end of period	$ 1,325.3	$ 1,142.1

[a] Includes amounts attributable to a non-controlling interest of $1.4 million as of July 31, 2010 and $1.6 million as of April 30, 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 nine months ended April 28, 2012, the Company purchased 2.7 million shares at an aggregate cost of $37.2 million. The remaining availability under the Stock Repurchase Program was approximately $89.9 million at April 28, 2012. Treasury (reacquired) shares are retired and treated as authorized but unissued shares.

Common Stock Split

On April 3, 2012, the Company issued a two-for-one common stock split ("stock split") to stockholders of record at the close of business on March 20, 2012. The stock split was effectuated through a 100% stock dividend and entitled each stockholder of record to receive one additional share of common stock for each share of common stock they owned. As such, approximately 77.0 million shares outstanding immediately prior to the stock split were converted into 153.9 million shares after the stock split. The Company recorded an increase in common stock of $0.8 million and corresponding decrease in additional-paid-in-capital as a result of the stock split. In addition, the number of shares of the Company's common stock issuable upon exercise of outstanding stock options and other Restricted Equity Awards have been adjusted to reflect the stock split. All common share and per common share data, except par value per share, presented in the consolidated financial statements and the accompanying notes has been adjusted to reflect the stock split.

12. 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 36 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.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of April 28, 2012, there were approximately 7.6 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.

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 Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
	(millions)			
Compensation expense	$6.1	$ 4.2	$ 21.2	$ 12.8
Income tax benefit	$(2.3)	$ (1.7)	$ (8.0)	$ (5.0)

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 nine months ended April 28, 2012 and April 30, 2011 are presented as follows:

	Nine Months Ended			
	April 28, 2012		April 30, 2011	
Expected term (years)	3.9		3.9	
Expected volatility	41.7	%	52.4	%
Risk-free interest rate	0.9	%	1.3	%
Expected dividend yield	0	%	0	%
Weighted-average grant date fair value	$ 4.73		$ 4.43	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	April 28, 2012			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms	**Aggregate Intrinsic Value** [a]
	(thousands)		(years)	(millions)
Options outstanding- July 31, 2011	13,829.6	$ 8.46	6.4	$ 106.4
Granted	3,042.4	13.19		
Exercised	(1,615.5)	7.91		
Cancelled/Forfeited	(306.7)	11.29		
Options outstanding – April 28, 2012	14,949.8	$ 9.42	6.4	$ 169.3
Options vested and expected to vest at April 28, 2012 [b]	14,440.9	$ 9.77	6.4	$ 164.6
Options exercisable at April 28, 2012	7,146.4	$ 7.23	4.4	$ 96.5

[a] 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 April 28, 2012, there was $24.6 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 2.5 years. The total intrinsic value of options exercised during the nine months ended April 28, 2012 was approximately $15.4 million and during the nine months ended April 30, 2011 was approximately $17.6 million. Of these amounts, $6.9 million was recorded during the three months ended April 28, 2012 and $12.4 million was recorded during the three months ended April 30, 2011. The total fair value of options that vested during the nine months ended April 28, 2012 was approximately $9.8 million and during the nine months ended April 30, 2011 was approximately $8.1 million. Of these amounts, $0.7 million was recorded during the three months ended April 28, 2012 and $0.1 million was recorded during the three months ended April 30, 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 a 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 some have 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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Service-based Restricted Equity Awards		Performance-based Restricted Equity Awards		Market-based Restricted Equity Awards	
	Number of Shares (thousands)	Weighted-Average Grant Date Fair Value Per Share	Number of Shares (thousands)	Weighted-Average Grant Date Fair Value Per Share	Number of Shares (thousands)	Weighted-Average Grant Date Fair Value Per Share
Nonvested at July 31, 2011	922.3	$ 12.64	1,352.8	$ 12.23	437.0	$ 12.34
Granted	705.9	14.14	574.6	12.74	54.8	12.33
Vested	(248.3)	11.59	—	—	—	—
Cancelled/Forfeited	(224.7)	13.21	(392.5)	11.11	(154.3)	10.90
Nonvested at April 28, 2012	1,155.2	$ 13.67	1,534.9	$ 12.71	337.5	$ 13.00

	Service-based Restricted Equity Awards	Performance-based Restricted Equity Awards	Market-based Restricted Equity Awards
Total unrecognized compensation at April 28, 2012 (millions)	$ 8.6	$ 12.0	$ 2.6
Weighted-average years expected to be recognized over (years)	3.9	1.7	1.6

13. Commitments and Contingencies

In May of 2012, the Company was sued in five lawsuits in connection with the pending Charming Shoppes Acquisition. In general, plaintiffs are suing the Charming Shoppes' board of directors for alleged breach of their fiduciary duties under Pennsylvania state law relating to the sale process. The Company is being sued for allegedly aiding and abetting the Charming Shoppes' board of directors' breach of their fiduciary duties. Since we only recently received these lawsuits, it is premature to predict the outcome with certainty. However, the Company believes that the ultimate resolution of these matters will not have a material effect on the Company's consolidated financial statements taken as a whole.

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 lawsuits, claims or 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 will not have a material effect on the Company’s consolidated financial statements taken as a whole.

14. 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 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 nine-month periods ended April 30, 2011 have been recasted to conform to the current period's presentation. These changes related entirely 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		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
	(millions)			
Net sales:				
dressbarn	$271.6	$ 255.4	$747.2	$707.2
maurices	223.9	208.2	651.4	593.5
Justice	287.8	259.2	1,015.0	887.5
Total net sales	$783.3	$ 722.8	$2,413.6	$2,188.2
Operating income:				

dressbarn	$24.0	$ 22.4	$25.6	$24.4
maurices	37.9	40.3	88.0	90.1
Justice	23.4	23.7	148.2	121.2
Total operating income	$85.3	$ 86.4	$261.8	$235.7
Depreciation and amortization expense:				
dressbarn	$8.3	$ 7.0	$24.2	$21.2
maurices	6.4	5.1	19.1	16.2
Justice	10.9	8.9	31.9	28.1
Total depreciation and amortization expense	$25.6	$ 21.0	$75.2	$65.5

A reconciliation of the Company's operating income for each segment under the historical and recasted basis of reporting for the three-month and nine-month periods ended April 30, 2011 is as follows:

	April 30, 2011					
	Three Months Ended			Nine Months Ended		
	As Previously Reported	Adjustment	As Recasted	As Previously Reported	Adjustment	As Recasted
	(millions)					
Operating income:						
dressbarn	$17.6	$ 4.8	$ 22.4	$10.6	$ 13.8	$ 24.4
maurices	42.8	(2.5)	40.3	97.9	(7.8)	90.1
Justice	26.0	(2.3)	23.7	127.2	(6.0)	121.2
Total operating income	$86.4	$ —	$ 86.4	$235.7	$ —	$ 235.7

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

15. Additional Financial Information

	Nine Months Ended	
Cash Interest and Taxes:	April 28, 2012	April 30, 2011
	(millions)	
Cash paid for interest	$—	$1.1
Cash paid for income taxes	$89.8	$75.9

Non-cash Transactions

Significant non-cash investing activities included the capitalization of fixed assets and recognition of related obligations in the net amount of $10.1 million for the nine months ended April 28, 2012 and $6.8 million for the nine months ended April 30, 2011.

Significant non-cash investing and financing activities for the nine months ended April 30, 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 other significant non-cash investing or financing activities for the nine months ended April 28, 2012 or April 30, 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 nine-month periods ended April 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.

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- *Results of operations.* This section provides an analysis of our results of operations for the three-month and nine-month periods ending April 28, 2012 and April 30, 2011.

- *Financial condition and liquidity.* This section provides an analysis of our cash flows for the nine-month periods ending April 28, 2012 and April 30, 2011, as well as a discussion of our financial condition and liquidity as of April 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 third quarter for Fiscal 2012 ended on April 28, 2012 and was a 13-week period. The third quarter for Fiscal 2011 ended on April 30, 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) approximately 2,600 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 838 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 813 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 920 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 April 28, 2012 compared to Three Months Ended April 30, 2011

For the three months ended April 28, 2012, we reported net sales of $783.3 million, net income of $49.4 million and net income per diluted share of $0.31. This compares to net sales of $722.8 million, net income of $51.8 million and net income per diluted share of $0.32 for the three months ended April 30, 2011. The decrease in net income and net income per diluted share during the three months ended April 28, 2012 was a direct result of the incurrence of $6.8 million of costs relating to the pending acquisition of Charming Shoppes, Inc., as discussed more fully hereinafter.

Our operating performance for the three months ended April 28, 2012 was positively affected by an 8.4% 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 e-commerce sales at all our brands. While net sales increased, our operating income decreased marginally due to a decline in our gross profit rate and an increase in SG&A expenses. The decrease in the gross profit rate of 60 basis points to 43.4% was mainly due to higher markdowns, principally at our **maurices** and **Justice** segments, offset in part by the leveraging of buying and occupancy costs on the higher sales volume. SG&A expenses increased by $18.5 million, or 10 basis points, to 29.2% of net sales for the third quarter of Fiscal 2012. Contributing to the increase in SG&A expenses as a percentage of sales was increased incentive and stock-based compensation costs, increased expenses related to e-commerce growth, and higher costs due to new business initiatives.

The provision for income taxes decreased by $5.2 million to $29.7 million. The effective tax rate decreased 280 basis points, to 37.5% for the three months ended April 28, 2012 from 40.3% for the three months ended April 30, 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 decreased by $0.01, or 3.1%, to $0.31 per share for the three months ended April 28, 2012 from $0.32 per share for the three months ended April 30, 2011. The decrease in diluted per share results was primarily due to the lower level of net income, related to the incurrence of $6.8 million of acquisition-related costs as previously noted, offset in part by a reduction in the weighted average diluted common shares outstanding relating to our common stock repurchase program.

Nine Months Ended April 28, 2012 compared to Nine Months Ended April 30, 2011

For the nine months ended April 28, 2012, we reported net sales of $2,413.6 million, net income of $160.6 million and net income per diluted share of $1.01. This compares to net sales of $2,188.2 million, net income of $142.3 million and net income per diluted share of $0.88 for the nine months ended April 30, 2011.

Our operating performance for the nine months ended April 28, 2012 was positively affected by an 10.3% 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 e-commerce sales at all our brands. Our operating income benefited from the increases in net sales, while our gross profit rate remained flat at 42.4%. The gross profit rate benefited from the leveraging of buying and occupancy costs and the effect of higher-margin gift card breakage, but was offset by higher markdowns. SG&A expenses increased by $59.8 million, but decreased 20 basis points, to 28.4% of net sales in the nine months ended April 28, 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 $2.3 million to $96.4 million. The effective tax rate decreased 230 basis points, to 37.5% for the nine months ended April 28, 2012 from 39.8% for the nine months ended April 30, 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 $0.13, or 14.8%, to $1.01 per share for the nine months ended April 28, 2012 from $0.88 per share for the nine months ended April 30, 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, offset in part by the incurrence of $6.8 million of acquisition-related costs.

Financial Condition and Liquidity

Our financial position reflects the overall relative strength of our business results. We ended the third 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 $616.5 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 $1.325 billion as of April 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 $300.6 million of cash from operations during the nine months ended April 28, 2012, compared to $255.1 million during the nine months ended April 30, 2011. During the first nine months of Fiscal 2012, we used $37.2 million of our cash to repurchase 2.7 million shares of common stock and $102.7 million for capital expenditures, primarily associated with our retail store expansion and investments in our facilities and technological infrastructure.

Recent Developments

Charming Shoppes Acquisition

On May 1, 2012, we entered into an Agreement and Plan of Merger (“Merger Agreement”) with Charming Shoppes, Inc. (“Charming Shoppes”), which owns and operates multiple retail brands through over 1,800 retail stores and e-commerce including: **Lane Bryant**; **Catherines**; **Fashion Bug**; and **Figi’s**. On May 15, 2012, we commenced a cash tender offer for all the outstanding shares of Charming Shoppes common stock at $7.35 per share, for an aggregate purchase price of approximately $890 million (collectively, the “Charming Shoppes Acquisition.”) The acquisition is expected to be funded with approximately $475 million from new debt borrowings and available cash and equivalents. See Note 5 to the accompanying unaudited financial statements for further information regarding the Charming Shoppes Acquisition.

The transaction is expected to close in mid-June 2012, and the operating results of Charming Shoppes will be consolidated with the Company's beginning on the closing date of the transaction. In addition, the Company expects to incur additional acquisition-related and restructuring costs relating to the transaction during the fourth quarter of Fiscal 2012.

Common Stock Split

On April 3, 2012, the Company issued a two-for-one common stock split, effected in the form of a 100% stock dividend, to stockholders of record at the close of business on March 20, 2012. All common share and per common share data, except par value per share, presented in the financial statements and MD&A has been adjusted to reflect the stock split. See Notes 2 and 11 to the accompanying unaudited consolidated financial statements for further information regarding the Company's common stock split.

Transactions Affecting Comparability of Results of Operations and Financial Condition

The comparability of the Company's operating results for three-month and nine-month periods ended April 28, 2012 and April 30, 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, certain integration and reorganization-related costs, and acquisition-related costs incurred in connection with the planned acquisition of Charming Shoppes 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 Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
	(millions)			
Executive contractual obligation costs	$—	$ —	$ (5.4)	$ —
Integration and reorganization-related costs	(1.1)	(0.7)	(3.5)	(5.3)
Acquisition-related costs	(6.8)	—	(6.8)	—
Total	$(7.9)	$ (0.7)	$ (15.7)	$ (5.3)

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 14, segment information for the three-month and nine-month periods ended April 30, 2011 have been recasted to conform to the current period's presentation. These changes related entirely 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 April 28, 2012 compared to Three Months Ended April 30, 2011

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

	Three Months Ended April 28, 2012	Three Months Ended April 30, 2011	$ Change	% Change
	(millions, except per share data)			
Net Sales	$ 783.3	$ 722.8	$ 60.5	8.4 %
Cost of goods sold[(a)]	(443.4)	(404.9)	(38.5)	9.5 %
Cost of goods sold as % of net sales	56.6 %	56.0 %		
Selling, general and administrative expenses	(229.0)	(210.5)	(18.5)	8.8 %
SG&A expenses as % of net sales	29.2 %	29.1 %		
Depreciation and amortization expense	(25.6)	(21.0)	(4.6)	21.9 %
Operating income	85.3	86.4	(1.1)	(1.3)%
Operating income as % of net sales	10.9 %	12.0 %		
Interest expense	(0.2)	(0.6)	0.4	(66.7)%
Interest and other income, net	0.8	0.9	(0.1)	(11.1)%
Acquisition-related costs	(6.8)	—	(6.8)	NM
Income before provision for income taxes	79.1	86.7	(7.6)	(8.8)%
Provision for income taxes	(29.7)	(34.9)	5.2	(14.9)%
Effective tax rate[(b)]	37.5 %	40.3 %		
Net income	$ 49.4	$ 51.8	$ (2.4)	(4.6)%
Net income per common share:				
Basic	$ 0.32	$ 0.33	$ (0.01)	(3.0)%
Diluted	$ 0.31	$ 0.32	$ (0.01)	(3.1)%

[(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.

[NM] Not Meaningful.

Net Sales. Net sales increased by $60.5 million, or 8.4%, to $783.3 million for the three months ended April 28, 2012 from $722.8 million for the three months ended April 30, 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 e-commerce sales at all brands. On a consolidated basis, comparable store sales increased 5% during the three months ended April 28, 2012. The sales increases at each of our brands were as follows: **Justice** sales increased by $28.6 million; **dressbarn** sales increased by $16.2 million; and **maurices** sales increased by $15.7 million.

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

	Three Months Ended				
	April 28, 2012 (millions)	April 30, 2011	$ Change (millions)	% Change	**Comparable Store Sales** [a]
Net sales:					
dressbarn	$ 271.6	$ 255.4	$16.2	6.3 %	6 %
maurices	223.9	208.2	15.7	7.5 %	(1)%
Justice	287.8	259.2	28.6	11.0 %	8 %
Total net sales	$ 783.3	$ 722.8	$60.5	8.4 %	5 %

[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. Comparable stores sales exclude sales revenues from e-commerce operations.

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

- an increase of $14.3 million, or 6%, in comparable store sales during the three months ended April 28, 2012;
- a $1.9 million decrease in non-comparable stores sales, primarily driven by 24 store closings during the last twelve months. The negative effect of the store closings was partially offset by 28 new store openings in the last twelve months; and
- an increase of $3.8 million in revenues from e-commerce operations.

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

- a decrease of $1.5 million, or 1%, in comparable store sales during the three months ended April 28, 2012;
- a $11.2 million increase in non-comparable stores sales, primarily driven by an increase related to 46 net new store openings during the last twelve months; and
- an increase of $6.0 million in revenues from e-commerce operations.

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

- an increase of $17.5 million, or 8%, in comparable store sales during the three months ended April 28, 2012;
- a $8.7 million increase in non-comparable stores sales, primarily driven by an increase related to 30 net new store openings during the last twelve months;
- an increase of $3.0 million in revenues from its e-commerce operations; and
- a $0.6 million decrease 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 $38.5 million, or 9.5%, to $443.4 million for the three months ended April 28, 2012 from $404.9 million for the three months ended April 30, 2011. Cost of goods sold as a percentage of net sales increased by 60 basis points to 56.6% in the three months ended April 28, 2012 from 56.0% for the three months ended April 30, 2011. Gross profit, which represents the difference between net sales and cost of goods sold, expressed as a percentage of net sales, decreased by 60 basis points to 43.4% for the three months ended April 28, 2012 from 44.0% for the three months ended April 30, 2011. The decrease in the gross profit rate was mainly due to higher markdowns, principally at our **maurices** and **Justice** segments, offset in part by the leveraging of buying and occupancy costs on the higher sales volume.

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 raw 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 $18.5 million, or 8.8%, to $229.0 million for the three months ended April 28, 2012 from $210.5 million for the three months ended April 30, 2011. SG&A expenses as a percentage of net sales increased by 10 basis points to 29.2% for the three months ended April 28, 2012 from 29.1% for the three months ended April 30, 2011 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 administrative expenses related to e-commerce growth, (iii) higher costs due to new business initiatives, and (iv) increased incentive and stock-based compensation costs during the three months ended April 28, 2012.

Depreciation and Amortization Expense. Depreciation and amortization expense increased by $4.6 million, or 21.9%, to $25.6 million for the three months ended April 28, 2012 from $21.0 million for the three months ended April 30, 2011. The increase was primarily due to an increase in capital expenditures, which resulted, in part, from the net opening of 80 stores during the past twelve months.

Operating Income. Operating income decreased by $1.1 million, or 1.3%, to $85.3 million for the three months ended April 28, 2012 from $86.4 million for the three months ended April 30, 2011. Operating income as a percentage of net sales decreased 110 basis points, to 10.9% in the three months ended April 28, 2012 from 12.0% in the three months ended April 30, 2011. The decrease in operating income was primarily due to the increases in SG&A expenses and depreciation and amortization expense, offset in part by the higher gross profit, which resulted from the higher sales levels.

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

	Three Months Ended			
	April 28, 2012	April 30, 2011	$ Change	% Change
	(millions)		(millions)	
Operating income:				
Dressbarn	$ 24.0	$ 22.4	$1.6	7.1 %
Maurices	37.9	40.3	(2.4)	(6.0)%
Justice	23.4	23.7	(0.3)	(1.3)%
Total operating income	$ 85.3	$ 86.4	$(1.1)	(1.3)%

dressbarn *operating income* increased by approximately $1.6 million primarily as a result of a combination of an increase in sales and a higher gross profit rate, 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 and a decrease in shipping-related costs, offset in part by slightly higher markdowns. The increase in SG&A expenses during the three months ended April 28, 2012 was due to a number of factors including: (i) an increase in store payroll-related and other store expenses, relating to the overall net sales increases, (ii) increased third-party administrative expenses, related to e-commerce growth, and (iii) increased incentive compensation costs related to the better than planned earnings results.

maurices *operating income* decreased by approximately $2.4 million as the increase in sales was more than offset by a lower gross profit rate and an increase in SG&A expenses. The decrease in the gross profit rate was primarily from higher markdowns, as **maurices** experienced a softening sales trend toward the end of the third quarter. The increase in SG&A expenses during the three months ended April 28, 2012 was mainly due to 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* decreased by approximately $0.3 million as the increase in sales was more than offset by increases in SG&A expenses and depreciation and amortization expense. The increase in SG&A expenses during the three months ended April 28, 2012 was due to a number of factors including: (i) an increase in store payroll-related and other store expenses, relating to the overall net sales increases, (ii) increased third-party administrative expenses, related to e-commerce growth, and (iii) higher marketing expenses.

Interest Expense. Interest expense decreased by $0.4 million, or 66.7%, to $0.2 million for the three months ended April 28, 2012 from $0.6 million for the three months ended April 30, 2011. The decrease was primarily the result of the fourth quarter Fiscal 2011 prepayment of the entire mortgage on our Suffern, New York facility.

Interest and Other Income, Net. Interest and other income, net was relatively flat, decreasing by $0.1 million, to $0.8 million for the three months ended April 28, 2012 from $0.9 million for the three months ended April 30, 2011. As such, there were no significant fluctuations warranting further discussion and analysis.

Acquisition-related Costs. Acquisition-related costs were $6.8 million for the three months ended April 28, 2012. These costs were incurred in connection with the Charming Shoppes Acquisition, and include legal, consulting and finance-related costs. The Company expects to incur additional acquisition-related costs in the fourth quarter of Fiscal 2012 in connection with the anticipated closing of the Charming Shoppes Acquisition.

Provision for Income Taxes. The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes decreased by $5.2 million, or 14.9%, to $29.7 million for the three months ended April 28, 2012 from $34.9 million for the three months ended April 30, 2011. The decrease in provision for income taxes was primarily a result of lower pretax income for the three months ended April 28, 2012. The reported effective tax rate decreased by 280 basis points, to 37.5% for the three months ended April 28, 2012 from 40.3% for the three months ended April 30, 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 decreased by $2.4 million, or 4.6%, to $49.4 million for the three months ended April 28, 2012 from $51.8 million for the three months ended April 30, 2011. The decrease was primarily due to an overall marginal decline in operating income and the incurrence of $6.8 million of acquisition-related costs during the three months ending April 28, 2012. These net decreases were offset in part by a decrease in the provision for income taxes of $5.2 million.

Net Income Per Diluted Common Share. Net income per diluted share decreased by $0.01, or 3.1%, to $0.31 per share for the three months ended April 28, 2012 from $0.32 per share for the three months ended April 30, 2011. The decrease in diluted per share results was primarily due to the lower level of net income, as previously discussed. Weighted-average diluted common shares outstanding decreased to 159.9 million shares during the three months ended April 28, 2012 from 161.7 million shares during the three months ended April 30, 2011 relating to our common stock repurchase program, which partially offset the negative effect of lower net income on net income per diluted share.

Nine Months Ended April 28, 2012 compared to Nine Months Ended April 30, 2011

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

	Nine Months Ended April 28, 2012	Nine Months Ended April 30, 2011	$ Change	% Change
	(millions, except per share data)			
Net Sales	$2,413.6	$2,188.2	$ 225.4	10.3 %
Cost of goods sold[(a)]	(1,391.1)	(1,261.3)	(129.8)	10.3 %
Cost of goods sold as % of net sales	57.6 %	57.6 %		
Selling, general and administrative expenses	(685.5)	(625.7)	(59.8)	9.6 %
SG&A expenses as % of net sales	28.4 %	28.6 %		
Depreciation and amortization expense	(75.2)	(65.5)	(9.7)	14.8 %
Operating income	261.8	235.7	26.1	11.1 %
Operating income as % of net sales	10.8 %	10.8 %		
Interest expense	(0.7)	(1.9)	1.2	(63.2)%
Interest and other income, net	2.7	2.6	0.1	3.8
Acquisition-related costs	(6.8)	—	(6.8)	NM
Income before provision for income taxes	257.0	236.4	20.6	8.7 %
Provision for income taxes	(96.4)	(94.1)	(2.3)	2.4 %
Effective tax rate[(b)]	37.5 %	39.8 %		

Net income	$ 160.6	$ 142.3	$ 18.3	12.9	%
Net income per common share:					
Basic	$ 1.05	$ 0.91	$ 0.14	15.4	%
Diluted	$ 1.01	$ 0.88	$ 0.13	14.8	%

(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.

NM Not Meaningful.

Net Sales. Net sales increased by $225.4 million, or 10.3%, to $2,413.6 million for the nine months ended April 28, 2012 from $2,188.2 million for the nine months ended April 30, 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 e-commerce sales at all brands. On a consolidated basis, comparable store sales increased 6% during the nine months ended April 28, 2012. The sales increases at each of our brands were as follows: **Justice** sales increased by $127.5 million; **maurices** sales increased by $57.9 million; and **dressbarn** sales increased by $40.0 million.

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

	Nine Months Ended April 28, 2012 (millions)	April 30, 2011	$ Change (millions)	% Change		**Comparable Store Sales** [a]	
Net sales:							
Dressbarn	$747.2	$707.2	$40.0	5.7	%	4	%
Maurices	651.4	593.5	57.9	9.8	%	2	%
Justice	1,015.0	887.5	127.5	14.4	%	9	%
Total net sales	$2,413.6	$2,188.2	$225.4	10.3	%	6	%

(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. Comparable stores sales exclude sales revenues from e-commerce operations.

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

- an increase of $30.0 million, or 4%, in comparable store sales during the nine months ended April 28, 2012;
- a $0.1 million increase in non-comparable stores sales, primarily driven by an increase related to 4 net new store openings during the last twelve months; and
- an increase of $9.9 million in revenues from e-commerce operations.

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

- an increase of $9.5 million, or 2%, in comparable store sales during the nine months ended April 28, 2012;
- a $33.2 million increase in non-comparable stores sales, primarily driven by an increase related to 46 net new store openings during the last twelve months; and
- an increase of $15.2 million in revenues from e-commerce operations.

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

- an increase of $72.1 million, or 9%, in comparable store sales during the nine months ended April 28, 2012;
- a $29.9 million increase in non-comparable stores sales, primarily driven by an increase related to 30 net new store openings during the last twelve months;
- an increase of $18.0 million in revenues from its e-commerce operations;
- a $6.1 million increase in revenue from gift card breakage; and
- a $1.4 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 $129.8 million, or 10.3%, to $1,391.1 million for the nine months ended April 28, 2012 from $1,261.3 million for the nine months ended April 30, 2011. Cost of goods sold as a percentage of net sales remained flat at 57.6% for the nine months ended April 28, 2012 and April 30, 2011. Gross profit, which represents the difference between net sales and cost of goods sold, expressed as a percentage of net sales, was also flat, remaining at 42.4% for the nine months ended April 28, 2012 and April 30, 2011. The gross profit rate benefited from the leveraging of buying and occupancy costs and the effect of higher-margin gift card breakage, but was offset by higher markdowns.

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 raw 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 $59.8 million, or 9.6%, to $685.5 million for the nine months ended April 28, 2012 from $625.7 million for the nine months ended April 30, 2011. SG&A expenses as a percentage of net sales decreased by 20 basis points to 28.4% for the nine months ended April 28, 2012 from 28.6% for the nine months ended April 30, 2011. 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 and store unit 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 $9.7 million, or 14.8%, to $75.2 million for the nine months ended April 28, 2012 from $65.5 million for the nine months ended April 30, 2011. The increase was primarily due to an increase in capital expenditures, which resulted, in part, from the net opening of 80 stores during the past twelve months.

Operating Income. Operating income increased by $26.1 million, or 11.1%, to $261.8 million for the nine months ended April 28, 2012 from $235.7 million for the nine months ended April 30, 2011. Operating income as a percentage of net sales remained flat at 10.8% for the nine months ended April 28, 2012 and April 30, 2011. The increase in operating income was primarily due to the higher gross profit, which resulted from higher sales levels, and the leveraging of SG&A expenses.

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

	Nine Months Ended			
	April 28, 2012	April 30, 2011	$ Change	% Change
	(millions)		(millions)	
Operating income:				
dressbarn	$ 25.6	$ 24.4	$ 1.2	4.9 %
maurices	88.0	90.1	(2.1)	(2.3)%
Justice	148.2	121.2	27.0	22.3 %
Total operating income	$ 261.8	$ 235.7	$ 26.1	11.1 %

dressbarn *operating income* increased by approximately $1.2 million primarily as a result of an 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 the de-leveraging of buying and occupancy costs and an higher markdowns for increased promotional activity. The increase in SG&A expenses during the nine months ended April 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 increased incentive compensation costs related to the better than planned earnings results.

maurices *operating income* decreased by approximately $2.1 million primarily as a result of lower gross profit rate and an increase in SG&A expenses, offset in part by an increase in sales. The lower gross profit rate was mainly attributable to higher markdowns for increased promotional activity and a softening sales trend toward the end of the third quarter . The increase in SG&A expenses during the nine months ended April 28, 2012 was due to 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 $27.0 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 nine months ended April 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 $1.2 million, or 63.2%, to $0.7 million for the nine months ended April 28, 2012 from $1.9 million for the nine months ended April 30, 2011. The decrease was primarily the result of the fourth quarter Fiscal 2011 prepayment of the entire mortgage 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 $2.7 million for the nine months ended April 28, 2012 from $2.6 million for the nine months ended April 30, 2011. As such, there were no significant fluctuations warranting further discussion and analysis.

Acquisition-related Costs. Acquisition-related costs were $6.8 million for the nine months ended April 28, 2012. These costs were incurred in connection with the Charming Shoppes Acquisition, and include legal, consulting and finance-related costs. The Company expects to incur additional acquisition-related costs in the fourth quarter of Fiscal 2012 in connection with the anticipated closing of the Charming Shoppes Acquisition.

Provision for Income Taxes. The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes increased by $2.3 million, or 2.4%, to $96.4 million for the nine months ended April 28, 2012 from $94.1 million for the nine months ended April 30, 2011. The increase in provision for income taxes was primarily a result of higher pretax income for the nine months ended April 28, 2012. The reported effective tax rate decreased 230 basis points, to 37.5% for the nine months ended April 28, 2012 from 39.8% for the nine months ended April 30, 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 $18.3 million, or 12.9%, to $160.6 million for the nine months ended April 28, 2012 from $142.3 million for the nine months ended April 30, 2011. The increase was primarily due to an overall growth in operating income, which was offset in part by the incurrence of $6.8 million of acquisition-related costs during the nine months ended April 28, 2012. These net increases were offset in part by an increase in the provision for income taxes of $2.3 million.

Net Income Per Diluted Common Share. Net income per diluted share increased by $0.13, or 14.8%, to $1.01 per share for the nine months ended April 28, 2012 from $0.88 per share for the nine months ended April 30, 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 159.1 million shares during the nine months ended April 28, 2012 from 162.3 million shares during the nine months ended April 30, 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

	April 28, 2012 (millions)	July 30, 2011	$ Change
Cash and cash equivalents	$363.2	$243.5	$119.7
Short-term investments	246.6	54.1	192.5
Non-current investments	6.7	138.5	(131.8)
Total debt	—	—	—
Net cash and investments [(a)]	$616.5	$436.1	$180.4
Equity	$1,325.3	$1,158.0	$167.3

[a] "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 April 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 nine months ended April 28, 2012, we used $37.2 million to repurchase 2.7 million shares of common stock and $102.7 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.

In anticipation of the funding requirements to consummate the Charming Shoppes Acquisition, we started liquidating substantially all of our investment portfolio in May 2012. Proceeds from the sale of the investment portfolio are expected to be approximately $240 million, and such amounts will be held as cash and cash equivalents. We expect to recognize a realized gain of approximately $1 million in the fourth quarter of Fiscal 2012 as a result of the sale of such investments. Because of the change in our intent to no longer hold such securities to maturity, substantially all of our non-current investments have been reclassified to short-term investments in the accompanying balance sheet at April 28, 2012.

Cash Flows

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

	Nine Months Ended	
	April 28, 2012	April 30, 2011
	(millions)	
Net cash provided by operating activities	$ 300.6	$ 255.1
Net cash used in investing activities	(164.7)	(150.6)
Net cash used in financing activities	(16.2)	(30.9)
Net increase in cash and cash equivalents[a]	$ 119.7	$ 73.6

[a] Excludes changes in short-term and non-current investments, which increased in the aggregate by $60.7 million during the nine months ended April 28, 2012.

Net Cash Provided by Operating Activities. Net cash provided by operations was $300.6 million for the nine months ended April 28, 2012, compared with $255.1 million during the nine months ended April 30, 2011. The increase was primarily driven by an increase in net income, an increase in non-cash stock-based compensation expense, an increase in depreciation and amortization expense and lower working capital requirements.

Net Cash Used in Investing Activities. Net cash used in investing activities for the nine months ended April 28, 2012 was $164.7 million, consisting primarily of $102.7 million of capital expenditures and $61.9 million of net cash used in the purchases of investment securities. Net cash used in investing activities for nine months ended April 30, 2011 was $150.6 million, consisting primarily of $71.3 million of net cash used in the purchases of investment securities and $74.3 million of capital expenditures.

Net Cash Used in Financing Activities. Net cash used in financing activities was $16.2 million during the nine months ended April 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 nine months ended April 30, 2011 was $30.9 million, consisting primarily of $47.4 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, 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 well as to fund the Charming Shoppes Acquisition.

As discussed in the "*Debt*" section below, we had no revolving credit borrowings outstanding under our Credit Agreement as of April 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 April 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.

On May 1, 2012, we entered into a Merger Agreement with Charming Shoppes. Subsequently, we commenced a cash tender offer for all of the outstanding shares of Charming Shoppes common stock at $7.35 per share, for an aggregate purchase price of approximately $890 million. The acquisition is expected to be funded with approximately (i) $475 million from new debt borrowings including (a) a $300 million six-year, variable-rate term loan and (b) $175 million from our expanded availability under our existing revolving credit facility, and (ii) the remainder funded through available cash and equivalents. The transaction is expected to close in mid-June 2012.

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 April 28, 2012, we had no borrowings outstanding and $193.4 million available under the Credit Agreement. The amount available under the Credit Agreement is net of $6.6 million of outstanding letters of credit. As of April 28, 2012, the Company also had issued $11.4 million of private label letters of credit relating to the importation of merchandise. In anticipation of the funding requirements associated with the Charming Shoppes Acquisition, we expect to amend the existing Credit Agreement in June 2012 to expand the maximum borrowing availability to $250 million, among other changes in terms.

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 April 28, 2012, the actual fixed charge coverage ratio was 1.57 to 1.00. We were in compliance with all financial covenants contained in the Credit Agreement as of April 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. During the third quarter of Fiscal 2012, the Company completed a two-for-one stock split effectuated through a 100% stock dividend. See Notes 2 and 11 to the accompanying unaudited consolidated financial statements for further information regarding the Company’s common stock split. Currently, the Board of Directors does not plan to pay any cash 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 nine months ended April 28, 2012, we purchased 2.7 million shares at an aggregate cost of $37.2 million. The remaining availability under the Stock Repurchase Program was approximately $89.9 million at April 28, 2012. Treasury (reacquired) shares are retired and treated as authorized but unissued shares. As discussed in Note 5 of the accompanying unaudited consolidated financial statements, the Company entered into a Merger Agreement with Charming Shoppes. As a result, the Company does not anticipate repurchasing additional shares of common stock until the debt associated with the Charming Shoppes Acquisition is repaid, which is expected to occur by the end of the Company’s fiscal year ending July 26, 2014 (“Fiscal 2014”).

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 April 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 during the first nine months 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 April 28, 2012, our Company had cash and cash equivalents on-hand of $363.2 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 $246.6 million of short-term investments, primarily invested in municipal bonds with original maturities greater than 90 days; and $6.7 million of non-current investments, primarily invested in other investments 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 April 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.

In anticipation of the funding requirements to consummate the Charming Shoppes Acquisition, the Company started liquidating substantially all of its investment portfolio in May 2012. For more information regarding our Charming Shoppes Acquisition see Note 5 to the unaudited consolidated financial statements and the “Financial Condition and Liquidity” section above.

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 April 28, 2012. There has been no change in the Company's internal control over financial reporting during the fiscal quarter ended April 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

In May of 2012, the Company was sued in five lawsuits in connection with the pending Charming Shoppes Acquisition. In general, plaintiffs are suing the Charming Shoppes' board of directors for alleged breach of their fiduciary duties under Pennsylvania state law relating to the sale process. The Company is being sued for allegedly aiding and abetting the Charming Shoppes' board of directors' breach of their fiduciary duties. Since we only recently received these lawsuits, it is premature to predict the outcome with certainty. However, the Company believes that the ultimate resolution of these matters will not have a material effect on the Company's consolidated financial statements taken as a whole.

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 lawsuits, claims or 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 will not have a material effect on the Company's consolidated financial statements taken as a whole.

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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 April 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[(1), (2)]

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(1) (2)]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [(2)]
Month # 1 (January 29, 2012 – February 25, 2012)	—	$—	—	$ 90 million
Month # 2 (February 26, 2012 – March 31, 2012)	—	—	—	90 million
Month # 3 (April 1, 2012 – April 28, 2012)	—	—	—	90 million

(1) 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.

(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*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* 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: May 31, 2012	BY: /s/ David Jaffe David Jaffe President, Chief Executive Officer and Director (Principal Executive Officer)
Date: May 31, 2012	BY: /s/ Armand Correia Armand Correia Executive Vice President and Chief Financial Officer (Principal Financial Officer)