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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended January 28, 2012

or

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

Commission File Number: 0-11736

ASCENA RETAIL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	30-0641353
(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 76,792,918 shares of common stock outstanding as of February 23, 2012.

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ASCENA RETAIL GROUP, INC.

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PART I. FINANCIAL INFORMATION (Unaudited)

PART II. OTHER INFORMATION

ASCENA RETAIL GROUP, INC.
CONSOLIDATED BALANCE SHEETS

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

See accompanying notes.

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ASCENA RETAIL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

See accompanying notes.

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ASCENA RETAIL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Cash and cash equivalents at end of period	$378.9	$302.4

See accompanying notes.

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ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

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

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

2. Basis of Presentation

Interim Financial Statements

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

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

Basis of Consolidation

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

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

Use of Estimates

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

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

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Fiscal Year

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

Seasonality of Business

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

Reclassifications

Segment Information

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

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

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

Other Reclassifications

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

3. Summary of Significant Accounting Policies

Revenue Recognition

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

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

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

Cost of Goods Sold

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

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

Selling, General and Administrative Expenses

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

Income Taxes

Income taxes are provided using the asset and liability method. Under this method, income taxes (i.e., deferred tax assets and liabilities, current taxes payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year, and include the results of any differences between US GAAP and tax reporting. Deferred income taxes reflect the tax effect of certain net operating loss, capital loss and general business credit carry forwards and the net tax effects of temporary differences between the carryin