Ascena Retail Group, Inc.
Form 10-Q
June 05, 2013

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 27, 2013

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 159,179,928 shares of common stock outstanding as of May 29, 2013.

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ASCENA RETAIL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	April 27, 2013	July 28, 2012
	(millions, except per share data)	
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 202.9	$ 164.3
Short-term investments	3.2	1.4
Inventories	538.1	533.4
Assets related to discontinued operations	43.1	133.6
Deferred tax assets	49.6	48.7
Prepaid expenses and other current assets	163.5	158.8
Total current assets	1,000.4	1,040.2
Non-current investments	—	3.2
Property and equipment, net	730.2	674.2
Goodwill	576.2	593.2
Other intangible assets, net	451.7	453.7
Other assets	37.0	42.6
Total assets	$ 2,795.5	$ 2,807.1
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 259.2	$ 252.8
Accrued expenses and other current liabilities	258.6	261.2
Deferred income	61.4	42.7
Liabilities related to discontinued operations	17.1	118.6
Income taxes payable	7.5	6.1
Current portion of long-term debt	—	4.2
Total current liabilities	603.8	685.6
Long-term debt	155.6	322.4
Lease-related liabilities	241.9	240.5
Deferred income taxes	124.2	60.6
Other non-current liabilities	154.6	157.1
Commitments and contingencies (Note 12)		
Total liabilities	1,280.1	1,466.2
Equity:		
Common stock, par value $0.01 per share; 159.0 million and 154.8 million shares issued and outstanding	1.6	1.5
Additional paid-in capital	581.1	528.8
Retained earnings	933.4	811.9
Accumulated other comprehensive loss	(0.7)	(1.3)

Total equity	1,515.4	1,340.9
Total liabilities and equity	$ 2,795.5	$ 2,807.1

See accompanying notes.

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ASCENA RETAIL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	April 27, 2013	April 28, 2012	April 27, 2013	April 28, 2012
	(millions, except per share data) (unaudited)			
Net sales	$1,142.2	$783.3	$3,517.2	$2,413.6
Cost of goods sold	(484.4)	(323.4)	(1,540.7)	(1,036.6)
Gross margin	657.8	459.9	1,976.5	1,377.0
Other costs and expenses:				
Buying, distribution and occupancy costs	(208.1)	(129.7)	(613.0)	(385.4)
Selling, general and administrative expenses	(332.4)	(219.3)	(1,013.9)	(654.6)
Acquisition-related, integration and restructuring costs	(6.9)	—	(20.1)	—
Depreciation and amortization expense	(44.6)	(25.6)	(122.5)	(75.2)
Total other costs and expenses	(592.0)	(374.6)	(1,769.5)	(1,115.2)
Operating income	65.8	85.3	207.0	261.8
Interest expense	(2.9)	(0.2)	(12.5)	(0.7)
Interest and other income, net	0.1	0.8	0.6	2.7
Acquisition-related, transaction costs	—	(6.8)	—	(6.8)
Loss on extinguishment of debt (Note 9)	(7.9)	—	(9.3)	—
Income from continuing operations before provision for income taxes	55.1	79.1	185.8	257.0
Provision for income taxes from continuing operations	(22.2)	(29.7)	(68.9)	(96.4)
Income from continuing operations	32.9	49.4	116.9	160.6
(Loss) income from discontinued operations, net of taxes [1]	(1.7)	—	4.6	—
Net income	$31.2	$49.4	$121.5	$160.6
Net income per common share - basic:				
Continuing operations	$0.21	$0.32	$0.74	$1.05
Discontinued operations	(0.01)	—	0.03	—
Total net income per basic common share	$0.20	$0.32	$0.77	$1.05
Net income per common share – diluted:				
Continuing operations	$0.20	$0.31	$0.72	$1.01
Discontinued operations	(0.01)	—	0.03	—
Total net income per diluted common share	$0.19	$0.31	$0.75	$1.01
Weighted average common shares outstanding:				
Basic	158.0	153.3	156.9	153.3
Diluted	163.3	159.9	162.8	159.1

[1] Income from discontinued operations is presented net of a $1.2 million income tax benefit for the three months ended April 27, 2013 and a $1.8 million income tax expense for the nine months ended April 27, 2013.

See accompanying notes.

ASCENA RETAIL GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended	
	April 27, 2013	April 28, 2012	April 27, 2013	April 28, 2012
	(millions) (unaudited)			
Net income	$31.2	$ 49.4	$ 121.5	$ 160.6
Other comprehensive (loss) income, net of tax:				
Net change in unrealized gains on available-for-sale investments [1]	—	1.0	1.2	1.4
Foreign currency translation adjustment	(0.2)	0.3	(0.6)	0.1
Total other comprehensive (loss) income	(0.2)	1.3	0.6	1.5
Total comprehensive income	$31.0	$ 50.7	$ 122.1	$ 162.1

[1] No tax benefits have been provided in any period primarily due to the uncertainty of realization of cumulative capital loss tax benefits.

See accompanying notes.

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ASCENA RETAIL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	April 27, 2013	April 28, 2012
	(millions) (unaudited)	
Cash flows from operating activities:		
Net income	$ 121.5	$ 160.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	122.5	75.2
Deferred income tax expense	(6.4)	1.3
Deferred rent and other occupancy costs	(26.9)	(15.9)
Loss on extinguishment of debt	9.3	—
Non-cash stock-based compensation expense	23.2	21.2
Non-cash impairments of assets	3.8	1.8
Non-cash interest expense	1.4	0.7
Other non-cash income	(7.3)	(6.4)
Excess tax benefits from stock-based compensation	(12.8)	(8.1)
Changes in operating assets and liabilities:		
Inventories	(7.3)	16.4
Accounts payable, accrued liabilities and income tax liabilities	65.2	3.0
Deferred income liabilities	24.4	12.2
Lease-related liabilities	29.0	14.2
Other balance sheet changes	(6.1)	24.4
Changes in net assets related to discontinued operations	(0.3)	—
Net cash provided by operating activities	333.2	300.6
Cash flows from investing activities:		
Purchases of investments	(2.3)	(101.2)
Proceeds from sales and maturities of investments	4.9	39.3
Proceeds from sales of assets	15.9	—
Investment in life insurance policies	—	(0.1)
Capital expenditures	(171.3)	(102.7)
Net cash used in investing activities	(152.8)	(164.7)
Cash flows from financing activities:		
Proceeds from borrowings	426.7	—
Repayments of debt	(601.4)	—
Payment of deferred financing costs	(3.7)	—
Repurchases of common stock	—	(37.2)
Proceeds from stock options exercised and employee stock purchases	23.8	12.9
Excess tax benefits from stock-based compensation	12.8	8.1
Net cash used in financing activities	(141.8)	(16.2)

Net increase in cash and cash equivalents	38.6	119.7
Cash and cash equivalents at beginning of period	164.3	243.5
Cash and cash equivalents at end of period	$ 202.9	$ 363.2

See accompanying notes.

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. On June 14, 2012, the Company acquired Charming Shoppes, Inc. ("Charming Shoppes") and its related family of retail brands. Accordingly, the Company now operates, through its wholly owned subsidiaries, the following principal retail brands: **Justice**, **Lane Bryant**, **maurices**, **dressbarn** and **Catherines**. The Company now operates (through its subsidiaries) approximately 3,800 stores throughout the United States, Puerto Rico and Canada, with annual revenues on a pro forma basis of over $4.5 billion for the fiscal year ended July 28, 2012, giving effect to the acquisition of Charming Shoppes as of the beginning of such year. Ascena and its subsidiaries are collectively referred to herein as the "Company," "we," "us," "our" and "ourselves," unless the context indicate otherwise.

The Company classifies its businesses into five segments following a brand-oriented approach: **Justice**, **Lane Bryant**, **maurices**, **dressbarn**, and **Catherines**. The **Justice** segment includes approximately 961 specialty retail and outlet stores, e-commerce operations, and certain licensed franchises in international territories. The **Justice** segment offers fashionable apparel under the **Justice** brand to girls who are ages 7 to 14 in an environment designed to match the energetic lifestyle of tween girls, and fashionable apparel to boys who are ages 7 to 14 under the **Brothers** brand. The **Lane Bryant** segment includes approximately 788 specialty retail and outlet stores, and e-commerce operations. The **Lane Bryant** segment offers fashionable and sophisticated plus-size apparel under multiple private labels to female customers in the 25 to 45 age range, including intimate apparel under the **Cacique** label. The **maurices** segment includes approximately 862 specialty retail and outlet stores, and e-commerce operations. The **maurices** brand offers up-to-date fashion designed to appeal to the 17 to 34 year-old female, with stores concentrated in small markets (approximately 25,000 to 100,000 people). The **dressbarn** segment includes approximately 833 specialty retail and outlet stores, and e-commerce operations. The **dressbarn** brand primarily attracts female consumers in the mid-30's to mid-50's age range and offers moderate-to-better quality career, special occasion and casual fashion to the working woman. The **Catherines** segment includes approximately 402 specialty retail and outlet stores, and e-commerce operations. The **Catherines** brand offers classic apparel and accessories for wear-to-work and casual lifestyles in a full range of plus sizes, generally catering to the female customer 45 years and older.

2. Basis of Presentation

Interim Financial Statements

The interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). The interim consolidated financial statements are unaudited. In the opinion of management, however, such consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial condition, results of operations, comprehensive income and 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 28, 2012 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 28, 2012 (the “Fiscal 2012 10-K”), which should be read in conjunction with these interim financial statements. Reference is made to the Fiscal 2012 10-K for a complete set of financial statements.

Basis of Consolidation

The consolidated financial statements are prepared in accordance with US GAAP, and present the financial position, results of operations, comprehensive income and cash flows of the Company and all entities in which the Company has a controlling voting interest. The consolidated financial statements also include the accounts of any variable interest entities in which the Company is considered to be the primary beneficiary and such entities are required to be consolidated in accordance with US GAAP. There were no variable interest entities as of April 27, 2013.

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

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ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Use of Estimates

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

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

Fiscal Year

The Company utilizes a 52-53 week fiscal year ending on the last Saturday in July. As such, fiscal year 2013 will end on July 27, 2013 and will be a 52-week period (“Fiscal 2013”). Fiscal 2012 ended on July 28, 2012 and reflected a 52-week period (“Fiscal 2012”). The third quarter of Fiscal 2013 ended on April 27, 2013 and was a 13-week period. The third quarter of Fiscal 2012 ended on April 28, 2012 and was also a 13-week period.

The financial position and operating results of the Company’s newly acquired sourcing operations of Charming Shoppes located in Hong Kong (“Charming Sourcing”) are reported on a one-month lag. Accordingly, the Company’s operating results for the three and nine months ended April 27, 2013 include the operating results of Charming Sourcing for the three-month period from January 1, 2013 through March 31, 2013 and nine-month period from July 1, 2012 through March 31, 2013. The net effect of this reporting lag is not material to the consolidated financial statements.

Discontinued Operations

In connection with the acquisition of Charming Shoppes in June 2012, certain acquired businesses have been classified as a component of discontinued operations within the consolidated financial statements.

In particular, the Company announced, contemporaneously with the closing of the acquisition of Charming Shoppes, its intent to cease operating the acquired **Fashion Bug** business. The **Fashion Bug** business, consisting of approximately 600 retail stores, ceased operations in February 2013. The orderly liquidation of the related net assets is expected to be concluded during the fourth quarter of Fiscal 2013 and result in an immaterial adjustment to goodwill.

In addition, the Company also announced, contemporaneously with the closing of the acquisition of Charming Shoppes, its intent to sell the acquired **Figi's** business. The sale of the **Figi's** business, which markets food and specialty gift products, is expected to occur during the fourth quarter of Fiscal 2013.

As the **Fashion Bug** liquidation is substantially complete and the **Figi's** business is available for disposal in its present condition and active disposition efforts have already been implemented at prices that are reasonable in relation to current fair value, such businesses have been classified as discontinued operations within the consolidated financial statements. As such, assets and liabilities relating to discontinued operations have been segregated and separately disclosed in the balance sheets as of April 27, 2013 and July 28, 2012. In turn, operating results for those businesses, including $13.4 million and $400.3 million of revenues for the three-month and nine-month periods ended April 27, 2013, respectively, have also been segregated and reported separately in the consolidated statements of operations.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The major components of assets and liabilities related to discontinued operations are summarized below:

	April 27, 2013	July 28, 2012
	(millions)	
Accounts receivable	$ 10.7	$ 6.8
Inventories	7.1	77.2
Property and equipment, net	14.2	31.9
Other intangible assets, net	8.0	5.0
Other assets	3.1	12.7
Total assets related to discontinued operations	$ 43.1	$ 133.6
Accounts payable and other current liabilities	$ 15.4	$ 93.6
Lease-related liabilities	1.5	18.0
Other liabilities	0.2	7.0
Total liabilities related to discontinued operations	$ 17.1	$ 118.6

On January 29, 2013, **Fashion Bug** sold its distribution center for net proceeds of approximately $16 million. The net proceeds of the sale were used to partially prepay the outstanding principal balance of the Company's six-year, variable-rate term loan during the third quarter of Fiscal 2013 (See Note 9 for further discussion).

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, **Justice** sales and operating profits tend to be significantly higher during the fall season which occurs during the first and second quarters of the fiscal year, as this includes the back-to-school period and the holiday selling period which is focused on gift-giving merchandise. The **dressbarn** and **maurices** brands have historically experienced 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. The newly acquired **Lane Bryant** and **Catherines** brands typically experience peak sales during the Easter, Memorial Day and December holiday seasons. 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 27, 2013 are not necessarily indicative of the operating results and cash flows that

may be expected for the full year of Fiscal 2013.

Reclassifications

Buying, Distribution and Occupancy Costs

Historically, the Company included buying, distribution and occupancy costs within cost of goods sold on the face of its statement of operations. However, in the fourth quarter of Fiscal 2012, in connection with conforming the financial presentation of Charming Shoppes, the Company decided to present each of the aggregate of buying, distribution and occupancy costs and gross margin separately on the face of its statement of operations. In addition, certain costs, such as store utility costs, were reclassified from selling, general and administrative expenses to buying, distribution and occupancy costs. Financial information for all prior periods has been reclassified in order to conform to the current period's presentation. There have been no changes in historical operating income or historical net income for any period as a result of these changes.

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), in-bound freight to our distribution centers, and changes in reserve levels for inventory realizability and shrinkage.

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

Buying, Distribution and Occupancy Costs

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

Selling, General and Administrative Expenses

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

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Income Taxes

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

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

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

The Company's liability for uncertain tax positions (including accrued interest and penalties), which is included in other non-current liabilities in the accompanying consolidated balance sheets, was $49.3 million as of April 27, 2013 and $61.7 million as of July 28, 2012. The Company's liability for uncertain tax positions decreased by $12.4 million

in the nine months ended April 27, 2013 primarily as a result of the reversal of certain liabilities associated with uncertain tax positions due largely to the expiration of applicable federal and state income tax statutes of limitations for certain years in the first quarter of Fiscal 2013 and the filing of certain accounting method changes for federal income tax purposes. 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 uncertain tax positions will decrease by approximately $10.8 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.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Three Months Ended		Nine Months Ended	
	April 27, 2013	April 28, 2012	April 27, 2013	April 28, 2012
	(millions)			
Basic	158.0	153.3	156.9	153.3
Dilutive effect of stock options, restricted stock and restricted stock units	5.3	6.6	5.9	5.8
Diluted shares	163.3	159.9	162.8	159.1

Options to purchase shares of common stock at an exercise price greater than the average market price of the common stock during the reporting period are anti-dilutive, and therefore not included in the computation of diluted net income per common share. In addition, the Company has outstanding restricted stock units that are issuable only upon the achievement of certain service and/or performance or market-based goals. Such performance or market-based restricted stock units are included in the computation of diluted shares only to the extent the underlying performance or market conditions (a) are satisfied prior to the end of the reporting period or (b) would be satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. As of April 27, 2013 and April 28, 2012, there was an aggregate of approximately 2.9 million and 3.2 million, respectively, of additional shares issuable upon the exercise of anti-dilutive options and/or the contingent vesting of performance-based and market-based restricted stock units that were excluded from the diluted share calculations.

4. Acquisitions and Dispositions

The Charming Shoppes Acquisition

In June 2012, the Company acquired Charming Shoppes, which owned and operated multiple retail brands through over 1,800 retail stores and e-commerce operations including: **Lane Bryant**; **Catherines**; **Fashion Bug**; and **Figi's**, in an all cash transaction at $7.35 per share, for an aggregate purchase price of $882.1 million (excluding the assumption of debt and transaction costs) (collectively, the "Charming Shoppes Acquisition"). The acquisition was funded with $325 million from new borrowings including (a) a $300 million six-year, variable-rate term loan and (b) $25 million of borrowings under the Company's then existing revolving credit facility, which was amended in connection with the

transaction (See Note 9 for further discussion). The remainder was funded through available cash and cash equivalents and the liquidation of substantially all of the Company's investment portfolio.

The Company accounted for the Charming Shoppes Acquisition under the purchase method of accounting for business combinations. Accordingly, the cost to acquire such assets was allocated to the underlying net assets in proportion to estimates of their respective fair values. Any excess of the purchase price over the estimated fair value of the net assets acquired was recorded as goodwill. Given the orderly liquidation of **Fashion Bug's** net assets will not be concluded until the fourth quarter of Fiscal 2013 and the ongoing sale process of **Figi's**, as discussed in Note 2, the allocation of the purchase price to the underlying net assets remains preliminary at this time. The Company does not expect to finalize its valuation of the net assets acquired until the fourth quarter of Fiscal 2013, particularly as it relates to those businesses. During the nine months ended April 27, 2013, the Company made certain adjustments to goodwill to more fairly reflect the fair value of the underlying net assets acquired. Such adjustments resulted in a $17.0 million increase in miscellaneous net assets with a corresponding reduction to goodwill.

As adjusted during the nine months ended April 27, 2013, the acquisition cost of $882.1 million was allocated to the acquired net assets on a preliminary basis based on their respective estimated fair values, as follows: cash and cash equivalents of $203.5 million; inventories of $192.0 million; net assets related to discontinued operations of $80.2 million; other current and non-current assets of $97.6 million; deferred tax assets (net of deferred tax liabilities) of $13.4 million; property and equipment of $170.6 million; non-tax deductible goodwill of $341.8 million; intangible assets (consisting primarily of brands and trademarks) of $270.7 million; current liabilities of $198.5 million; long-term debt of $146.2 million; and other net liabilities of $143.0 million.

Acquisition-related, transaction costs of $6.8 million were expensed as incurred during the third quarter of Fiscal 2012, and are reported separately in the consolidated statement of operations.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The results of operations of Charming Shoppes have been consolidated in the Company’s results of operations commencing on June 14, 2012, the effective date of the Charming Shoppes Acquisition. Such post-acquisition results included in the Company’s consolidated statement of operations for the three and nine months ended April 27, 2013 consist of the following:

	Three Months Ended April 27, 2013	Nine Months Ended April 27, 2013
	(millions)	
Net sales	$ 351.2	$ 987.3
Income (loss) from continuing operations	2.9	(22.2)
(Loss) income from discontinued operations, net of taxes	(1.7)	4.6
Net income (loss)	1.2	(17.6)

The above results include $20.1 million of pre-tax charges for acquisition-related, integration and restructuring costs in the nine months ended April 27, 2013. Of this amount, $6.9 million was recorded during the three months ended April 27, 2013.

The following unaudited pro forma financial information is presented to supplement the historical financial information presented herein relating to the Charming Shoppes Acquisition and the related redemption of substantially all of the Charming Shoppes convertible notes, as more fully described in Note 14 to the Company’s consolidated financial statements included in the Fiscal 2012 10-K. This pro forma information has been prepared as if the Charming Shoppes Acquisition and related redemption of its convertible notes had occurred as of the beginning of Fiscal 2012. The pro forma financial information is not indicative of the operating results that would have been obtained had the transactions actually occurred as of that date, nor is it necessarily indicative of the Company’s future operating results.

	Three Months Ended April 28, 2012	Nine Months Ended April 28, 2012
	(millions, except per share data)	
Pro forma net sales	$ 1,130.3	$ 3,393.5
Pro forma income from continuing operations	57.7	146.9
Pro forma net income from continuing operations per common share:		
Basic	0.38	0.96
Diluted	0.36	0.92

5. Inventories

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

	April 27, 2013	July 28, 2012	April 28, 2012
	(millions)		
Justice	$141.3	$ 154.1	$ 128.2
Lane Bryant [a]	152.4	139.3	—
maurices	84.9	94.1	87.1
dressbarn	119.6	111.1	133.6
Catherines [a]	39.9	34.8	—
Total inventories	$538.1	$ 533.4	$ 348.9

[a] The Charming Shoppes Acquisition was consummated on June 14, 2012 and, therefore, inventory amounts for **Lane Bryant** and **Catherines** are not included as of April 28, 2012.

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ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

6. Investments

The Company classifies its investments in securities at the time of purchase as held-to-maturity, available-for-sale or trading, and re-evaluates such classifications on a quarterly basis. 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.

During the second quarter of Fiscal 2013, the one remaining auction rate security with a book value of $2.7 million and a par value of $3.9 million at July 28, 2012 was redeemed at a par. As a result of the transaction, the accumulated unrealized loss was reversed and included in the net change in unrealized gains and losses on available-for-sale securities in the consolidated statements of comprehensive income during the nine months ended April 27, 2013. The redemption had no impact on net income. As of April 27, 2013, the Company’s only investment was restricted cash, which is classified within short-term investments in the accompanying consolidated balance sheets.

7. Fair Value Measurements

Fair Value Measurements of Financial Instruments

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

Cash, cash equivalents and restricted cash are recorded at carrying value, which approximates fair value. As the Company’s primary debt obligations are variable rate, there are no significant differences between the fair value and carrying value of the Company’s debt obligations.

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

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 2013 Impairment

During the nine months ended April 27, 2013, the Company recorded an aggregate of $3.8 million in non-cash impairment charges, including $2.0 million in its **Lane Bryant** segment, $0.5 million in its **maurices** segment and $1.3 million in its **dressbarn** 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, $2.1 million was recorded during the three months ended April 27, 2013. There were no impairment charges recorded at **Justice** or **Catherines** during the three or nine months ended April 27, 2013.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Fiscal 2012 Impairment

During the nine months ended April 28, 2012, the Company recorded an aggregate $1.8 million in non-cash impairment charges, including $0.2 million in its **Justice** segment, $0.7 million in its **maurices** segment, and $0.9 million in its **dressbarn** 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.

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

9. Debt

Debt consists of the following:	April 27, 2013	July 28, 2012
	(millions)	
Revolving credit agreement	$155.0	$20.0
Charming Shoppes convertible notes	0.6	1.2
Term loan [a]	—	297.2
Mortgage notes	—	8.2
	155.6	326.6
Less: current portion	—	(4.2)
Total long-term debt	$155.6	$322.4

[a] The Term Loan is presented net of a $2.8 million original issue discount as of July 28, 2012.

In March 2013, the Company (i) exercised an option to increase the capacity of its existing revolving credit facility by $50 million from $250 million to $300 million, (ii) borrowed approximately $263 million under the facility, (iii) used

the proceeds to prepay the Term Loan (as defined and discussed further below), and (iv) amended its then existing revolving credit facility (the "Revolving Credit Agreement") with the lenders thereunder and JPMorgan Chase Bank, N.A., as administrative agent. The principal changes in terms related to expansion of the borrowing availability from $250 million to $500 million and an extension of the maturity date of the borrowing arrangement one year from June 2017 to June 2018. For accounting purposes, due principally to the expanded borrowing availability, the amendment to the Revolving Credit Agreement was treated as a modification to the existing arrangement and not as an extinguishment of debt. As a result, incremental deferred financing costs related to the Revolving Credit Agreement were aggregated with existing deferred financing costs and are being amortized to interest expense over the new term.

Revolving Credit Agreement

The Revolving Credit Agreement now provides a senior secured revolving credit facility up to $500 million, with an optional additional increase of up to $100 million. The Revolving Credit Agreement expires in June 2018. There are no mandatory reductions in borrowing availability throughout the term of the Revolving Credit Agreement. However, availability under the Revolving Credit Agreement fluctuates from month-to-month based on the Company's underlying collateral position at the end of the period. Our collateral position is determined, at any given period, by the aggregate of the Company's (i) inventory position (less reserves), (ii) market value of eligible real properties up to certain limits, and (iii) eligible credit card receivables. The Revolving Credit Agreement may be used for the issuance of letters of credit, to fund working capital requirements and capital expenditures, and for general corporate purposes. The Revolving Credit Agreement includes a $250 million letter of credit sublimit, of which $60 million can be used for standby letters of credit, and a $25 million swing loan sublimit.

Borrowings under the Revolving Credit Agreement bear interest at a variable rate determined using a base rate equal to the greatest of (i) prime rate, (ii) federal funds rate plus 50 basis points, or (iii) LIBOR plus 100 basis points; plus an applicable margin ranging from 50 basis points to 200 basis points based on a combination of the type of borrowing (prime or LIBOR), the Company's leverage ratio (defined below) existing at the end of the previous quarter, and average borrowing availability during the previous fiscal quarter.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The leverage ratio is defined as a ratio of the sum of the aggregate principal amount of indebtedness to consolidated EBITDA. For such purposes, consolidated EBITDA is defined generally as net income plus (i) income tax expense, (ii) interest expense, (iii) depreciation and amortization expense, (iv) non-recurring, acquisition-related expenses, and (v) restructuring charges not exceeding predetermined limits.

In addition to paying interest on any outstanding borrowings under the Revolving Credit Agreement, the Company is required to pay a commitment fee to the lenders under the Revolving Credit Agreement in respect of the unutilized commitments in an amount ranging between 25 basis points and 37.5 basis points per annum based the Company's leverage ratio existing at the end of the previous quarter and average utilization during the previous fiscal quarter.

As of April 27, 2013, after taking into account the $155.0 million of revolving debt outstanding and the $20.7 million in outstanding letters of credit, the Company had $306.9 million in its variable availability under the Revolving Credit Agreement.

Restrictions under the Revolving Credit Agreement

The Revolving Credit Agreement is subject to restrictions, as summarized below.

The Revolving 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, (iv) rent expense, (v) non-recurring acquisition-related expenses, and (vi) restructuring charges not exceeding predetermined limits. Consolidated fixed charges are defined generally as the sum of (a) cash interest expense, (b) rent expense, (c) cash tax expense, (d) mandatory principal repayment, (e) capital lease payments, (f) mandatory cash contributions to any employee benefit plan and (g) any restricted payments paid in cash. The Company is required to maintain a minimum fixed charge coverage ratio for any period of four consecutive fiscal quarters of at least 1.00 to 1.00. As of April 27, 2013, the actual fixed charge coverage ratio was 1.54 to 1.00. The Company was in compliance with all financial covenants contained in the Revolving Credit Agreement as of April 27, 2013.

In addition to the above, the Revolving 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, (vi) restricted payments, cash dividends and certain other restrictive agreements. The borrowing 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 Revolving Credit Agreement are guaranteed by certain of its domestic subsidiaries (the "Subsidiary Guarantors"). As collateral security under the borrowing 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 and certain material real estate.

Term Loan

In connection with the funding of the Charming Shoppes Acquisition during the fourth quarter of Fiscal 2012, the Company entered into a $300 million variable-rate term loan ("Term Loan") with an original maturity of June 14, 2018. The Term Loan was recorded net of an original issue discount of $3 million, which was being amortized to interest expense over the contractual life of the Term Loan.

During the second quarter of Fiscal 2013, the Company prepaid approximately $20 million of the outstanding principal balance of the Term Loan. The transaction resulted in a $0.6 million pretax loss on extinguishment of debt during the second quarter of Fiscal 2013, relating to a proportional reduction in the balances of the original issue discount and deferred financing costs, which has been disclosed as a component of the loss on extinguishment of debt on the face of the accompanying consolidated statements of operations.

During the third quarter of Fiscal 2013, the Company prepaid the entire remaining approximately $279 million of outstanding principal balance under the Term Loan using approximately $263 million of borrowings under the Revolving Credit Agreement (as discussed above) and approximately $16 million of proceeds from the sale of **Fashion Bug's** distribution center (See Note 2 – *Discontinued Operations* for further discussion). These transactions resulted in an aggregate $7.9 million pretax loss on extinguishment of debt during the third quarter of Fiscal 2013, relating to a write-off of the remaining balances of the original issue discount and deferred financing costs. This loss has been disclosed as a component of the loss on extinguishment of debt on the face of the accompanying consolidated statements of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Greencastle Mortgage

In connection with the Charming Shoppes Acquisition, the Company assumed a $7.8 million mortgage obligation (the "Greencastle Mortgage") on Charming Shoppes's owned distribution center in Greencastle, Indiana. The Greencastle Mortgage bore interest at a fixed rate of 6.07%. During the second quarter of Fiscal 2013, the Company prepaid the outstanding principal balance of the Greencastle Mortgage in full. The payment of $8.4 million resulted in a $0.8 million pretax loss on extinguishment of debt, relating to a make-whole premium to holders of the mortgage note, which has been disclosed as a component of the loss on extinguishment of debt on the face of the accompanying consolidated statements of operations.

Other Letters of Credit

As of April 27, 2013, the Company had also issued $24.5 million of private label letters of credit relating to the importation of merchandise.

10. Equity

Summary of Changes in Equity:

	Nine Months Ended	
	April 27, 2013	April 28, 2012
	(millions)	
Balance at beginning of period	$1,340.9	$1,158.0
Total comprehensive income	122.1	162.1
Purchases of common stock	—	(37.2)
Shares issued and equity grants made pursuant to stock-based compensation plans	59.2	39.7
Reclassification of cash-settled long-term incentive plan awards to liabilities (See Note 11)	(6.8)	—
Other	—	2.7
Balance at end of period	$1,515.4	$1,325.3

Common Stock Repurchase Program

In Fiscal 2010, the Company's Board of Directors authorized a $100 million share repurchase program (the "2010 Stock Repurchase Program"). The program was then expanded in Fiscal 2011 to cover an additional $100 million of authorized purchases. Under the 2010 Stock Repurchase Program, purchases of shares of common stock may be made at the Company's discretion from time to time, subject to overall business and market conditions.

There were no purchases of common stock by Company during the nine months ended April 27, 2013. Repurchased shares normally are retired and treated as authorized but unissued shares.

The remaining availability under the 2010 Stock Repurchase Program was approximately $89.9 million at April 27, 2013.

Dividends

The Company has never declared or paid cash dividends on its common stock. However, payment of dividends is within the discretion and are payable when declared by the Company's Board of Directors. Additionally, payments of dividends are limited by the Company's Revolving Credit Agreement as described in Note 9, *"Restrictions under the Revolving Credit Agreement."*

11. Stock-based Compensation

Long-term Stock Incentive Plan

The Company issues stock-based compensation awards under its 2010 Stock Incentive Plan (as amended, the "2010 Stock Plan"), which was approved by the Company's stockholders on December 17, 2010. The 2010 Stock Plan provides 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 and other stock-based awards (including restricted stock units), to eligible employees and directors of the Company. The 2010 Stock Plan was scheduled to expire on September 30, 2021.

ASCENA RETAIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

On September 20, 2012 the Board of Directors approved amendments to the 2010 Stock Plan (the “2010 Amended Stock Plan”), which was approved by the Company’s stockholders and became effective on December 10, 2012. The 2010 Amended Stock Plan generally incorporates the provisions of the 2010 Stock Plan and includes certain modifications to, among other things: increase the aggregate number of shares that may be issued under the plan by an additional 15 million to 51 million shares; shorten the term of any stock option award granted prospectively from ten years to seven years; and extend the term of the 2010 Amended Stock Plan to September 19, 2022.

As of April 27, 2013, there were approximately 14.5 million shares under the 2010 Amended 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 27, 2013	April 28, **2012**	April 27, 2013	April 28, 2012
	(millions)			
Compensation expense	$6.9	$ 6.1	$ 23.2	$ 21.2
Income tax benefit	$(2.6)	$ (2.3)	$ (8.7)	$ (8.0)

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 a period of four or five years and expire at either seven or 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 expected term of the stock option.

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 expected term of the stock option.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's weighted-average assumptions used to estimate the fair value of stock options granted during the nine months ended April 27, 2013 and April 28, 2012 are presented as follows:

	Nine Months Ended	
	April 27, 2013	April 28, 2012
Expected term (years)	3.9	3.9
Expected volatility	41.6 %	41.7 %
Risk-free interest rate	0.7 %	0.9 %
Expected dividend yield	0 %	0 %
Weighted-average grant date fair value	$ 7.31	$ 4.73

A summary of the stock option activity under all plans during the nine months ended April 27, 2013 is as follows:

	Nine Months Ended April 27, 2013			
	Number of Shares (thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (years)	**Aggregate Intrinsic Value [a]** (millions)
Options outstanding – July 28, 2012	14,103.0	$ 9.69	6.4	$ 130.1
Granted	2,332.9	20.54		
Exercised	(3,251.0)	7.35		
Cancelled/Forfeited	(499.6)	12.46		
Options outstanding – April 27, 2013	12,685.3	$ 12.18	6.7	$ 84.4
Options vested and expected to vest at April 27, 2013 [b]	12,275.6	$ 12.58	6.8	$ 82.9
Options exercisable at April 27, 2013	5,963.3	$ 9.19	5.2	$ 55.2

[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 27, 2013, there was $27.8 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 2.6 years. The total intrinsic value of options exercised during the nine months ended April 27, 2013 was approximately $40.4 million and during the nine months ended April 28, 2012 was approximately $15.4 million. Of these amounts, $3.7 million was recorded during the three months ended April 27, 2013 and $6.9 million was recorded during the three months ended April 28, 2012. The total fair value of options that vested during the nine months ended April 27, 2013 was approximately $11.4 million and during the nine months ended April 28, 2012 was approximately $9.8 million. Of these amounts, $0.2 million was recorded during the three months ended April 27, 2013 and $0.7 million was recorded during the three months ended April 28, 2012.

Restricted Equity Awards

The 2010 Amended 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 2.3 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, 2.3 shares become available for grant.

Shares of restricted stock and RSUs are issued with either service-based or performance-based conditions, and some even 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.