HITACHI LTD
Form 6-K
August 03, 2011
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

For the month of August 2011

Commission File Number 1-8320

Hitachi, Ltd.

(Translation of registrant s name into English)

6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8280, Japan

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F __X__ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No __X__

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-____

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This report on Form 6-K contains the following:

1. Press release dated July 29, 2011 regarding consolidated financial results for the first quarter ended June 30, 2011

2. Press release dated July 29, 2011 regarding revisions of consolidated interim business forecasts for fiscal 2011

3. Press release dated July 29, 2011 regarding an agreement to begin discussions toward dissolving a T & D joint venture between Hitachi, Fuji Electric and Meiden

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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.

Hitachi, Ltd.
(Registrant)

Date August 3, 2011

By /s/ Toshiaki Kuzuoka
Toshiaki Kuzuoka
Senior Vice President and Executive Officer

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FOR IMMEDIATE RELEASE

Hitachi Announces Consolidated Financial Results

for the First Quarter ended June 30, 2011

Tokyo, July 29, 2011 Hitachi, Ltd. (NYSE:HIT / TSE:6501) today announced its consolidated financial results for the first quarter of fiscal 2011, ended June 30, 2011.

Notes:
1. All figures, except for the outlook for full year and the first half of fiscal 2011, were converted at the rate of 81 yen to the U.S. dollar, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 2011.
2. Operating income is presented in accordance with financial reporting principles and practices generally accepted in Japan.

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Summary

In millions of yen and U.S. dollars, except Net income attributable to Hitachi, Ltd. stockholders per share (6) and Net income attributable to Hitachi, Ltd. stockholders per American Depositary Share (7).

	Three months ended June 30			
	Yen (millions)		(B)/(A) X100 (%)	U.S. Dollars (millions)
	2010 (A)	2011 (B)		2011
1. Revenues	2,152,566	2,150,693	100	26,552
2. Operating income	88,475	52,403	59	647
3. Income before income taxes	144,284	41,154	29	508
4. Net income	117,468	16,265	14	201
5. Net income attributable to Hitachi, Ltd.	86,058	2,931	3	36
6. Net income attributable to Hitachi, Ltd. stockholders per share				
Basic	19.06	0.65	3	0.01
Diluted	17.80	0.61	3	0.01
7. Net income attributable to Hitachi, Ltd. stockholders per ADS (representing 10 shares)				
Basic	191	7	4	0.09
Diluted	178	6	3	0.07

Notes:
1. The Company s consolidated financial statements are prepared based on U.S. GAAPs.
2. Operating income is presented in accordance with financial reporting principles and practices generally accepted in Japan.
3. The figures are for 933 consolidated subsidiaries, including Variable interest entities, and 178 equity-method affiliates. Consolidated trust accounts are not included into the figures of consolidated subsidiaries.

1. Qualitative Information Concerning Consolidated Business Results

(1) Summary of Fiscal 2011 First-Quarter Consolidated Business Results

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year change (% or billions yen)	U.S. dollars (millions)
Revenues	2,150.6	0%	26,552
Operating income	52.4	(36.0)	647
Income before income taxes	41.1	(103.1)	508
Net income	16.2	(101.2)	201
Net income attributable to Hitachi, Ltd.	2.9	(83.1)	36

During the first quarter of fiscal 2011, the operating environment remained harsh, not in the least because of the catastrophic damage caused by the Great East Japan Earthquake of March 11, and ensuing power supply restrictions, disruptions to supply chains for parts and components and other factors. The Hitachi Group suffered damage to a large number of buildings and production facilities. However, due to cohesive group-wide efforts to quickly restore operations, production had resumed across the board at most sites by the end of April 2011. The Hitachi Group also worked to help affected areas recover quickly from the natural disaster, including by providing support for the resumption of operations at affected thermal power plants.

Hitachi s consolidated revenues for the first quarter were flat year over year, at 2,150.6 billion yen, despite most segments experiencing the effects of the Great East Japan Earthquake. One reason was higher revenues in the Others Segment, resulting from Hitachi Transport System, Ltd. making Vantec Corporation a consolidated subsidiary in April 2011, as well as strong growth in third-party logistics solutions. In addition, the Construction Machinery Segment produced strong revenues, mainly in emerging countries, and the Information & Telecommunication Systems Segment saw revenues rise year on year, notably in storage solutions for overseas customers.

Overseas revenues declined 1% year over year, to 973.5 billion yen.

Hitachi posted consolidated operating income of 52.4 billion yen, down 36.0 billion yen from the first quarter of fiscal 2010, even though the Construction Machinery and Information & Telecommunication Systems segments posted higher year-over-year earnings despite the impact of the Great East Japan Earthquake. The overall decline mainly reflected lower earnings from the Components & Devices, Power Systems segments and others.

Hitachi posted net other deductions of 11.2 billion yen, 67.0 billion yen worse than the net other income in the corresponding quarter of the previous fiscal year. The year-over-year change was attributable to gains on the sale of securities recorded in the first quarter of fiscal 2010 resulting from the transfer of shares of IPS Alpha Technology, Ltd. to Panasonic Corporation. There were no large sales of shares in the first quarter of fiscal 2011.

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As a result, Hitachi recorded income before income taxes of 41.1 billion yen, 103.1 billion yen less year over year. After taxes of 24.8 billion yen, Hitachi posted net income of 16.2 billion yen, a year-over-year decline of 101.2 billion yen. After deducting net income attributable to noncontrolling interests of 13.3 billion yen, Hitachi posted net income attributable to Hitachi, Ltd. of 2.9 billion yen, down 83.1 billion yen year over year.

(2) Revenues and Operating Income by Segment

Results by segment were as follows:

[Information & Telecommunication Systems]

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year change (% or billions yen)	U.S. dollars (millions)
Revenues	350.7	1%	4,331
Operating income	2.1	1.9	26

The segment recorded revenues of 350.7 billion yen, an increase of 1% year over year, despite lower hardware sales caused by the shortage of parts and components for some products in the wake of the Great East Japan Earthquake. The higher overall revenues resulted from increased sales of consulting services and of software and services for storage, mainly for overseas customers, which lifted software and services revenues year over year.

Segment operating income improved 1.9 billion yen year over year to 2.1 billion yen, due to higher earnings in hardware, reflecting increased earnings from storage solutions stemming from growth in high-end models.

[Power Systems]

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year change (% or billions yen)	U.S. dollars (millions)
Revenues	166.3	(6%)	2,054
Operating loss	(3.2)	(7.8)	(40)

Segment revenues dropped 6% year over year to 166.3 billion yen. In addition to lower sales of nuclear power generation systems in the aftermath of the Great East Japan Earthquake, the lower segment revenues also resulted from some thermal power generation system projects being pushed back.

The segment recorded an operating loss of 3.2 billion yen, declined 7.8 billion year over year. This loss mainly reflected the impact of the Great East Japan Earthquake and lower revenues.

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[Social Infrastructure & Industrial Systems]

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year change (% or billions yen)	U.S. dollars (millions)
Revenues	229.8	(1%)	2,837
Operating income	0.9	(1.5)	12

Segment revenues inched down 1% year over year, to 229.8 billion yen. Higher sales of railway systems, mainly for overseas markets, and strong sales of elevators and escalators in China were negated by lower year-over-year sales of plant-related equipment and construction.

The segment posted operating income of 0.9 billion yen, down 1.5 billion yen year over year, primarily on account of lower sales and the impact of the Great East Japan Earthquake.

[Electronic Systems & Equipment]

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year change (% or billions yen)	U.S. dollars (millions)
Revenues	246.1	(2%)	3,039
Operating income	7.1	1.8	89

The segment recorded a 2% year-over-year decrease in revenues to 246.1 billion yen, due to lower sales in the semiconductor-and display-related products, parts and components sales businesses at Hitachi High-Technologies Corporation as a result of the Great East Japan Earthquake. On the other hand, Hitachi Medical Corporation recorded higher sales, which is the result of consolidating Aloka Co., Ltd. in January 2011.

Segment operating income improved 1.8 billion yen year over year, to 7.1 billion yen, reflecting higher earnings at Hitachi Kokusai Electric Inc. and Hitachi Koki Co., Ltd. mainly due to progress with cost-cutting programs.

[Construction Machinery]

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year change (% or billions yen)	U.S. dollars (millions)
Revenues	172.5	6%	2,130
Operating income	11.0	4.0	136

The segment posted a 6% year over year increase in revenues, to 172.5 billion yen, despite the impact of the Great East Japan Earthquake and lower demand in China. The overall increase reflects the growth in sales of hydraulic excavators and others, driven by the demand in Asian countries and other emerging markets, as well as the U.S. and other industrial countries.

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Despite the impact of the Great East Japan Earthquake, segment operating income improved 4.0 billion yen year over year, to 11.0 billion yen due to higher revenues.

[High Functional Materials & Components]

	Three months ended June 30, 2011		
		Year-over-year	U.S.
	Yen (billions)	change (% or billions yen)	dollars (millions)
Revenues	347.0	0%	4,285
Operating income	19.3	(6.8)	239

Segment revenues were flat year over year, at 347.0 billion yen. Sales declined at Hitachi Chemical Co., Ltd. due to the suspension of operations at some factories within the exclusion zone created by the Japanese government after the accident at the Fukushima Daiichi Nuclear Power Station owned by The Tokyo Electric Power Company, Incorporated. On the other hand, Hitachi Cable, Ltd. and Hitachi Metals, Ltd. recorded higher sales year over year.

Segment operating income dropped 6.8 billion yen year over year, to 19.3 billion yen. Although earnings improved at Hitachi Cable due to higher sales and cost-cutting, Hitachi Chemical and Hitachi Metals recorded lower year-over-year earnings.

[Automotive Systems]

	Three months ended June 30, 2011		
		Year-over-year	U.S.
	Yen (billions)	change (% or billions yen)	dollars (millions)
Revenues	177.1	(4%)	2,188
Operating income	2.0	0.1	26

Segment revenues declined 4% year over year, to 177.1 billion yen, as a result of lower automobile production mainly in Japan after the Great East Japan Earthquake.

Despite the lower revenues, segment operating income improved 0.1 billion yen year over year, to 2.0 billion yen, reflecting mainly the benefits of cost reductions.

Note: Effective from April 1, 2011, there was a change in segmentation between the Automotive Systems and the Components & Devices segments. Figures for each segment, including figures for the first quarter of fiscal 2010, reflect the new segmentations.

[Components & Devices]

	Three months ended June 30, 2011		
		Year-over-year	U.S.
	Yen (billions)	change (% or billions yen)	dollars (millions)
Revenues	177.7	(8%)	2,195

Operating income	4.9	(14.1)	61

Segment revenues declined 8% year over year, to 177.7 billion yen, as HDD operations posted lower sales due to lower sales prices.

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Segment operating income dropped 14.1 billion yen, to 4.9 billion yen, on account of lower HDD earnings resulting from decreased sales.

Notes 1: Effective from April 1, 2011, there was a change in segmentation between the Automotive Systems and the Components & Devices segments. Figures for each segment, including figures for the first quarter of fiscal 2010, reflect the new segmentations.

2: HDD operations are conducted by Hitachi Global Storage Technologies (Hitachi GST), which has a December 31 fiscal year-end, different from Hitachi s March 31 year-end. Hitachi s results for the three months ended June 30, 2011 include operating results of Hitachi GST for the three months ended March 31, 2011.

[Digital Media & Consumer Products]

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year change (% or billions yen)	U.S. dollars (millions)
Revenues	233.1	(9%)	2,878
Operating income	3.2	(3.8)	41

Segment revenues declined 9% year over year, to 233.1 billion yen. Optical disk drive-related products recorded lower sales year over year, which is the result of parts and components shortages after the Great East Japan Earthquake and the yen s appreciation. Another factor was lower year-over-year sales of flat-panel TVs due to lower sales prices and other factors. However, room air conditioners posted higher sales, mainly in Japan, spurred by demand for upgrading to energy-saving models.

Segment operating income declined 3.8 billion yen to 3.2 billion yen, despite the strong performance from room air conditioners. The overall decline reflected decreased earnings from optical disk drive-related products and flat-panel TVs in line with lower sales.

Note: The optical disk drive operations are conducted by Hitachi-LG Data Storage, Inc. (HLDS), which has a December 31 fiscal year-end, different from Hitachi s March 31 year-end. Hitachi s results for the three months ended June 30, 2011 include operating results of HLDS for the three months ended March 31, 2011.

[Financial Services]

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year change (% or billions yen)	U.S. dollars (millions)
Revenues	92.4	(2%)	1,142
Operating income	6.9	1.7	85

The segment reported a 2% year-over-year decrease in revenues, to 92.4 billion yen, due to lower revenues in the finance services business at Hitachi Capital Corporation in the aftermath of the Great East Japan Earthquake. However, the overseas business and new business, including debt collection services, generated higher revenues.

Segment operating income improved 1.7 billion yen, to 6.9 billion yen, reflecting higher earnings at Hitachi Capital because of increased revenues from the overseas and new businesses and reduced credit costs.

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[Others]

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year change (% or billions yen)	U.S. dollars (millions)
Revenues	226.9	26%	2,802
Operating income	5.7	(0.2)	72

Segment revenues increased 26% year over year, to 226.9 billion yen, on healthy growth in sales in third-party logistics solutions, in addition to the effect of Hitachi Transport System making Vantec a consolidated subsidiary in April 2011.

Segment operating income declined 0.2 billion yen, to 5.7 billion yen. Although earnings increased at Hitachi Transport System in line with higher revenues, the Great East Japan Earthquake affected overall earnings.

(3) Revenues by Market

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year % change	U.S. dollars (millions)
Japan	1,177.1	0%	14,533
Outside Japan	973.5	(1%)	12,019
Asia	490.8	(2%)	6,060
North America	194.0	1%	2,396
Europe	184.5	(2%)	2,278
Other Areas	104.0	9%	1,285

Revenues in Japan were 1,177.1 billion yen, unchanged year over year. The Others Segment posted higher revenues at Hitachi Transport System due to the consolidation of Vantec and strong sales growth in third-party logistics solutions, and others. However, the Components & Devices, Electronic Systems & Equipment, and Automotive Systems segments all saw revenues decline.

Outside Japan revenues declined 1% year over year, to 973.5 billion yen. The consolidation of Vantec at Hitachi Transport System led to higher revenues in the Others Segment, and the Construction Machinery and Electronic Systems & Equipment segments also posted higher revenues. However, revenues declined in the Digital Media & Consumer Products and Power Systems segments.

As a result, the ratio of overseas revenues to consolidated revenues was 45%, flat year over year.

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(4) Capital Investment, Depreciation and R&D Expenditures

Capital investment on a completion basis, excluding leasing assets, increased 27% year over year, to 59.7 billion yen, primarily due to investments for stepping up global business development.

Depreciation, excluding leasing assets, decreased 11% year over year, to 67.2 billion yen, primarily due to strict selection of capital investments.

R&D expenditures increased 2% year over year to 94.0 billion yen, which corresponded to 4.4% of consolidated revenues. The increase was due mainly to further R&D investment to strengthen the Social Innovation Business.

2. Financial Position

(1) Financial Position

	As of June 30, 2011		
	Yen (billions)	Change from March 31, 2011	U.S. dollars (millions)
Total assets	9,433.6	248.0	116,465
Total liabilities	6,988.5	244.3	86,278
Interest-bearing debt	2,860.0	338.5	35,309
Total Hitachi, Ltd. stockholders equity	1,440.2	0.4	17,781
Noncontrolling interests	1,004.8	3.2	12,405
Total Hitachi, Ltd. stockholders equity ratio	15.3%	0.4 point decrease	
D/E ratio (including noncontrolling interests)	1.17 times	0.14 point increase	

Total assets as of June 30, 2011 increased 248.0 billion yen from March 31, 2011, to 9,433.6 billion yen. Interest-bearing debt increased 338.5 billion yen from March 31, 2011, to 2,860.0 billion yen, because of an increase in working capital due to seasonal factors, as well as an increase in short-term debt, mainly in the form of commercial paper, to ensure the Company was ready to cope with jittery credit markets after the Great East Japan Earthquake. Stockholders equity increased 0.4 billion yen, to 1,440.2 billion yen. As a result, the total Hitachi, Ltd. stockholders equity ratio was 15.3%. The debt-to-equity ratio, including noncontrolling interests, was 1.17.

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(2) Cash Flows

	Three months ended June 30, 2011		
	Yen (billions)	Year-over-year change	U.S. dollars (millions)
Cash flows from operating activities	(0.2)	(131.7)	(3)
Cash flows from investing activities	(114.3)	(34.7)	(1,411)
Free cash flows	(114.5)	(166.4)	(1,414)
Cash flows from financing activities	306.0	279.4	3,778

Operating activities used net cash of 0.2 billion yen, a 131.7 billion yen change from the net cash provided in the first quarter of fiscal 2010. This result was mainly due to a decrease in net income as a result of the impact of the Great East Japan Earthquake.

Investing activities used net cash of 114.3 billion yen, 34.7 billion yen more year over year. This result mainly reflected the large amount of sale of certain securities in the first quarter of fiscal 2010.

Free cash flows, the sum of cash flows from operating and investing activities, was a negative 114.5 billion yen.

Financing activities provided net cash of 306.0 billion yen, 279.4 billion yen more year over year. The increase was due to an increase in short-term debt mainly from the issue of commercial paper.

The net result of the above items was an increase of 190.1 billion yen in cash and cash equivalents, to 744.9 billion yen.

3. Outlook for Six Months Period Ending September 30, 2011

	The first half of fiscal 2011 ending September 30, 2011		
	Yen (billions)	Year-over-year change (% or billions yen)	U.S. dollars (millions)
Revenues	4,400.0	(2%)	55,000
Operating income	100.0	(118.0)	1,250
Income before income taxes	75.0	(188.8)	938
Net Income	30.0	(174.4)	375
Net Income attributable to Hitachi, Ltd.	10.0	(148.0)	125

Note: First half of fiscal 2011 outlook figures were converted using 80 yen to the U.S. dollar.

In terms of the overall business environment going forward, while the parts and components supply problem stemming from the Great East Japan Earthquake is expected to be gradually resolved, power supply shortages and other problems are expected to persist. In addition, causes for concern abound such as an expected strengthening of the yen, and growing uncertainty about the global economic outlook. The situation remains unpredictable.

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Under these circumstances, Hitachi has revised consolidated forecasts for the first half of fiscal 2011 issued on June 9, 2011, as per the forecasts in the table above. Regarding full-year forecasts, Hitachi has not revised its previous forecasts at this time because of considerable uncertainty. This uncertainty includes trends in the global economy, especially in the U.S., Europe and China, foreign currency fluctuations, and fluctuations in raw materials prices.

Projections for the second quarter of fiscal 2011 assume exchange rates of 80 yen to the U.S. dollar and 110 yen to the euro.

Other

(1) Changes in significant subsidiaries during the period (changes in significant subsidiaries causing changes in scope of consolidation)

None

(2) Application of simple accounting treatment and/or specific accounting treatment in preparing the quarterly consolidated financial statements

Yes

(3) Changes in accounting principles, procedures and presentation methods for preparing quarterly consolidated financial statements.

Yes

Cautionary Statement

Certain statements found in this document may constitute forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements reflect management s current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as anticipate, believe, expect, estimate, forecast, intend, plan, project and similar expressions which indicate future events and trends may identify forward-looking statements. Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the forward-looking statements and from historical trends. Certain forward-looking statements are based upon current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on forward-looking statements, as such statements speak only as of the date of this document.

Factors that could cause actual results to differ materially from those projected or implied in any forward-looking statement and from historical trends include, but are not limited to:

economic conditions, including consumer spending and plant and equipment investment in Hitachi s major markets, particularly Japan, Asia, the United States and Europe, as well as levels of demand in the major industrial sectors Hitachi serves, including, without limitation, the information, electronics, automotive, construction and financial sectors;

exchange rate fluctuations of the yen against other currencies in which Hitachi makes significant sales or in which Hitachi s assets and liabilities are denominated, particularly against the U.S. dollar and the euro;

uncertainty as to Hitachi s ability to access, or access on favorable terms, liquidity or long-term financing;

uncertainty as to general market price levels for equity securities in Japan, declines in which may require Hitachi to write down equity securities that it holds;

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the potential for significant losses on Hitachi s investments in equity method affiliates;

increased commoditization of information technology products and digital media-related products and intensifying price competition for such products, particularly in the Components & Devices and the Digital Media & Consumer Products segments;

uncertainty as to Hitachi s ability to continue to develop and market products that incorporate new technologies on a timely and cost-effective basis and to achieve market acceptance for such products;

rapid technological innovation;

the possibility of cost fluctuations during the lifetime of, or cancellation of, long-term contracts for which Hitachi uses the percentage-of-completion method to recognize revenue from sales;

fluctuations in the price of raw materials including, without limitation, petroleum and other materials, such as copper, steel, aluminum, synthetic resins, rare metals and rare-earth minerals, or shortages of materials, parts and components;

fluctuations in product demand and industry capacity;

uncertainty as to Hitachi s ability to implement measures to reduce the potential negative impact of fluctuations in product demand, exchange rates and/or price of raw materials or shortages of materials, parts and components;

uncertainty as to Hitachi s ability to achieve the anticipated benefits of its strategy to strengthen its Social Innovation Business;

uncertainty as to the success of restructuring efforts to improve management efficiency by divesting or otherwise exiting underperforming businesses and to strengthen competitiveness and other cost reduction measures;

general socioeconomic and political conditions and the regulatory and trade environment of countries where Hitachi conducts business, particularly Japan, Asia, the United States and Europe, including, without limitation, direct or indirect restrictions by other nations on imports and differences in commercial and business customs including, without limitation, contract terms and conditions and labor relations;

uncertainty as to the success of alliances upon which Hitachi depends, some of which Hitachi may not control, with other corporations in the design and development of certain key products;

uncertainty as to Hitachi s access to, or ability to protect, certain intellectual property rights, particularly those related to electronics and data processing technologies;

uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity method affiliates have become or may become parties;

the possibility of incurring expenses resulting from any defects in products or services of Hitachi;

the possibility of disruption of Hitachi s operations in Japan by earthquakes, tsunamis or other natural disasters, including the possibility of continuing adverse effects on Hitachi s operations as a result of the earthquake and tsunami that struck northeastern Japan on March 11, 2011;

uncertainty as to Hitachi s ability to maintain the integrity of its information systems, as well as Hitachi s ability to protect its confidential information or that of its customers;

uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its significant employee benefit-related costs; and

uncertainty as to Hitachi s ability to attract and retain skilled personnel.

The factors listed above are not all-inclusive and are in addition to other factors contained in Hitachi s periodic filings with the U.S. Securities and Exchange Commission and in other materials published by Hitachi.

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Consolidated Statements of Operations

	Three months ended June 30			
	Yen (millions)		(B)/(A) X100	U.S. Dollars (millions)
	2010 (A)	2011 (B)	(%)	2011
Revenues	2,152,566	2,150,693	100	26,552
Cost of sales	1,594,464	1,626,010	102	20,074
Selling, general and administrative expenses	469,627	472,280	101	5,831
Operating income	88,475	52,403	59	647
Other income	77,337	12,938	17	160
(Interest and dividends)	5,381	6,908	128	85
(Other)	71,956	6,030	8	74
Other deductions	21,528	24,187	112	299
(Interest charges)	6,306	7,033	112	87
(Other)	15,222	17,154	113	212
Income before income taxes	144,284	41,154	29	508
Income taxes	26,816	24,889	93	307
Net income	117,468	16,265	14	201
Less: Net income attributable to noncontrolling interests	31,410	13,334	42	165
Net income attributable to Hitachi, Ltd.	86,058	2,931	3	36

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Consolidated Balance Sheets

	Yen (millions)			U.S. Dollars (millions)
	As of March 31, 2011 (A)	As of June 30, 2011 (B)	(B)-(A)	As of June 30, 2011
Total Assets	9,185,629	9,433,634	248,005	116,465
Current assets	4,900,029	5,163,656	263,627	63,749
Cash and cash equivalents	554,810	744,946	190,136	9,197
Short-term investments	16,598	26,464	9,866	327
Trade receivables				
Notes	100,694	106,598	5,904	1,316
Accounts	1,990,225	1,823,032	(167,193)	22,507
Investments in leases	228,346	232,974	4,628	2,876
Current portion of financial assets transferred to consolidated securitization entities	183,559	163,597	(19,962)	2,020
Inventories	1,341,768	1,536,752	194,984	18,972
Other current assets	484,029	529,293	45,264	6,534
Investments and advances	614,145	599,140	(15,005)	7,397
Property, plant and equipment	2,111,270	2,124,572	13,302	26,229
Intangible assets	528,018	557,010	28,992	6,877
Financial assets transferred to consolidated securitization entities	304,160	274,520	(29,640)	3,389
Other assets	728,007	714,736	(13,271)	8,824
Total Liabilities and Equity	9,185,629	9,433,634	248,005	116,465
Current liabilities	4,088,824	4,414,176	325,352	54,496
Short-term debt and current portion of long-term debt	810,806	1,224,899	414,093	15,122
Current portion of non-recourse borrowings of consolidated securitization entities	190,868	171,119	(19,749)	2,113
Trade payables				
Notes	20,430	22,130	1,700	273
Accounts	1,236,758	1,213,205	(23,553)	14,978
Advances received	395,605	432,173	36,568	5,335
Other current liabilities	1,434,357	1,350,650	(83,707)	16,675
Noncurrent liabilities	2,655,416	2,574,371	(81,045)	31,782
Long-term debt	1,300,311	1,271,193	(29,118)	15,694
Non-recourse borrowings of consolidated securitization entities	219,566	192,852	(26,714)	2,381
Retirement and severance benefits	891,815	869,559	(22,256)	10,735
Other liabilities	243,724	240,767	(2,957)	2,972
Total equity	2,441,389	2,445,087	3,698	30,186
Total Hitachi, Ltd. stockholders equity	1,439,865	1,440,280	415	17,781
Common stock	409,129	409,130	1	5,051
Capital surplus	603,133	602,247	(886)	7,435
Legal reserve and retained earnings	922,036	911,414	(10,622)	11,252
Accumulated other comprehensive loss	(493,062)	(481,119)	11,943	(5,940)
(Foreign currency translation adjustments)	(252,206)	(250,866)	1,340	(3,097)
(Pension liability adjustments)	(256,566)	(243,692)	12,874	(3,009)
(Net unrealized holding gain on available-for-sale securities)	16,905	14,212	(2,693)	175
(Cash flow hedges)	(1,195)	(773)	422	(10)
Treasury stock	(1,371)	(1,392)	(21)	(17)
Noncontrolling interests	1,001,524	1,004,807	3,283	12,405

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Consolidated Statements of Cash Flows

	Three months ended June 30		
	Yen (millions)		U.S. Dollars (millions)
	2010	2011	2011
Cash flows from operating activities			
Net income	117,468	16,265	201
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	95,097	87,297	1,078
Amortization	27,556	27,866	344
Gain on sale of investments in securities and other	(70,486)	(605)	(7)
Decrease in receivables	283,584	221,642	2,736
Increase in inventories	(143,976)	(202,088)	(2,495)
Decrease in payables	(38,822)	(42,592)	(526)
Other	(138,919)	(108,013)	(1,333)
Net cash provided by (used in) operating activities	131,502	(228)	(3)
Cash flows from investing activities			
Purchase of property, plant and equipment, net	(45,722)	(53,394)	(659)
Purchase of intangible assets, net	(21,418)	(21,153)	(261)
Purchase of tangible assets and software to be leased, net	(62,394)	(59,575)	(735)
Proceeds from sale (purchase) of investments in securities and shares of consolidated subsidiaries resulting in deconsolidation, net	17,877	(46,197)	(570)
Collection of investments in leases	70,861	67,563	834
Other	(38,771)	(1,567)	(19)
Net cash used in investing activities	(79,567)	(114,323)	(1,411)
Cash flows from financing activities			
Increase in interest-bearing debt	38,098	327,273	4,040
Dividends paid to stockholders	(6)	(13,590)	(168)
Dividends paid to noncontrolling interests	(7,825)	(6,496)	(80)
Other	(3,673)	(1,146)	(14)
Net cash provided by financing activities	26,594	306,041	3,778
Effect of consolidation of securitization entities upon initial adoption of new accounting guidances	12,030		
Effect of exchange rate changes on cash and cash equivalents	(12,374)	(1,354)	(17)
Net increase in cash and cash equivalents	78,185	190,136	2,347
Cash and cash equivalents at beginning of the period	577,584	554,810	6,850
Cash and cash equivalents at end of the period	655,769	744,946	9,197

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Segment Information

(1) Business Segments

	Three months ended June 30			
	Yen (millions)		(B)/(A) X100 (%)	U.S. Dollars (millions)
	2010 (A)	2011 (B)		2011
Information & Telecommunication Systems	348,976 14%	350,796 15%	101	4,331
Power Systems	177,818 7%	166,349 7%	94	2,054
Social Infrastructure & Industrial Systems	231,606 10%	229,830 10%	99	2,837
Electronic Systems & Equipment	250,270 10%	246,128 10%	98	3,039
Construction Machinery	162,026 7%	172,515 7%	106	2,130
High Functional Materials & Components	345,521 14%	347,075 14%	100	4,285
Automotive Systems	183,814 8%	177,198 7%	96	2,188
Components & Devices	193,343 8%	177,765 7%	92	2,195
Digital Media & Consumer Products	256,693 11%	233,135 10%	91	2,878
Financial Services	94,235 4%	92,476 4%	98	1,142
Others	179,921 7%	226,954 9%	126	2,802
Subtotal	2,424,223 100%	2,420,221 100%	100	29,879
Eliminations & Corporate items	(271,657)	(269,528)		(3,328)
Revenues Total	2,152,566	2,150,693	100	26,552

Note: Starting from April 1, 2011, the Company has changed the business segment classification between the Automotive Systems Segment and the Components & Devices Segment. Figures of business segments, including the figures of previous fiscal year, have been restated to reflect the reclassification.

	Three months ended June 30			
	Yen (millions)		(B)/(A) X100	U.S. Dollars (millions)
	2010 (A)	2011(B)	(%)	2011
Information & Telecommunication Systems	184 0%	2,102 4%		26
Power Systems	4,639 6%	(3,225) (5%)		(40)
Social Infrastructure & Industrial Systems	2,528 3%	969 2%	38	12
Electronic Systems & Equipment	5,391 6%	7,196 12%	133	89
Construction Machinery	6,940 8%	11,037 18%	159	136
High Functional Materials & Components	26,208 31%	19,358 32%	74	239
Automotive Systems	1,953 2%	2,067 3%	106	26
Components & Devices	19,103 23%	4,973 8%	26	61
Digital Media & Consumer Products	7,114 8%	3,288 5%	46	41
Financial Services	5,153 6%	6,902 11%	134	85
Others	6,002 7%	5,792 10%	97	72
Subtotal	85,215 100%	60,459 100%	71	746
Eliminations & Corporate Items	3,260	(8,056)		(99)
Operating income (loss) Total	88,475	52,403	59	647

Note: Starting from April 1, 2011, the Company has changed the business segment classification between the Automotive Systems Segment and the Components & Devices Segment. Figures of business segments, including the figures of previous fiscal year, have been restated to reflect the reclassification.

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(2) Revenues by Market

	Three months ended June 30			
	Yen (millions)		(B)/(A) X100 (%)	U.S. Dollars (millions)
	2010 (A)	2011 (B)		2011
Japan	1,173,224 55%	1,177,156 55%	100	14,533
Asia	502,974 23%	490,839 23%	98	6,060
North America	193,017 9%	194,081 9%	101	2,396
Europe	187,645 9%	184,537 8%	98	2,278
Other Areas	95,706 4%	104,080 5%	109	1,285
Outside Japan	979,342 45%	973,537 45%	99	12,019
Total	2,152,566 100%	2,150,693 100%	100	26,552

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July 29, 2011

Hitachi, Ltd.

Supplementary Information for the First Quarter ended June 30, 2011

1. Summary (Consolidated basis)

	2010 Three months ended June 30 (A)	2011 Three months ended June 30 (B)	(B)/(A)
Revenues*1	2,152.5	**2,150.6**	**100%**
Operating income*1	88.4	**52.4**	**59%**
Percentage of revenues	4.1	**2.4**	
Income before income taxes*1	144.2	**41.1**	**29%**
Net income*1	117.4	**16.2**	**14%**
Net income attributable to Hitachi, Ltd.*1	86.0	**2.9**	**3%**
Average exchange rate (yen / U.S.$)	92	**82**	
Net interest and dividends*1	(0.9)	**(0.1)**	

*1 Billions of yen

	As of March 31, 2011	As of June 30, 2011
Cash and cash equivalents, Short-term investments (billions of yen)	571.4	**771.4**
Interest-bearing debt (billions of yen)	2,521.5	**2,860.0**
D/E Ratio (Including Noncontrolling interests) (times)	1.03	**1.17**
Number of employees	361,745	**371,833**
Japan	216,393	**223,114**
Overseas	145,352	**148,719**
Number of consolidated subsidiaries (Including Variable interest entities)	913	**933**
Japan	351	**352**
Overseas	562	**581**

2. Consolidated Overseas Revenues by Business Segment*2

(Billions of yen)

	2010 Three months ended June 30 (A)	2011 Three months ended June 30 (B)	(B)/(A)
Information & Telecommunication Systems	93.4	**97.0**	**104%**
Power Systems	74.7	**61.6**	**82%**

Social Infrastructure & Industrial Systems	55.8	**60.3**	**108%**
Electronic Systems & Equipment	137.2	**145.5**	**106%**
Construction Machinery	129.3	**136.8**	**106%**
High Functional Materials & Components	135.0	**137.4**	**102%**
Automotive Systems	82.8	**86.7**	**105%**
Components & Devices	142.1	**139.5**	**98%**
Digital Media & Consumer Products	124.0	**98.8**	**80%**
Financial Services	11.7	**12.3**	**105%**
Others	22.2	**34.4**	**155%**
Subtotal	1,008.6	**1,010.8**	**100%**
Eliminations & Corporate Items	(29.3)	**(37.3)**	
Total	979.3	**973.5**	**99%**

*2 Starting from April 1, 2011, the Company has changed the business segment classification between the Automotive Systems Segment and the Components & Devices Segment. Consolidated figures by business segment, including the figures of previous fiscal year, have been restated to reflect the reclassification.

3. Consolidated Capital Investment by Business Segment (Completion basis, including leasing assets)*2

(Billions of yen)

	2010 Three months ended June 30 (A)	2011 Three months ended June 30 (B)	(B)/(A)
Information & Telecommunication Systems	5.4	**6.9**	**128%**
Power Systems	2.8	**2.7**	**95%**
Social Infrastructure & Industrial Systems	3.0	**4.5**	**148%**
Electronic Systems & Equipment	3.1	**2.7**	**89%**
Construction Machinery	5.7	**7.9**	**140%**
High Functional Materials & Components	11.4	**11.6**	**102%**
Automotive Systems	3.0	**6.2**	**204%**
Components & Devices	7.8	**9.6**	**123%**
Digital Media & Consumer Products	2.5	**3.5**	**139%**
Financial Services	65.6	**62.5**	**95%**
Others	5.0	**6.2**	**125%**
Subtotal	115.7	**124.9**	**108%**
Eliminations & Corporate Items	(1.5)	**(2.8)**	
Total	114.2	**122.1**	**107%**
Internal use Assets	46.9	**59.7**	**127%**
Leasing Assets	67.3	**62.3**	**93%**

4. Consolidated Depreciation by Business Segment*2

(Billions of yen)

	2010 Three months ended June 30 (A)	2011 Three months ended June 30 (B)	(B)/(A)
Information & Telecommunication Systems	8.3	**7.1**	**85%**
Power Systems	4.3	**4.0**	**92%**
Social Infrastructure & Industrial Systems	5.3	**4.7**	**89%**
Electronic Systems & Equipment	3.3	**2.7**	**82%**
Construction Machinery	8.7	**8.9**	**102%**
High Functional Materials & Components	17.1	**15.5**	**91%**
Automotive Systems	7.7	**6.0**	**78%**
Components & Devices	12.4	**10.5**	**85%**
Digital Media & Consumer Products	4.9	**5.2**	**107%**
Financial Services	15.0	**14.8**	**99%**
Others	6.8	**7.0**	**104%**
Subtotal	94.3	**86.9**	**92%**
Eliminations & Corporate Items	0.7	**0.3**	**44%**
Total	95.0	**87.2**	**92%**
Internal use Assets	75.1	**67.2**	**89%**

Leasing Assets	19.9	**20.0**	**100%**

5. Consolidated R&D Expenditure by Business Segment*2

			(Billions of yen)
	2010 Three months ended June 30 (A)	**2011 Three months ended June 30 (B)**	**(B)/(A)**
Information & Telecommunication Systems	19.7	**18.7**	**95%**
Power Systems	3.9	**3.6**	**92%**
Social Infrastructure & Industrial Systems	4.4	**4.7**	**107%**
Electronic Systems & Equipment	9.9	**10.7**	**108%**
Construction Machinery	3.9	**3.9**	**99%**
High Functional Materials & Components	11.3	**11.2**	**99%**
Automotive Systems	11.8	**12.4**	**105%**
Components & Devices	16.2	**16.9**	**104%**
Digital Media & Consumer Products	5.9	**5.6**	**95%**
Financial Services	0.0	**0.1**	**323%**
Others	0.7	**0.5**	**74%**
Corporate Items	4.2	**5.3**	**127%**
Total	92.5	**94.0**	**102%**
Percentage of revenues (%)	4.3	**4.4**	

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6. Consolidated Balance Sheets by Financial and Non-Financial Services[*3]

	(thousands)		(thousands)			
Nonvested at July 27, 2013	1,863.2	$17.77	640.1	$15.08	189.7	$14.35
Granted	363.5	19.83	185.1	20.06	41.3	19.46
Vested	(913.1)	18.47	(163.1)	12.21	(54.4)	10.68
Cancelled/Forfeited	(57.8)	18.59	—	—	—	—
Nonvested at April 26, 2014	1,255.8	$17.82	662.1	$17.18	176.6	$16.68

	Service-based Restricted Equity Awards	Performance-based Restricted Equity Awards	Market-based Restricted Equity Awards
Total unrecognized compensation at April 26, 2014 (millions)	$12.2	$4.4	$1.4
Weighted-average years expected to be recognized over (years)	3.3	1.9	1.6

Cash-Settled Long-Term Incentive Plan Awards

In October 2012, the Compensation Committee of the Board of Directors approved certain modifications to a portion of the Company’s outstanding, performance-based stock-settled awards. In particular, an aggregate of approximately 0.6 million performance and market-based, stock-settled awards held by 44 employees were canceled in exchange for grants of a corresponding amount of new awards that will be settled in cash (collectively, the “Cash-Settled LTIP Awards”). Other than the terms of settlement, the Cash-Settled LTIP Awards have identical restrictions and rights as the prior awards (as discussed further below). As a result of those modifications, the Company recognized a $1.7 million, one-time charge during the first quarter of Fiscal 2013.

The Cash-Settled LTIP Awards entitle the holder to a cash payment equal to the value of the number of shares of the Company’s common stock earned at the end of a three-year-performance period and are subject to (a) the grantee’s continuing employment and (b) the Company’s achievement of certain performance goals over that three-year-performance period. Compensation expense for the Cash-Settled LTIP Awards is recognized over the related vesting periods based on the expected performance of the plan and changes in the Company’s stock price over time.

A summary of Cash-Settled Long-Term Incentive Plan Awards activity during the nine months ended April 26, 2014 is as follows:

	Cash-Settled Long-Term Incentive Plan Awards Number of Shares (thousands)

Nonvested at July 27, 2013	855.4	
Granted	391.1	
Vested	(287.5	)
Cancelled/Forfeited	(80.2	)
Nonvested at April 26, 2014	878.8	

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ASCENA RETAIL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of April 26, 2014, there was $7.4 million of total unrecognized compensation cost related to Cash-Settled LTIP Awards, which is expected to be recognized over a remaining weighted-average vesting period of 2.0 years. As of April 26, 2014, the liability for cash-settled LTIP awards was $4.5 million, of which $1.8 million was classified within Accrued expenses and other current liabilities and $2.7 million was classified within Other non-current liabilities in the accompanying consolidated balance sheets.

11. Commitments and Contingencies

The Company is a defendant in lawsuits and other adversarial proceedings arising in the ordinary course of business. Legal costs incurred in connection with the resolution of claims and lawsuits are generally expensed as incurred, and the Company establishes reserves for the outcome of litigation where it deems it appropriate to do so under applicable accounting rules. Moreover, the Company's assessment of the current exposure could change in the event of the discovery of additional facts with respect to legal matters pending against the Company or determinations by judges, juries, administrative agencies or other finders of fact that are not in accordance with the Company's evaluation of a particular claim. 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.

12. Segment Information

The Company’s segment reporting structure reflects a brand-focused approach, designed to optimize the operational coordination and resource allocation of its businesses across multiple functional areas including specialty retail, e-commerce and licensing. The five reportable segments described below represent the Company’s brand-based activities for which separate financial information is available and utilized on a regular basis by the Company’s executive team to evaluate performance and allocate resources. In identifying reportable segments and disclosure of product offerings, 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 five reportable segments as follows:

- Justice segment – consists of the specialty retail, outlet, e-commerce and licensing operations of the Justice brand, as well as the specialty retail and e-commerce operations of the Brothers brand.
- Lane Bryant segment – consists of the specialty retail, outlet and e-commerce operations of the Lane Bryant and Cacique brands.
- maurices segment – consists of the specialty retail, outlet and e-commerce operations of the maurices brand.
- dressbarn segment – consists of the specialty retail, outlet and e-commerce operations of the dressbarn brand.
- Catherines segment - consists of the specialty retail, outlet and e-commerce operations of the Catherines brand.

The accounting policies of the Company’s reporting segments are consistent with those described in Notes 3 and 4 to the Company’s consolidated financial statements included in the Fiscal 2013 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.

ASCENA RETAIL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Net sales, operating income (loss) and depreciation and amortization expense for each segment are as follows:

	Three Months Ended		Nine Months Ended	
	April 26, 2014	April 27, 2013	April 26, 2014	April 27, 2013
		(millions)		
Net sales:				
Justice	$291.7	$298.0	$1,098.2	$1,098.2
Lane Bryant	269.3	267.2	795.7	756.4
maurices	251.7	235.7	744.3	701.0
dressbarn	246.7	257.3	728.7	730.7
Catherines	85.7	84.0	241.3	230.9
Total net sales	$1,145.1	$1,142.2	$3,608.2	$3,517.2
Operating income (loss):				
Justice	$14.2	$20.8	$114.3	$168.1
Lane Bryant	5.4	4.8	(1.9)	(27.7)
maurices	33.4	35.0	85.2	92.3
dressbarn	3.7	6.5	(1.5)	(9.7)
Catherines	9.7	5.6	17.1	4.1
Unallocated acquisition-related, integration and restructuring costs	(12.7)	(6.9)	(24.9)	(20.1)
Total operating income	$53.7	$65.8	$188.3	$207.0
Depreciation and amortization expense:				
Justice	$15.5	$12.8	$45.2	$37.8
Lane Bryant	10.3	9.4	32.9	30.0
maurices	10.4	8.5	28.7	22.4
dressbarn	10.7	12.6	29.1	28.4
Catherines	1.7	1.3	5.1	3.9
Total depreciation and amortization expense	$48.6	$44.6	$141.0	$122.5

13. Additional Financial Information

	Nine Months Ended	
Cash Interest and Taxes:	April 26, 2014	April 27, 2013
	(millions)	
Cash paid for interest	$3.5	$12.3
Cash paid for income taxes	$40.2	$16.7

Non-cash Transactions

Significant non-cash investing activities included the capitalization of fixed assets and recognition of related obligations in the net amount of $52.2 million for the nine months ended April 26, 2014 and $22.0 million for the nine months ended April 27, 2013.

There were no other significant non-cash investing or financing activities for the nine months ended April 26, 2014 or April 27, 2013.

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 27, 2013 (the "Fiscal 2013 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 26, 2014. In addition, this section includes a discussion of recent developments and transactions affecting comparability that we believe are important in understanding our results of operations and financial condition, and in anticipating future trends.
- Results of operations. This section provides an analysis of our results of operations for the three-month and nine-month periods ended April 26, 2014 and April 27, 2013.
- Financial condition and liquidity. This section provides an analysis of our cash flows for the nine-month periods ended April 26, 2014 and April 27, 2013, as well as a discussion of our financial condition and liquidity as of April 26, 2014. 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, (iii) anticipated capital expenditures, and (iv) any material changes in financial condition and commitments since the end of Fiscal 2013 (as defined below).
- 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 2013.
- Critical accounting policies. This section discusses any significant changes in our accounting policies since the end of Fiscal 2013. 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 2013 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.

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ASCENA RETAIL GROUP, INC.
MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (Continued)

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 2014 will end on July 26, 2014 and will be a 52-week period (“Fiscal 2014”). Fiscal 2013 ended on July 27, 2013 and reflected a 52-week period (“Fiscal 2013”). The third quarter of Fiscal 2014 ended on April 26, 2014 and was a 13-week period. The third quarter of Fiscal 2013 ended on April 27, 2013 and was also a 13-week period.

OVERVIEW

Our Business

The Company operates, through its 100% owned subsidiaries, the following principal retail brands: Justice, Lane Bryant, maurices, dressbarn and Catherines. The Company operates approximately 3,900 stores throughout the United States, Puerto Rico and Canada, with annual revenues of over $4.7 billion for the fiscal year ended July 27, 2013.

We classify our businesses into five segments following a brand-oriented approach: Justice, Lane Bryant, maurices, dressbarn, and Catherines. The Justice segment includes approximately 998 specialty retail and outlet stores, e-commerce operations, and certain licensed franchises in international territories. The Justice brand offers fashionable apparel to girls who are ages 7 to 14 in an environment designed to match the energetic lifestyle of tween girls, and fashionable apparel to boys who are ages 7 to 14 under the Brothers brand. The Lane Bryant segment includes approximately 770 specialty retail and outlet stores, and e-commerce operations. The Lane Bryant brand offers fashionable and sophisticated plus-size apparel under multiple private labels to female customers in the 25 to 45 age range. The maurices segment includes approximately 907 specialty retail and outlet stores, and e-commerce operations. The maurices brand offers up-to-date fashion designed to appeal to the 17 to 34 year-old female, with stores concentrated in small markets (approximately 25,000 to 100,000 people). The dressbarn segment includes approximately 831 specialty retail and outlet stores, and e-commerce operations. The dressbarn brand primarily attracts female consumers in the mid-30’s to mid-50’s age range and offers moderate-to-better quality career, special occasion and casual fashion to the working woman. The Catherines segment includes approximately 389 specialty retail and outlet stores, and e-commerce operations. The Catherines brand offers classic apparel and accessories for wear-to-work and casual lifestyles in a full range of plus sizes, generally catering to the female customer 45 years and older.

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, sales at Justice tend to be significantly higher during the fall season which occurs during the first and second quarters of our fiscal year, as this includes the back-to-school period and the December holiday season that is focused on gift-giving merchandise. The maurices brand experiences peak sales during the December holiday season as well as during the early spring which includes the Easter holiday season. The dressbarn brand has historically experienced higher sales in the spring, which includes the Easter and Mother’s Day holidays. The Lane Bryant and Catherines brands typically experience peak sales during the Easter, Mother’s Day and December holiday seasons. Lane Bryant’s peak sales around Mother’s Day typically extend through Memorial Day and into the early summer. In addition, our results of operations and cash flows may fluctuate materially in any quarterly period depending on, among other things, adverse weather conditions, shifts in the timing of certain holidays and

changes in merchandise mix.

Basis of Presentation

Discontinued Operations

Contemporaneously with the closing of the acquisition of Charming Shoppes, Inc. (the "Charming Shoppes Acquisition"), the Company announced its intent to cease operating the acquired Fashion Bug business and its intent to sell the acquired Figi's business. The Fashion Bug business ceased operations in February 2013. Additionally, in August 2013, the Company entered into an agreement to sell the principal net assets of the Figi's business (the "Figi's Sale"). The Figi's Sale closed during the first quarter of Fiscal 2014. Accordingly, these businesses have been classified as a component of discontinued operations within the accompanying unaudited consolidated financial statements of the Company.

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ASCENA RETAIL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (Continued)

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, high unemployment, increased taxation, high consumer debt, reductions in net worth based on severe market declines (such as in residential real estate markets), higher fuel, energy and other prices, increasing interest rates, severe weather conditions and low consumer confidence. In addition, any significant volatility in our financial markets, as has been experienced in the past, could also negatively impact the levels of future discretionary consumer spending.

Such macroeconomic and other factors could continue to have a negative effect on consumer spending in the U.S., which in turn, could have a material effect on our business, results of operations, financial condition and cash flows. In this regard, the unseasonably cold and stormy winter weather conditions experienced in much of the country negatively impacted brick-and-mortar traffic during the third quarter. We saw improving trends in April, due in part to the shift in the timing of the Easter holiday from March to April. Since then, customer traffic and consumer spending patterns remain challenging. We will continue to monitor the spending patterns of consumers at each of our brands and adjust, as necessary, our operating strategies to mitigate the impact on our operating results.

Operating Results

Three Months Ended April 26, 2014 compared to Three Months Ended April 27, 2013

For the three months ended April 26, 2014, we reported net sales of $1.145 billion, income from continuing operations of $35.6 million and net income from continuing operations per diluted share of $0.22. This compares to net sales of $1.142 billion, income from continuing operations of $32.9 million and net income from continuing operations per diluted share of $0.20 for the three months ended April 27, 2013. Including a loss from discontinued operations of $2.4 million, or $0.02 per diluted share, net income was $33.2 million for the three months ended April 26, 2014 and net income per diluted share was $0.20. This compares to a loss from discontinued operations of $1.7 million, or $0.01 per diluted share, and net income of $31.2 million, or $0.19 per diluted share for the three months ended April 27, 2013.

Our operating performance for the third quarter of Fiscal 2014 reflected a 0.3% increase in net sales. The slight increase resulted from new store growth at our Justice and maurices brands and higher combined store and e-commerce comparable sales at our Lane Bryant, maurices and Catherines brands which were offset by lower combined store and e-commerce comparable sales at our Justice and dressbarn brands. Our gross margin rate increased by 130 basis points to 58.9%, primarily due to stronger margins at Lane Bryant, maurices, dressbarn and Catherines, which more than offset lower margins at Justice.

Operating income decreased $12.1 million, or 18.4%, to $53.7 million for the three months ended April 26, 2014. Operating income as a percentage of net sales decreased 110 basis points, to 4.7% in the third quarter of Fiscal 2014 from 5.8% in the third quarter of Fiscal 2013. The decrease primarily reflected an overall increase in gross margin, which was more than offset by increases in Buying, distribution and occupancy costs, Selling, general and administrative expenses ("SG&A expenses"), Acquisition-related, integration and restructuring costs and depreciation

expense.

The provision for income taxes from continuing operations decreased by $6.5 million, or 29.3%, to $15.7 million for the three months ended April 26, 2014. The effective tax rate decreased 970 basis points to 30.6% for the three months ended April 26, 2014 from 40.3% for the three months ended April 27, 2013. The decrease in the effective tax rate was primarily the result of a revised full year earnings estimate and an increase in the Company’s indefinitely reinvested current year earnings.

Net income increased by $2.0 million, or 6.4%, to $33.2 million for the three months ended April 26, 2014 primarily due to higher income from continuing operations. Income from continuing operations increased $2.7 million, or 8.2%, primarily due to the absence of the loss on extinguishment of debt, a decrease in the provision for income taxes and lower interest expense, which more than offset the lower level of operating income during the third quarter of Fiscal 2014. Discontinued operations generated losses of $2.4 million and $1.7 million for the three months ended April 26, 2014 and April 27, 2013, respectively.

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ASCENA RETAIL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (Continued)

Net income per diluted common share increased by $0.01, or 5.3%, to $0.20 per share for the three months ended April 26, 2014 from $0.19 per share for the three months ended April 27, 2013. The increase was mainly due to a higher level of net income from continuing operations, offset in part by the increases in the weighted-average diluted common shares outstanding and the loss from discontinued operations.

Nine Months Ended April 26, 2014 compared to Nine Months Ended April 27, 2013

For the nine months ended April 26, 2014, we reported net sales of $3.608 billion, income from continuing operations of $122.3 million and net income from continuing operations per diluted share of $0.74. This compares to net sales of $3.517 billion, income from continuing operations of $116.9 million and net income from continuing operations per diluted share of $0.72 for the nine months ended April 27, 2013. Including a loss from discontinued operations of $4.6 million, or $0.03 per diluted share, net income was $117.7 million for the nine months ended April 26, 2014 and net income per diluted share was $0.71. This compares to income from discontinued operations of $4.6 million, or $0.03 per diluted share, and net income of $121.5 million, or $0.75 per diluted share for the nine months ended April 27, 2013.

Our operating performance for the nine months ended April 26, 2014 reflected a 2.6% increase in net sales. The increase was primarily due to higher combined store and e-commerce comparable sales at our Lane Bryant, maurices and Catherines brands and new store growth at our Justice and maurices brands, offset in part by lower combined store and e-commerce comparable sales of our Justice and dressbarn brands. Our gross margin rate increased by 130 basis points to 57.5% for the nine months ended April 26, 2014, which reflected the absence in Fiscal 2014 of approximately $20 million of one-time, non-cash inventory expenses associated with the Charming Shoppes Acquisition purchase accounting write-up of inventory to fair market value as of the acquisition date, which was recognized as expense during the nine months ended April 27, 2013. Excluding the impact of the purchase accounting adjustments, our gross margin rate increased by 70 basis points, primarily due to stronger margins at Lane Bryant, maurices, dressbarn and Catherines, which more than offset lower margins at Justice.

Operating income decreased $18.7 million, or 9.0%, to $188.3 million for the nine months ended April 26, 2014. Operating income as a percentage of net sales decreased 70 basis points, to 5.2% for the nine months ended April 26, 2014. Excluding the impact of the purchase accounting adjustments discussed above, operating income as a percentage of net sales decreased by 120 basis points. The decrease primarily reflected an overall increase in gross margin, which was more than offset by increases in Buying, distribution and occupancy costs, SG&A expenses and depreciation expense.

The provision for income taxes from continuing operations decreased by $8.9 million, or 12.9%, to $60.0 million for the nine months ended April 26, 2014. The effective tax rate decreased 420 basis points to 32.9% for the nine months ended April 26, 2014 from 37.1% for the nine months ended April 27, 2013. The decrease in the effective tax rate was primarily due to an increase in the Company's indefinitely reinvested current year earnings and lower non-tax deductible expenses, offset in part by lower tax benefits relating to the accounting for discrete items in Fiscal 2014.

Net income decreased by $3.8 million, or 3.1%, to $117.7 million for the nine months ended April 26, 2014. The decrease was mainly due to the results from discontinued operations, which generated a loss of $4.6 million for the nine months ended April 26, 2014 compared to income of $4.6 million for the nine months ended April 27, 2013. Income from continuing operations increased $5.4 million, or 4.6%, primarily due to the absence of the loss on

extinguishment of debt, a decrease in the provision for income taxes and lower interest expense, which more than offset the lower level of operating income.

Net income per diluted common share decreased by $0.04, or 5.3%, to $0.71 per share for the nine months ended April 26, 2014 from $0.75 per share for the nine months ended April 27, 2013. The decrease was due to the results from discontinued operations and an increase in the weighted-average diluted common shares outstanding, offset in part by a higher level of net income from continuing operations.

Financial Condition and Liquidity

We ended the third quarter of Fiscal 2014 in a net debt position (total cash and cash equivalents, plus short-term investments, less total debt) of $8.2 million, compared to a net cash and investments position of $53.8 million as of the end of Fiscal 2013.

ASCENA RETAIL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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The decrease in our net (debt) cash and investments position as of April 26, 2014 as compared to July 27, 2013 was primarily due to our use of available cash and additional Revolving Credit Agreement borrowings to support our capital expenditures (as discussed below under "Capital Spending"), partially offset by our operating cash flows. Our equity increased to $1.714 billion as of April 26, 2014, compared to $1.556 billion as of July 27, 2013, primarily due to our net income and the effect on equity of stock-based compensation for the nine months ended April 26, 2014.

We generated $243.5 million of cash from operations during the nine months ended April 26, 2014, compared to $333.2 million during the nine months ended April 27, 2013. During the nine months ended April 26, 2014, we used $368.9 million for capital expenditures, primarily associated with our retail store expansion and investments in our facilities and technological infrastructure, generated $42.2 million from the sale of assets and generated $89.4 million from net borrowings under the revolving credit agreement.

Transactions Affecting Comparability of Results of Operations and Financial Condition

The comparability of the Company's operating results for the three-month and nine-month periods ended April 26, 2014 and April 27, 2013 presented herein has been affected by certain transactions, including:

- Certain acquisition-related, integration and restructuring costs, as more fully described in the "Capital Spending" section below;
- Accelerated depreciation of fixed assets related to our integration initiatives;
- Certain non-recurring purchase accounting costs related to the Charming Shoppes Acquisition recorded in Fiscal 2013; and
- Certain losses on the extinguishment of debt in Fiscal 2013.

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

	Three Months Ended		Nine Months Ended	
	April 26, 2014	April 27, 2013	April 26, 2014	April 27, 2013
	(millions)			
Acquisition-related, integration and restructuring costs	$(12.7)	$(6.9)	$(24.9)	$(20.1)
Accelerated depreciation associated with the Company's supply chain and technological integration efforts	(1.7)	—	(7.7)	—
One-time, non-cash inventory expense associated with the purchase accounting write-up of inventory to fair market value	—	—	—	(19.9)
Loss on extinguishment of debt (see Note 8)	—	(7.9)	—	(9.3)
Total	$(14.4)	$(14.8)	$(32.6)	$(49.3)

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 should individually consider the types of events and transactions that have affected our operating trends.

ASCENA RETAIL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (Continued)

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 five reportable segments described below represent our brand-based activities for which separate financial information is available and utilized on a regular basis by our executive team to evaluate performance and allocate resources. In identifying our reportable segments and disclosure of product offerings, we consider economic characteristics, as well as products, customers, sales growth potential and long-term profitability. As such, we report our operations in five reportable segments as follows:

- Justice segment – consists of the specialty retail, outlet, e-commerce and licensing operations of the Justice brand, as well as the specialty retail and e-commerce operations of the Brothers brand.
- Lane Bryant segment – consists of the specialty retail, outlet and e-commerce operations of the Lane Bryant and Cacique brands.
- maurices segment – consists of the specialty retail, outlet and e-commerce operations of the maurices brand.
- dressbarn segment – consists of the specialty retail, outlet and e-commerce operations of the dressbarn brand.
- Catherines segment - consists of the specialty retail, outlet and e-commerce operations of the Catherines brand.

ASCENA RETAIL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Three Months Ended April 26, 2014 compared to Three Months Ended April 27, 2013

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 26, 2014		April 27, 2013		$ Change		% Change	
	(millions, except per share data)							
Net sales	$1,145.1		$1,142.2		$2.9		0.3	%
Cost of goods sold	(470.1	)	(484.4	)	14.3		(3.0	)%
Cost of goods sold as % of net sales	41.1	%	42.4	%				
Gross margin	675.0		657.8		17.2		2.6	%
Gross margin as % of net sales	58.9	%	57.6	%				
Other costs and expenses:								
Buying, distribution and occupancy costs	(219.6	)	(208.1	)	(11.5	)	5.5	%
Buying, distribution and occupancy costs as % of net sales	19.2	%	18.2	%				
Selling, general and administrative expenses	(340.4	)	(332.4	)	(8.0	)	2.4	%
SG&A expenses as % of net sales	29.7	%	29.1	%				
Acquisition-related, integration and restructuring costs	(12.7	)	(6.9	)	(5.8	)	84.1	%
Depreciation and amortization expense	(48.6	)	(44.6	)	(4.0	)	9.0	%
Total other costs and expenses	(621.3	)	(592.0	)	(29.3	)	4.9	%
Operating income	53.7		65.8		(12.1	)	(18.4	)%
Operating income as % of net sales	4.7	%	5.8	%				
Interest expense	(1.7	)	(2.9	)	1.2		(41.4	)%
Interest and other (expense) income, net	(0.7	)	0.1		(0.8	)	(800.0	)%
Loss on extinguishment of debt	—		(7.9	)	7.9		(100.0	)%
Income from continuing operations before provision for income taxes	51.3		55.1		(3.8	)	(6.9	)%
Provision for income taxes from continuing operations	(15.7	)	(22.2	)	6.5		(29.3	)%
Effective tax rate[a]	30.6	%	40.3	%				
Income from continuing operations	35.6		32.9		2.7		8.2	%
Loss from discontinued operations, net of taxes [b]	(2.4	)	(1.7	)	(0.7	)	41.2	%
Net income	$33.2		$31.2		$2.0		6.4	%
Net income per common share - basic:								
Continuing operations	$0.22		$0.21		$0.01		4.8	%
Discontinued operations	(0.02	)	(0.01	)	(0.01	)	100.0	%
Total net income per basic common share	$0.20		$0.20		$—		—	%
Net income per common share - diluted:								
Continuing operations	$0.22		$0.20		$0.02		10.0	%

Discontinued operations	(0.02)	(0.01)	(0.01)	100.0 %
Total net income per diluted common share	$0.20	$0.19	$0.01	5.3 %

(a) Effective tax rate is calculated by dividing the provision for income taxes by income from continuing operations before provision for income taxes.

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

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ASCENA RETAIL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (Continued)

Net Sales. Net sales increased by $2.9 million, or 0.3%, to $1.145 billion for the three months ended April 26, 2014 from $1.142 billion for the three months ended April 27, 2013. The slight increase resulted from new store growth at our Justice and maurices brands and higher combined store and e-commerce comparable sales at our Lane Bryant, maurices and Catherines brands which were mostly offset by lower combined store and e-commerce comparable sales at our Justice and dressbarn brands. The Company believes our e-commerce operations are interdependent with our brick-and-mortar store sales and, as such, we believe that reporting combined store and e-commerce comparable sales on a brand-by-brand basis, as discussed below, is a more appropriate presentation. On a consolidated basis, comparable store sales decreased by $27.5 million, or 3%, to $910.9 million during the third quarter of Fiscal 2014 from $938.4 million during the third quarter of Fiscal 2013. Also on a consolidated basis, E-commerce sales increased by $18.5 million, or 19%, to $117.1 million during the third quarter of Fiscal 2014 from $98.6 million during the third quarter of Fiscal 2013.

Net sales data for our five business segments is presented below.

	Three Months Ended			
	April 26, 2014	April 27, 2013	$ Change	% Change
	(millions)		(millions)	
Net sales:				
Justice	$291.7	$298.0	$(6.3)	(2.1)%
Lane Bryant	269.3	267.2	2.1	0.8%
maurices	251.7	235.7	16.0	6.8%
dressbarn	246.7	257.3	(10.6)	(4.1)%
Catherines	85.7	84.0	1.7	2.0%
Total net sales	$1,145.1	$1,142.2	$2.9	0.3%
Comparable store sales [a]				(3)%
E-commerce comparable sales				19%
Combined store and e-commerce comparable sales				(1)%

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[a] Comparable store sales generally refers to the growth of sales in only stores open in both the current period and comparative period in the prior year (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 normally 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.

Justice net sales. The net decrease primarily reflects:

- a decrease of $11.0 million, or 4%, in combined store and e-commerce comparable sales during the three months ended April 26, 2014;
- a $6.5 million increase in non-comparable stores sales, primarily driven by an increase related to 37 net new store openings during the last twelve months; and
- a $1.8 million decrease in wholesale, licensing operations and other revenues.

Lane Bryant net sales. The net increase primarily reflects:

- an increase of $2.9 million, or 1%, in combined store and e-commerce comparable sales during the three months ended April 26, 2014;
- a decrease of $1.4 million in non-comparable stores sales, as the positive effect of 39 new stores openings was offset by 57 stores closings during the last twelve months; and
- a $0.6 million increase in other revenues.

maurices net sales. The net increase primarily reflects:

- an increase of $5.0 million, or 2%, in combined store and e-commerce comparable sales during the three months ended April 26, 2014;
- a $11.2 million increase in non-comparable stores sales, primarily driven by an increase related to 45 net new store openings during the last twelve months; and
- a $0.2 million decrease in other revenues.

dressbarn net sales. The net decrease primarily reflects:

- a decrease of $9.1 million, or 4%, in combined store and e-commerce comparable sales during the three months ended April 26, 2014;
- a $0.4 million increase in non-comparable stores sales, as the positive effect of 38 new store openings was only offset in part by 40 store closings during the last twelve months; and
- a $1.9 million decrease in other revenues.

Catherines net sales. The net increase primarily reflects:

- an increase of $3.2 million, or 4%, in combined store and e-commerce comparable sales during the three months ended April 26, 2014;
- a $1.8 million decrease in non-comparable stores sales, primarily driven by a decrease related to 13 store closings during the last twelve months; and
- a $0.3 million increase in other revenues.

Gross Margin. Gross margin, which represents the difference between net sales and cost of goods sold, expressed as a percentage of net sales, increased by 130 basis points to 58.9% for the three months ended April 26, 2014 from 57.6% for the three months ended April 27, 2013. Our gross margin rate increased, primarily due to stronger margins at Lane Bryant, maurices, dressbarn and Catherines, which more than offset lower margins at Justice.

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

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.

Buying, distribution and occupancy costs increased by $11.5 million, or 5.5%, to $219.6 million for the three months ended April 26, 2014 from $208.1 million for the three months ended April 27, 2013. Buying, distribution and occupancy costs as a percentage of net sales increased by 100 basis points to 19.2% for the three months ended April 26, 2014 from 18.2% for the three months ended April 27, 2013. The increase in Buying, distribution and occupancy costs was mainly a result of increases in buying-related costs primarily related to an investment in the design function, store occupancy costs primarily related to the new store growth and higher distribution expenses

related to the increased sales volume.

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.

SG&A expenses increased by $8.0 million, or 2.4%, to $340.4 million for the three months ended April 26, 2014 from $332.4 million for the three months ended April 27, 2013. SG&A expenses as a percentage of net sales increased by 60 basis points to 29.7% in the third quarter of Fiscal 2014 from 29.1% in the third quarter of Fiscal 2013. SG&A expenses increased primarily due to store-related payroll costs and other store expenses resulting from the new store growth, increased selling costs related to e-commerce growth and higher marketing costs which offset the cost-savings achieved by the on-going reduction of the duplicative

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (Continued)

overhead structure acquired in the Charming Shoppes Acquisition. This reduction is expected to continue over the next couple of years.

Depreciation and Amortization Expense. Depreciation and amortization expense increased by $4.0 million, or 9.0%, to $48.6 million for the three months ended April 26, 2014 from $44.6 million for the three months ended April 27, 2013. The increase was primarily due to higher capital expenditures, which mainly resulted from the new store openings during the last twelve months, our expanded distribution center in Ohio becoming fully operational and the relocation of our corporate office space to Mahwah, New Jersey. Also contributing to the increase was accelerated depreciation of existing assets whose useful lives were shortened as a result of the Company's supply chain and technological integration efforts.

Operating Income. Operating income decreased $12.1 million, or 18.4%, to $53.7 million for the three months ended April 26, 2014 from $65.8 million for the three months ended April 27, 2013. Operating income as a percentage of net sales decreased 110 basis points, to 4.7% in the third quarter of Fiscal 2014 from 5.8% in the third quarter of Fiscal 2013. The decrease primarily reflected an overall increase in gross margin, as discussed on a brand-by-brand basis below, which was more than offset by increases in Buying, distribution and occupancy costs, SG&A expenses, Acquisition-related, integration and restructuring costs and depreciation expense.

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

	Three Months Ended			
	April 26, 2014 (millions)	April 27, 2013	$ Change (millions)	% Change
Operating income:				
Justice	$14.2	$20.8	$(6.6)	(31.7)%
Lane Bryant	5.4	4.8	0.6	12.5%
maurices	33.4	35.0	(1.6)	(4.6)%
dressbarn	3.7	6.5	(2.8)	(43.1)%
Catherines	9.7	5.6	4.1	73.2%
Unallocated acquisition-related, integration and restructuring costs	(12.7)	(6.9)	(5.8)	84.1%
Total operating income	$53.7	$65.8	$(12.1)	(18.4)%

Justice operating income decreased by $6.6 million primarily as a result of a decrease in sales and gross margin rates and an increase in depreciation expense, offset in part by lower SG&A expenses. The lower gross margin rate was mainly attributable to higher promotional markdowns, which resulted from increased promotional activity required to sell through fall merchandise. The decrease in SG&A expenses was mainly attributable to a decrease in administrative payroll costs related to the less-than-planned operating results. The increase in depreciation expense resulted from the new store growth and accelerated depreciation as a result of the Company's supply chain integration efforts.

Lane Bryant operating income increased by $0.6 million primarily as a result of an increase in sales and higher gross margin rates, mostly offset by increases in Buying, distribution and occupancy costs and SG&A expenses. The higher gross margin rate benefited from lower markdowns which resulted from tighter inventory control. Buying, distribution and occupancy costs increased primarily due to an increase in buying-related costs due mainly to an investment in the

merchandise and design functions. SG&A expenses increased mainly due to increases in store-related and administrative payroll costs and increased selling costs related to e-commerce growth.

maurices operating income decreased by $1.6 million as an increase in sales and gross margin rates was more than offset by increases in Buying, distribution and occupancy costs, SG&A expenses and depreciation expense. The gross margin rate benefited from lower product costs and lower markdowns which resulted from more targeted promotional campaigns. The increase in Buying, distribution and occupancy costs was a result of increases in buying-related costs due to an investment in the design function and increases in store occupancy and distribution expenses, which resulted largely from new store growth and the increased sales volume. The increase in SG&A expenses was primarily due to store-related payroll costs and other store expenses resulting from the new store growth, increased selling costs related to e-commerce growth and higher marketing costs. The SG&A expense comparison was also impacted by a favorable product-related vendor settlement recorded during the three months ended April 27,

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ASCENA RETAIL GROUP, INC.
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FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (Continued)

2013. The increase in depreciation expense resulted mainly from new store growth and accelerated depreciation as a result of the Company’s supply chain integration efforts.

dressbarn operating income decreased by $2.8 million primarily as a result of an increase in gross margin rates, offset in part by and a decrease in sales and an increase in SG&A expenses. The higher gross margin rate was mainly attributable to lower inventory levels which resulted in a better sell-through of merchandise and lower markdowns which resulted from tighter inventory control. The increase in SG&A expenses was primarily due to higher administrative payroll costs, offset in part by lower store-related payroll costs.

Catherines operating income increased by $4.1 million primarily as a result of the flow-through of margin on the higher sales volume and higher gross margin rate, offset in part by increases in Buying, distribution and occupancy costs. The gross margin rate increased as a result of lower product costs and lower markdowns. The increase in Buying, distribution and occupancy costs was a result of higher buying-related costs due to an investment in the design function.

Unallocated operating income. The unallocated expenses of $12.7 million for the third quarter of Fiscal 2014 and $6.9 million for the third quarter of Fiscal 2013 represent Acquisition-related, integration and restructuring costs. During the third quarter of Fiscal 2014, the Company incurred higher costs related to its supply chain and technological integration efforts compared to the third quarter of Fiscal 2013.

Interest Expense. Interest expense decreased by $1.2 million, or 41.4%, to $1.7 million for the three months ended April 26, 2014 from $2.9 million for the three months ended April 27, 2013. The decrease was primarily the result of a decrease in the average interest rate on borrowings outstanding during the third quarter of Fiscal 2014 as compared to the third quarter of Fiscal 2013. The decrease in the average interest rate resulted from the Company’s refinancing of its then outstanding higher-rate term loan borrowings to lower-rate Revolving Credit Agreement borrowings in the third quarter of Fiscal 2013.

Provision for Income Taxes. The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes from continuing operations decreased by $6.5 million, or 29.3%, to $15.7 million for the three months ended April 26, 2014 from $22.2 million for the three months ended April 27, 2013. The effective tax rate decreased 970 basis points to 30.6% for the three months ended April 26, 2014 from 40.3% for the three months ended April 27, 2013. The decrease in the effective tax rate was primarily the result of a revised full year earnings estimate and an increase in the Company’s indefinitely reinvested current year earnings.

Net Income. Net income includes income from continuing operations and results from discontinued operations. Net income increased by $2.0 million, or 6.4%, to $33.2 million for the three months ended April 26, 2014 from $31.2 million for the three months ended April 27, 2013. The increase was mainly due to higher income from continuing operations for the three months ended April 26, 2014. Income from continuing operations increased $2.7 million, or 8.2%, primarily due to the absence of the loss on extinguishment of debt, a decrease in the provision for income taxes and lower interest expense which more than offset the lower level of operating income. Discontinued operations generated losses of $2.4 million and $1.7 million for the three months ended April 26, 2014 and April 27, 2013, respectively.

Net Income from Continuing Operations per Diluted Common Share. Net income from continuing operations per diluted share increased by $0.02, or 10.0%, to $0.22 per share for the three months ended April 26, 2014 from $0.20 per share for the three months ended April 27, 2013. The increase in diluted per share results was primarily due to a higher level of income from continuing operations, as previously discussed, offset in part by an increase in the weighted-average diluted common shares outstanding to 164.7 million shares in the third quarter of Fiscal 2014 from 163.3 million shares in the third quarter of Fiscal 2013.

Net Income per Diluted Common Share. Net income per diluted common share increased by $0.01, or 5.3%, to $0.20 per share for the three months ended April 26, 2014 from $0.19 per share for the three months ended April 27, 2013. The increase was mainly due to a higher level of net income from continuing operations, offset in part by the increases in the weighted-average diluted common shares outstanding and the loss from discontinued operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (Continued)

Nine Months Ended April 26, 2014 compared to Nine Months Ended April 27, 2013

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 26, 2014	April 27, 2013	$ Change	% Change
	(millions, except per share data)			
Net sales	$3,608.2	$3,517.2	$91.0	2.6 %
Cost of goods sold	(1,534.9)	(1,540.7)	5.8	(0.4)%
Cost of goods sold as % of net sales	42.5 %	43.8 %		
Gross margin	2,073.3	1,976.5	96.8	4.9 %
Gross margin as % of net sales	57.5 %	56.2 %		
Other costs and expenses:				
Buying, distribution and occupancy costs	(670.9)	(613.0)	(57.9)	9.4 %
Buying, distribution and occupancy costs as % of net sales	18.6 %	17.4 %		
Selling, general and administrative expenses	(1,048.2)	(1,013.9)	(34.3)	3.4 %
SG&A expenses as % of net sales	29.1 %	28.8 %		
Acquisition-related, integration and restructuring costs	(24.9)	(20.1)	(4.8)	23.9 %
Depreciation and amortization expense	(141.0)	(122.5)	(18.5)	15.1 %
Total other costs and expenses	(1,885.0)	(1,769.5)	(115.5)	6.5 %
Operating income	188.3	207.0	(18.7)	(9.0)%
Operating income as % of net sales	5.2 %	5.9 %		
Interest expense	(4.8)	(12.5)	7.7	(61.6)%
Interest and other (expense) income, net	(1.2)	0.6	(1.8)	(300.0)%
Loss on extinguishment of debt	—	(9.3)	9.3	(100.0)%
Income from continuing operations before provision for income taxes	182.3	185.8	(3.5)	(1.9)%
Provision for income taxes from continuing operations	(60.0)	(68.9)	8.9	(12.9)%
Effective tax rate[(a)]	32.9 %	37.1 %		
Income from continuing operations	122.3	116.9	5.4	4.6 %
(Loss) income from discontinued operations, net of taxes [(b)]	(4.6)	4.6	(9.2)	(200.0)%
Net income	$117.7	$121.5	$(3.8)	(3.1)%
Net income per common share - basic:				
Continuing operations	$0.76	$0.74	$0.02	2.7 %
Discontinued operations	(0.03)	0.03	(0.06)	(200.0)%
Total net income per basic common share	$0.73	$0.77	$(0.04)	(5.2)%
Net income per common share - diluted:				

Continuing operations	$0.74	$0.72	$0.02	2.8 %
Discontinued operations	(0.03)	0.03	(0.06)	(200.0)%
Total net income per diluted common share	$0.71	$0.75	$(0.04)	(5.3)%

(a) Effective tax rate is calculated by dividing the provision for income taxes by income from continuing operations before provision for income taxes.

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

ASCENA RETAIL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Net Sales. Net sales increased by $91.0 million, or 2.6%, to $3.608 billion for the nine months ended April 26, 2014 from $3.517 billion for the nine months ended April 27, 2013. The increase was primarily due to higher combined store and e-commerce comparable sales at our Lane Bryant, maurices and Catherines brands and new store growth at our Justice and maurices brands, offset in part by lower combined store and e-commerce comparable sales of our Justice and dressbarn brands. The Company believes our e-commerce operations are interdependent with our brick-and-mortar store sales and, as such, we believe that reporting combined store and e-commerce comparable sales on a brand-by-brand basis, as discussed below, is a more appropriate presentation. On a consolidated basis, comparable store sales decreased by $41.2 million, or 1%, to $2.881 billion during the nine months ended April 26, 2014 from $2.922 billion during the nine months ended April 27, 2013. Also on a consolidated basis, E-commerce sales increased by $73.6 million, or 25%, to $371.7 million during the nine months ended April 26, 2014 from $298.1 million during the nine months ended April 27, 2013.

Net sales data for our five business segments is presented below.

	Nine Months Ended			
	April 26, 2014	April 27, 2013	$ Change	% Change
	(millions)		(millions)	
Net sales:				
Justice	$1,098.2	$1,098.2	$—	—%
Lane Bryant	795.7	756.4	39.3	5.2%
maurices	744.3	701.0	43.3	6.2%
dressbarn	728.7	730.7	(2.0)	(0.3)%
Catherines	241.3	230.9	10.4	4.5%
Total net sales	$3,608.2	$3,517.2	$91.0	2.6%
Comparable store sales [a]				(1)%
E-commerce comparable sales				25%
Combined store and e-commerce comparable sales				1%

[a] Comparable store sales generally refers to the growth of sales in only stores open in the current period and comparative period in the prior year (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 normally 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.

Justice net sales. Net sales were flat and primarily reflect:

- a decrease of $20.6 million, or 2%, in combined store and e-commerce comparable sales during the nine months ended April 26, 2014;
- a $23.1 million increase in non-comparable stores sales, primarily driven by an increase related to 37 net new store openings during the last twelve months; and
- a $2.5 million decrease in wholesale, licensing operations and other revenues

Lane Bryant net sales. The net increase primarily reflects:

- an increase of $36.0 million, or 5%, in combined store and e-commerce comparable sales during the nine months ended April 26, 2014;
- a $1.0 million decrease in non-comparable stores sales, as the positive effects of 39 new store openings during the last twelve months was only partially offset by 57 store closings in the last twelve months; and
- a $4.3 million increase in other revenues.

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maurices net sales. The net increase primarily reflects:

- an increase of $8.1 million, or 1%, in combined store and e-commerce comparable sales during the nine months ended April 26, 2014;
- a $35.4 million increase in non-comparable stores sales, primarily driven by an increase related to 45 net new store openings during the last twelve months; and
- a $0.2 million decrease in other revenues.

dressbarn net sales. The net decrease primarily reflects:

- a decrease of $7.6 million, or 1%, in combined store and e-commerce comparable sales during the nine months ended April 26, 2014;
- a $6.3 million increase in non-comparable stores sales, as the positive effect of 38 new store openings was only offset in part by 40 store closings during the last twelve months; and
- a $0.7 million decrease in other revenues.

Catherines net sales. The net increase primarily reflects:

- an increase of $16.5 million, or 8%, in combined store and e-commerce comparable sales during the nine months ended April 26, 2014;
- a $7.7 million decrease in non-comparable stores sales, primarily driven by a decrease related to 13 store closings during the last twelve months; and
- a $1.6 million increase in other revenues.

Gross Margin. Gross margin, which represents the difference between net sales and cost of goods sold, expressed as a percentage of net sales, increased by 130 basis points to 57.5% for the nine months ended April 26, 2014 from 56.2% for the nine months ended April 27, 2013. Excluding the impact of the approximately $20 million of purchase accounting adjustments recorded in the first quarter of Fiscal 2013, our gross margin rate increased by 70 basis points. Our gross margin rate increased, primarily due to stronger margins at Lane Bryant, maurices, dressbarn and Catherines, which more than offset lower margins at Justice.

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

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.

Buying, distribution and occupancy costs increased by $57.9 million, or 9.4%, to $670.9 million for the nine months ended April 26, 2014 from $613.0 million for the nine months ended April 27, 2013. Buying, distribution and occupancy costs as a percentage of net sales increased by 120 basis points to 18.6% for the nine months ended April 26, 2014 from 17.4% for the nine months ended April 27, 2013. The increase in Buying, distribution and

occupancy costs was mainly a result of increases in buying-related costs due mainly to an investment in the design function, higher distribution expenses and higher freight costs related to the increased sales volume.

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.

SG&A expenses increased by $34.3 million, or 3.4%, to $1.048 billion for the nine months ended April 26, 2014 from $1.014 billion for the nine months ended April 27, 2013. SG&A expenses as a percentage of net sales increased by 30 basis points to 29.1% for the nine months ended April 26, 2014 from 28.8% for the nine months ended April 27, 2013. SG&A expenses increased as additional expenses resulting from new store growth, increased selling costs related to e-commerce growth, higher marketing

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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costs and increased administrative expenses offset the cost-savings achieved by the on-going reduction of the duplicative overhead structure acquired in the Charming Shoppes Acquisition. This reduction is expected to continue over the next couple of years.

Depreciation and Amortization Expense. Depreciation and amortization expense increased by $18.5 million, or 15.1%, to $141.0 million for the nine months ended April 26, 2014 from $122.5 million for the nine months ended April 27, 2013. The increase was primarily due to higher capital expenditures, which mainly resulted from the new store openings during the last twelve months, our expanded distribution center in Ohio becoming fully operational and the relocation of our corporate office space to Mahwah, New Jersey. Also contributing to the increase was accelerated depreciation of existing assets whose useful lives were shortened as a result of the Company's supply chain and technological integration efforts.

Operating Income. Operating income decreased $18.7 million, or 9.0%, to $188.3 million for the nine months ended April 26, 2014 from $207.0 million for the nine months ended April 27, 2013. Operating income as a percentage of net sales decreased 70 basis points, to 5.2% for the nine months ended April 26, 2014 from 5.9% for the nine months ended April 27, 2013. Excluding the impact of the approximately $20 million of purchase accounting adjustments recorded in the first quarter of Fiscal 2013 as discussed above, operating income as a percentage of net sales decreased by 120 basis points. The decrease primarily reflected an overall increase in gross margin, as discussed on a brand-by-brand basis below, which was more than offset by increases in Buying, distribution and occupancy costs, SG&A expenses and depreciation expense.

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

	Nine Months Ended			
	April 26, 2014 (millions)	April 27, 2013	$ Change (millions)	% Change
Operating income (loss):				
Justice	$114.3	$168.1	$(53.8)	(32.0)%
Lane Bryant	(1.9)	(27.7)	25.8	(93.1)%
maurices	85.2	92.3	(7.1)	(7.7)%
dressbarn	(1.5)	(9.7)	8.2	(84.5)%
Catherines	17.1	4.1	13.0	317.1%
Unallocated acquisition-related, integration and restructuring costs	(24.9)	(20.1)	(4.8)	23.9%
Total operating income	$188.3	$207.0	$(18.7)	(9.0)%

Justice operating income decreased by $53.8 million primarily as a result of a decrease in gross margin rates and increases in Buying, distribution and occupancy costs and depreciation expense, offset in part by lower SG&A expenses. The lower gross margin rate was mainly attributable to higher promotional markdowns, which resulted from increased promotional activity required to sell through fall merchandise. Buying, distribution and occupancy costs increased largely as a result of higher store occupancy costs primarily related to store growth and higher freight costs related to an increase in e-commerce sales volume. The decrease in SG&A expenses was attributable to a decrease in administrative payroll costs related to the less-than-planned operating results. The increase in depreciation expense

resulted from the new store growth and accelerated depreciation as a result of the Company's supply chain integration efforts.

Lane Bryant operating loss decreased by $25.8 million partly due to the absence of approximately $15.3 million of one-time, non-cash inventory expense associated with the purchase accounting write-up of inventory to fair market value recognized in the first quarter of Fiscal 2013. Excluding the impact of the purchase accounting adjustments, the operating results reflected the flow-through of margin on the higher sales volume and higher gross margin rate, offset in part by increases in Buying, distribution and occupancy costs and depreciation expense. The higher gross margin rate benefited from lower product costs and lower markdowns which resulted from tighter inventory control. The higher Buying, distribution and occupancy costs resulted primarily from increases in buying-related costs due mainly to an investment in the merchandising and design functions and higher distribution expenses related to the increased sales volume. SG&A expenses increased slightly due mainly to increases in store-related payroll costs.

maurices operating income decreased by $7.1 million as an increase in sales and gross margin rates was more than offset by increases in Buying, distribution and occupancy costs, SG&A expenses and depreciation expense. The gross margin rate benefited from lower product costs and lower markdowns which resulted from more targeted promotional campaigns. The increase in

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ASCENA RETAIL GROUP, INC.
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Buying, distribution and occupancy costs was mainly a result of increases in buying-related costs due mainly to an investment in the design function and increases in store occupancy and distribution expenses, which resulted largely from new store growth and the increased sales volume. The increase in SG&A expenses was primarily due to store-related payroll costs and other store expenses resulting from the new store growth, increased selling costs related to e-commerce growth and higher marketing costs. The SG&A expense comparison was also impacted by a favorable product-related vendor settlement recorded during the nine months ended April 27, 2013. The increase in depreciation expense resulted mainly from new store growth and accelerated depreciation as a result of the Company's supply chain integration efforts.

dressbarn operating loss decreased by $8.2 million primarily as a result of an increase in gross margin rates, offset in part by increases in Buying, distribution and occupancy costs, SG&A expenses and depreciation expense. The higher gross margin rate was mainly attributable to lower inventory levels which resulted in a better sell-through of merchandise and lower markdowns which resulted from tighter inventory control. Buying, distribution and occupancy costs increased mainly due to an investment in the design function. The increase in SG&A expenses was primarily due to higher administrative payroll costs and increased administrative expenses related to e-commerce growth, offset in part by lower store-related payroll costs. The increase in depreciation expense is primarily due to accelerated depreciation as a result of the Company's supply chain and technological integration efforts.

Catherines operating income increased by $13.0 million partly due to the absence of approximately $4.6 million of one-time, non-cash inventory expense associated with the purchase accounting write-up of inventory to fair market value recognized in the first quarter of Fiscal 2013. Excluding the impact of the purchase accounting adjustments, the operating results reflected the flow-through of margin on the higher sales volume and higher gross margin rate, offset in part by increases in Buying, distribution and occupancy costs. The gross margin rate increased as a result of lower product costs and lower markdowns. The increase in Buying, distribution and occupancy costs was a result of higher buying-related costs due to an investment in the design function.

Unallocated operating income. The unallocated expenses of $24.9 million for the nine months ended April 26, 2014 and $20.1 million for the nine months ended April 27, 2013 represent Acquisition-related, integration and restructuring costs.

Interest Expense. Interest expense decreased by $7.7 million, or 61.6%, to $4.8 million for the nine months ended April 26, 2014 from $12.5 million for the nine months ended April 27, 2013. The decrease was primarily the result of a decrease in the average borrowings outstanding and a decrease in the average interest rate on borrowings outstanding during Fiscal 2014 as compared to Fiscal 2013. The decrease in average borrowings outstanding resulted from the Company's net repayment of debt during Fiscal 2013. The decrease in the average interest rate resulted from the Company's refinancing of its then outstanding higher-rate term loan borrowings to lower-rate Revolving Credit Agreement borrowings in the third quarter of Fiscal 2013.

Provision for Income Taxes. The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes from continuing operations decreased by $8.9 million, or 12.9%, to $60.0 million for the nine months ended April 26, 2014 from $68.9 million for the nine months ended April 27, 2013. The effective tax rate decreased 420 basis points to 32.9% for the nine months ended April 26, 2014 from 37.1% for the nine months ended April 27, 2013. The decrease in the effective tax rate was primarily due to an increase in the Company's indefinitely reinvested current year earnings and lower non-tax deductible expenses, offset in part by lower tax

benefits relating to the accounting for discrete items in Fiscal 2014.

Net Income. Net income includes income from continuing operations and results from discontinued operations. Net income decreased by $3.8 million, or 3.1%, to $117.7 million for the nine months ended April 26, 2014 from $121.5 million for the nine months ended April 27, 2013. The decrease was mainly due to the results from discontinued operations, which generated a loss of $4.6 million for the nine months ended April 26, 2014 compared to income of $4.6 million for the nine months ended April 27, 2013. Income from continuing operations increased $5.4 million, or 4.6%, primarily due to the absence of the loss on extinguishment of debt, a decrease in the provision for income taxes and lower interest expense which more than offset the lower level of operating income.

Net Income from Continuing Operations per Diluted Common Share. Net income from continuing operations per diluted share increased by $0.02, or 2.8%, to $0.74 per share for the nine months ended April 26, 2014 from $0.72 per share for the nine months ended April 27, 2013. The increase in diluted per share results was primarily due to a higher level of income from continuing operations, as previously discussed, offset in part by an increase in the weighted-average diluted common shares outstanding to 164.9 million shares for the nine months ended April 26, 2014 from 162.8 million shares for the nine months ended April 27, 2013.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Net Income per Diluted Common Share. Net income per diluted common share decreased by $0.04, or 5.3%, to $0.71 per share for the nine months ended April 26, 2014 from $0.75 per share for the nine months ended April 27, 2013. The decrease was due to the results from discontinued operations and an increase in the weighted-average diluted common shares outstanding, offset in part by a higher level of net income from continuing operations.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition

	April 26, 2014	July 27, 2013	$ Change
	(millions)		
Cash and cash equivalents	$213.2	$186.4	$26.8
Short-term investments	3.6	3.0	0.6
Total debt	(225.0)	(135.6)	(89.4)
Net (debt) cash and investments [a]	$(8.2)	$53.8	$(62.0)
Equity	$1,713.9	$1,556.4	$157.5

(a) "Net (debt) cash and investments" is defined as total cash and cash equivalents, plus short-term investments, less total debt.

The decrease in our net (debt) cash and investments position as of April 26, 2014 as compared to July 27, 2013 was primarily due to our use of available cash and additional Revolving Credit Agreement borrowings to support our capital expenditures (as discussed below under "Capital Spending"), partially offset by our operating cash flows. The increase in equity was primarily due to the Company's net income and the effect on equity of stock-based compensation for the nine months ended April 26, 2014.

Cash Flows

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

	Nine Months Ended	
	April 26, 2014	April 27, 2013
	(millions)	
Net cash provided by operating activities	$243.5	$333.2
Net cash used in investing activities	(327.3)	(152.8)
Net cash provided by (used in) financing activities	110.6	(141.8)
Net increase in cash and cash equivalents	$26.8	$38.6

Net Cash Provided by Operating Activities. Net cash provided by operations was $243.5 million for the nine months ended April 26, 2014, compared with $333.2 million for the nine months ended April 27, 2013. The decrease was driven by increased inventory levels, lower accounts payable levels, primarily due to timing of payments, and an increase in cash paid for income taxes. The increase in inventories primarily resulted from new store growth at Justice and maurices and increases at Lane Bryant and Catherines due to the increased combined store and e-commerce comparable growth, offset in part by a decrease in inventory at dressbarn due to tighter inventory management. Cash

paid for income taxes increased in the nine months ended April 26, 2014 based on the Company's Fiscal 2013 utilization of net operating losses obtained in the Charming Acquisition.

Net Cash Used in Investing Activities. Net cash used in investing activities for the nine months ended April 26, 2014 was $327.3 million, consisting primarily of $368.9 million of capital expenditures, offset in part by $42.2 million of proceeds from the sale of assets. Net cash used in investing activities for the nine months ended April 27, 2013 was $152.8 million, consisting almost entirely of cash used for capital expenditures.

Net Cash Provided by (Used in) Financing Activities. Net cash provided by financing activities was $110.6 million for the nine months ended April 26, 2014, consisting primarily of $89.4 million of net borrowings of debt under our Revolving Credit Agreement and $21.2 million of proceeds relating to our stock-based compensation plans. Net cash used in financing activities for the nine

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months ended April 27, 2013 was $141.8 million, consisting primarily of $174.7 million for the net repayments of debt, offset in part by $36.6 million of proceeds relating to our stock-based compensation plans.

Capital Spending

We routinely make capital investments primarily in connection with ongoing expansion of our retail store network, construction and renovation of our existing portfolio of retail stores, investments in our technological infrastructure and investments in corporate office facilities.

The Fiscal 2013 10-K included an update of the following on-going, non-routine, significant capital spending plans:

- Consolidation of our distribution network which includes the expansion of our distribution centers located in Etna Township, Ohio, and Greencastle, Indiana. While both distribution centers became operational in the third quarter of Fiscal 2014, the phased transition of all brands into the two distribution centers is expected to continue over the next twelve months;
- Finalization of plans to migrate to common information technology platforms for our Company-wide, point-of-sales systems, merchandise systems, warehouse management systems and financial systems. This transition is expected to take place over the next two years; and
- Relocation and expansion of our corporate office space in Suffern, New York to Mahwah, New Jersey to support our growing operations. The renovation and relocation to the Mahwah, New Jersey location was completed during the third quarter of Fiscal 2014.

For a detailed discussion of these plans, see Part II, Item 7 as specified in the Capital Spending section of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Fiscal 2013 10-K.

As a result of these initiatives, we expect to receive local tax incentives to support the related investments totaling between $55 and $60 million over a 15 year period. For additional details of the local tax incentives, see Note 9 to our audited consolidated financial statements included in our Fiscal 2013 10-K.

In addition to the non-routine capital spending plans mentioned above, in December 2013 the Company announced its plans for a new building located in Duluth, MN to house its maurices headquarters and shared service operations. The project is scheduled for completion in the first quarter of calendar 2016. The Company anticipates that a portion of the building cost will be offset by state and municipal bond funding.

The Company expects the remaining incremental capital requirements for all of the projects discussed above to be approximately $125 million, principally to be spent over the next two years. Such requirements for the capital investments outlined above are expected to be funded primarily with operating cash flows and, to the extent necessary, borrowings under the Company's Revolving Credit Agreement.

Liquidity

Our primary sources of liquidity are the cash flow generated from our operations, availability under our Revolving Credit Agreement, available cash and cash equivalents, investments and other available financing options. These sources of liquidity are used to fund our ongoing cash requirements, including working capital requirements, retail

store expansion, construction and renovation of stores, any future dividend requirements, investment in technological and supply chain infrastructure, acquisitions, debt servicing requirements, stock repurchases, 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 needs, capital requirements and any debt service requirements for the foreseeable future.

As of April 26, 2014, approximately 78% of our available cash and cash equivalents was held overseas by our foreign subsidiaries. As such, for the Company to have access to those cash and cash equivalents in the U.S., we would incur a current U.S. tax liability of between 15% to 20% of the cash repatriated; this current U.S. tax liability has been previously provided for in the provision for

income taxes and is currently classified within Deferred income taxes on the accompanying unaudited consolidated balance sheets. We currently do not have any plans to repatriate these funds from our overseas subsidiaries to the U.S.

As discussed in the "Debt" section below, as of April 26, 2014, after taking into account revolving debt and outstanding letters of credit, we had $257.6 million in variable availability under the Revolving Credit Agreement. The Company believes the Revolving Credit Agreement will provide sufficient liquidity to continue to support the Company's operating needs and capital requirements for the foreseeable future. We believe that our Revolving Credit Agreement is adequately diversified with no undue concentrations in any one financial institution. In particular, as of April 26, 2014, there were six financial institutions participating in the credit facility, with no one participant maintaining a maximum commitment percentage in excess of approximately 25%. 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 Revolving Credit Agreement in the event of our election to draw funds in the foreseeable future.

Debt

As of April 26, 2014, the Company had $225.0 million of debt outstanding consisting of (i) $224.4 million under the Revolving Credit Agreement, and (ii) $0.6 million of convertible notes assumed in the Charming Shoppes Acquisition, which were due and redeemed in May 2014. For a complete description of the Company's convertible-notes borrowing arrangement see Note 14 to our audited consolidated financial statements included in our Fiscal 2013 10-K.

Revolving Credit Agreement

The Company's revolving credit facility (the "Revolving Credit Agreement") 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) and average borrowing availability during the previous fiscal quarter.

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 on the Company's average utilization during the previous fiscal quarter.

As of April 26, 2014, after taking into account the $224.4 million of revolving debt outstanding and the $18.0 million in outstanding letters of credit, the Company had $257.6 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 Company is subject to certain restrictions and financial covenants with respect to minimum availability limits under the Revolving Credit Agreement. Such limits are variable based on the outstanding borrowing commitment. Should Availability (as defined in the Revolving Credit Agreement) fall below the minimum level for three consecutive days, the Company would be in a Reduced Availability Period and would be subject to a fixed charge coverage ratio test. As of April 26, 2014, the Reduced

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Availability Period would be triggered if our availability were to drop below approximately $50.0 million for three consecutive days. As of April 26, 2014, the Company had $257.6 million in availability under the Revolving Credit Agreement and accordingly, the fixed charge coverage ratio test does not apply.

If the Company is in a Reduced Availability Period at the end of a fiscal quarter, the Company's fixed charge coverage ratio must be at least 1.00 to 1.00. The ratio is calculated based on four consecutive fiscal quarter end dates ending with the current quarter. The fixed charge coverage ratio is defined as a ratio of consolidated earnings (as defined in the Revolving Credit Agreement), less capital expenditures, to consolidated fixed charges.

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.

Our Revolving Credit Agreement allows us to pay dividends, provided that at the time of, and immediately after giving effect to the dividend, (i) there is no default or event of default, and (ii) Availability (as defined in the Revolving Credit Agreement) is not less than 20% of the aggregate Revolving Commitments (as defined in the Revolving Credit Agreement), subject to a minimum predetermined availability limit. Dividends are payable when declared by our Board of Directors. Currently, the Board of Directors does not plan to pay any dividends.

The Company was in compliance with all financial covenants contained in the Revolving Credit Agreement as of April 26, 2014.

Other Letters of Credit

As of April 26, 2014, the Company had also issued $1.1 million of private label letters of credit relating to the importation of merchandise.

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 the Company during the nine months ended April 26, 2014 under its repurchase program. 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 26, 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 2013 10-K.

ASCENA RETAIL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (Continued)

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 2013 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 26, 2014, the Company did not have any outstanding derivative financial instruments.

Foreign Currency Risk Management

We currently do not have any significant risks related 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 100% owned international retail operations represented approximately 1% of our consolidated revenues during the first nine months of Fiscal 2014. 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 $224.4 million in variable-rate debt outstanding under our Revolving Credit Agreement. Accordingly, we remain subject to changes in interest rates. For each 0.125% increase or decrease in interest rates, the Company's annual interest expense would increase or decrease by approximately $0.3 million, and net income would decrease or increase, respectively, by approximately $0.2 million. See Note 14 to our audited consolidated financial statements included in our Fiscal 2013 10-K for a summary of the terms and conditions of our Revolving Credit Agreement.

Investment Risk Management

As of April 26, 2014, our Company had cash and cash equivalents on-hand of $213.2 million, a portion of which was invested in money market funds. The Company's short-term investments of $3.6 million consisted entirely of restricted cash.

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 26, 2014. 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.

ASCENA RETAIL GROUP, INC.
MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (Continued)

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 2013 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 2013 10-K. There have been no material changes in the application of the Company’s critical accounting policies since July 27, 2013.

RECENTLY ISSUED ACCOUNTING PROUNCEMENTS

During the nine months ended April 26, 2014, there have been no recently issued or proposed accounting standards which may have a material impact on our financial statements in future periods.

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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 of April 26, 2014. There has been no change in the Company’s internal control over financial reporting during the quarter ended April 26, 2014 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

The Company is a defendant in lawsuits and other adversarial proceedings arising in the ordinary course of business. Legal costs incurred in connection with the resolution of claims and lawsuits are generally expensed as incurred, and the Company establishes reserves for the outcome of litigation where it deems it appropriate to do so under applicable accounting rules. Moreover, the Company's assessment of the current exposure could change in the event of the discovery of additional facts with respect to legal matters pending against the Company or determinations by judges, juries, administrative agencies or other finders of fact that are not in accordance with the Company's evaluation of a particular claim. 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.

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 2013 10-K. There have been no material changes during the quarter ended April 26, 2014 to the Risk Factors set forth in Part I, Item 1A of the Fiscal 2013 10-K.

Item 2 –UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities[(1)]

The following table provides information about the Company's repurchases of common stock during the fiscal quarter ended April 26, 2014.

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)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [(1)]
Month # 1 (January 26, 2014 – February 22, 2014)	—	$—	—	$ 90 million
Month # 2 (February 23, 2014 – March 29, 2014)	—	—	—	90 million
Month # 3 (March 30, 2014 – April 26, 2014)	—	—	—	90 million

[(1)] 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. 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.

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 Dirk Montgomery 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 402 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 Section 11 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: June 3, 2014	BY: /s/ David Jaffe David Jaffe President and Chief Executive Officer (Principal Executive Officer)
Date: June 3, 2014	BY: /s/ Dirk Montgomery Dirk Montgomery Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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