the term loan borrowings, which remain subject to a variable interest rate. As a result, an increase in interest rates could result in a substantial increase in interest expense, especially as the swapped amount of the term loan decreases over time.

We are heavily dependent on our management information systems and our ability to maintain and upgrade these systems from time to time.

The efficient operation of our business is heavily dependent on our internally developed management information systems. In particular, we rely on point-of-sale terminals, which provide information to our customized TrendTrack merchandise analysis and planning system used to track sales and inventory. The TrendTrack system helps integrate our design, manufacturing, distribution and financial functions, and also provides daily financial and merchandising information. Although our software programs and data are backed up and securely stored off-site, our servers and computer systems are located at our headquarters in Philadelphia, Pennsylvania. As a result, our business, financial condition and results of operations could be materially and adversely affected if our servers and systems were inoperable or inaccessible.

From time to time, we improve and upgrade our management information systems. We have a proprietary, Internet-based point-of-sale system. If we are unable to maintain and upgrade our systems or to integrate new and updated systems in an efficient and timely manner, our business, financial condition and results of operations could be materially and adversely affected.

As an apparel retailer, we rely on numerous third parties in the supply chain to produce and deliver the products that we sell, and our business may be negatively impacted by disruptions in the supply chain.

If we lose the services of one or more of our significant suppliers or one or more of them fail to meet our product needs, we may be unable to obtain replacement merchandise in a timely manner. If our existing suppliers cannot meet our increased needs and we cannot locate alternative supply sources, we may be unable to obtain sufficient quantities of the most popular items at attractive prices, which could negatively impact our sales, revenues and results of operations. We obtain apparel and other merchandise from foreign sources, both purchased directly in foreign markets and indirectly through domestic vendors with foreign sources. To the extent that any of our vendors are located overseas or rely on overseas sources for a large portion of their products, any event causing a disruption of imports, including the imposition of import restrictions, could harm our ability to source product. This disruption could materially limit the merchandise that we would have available for sale and reduce our revenues and earnings. The flow of merchandise from our vendors could also be adversely affected by financial or political instability, or war, in or affecting any of the countries in which the goods we purchase are manufactured or through which they flow. Trade restrictions in the form of tariffs or quotas, embargos and customs restrictions that are applicable to the products that we sell also could affect the import of those products and could increase the cost and reduce the supply of products available to us. Any material increase in tariff levels, or any material decrease in quota levels or available quota allocation, could negatively impact our business. Further, changes in tariffs or quotas for merchandise imported from individual foreign countries could lead us to shift our sources of supply among various countries. Any such shift we undertake in the future could result in a disruption of our sources of supply and lead to a reduction in our revenues and earnings. Supply chain security initiatives undertaken by the U.S. government that impede the normal flow of product could also negatively impact our business. In addition, decreases in the value of the U.S. dollar against foreign currencies could increase the cost of products that we purchase from overseas vendors.

We also face a variety of other risks generally associated with relying on vendors that do business in foreign markets and import merchandise from abroad, such as:

- political instability or the threat of terrorism, in particular in countries where our vendors source merchandise;
- enhanced security measures at U.S. and foreign ports, which could delay delivery of imports;
- imposition of new or supplemental duties, taxes, and other charges on imports;
- delayed receipt or non-delivery of goods due to the failure of foreign-source suppliers to comply with applicable import regulations;
- delayed receipt or non-delivery of goods due to organized labor strikes or unexpected or significant port congestion at U.S. ports; and
- local business practice and political issues, including issues relating to compliance with domestic or international labor standards, which may result in adverse publicity.

The U.S. may impose new initiatives that adversely affect the trading status of countries where apparel is manufactured. These initiatives may include retaliatory duties or other trade sanctions that, if enacted, would increase the cost of products imported from countries where our vendors acquire merchandise. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

We could be materially and adversely affected if our distribution operations were disrupted.

To support our distribution of product throughout the U.S. and Canada, we operate our main distribution facility in Philadelphia, Pennsylvania and two significantly smaller distribution facilities, one in Philadelphia, Pennsylvania and the other, serving as our Canadian distribution facility, in Mississauga, Ontario. Finished garments from contractors and other manufacturers are inspected and stored for distribution to our stores. We do not have other distribution facilities to support our distribution needs. If our main Philadelphia distribution facility were to shut down or otherwise become inoperable or inaccessible for any reason, we could incur significantly higher costs and longer lead times associated with the distribution of our products to our stores during the time it takes to reopen or replace this facility. In light of our strategic emphasis on rapid replenishment as a competitive strength, a distribution disruption might have a disproportionately adverse effect on our operations and profitability relative to other retailers. In addition, the loss or material disruption of service from any of our shippers for any reason, whether due to freight difficulties, strikes, natural disaster or other difficulties at our principal transport providers or otherwise, could have a material adverse impact on our business, financial condition and results of operations.

We could be materially and adversely affected if we are unable to obtain sufficient raw materials or maintain satisfactory manufacturing arrangements.

We do not own any manufacturing facilities and therefore depend on third parties to manufacture our products. We place our orders for production of merchandise and raw materials by purchase order and do not have any long-term contracts with any manufacturer or supplier. We compete with many other companies for production facilities and raw materials. Furthermore, we have received in the past, and may receive in the future, shipments of products from manufacturers that fail to conform to our quality control standards. In such event, unless we are able to obtain replacement products in a timely manner, we may lose sales. If we fail to maintain favorable relationships with these third parties, or if we cannot obtain an adequate supply of quality raw materials on commercially reasonable terms, it could have a material adverse impact on our business, financial condition and results of operations.

Our stores are heavily dependent on the customer traffic generated by shopping malls.

We depend heavily on locating our stores in prominent locations within successful shopping malls in order to generate customer traffic. We cannot control the development of new shopping malls, the availability or cost of appropriate locations within existing or new shopping malls or the success of existing or new mall stores.

The success of all of our mall stores will depend, in part, on the ability of each mall's anchor tenants, such as large department stores, other tenants and area attractions to generate consumer traffic in the vicinity of our stores, and the continuing popularity of malls as shopping destinations. Many traditional enclosed malls are experiencing lower levels of customer traffic than in the past. Sales volume and mall traffic may be adversely affected by economic downturns in a particular area, the closing of anchor tenants or competition from non-mall retailers and other malls where we do not have stores.

Our success depends on our ability to identify and rapidly respond to fashion trends.

The apparel industry is subject to rapidly changing fashion trends and shifting consumer demands. Accordingly, our success depends on the priority that our target customers place on fashion and our ability to anticipate, identify and capitalize upon emerging fashion trends. Our ability or our failure to anticipate, identify or react appropriately to changes in styles or trends could lead to, among other things, excess inventories and higher markdowns, as well as the decreased appeal of our brands. Particular fashion trends, or an inaccuracy of our forecasts regarding fashion trends could have a material adverse effect on our business, financial condition and results of operations. For example, in fiscal 2007 we were negatively impacted from the popularity of certain styles in the non-maternity women's apparel market, such as trapeze and baby-doll dresses and tops, which can more readily fit a pregnant woman early in her pregnancy than typical non-maternity fashions.

The failure to retain our existing senior management team or to attract and retain highly skilled and qualified personnel could have a material adverse impact on our business, financial condition and results of operations.

Our business requires disciplined execution at all levels of our organization in order to timely deliver and display fashionable merchandise in appropriate quantities in our stores. This execution requires experienced and talented management. We currently have a management team with a great deal of experience with us and in apparel retailing. If we were to lose the benefit of this experience, our business, financial condition and results of operations could be materially and adversely affected.

In addition, as our business expands, we believe that our success will depend greatly on our continued ability to attract and retain highly skilled and qualified personnel. There is a high level of competition for personnel in the retail industry. Like most retailers, we experience significant employee turnover rates, particularly among store sales associates and managers, and our continued growth will require us to hire and train even more new personnel. We therefore must continually attract, hire and train new personnel to meet our staffing needs. We constantly compete for qualified personnel with companies in our industry and in other industries. A significant increase in the turnover rate among our sales associates and managers would increase our recruiting and training costs and could decrease our operating efficiency and productivity. If we are unable to retain our employees or attract, train, assimilate or retain other skilled personnel in the future, we may not be able to service our customers as effectively, thus impairing our ability to increase revenue and could otherwise harm our business.

Our quarterly operating results and inventory levels may fluctuate significantly as a result of seasonality in our business.

Our business, like that of other retailers, is seasonal. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other things, the timing of new store openings and new leased department openings, net sales and profitability contributed by new stores and leased departments, increases or decreases in comparable store sales, the timing of the fulfillment of purchase orders under our product and license arrangements, adverse weather conditions, shifts in the timing of certain holidays and promotions, changes in inventory and production levels and the timing of deliveries of inventory, and changes in our merchandise mix. Our quarterly net sales have historically been highest in our third fiscal quarter, corresponding to the Spring selling season, followed by our first fiscal quarter, corresponding to the Fall/holiday selling season. Given the typically higher gross margin we experience in our third fiscal quarter compared to other quarters, the relatively fixed nature of most of our operating expenses and interest expense, and the historically higher sales level in our third fiscal quarter, we have typically generated a very significant percentage of our full year operating income and net income during our third fiscal quarter. Thus, any factors which result in a material reduction of our sales for the third quarter could have a material adverse effect on our results of operations for our fiscal year as a whole. Seasonal fluctuations in sales also affect our inventory levels, as we usually order merchandise in advance of peak selling periods and sometimes before new fashion trends are confirmed by customer purchases. We must carry a significant amount of inventory, especially before the Fall/holiday and Spring selling seasons. If we are not successful in selling our inventory during this period, we may be forced to rely on markdowns or promotional sales to sell the excess inventory or we may not be able to sell the inventory at all, which could have a material adverse effect on our business, financial condition and results of operations.

Our business depends on sustained demand for maternity clothing and is sensitive to birth rates, women's fashion trends, economic conditions and consumer spending.

Our business depends upon sustained demand for maternity clothing. Our future performance will be subject to a number of factors beyond our control, including demographic changes, fashion trends, economic conditions and consumer spending. If demand for maternity clothing were to decline for any reason, such as a decrease in the number of pregnancies, our operating results could be adversely affected. Additionally, our operating results could be adversely affected if certain non-maternity women's apparel fashions have a more pregnancy-friendly fit. For example, in fiscal 2007, we were negatively impacted by the popularity of certain styles in the non-maternity women's apparel market, such as trapeze and baby-doll dresses and tops, which can more readily fit a pregnant woman early in her pregnancy than typical non-maternity fashions. Downturns, or the expectation of a downturn, in general economic conditions could adversely affect consumer spending patterns, our business, financial condition and results of operations. In addition, the specialty apparel retail business historically has been subject to cyclical variations. Consumer purchases of specialty apparel products, including maternity wear, may decline during recessionary periods and at other times when disposable income is lower. Declines in consumer spending patterns may have a more negative effect on apparel retailers than some other retailers. Therefore, we may not be able to maintain our historical revenues and earnings, or remain as profitable, if there is a decline in consumer spending patterns. A prolonged economic downturn could have a material adverse impact on our business and results of operations.

If an independent manufacturer violates labor or other laws, or is accused of violating any such laws, or if their labor practices diverge from those generally accepted as ethical, it could harm our business and brand image.

While we maintain policies and guidelines with respect to labor practices that independent manufacturers that produce goods for us are contractually required to follow, and while we have an independent firm and Company employees inspect certain manufacturing sites to monitor compliance, we cannot control the actions of such manufacturers or the public's perceptions of them, nor can we assure that these manufacturers will conduct their businesses using ethical or legal labor practices. Apparel companies can be held jointly liable for the wrongdoings of the manufacturers of their products. While many of our independent manufacturers are routinely monitored by buying representatives, who assist us in the areas of compliance, garment quality and delivery, we do not control the manufacturers' business practices or their employees' employment conditions, and manufacturers act in their own interest which may be in a manner that results in negative public perceptions of us, and/or employee allegations against us or court determinations that we are jointly liable. Violations of law by our importers, buying agents, manufacturers or distributors could result in delays in shipments and receipt of goods and could subject us to fines or other penalties, any of which could restrict our business activities, increase our operating expenses or cause our revenues to decline.

We may be unable to protect our trademarks and other intellectual property and may be subject to liability if we are alleged to have infringed on another party's intellectual property.

We believe that our trademarks, service marks and other intellectual property are important to our continued success and our competitive position due to their recognition with our customers. We devote substantial resources to the establishment and protection of our trademarks, service marks and other intellectual property. Although we actively protect our intellectual property, there can be no assurance that the actions that we have taken to establish and protect our trademarks, service marks and other intellectual property, including our rights in our management information systems and our proprietary rights in products for which we have applied for patent protection (for example, our Secret Fit Belly™ innovation), will be adequate to prevent imitation of our marks, products or services by others or to prevent others from seeking to block sales of our products as a violation of their trademarks, service marks or other proprietary rights. Also, others may assert rights in, or ownership of, our trademarks and other proprietary rights or may allege that we have or are infringing on their intellectual property rights and we may not be able to successfully resolve these types of conflicts. In addition, the laws of certain foreign countries may not protect our trademarks and proprietary rights to the same extent as do the laws of the U.S. We cannot assure you that these registrations will prevent imitation of our name, merchandising concept, store design or private label merchandise or the infringement of our other intellectual property rights by others. Imitation of our name, concept, store design or merchandise in a manner that projects lesser quality or carries a negative connotation of our brand image could have a material adverse effect on our business, financial condition and results of operations. Additionally, the high expense in both prosecuting and defending against, and potential liability related to, alleged infringements of intellectual property rights could be substantial and could have a material adverse effect on our business, financial condition and results of operations.

War or acts of terrorism or the threat of either may negatively impact availability of merchandise and otherwise adversely impact our business.

In the event of war or acts of terrorism, or if either is threatened, our ability to obtain merchandise available for sale may be negatively affected. A substantial portion of our merchandise is imported from other countries. If goods become difficult or impossible to import into the U.S., and if we cannot obtain such merchandise from other sources at similar costs, our sales and profit margins may be adversely affected. In the event that commercial transportation is curtailed or substantially delayed, our business may be adversely impacted, as we may have difficulty shipping merchandise to our main distribution facility and retail locations, as well as fulfilling catalog and website orders.

The terms of our debt instruments impose financial and operating restrictions.

Our credit facility and term loan agreements each contain restrictive covenants that limit our ability to engage in activities that may be in our long term best interests. These covenants limit or restrict, among other things, our ability to:

- incur additional indebtedness;

- pay dividends or make other distributions in respect of our equity securities, or purchase or redeem capital stock, or make certain investments;
- have our subsidiaries pay dividends, make loans or transfer assets to us;
- sell assets, including the capital stock of our subsidiaries;
- enter into any transactions with our affiliates;
- transfer any capital stock of any subsidiary or permit any subsidiary to issue capital stock;
- create liens;
- enter into certain sale/leaseback transactions; and
- effect a consolidation or merger or transfer of all or substantially all of our assets.

These limitations and restrictions may adversely affect our ability to finance our future operations or capital needs or engage in other business activities that may be in our best interests. In addition, our ability to borrow under the credit facility is subject to borrowing base requirements. If we breach any of the covenants in our credit facility or term loan agreements, we may be in default under our credit facility or our term loan. If we default, the lenders under our term loan or the lender under our credit facility could declare all borrowings owed to them, including accrued interest and other fees, to be due and payable.

Our share price may be volatile and could decline substantially.

The market price of our common stock has been, and is expected to continue to be, volatile, both because of actual and perceived changes in our financial results and prospects and because of general volatility in the stock market. The factors that could cause fluctuations in our share price may include, among other factors discussed in this section, the following:

- actual or anticipated variations in the financial results and prospects of our business or other companies in the retail business;
- changes in financial estimates by Wall Street research analysts;
- actual or anticipated changes in the U.S. economy or the retailing environment;
- changes in the market valuations of other specialty apparel or retail companies;
- announcements by our competitors or us;
- additions and departures of key personnel;
- changes in accounting principles;
- the passage of legislation or other developments affecting us or our industry;
- the trading volume of our common stock in the public market;
- changes in economic conditions;
- financial market conditions;
- natural disasters, terrorist acts, acts of war or periods of civil unrest;
- the realization of some or all of the risks described in this section entitled "Risk Factors"; and
- any goodwill impairment would require a write down that would likely negatively affect our stock price.

In addition, the stock markets have experienced significant price and trading volume fluctuations from time to time, and the market prices of the equity securities of retailers have been extremely volatile and are sometimes subject to sharp price and trading volume changes. These broad market fluctuations may adversely affect the market price of our common stock.

Our charter documents contain certain anti-takeover provisions, and we are entitled to certain other protective provisions under Delaware law.

We are a Delaware corporation and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of the Company, even if a change of control would be beneficial to our existing stockholders. We also have adopted a stockholder rights plan, commonly known as a "poison pill," that entitles our stockholders to acquire additional shares of us, or a potential acquirer of us, at a substantial discount to their market value in the event of an attempted takeover. In addition, our amended and restated certificate of incorporation and by-laws contain provisions that may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable by, among other things:

- authorizing the issuance of preferred stock, the terms of which may be determined at the discretion of our Board of Directors;
- restricting the ability of stockholders to call special meetings of stockholders;
- providing for a classified Board of Directors, with staggered three-year terms; and
- establishing advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted on by stockholders at meetings.

These provisions may also reduce the market value of our common stock.

We do not expect to pay cash dividends in the foreseeable future.

We have not paid any cash dividends on our common stock since our initial public offering and do not anticipate paying cash dividends on our common stock in the foreseeable future. In addition, the terms of each of our credit facility and term loan agreements significantly restrict our ability to declare or pay dividends on our common stock. Even if our ability to pay dividends were not restricted, any future payment of dividends would still be at the discretion of our Board of Directors and would be based upon any applicable restrictive financial covenants, earnings, capital requirements and our financial condition, among other factors, at the time any such dividend is considered.

Any increase in our sales and marketing efforts that target markets outside the U.S. would expose us to additional risks associated with international operations.

We believe that in the future, an opportunity for sales growth may come from the development of international sales. We may not be successful in these efforts. International operations and sales subject us to risks and challenges that we would otherwise not face if we conducted our business only in the U.S. For example, we may depend on third parties to market our products through foreign sales channels, and we may be challenged by laws and business practices favoring local competitors. In addition, our ability to succeed in foreign markets will depend on our ability to protect our intellectual property. We must also adapt our pricing structure to address different pricing environments and may face difficulty in enforcing revenue collection internationally. To the extent we achieve significant sales outside of the U.S. in the future, we may have significant exposure to fluctuating foreign currency exchange rates.

We could have failures in our system of internal controls.

We maintain a documented system of internal controls which is reviewed and monitored by management, who meet regularly with our Audit Committee of the Board of Directors. We believe we have a well-designed system to maintain adequate internal controls on the business. We cannot assure you that there will not be any control deficiencies in the future. Should we become aware of any control deficiencies, we would report them to the Audit Committee and recommend prompt remediation. We have devoted significant resources to document, test, monitor and improve our internal controls and will continue to do so; however, we cannot be certain that these measures will ensure that our controls are adequate in the future or that adequate controls will be effective in preventing fraud. If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. Any failures in the effectiveness of our internal controls could have a material adverse effect on our financial condition or operating results or cause us to fail to meet reporting obligations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We own our principal executive offices and distribution facility, which is located at 456 North Fifth Street, Philadelphia, Pennsylvania, subject to a mortgage under the terms of which we owe approximately $2.5 million as of September 30, 2008. This facility consists of approximately 318,000 square feet, of which approximately 45,000 square feet is dedicated to office space and the remaining square footage is used for finished goods warehousing and distribution. On August 26, 2002, we entered into a ten-year lease for a facility located at 2001 Kitty Hawk Avenue, Philadelphia, Pennsylvania in the Philadelphia Naval Business Center. The area leased at this facility, which we use for raw material cutting, warehousing and distribution, consists of approximately 64,000 square feet of space. To facilitate our store growth in Canada, we entered into a three-year lease commencing November 1, 2002 for approximately 12,000 square feet of finished goods warehouse and distribution space in Mississauga, Ontario in Canada. Since this time, we have renewed this lease in Canada and it currently expires on November 30, 2009. From time to time we may also utilize third-party warehousing services in the Philadelphia, Pennsylvania area when we have increased storage requirements. These services essentially operate on a month-to-month basis. We believe that these facilities will be adequate to support our anticipated distribution needs for the near term and, potentially, longer. In the event we need additional space to meet our future distribution needs, we believe that such space would be readily available. Our facilities are subject to state and local regulations that range from building codes to health and safety regulations.

We lease our store premises for terms averaging from five to ten years. Certain leases allow us to terminate or reduce our obligations at specified points in time in the event that the applicable store does not achieve a specified sales volume. Some of our store leases also provide for contingent payments based on sales volume, escalations of the base rent, as well as increases in operating costs, marketing costs and real estate taxes.

As of September 30, 2008, the following numbers of store leases are set to expire as listed in the table below. We do not expect the expiration of any leases to have a material adverse impact on our business or operations.

Fiscal Year Leases Expire	Number of Stores
2009	131
2010	109
2011	84
2012	76
2013	112
2014 and later	242
Total	754

In addition to the stores we operate, we have arrangements with department and specialty stores, including Macy's, Bloomingdale's, Babies "R" Us, Boscov's and Gordmans to operate maternity departments in their stores. These leased departments typically involve the lease partner collecting all of the revenue from the leased department. The revenue is remitted to us, less a fixed percentage of the volume earned by the lease partner as stipulated in the agreement. We provide at least some amount of staffing for each of the leased departments, with the amount varying depending on the specific arrangement. Generally, under each of our leased department agreements, our lease partner has the right to terminate any or all of our rights to operate our leased departments in their stores subject to varying notice requirements.

As we disclosed in September 2007, we were unable to reach terms on a renewal of our relationship with Sears and, as a result, our relationship with Sears ended on June 20, 2008, resulting in the closure of our leased departments within Sears stores. As of September 30, 2007, we operated 501 leased departments within Sears stores.

Item 3. Legal Proceedings

From time to time, we are named as a defendant in legal actions arising from our normal business activities. Litigation is inherently unpredictable and although the amount of any liability that could arise with respect to currently pending actions cannot be accurately predicted, we do not believe that the resolution of any pending action will have a material adverse effect on our financial position or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Global Market under the symbol "DEST." Prior to December 9, 2008 (before giving effect to our corporate name change), our common stock traded under the symbol "MWRK." The following table sets forth for the periods indicated below the reported high and low sales prices of our common stock as reported on the Nasdaq Global Market:

	High	Low
Fiscal Year Ended September 30, 2007:		
Quarter ended December 31, 2006	$57.65	$38.36
Quarter ended March 31, 2007	43.81	30.76
Quarter ended June 30, 2007	39.86	29.33
Quarter ended September 30, 2007	32.24	14.48
Fiscal Year Ended September 30, 2008:		
Quarter ended December 31, 2007	$19.27	$15.22
Quarter ended March 31, 2008	20.21	14.99
Quarter ended June 30, 2008	18.15	9.62
Quarter ended September 30, 2008	17.00	9.89

As of December 1, 2008, there were 1,237 holders of record and 807 estimated beneficial holders of our common stock.

We have not paid any cash dividends on our common stock since our initial public offering and do not anticipate paying cash dividends on our common stock in the foreseeable future. In addition, the terms of our senior secured Term Loan B due March 13, 2013 (the "Term Loan") and our credit facility significantly restrict our ability to declare or pay dividends on our common stock. Even if we were not restricted under the terms of our Term Loan or our credit facility from being able to pay dividends, any future payment of dividends would still be at the discretion of our Board of Directors and would be based upon certain restrictive financial covenants, earnings, capital requirements and our financial condition, among other factors, at the time any such dividend is considered.

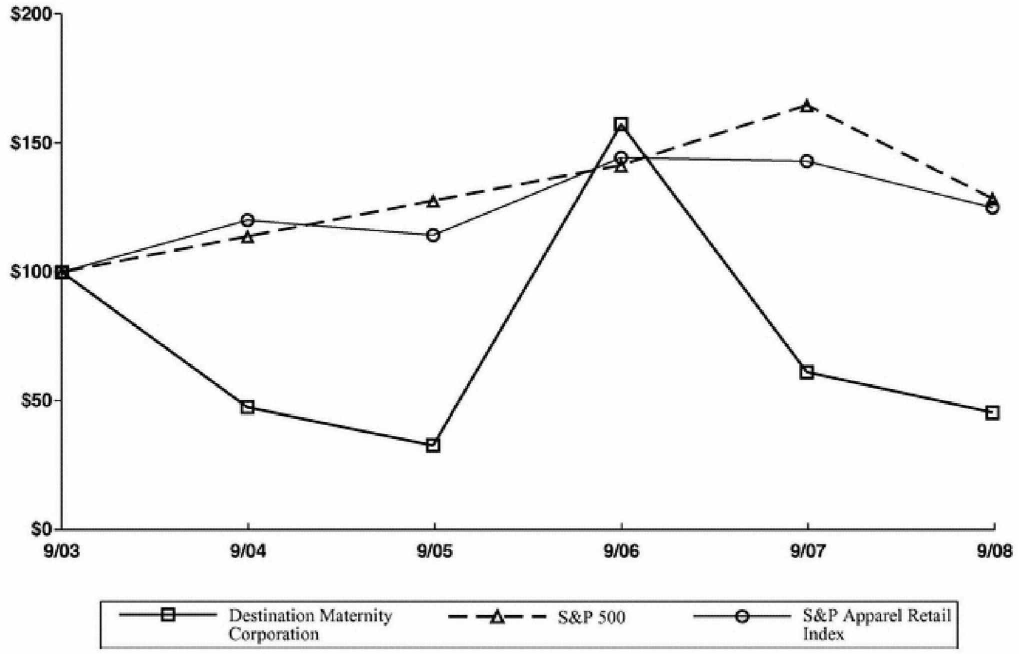
Under our 2005 Equity Incentive Plan (the "2005 Plan"), awards may be granted in the form of options, stock appreciation rights, restricted stock or restricted stock units. Up to 500,000 shares of our common stock may be issued in respect of awards under our 2005 Plan, with no more than 250,000 of those shares permitted to be issued in respect of restricted stock or restricted stock units granted under the 2005 Plan. Our Board of Directors has approved an amendment to the 2005 Plan, subject to the approval of our stockholders at our Annual Meeting of Stockholders to be held on January 23, 2009, to increase the authorized shares for issuance under the plan to 700,000 shares total (an additional 200,000 shares) with no more than 350,000 total (an additional 100,000 shares) permitted to be issued in respect of restricted stock or restricted stock units granted under the 2005 Plan.

In July 2008, our Board of Directors approved a program to repurchase up to $7.0 million of our outstanding common stock. Under the program, we may repurchase shares from time to time through solicited or unsolicited transactions in the open market or in negotiated or other transactions. The program will be in effect until the end of July 2010. There were no repurchases of common stock under the program during fiscal 2008.

Stock Price Performance Graph

The graph below compares the cumulative total stockholder return on our Common Stock for the period from September 30, 2003 to September 30, 2008, with the cumulative total return of the Standard & Poor's 500 Index and the Standard & Poor's Apparel Retail Index. The comparison assumes $100 was invested on September 30, 2003 in our Common Stock and in each of the foregoing indices and assumes reinvestment of dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Destination Maternity Corporation, The S&P 500 Index
And The S&P Apparel Retail Index



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* $100 invested on 9/30/03 in stock or index—including reinvestment of dividends. Fiscal year ending September 30.

	2003	2004	2005	2006	2007	2008
Destination Maternity Corporation	$100.00	$ 47.45	$ 32.72	$157.46	$ 61.09	$ 45.42
S&P 500	$100.00	$113.87	$127.82	$141.62	$164.90	$128.66
S&P Apparel Retail Index	$100.00	$120.19	$114.33	$144.49	$143.13	$125.10

Item 6. Selected Consolidated Financial and Operating Data

The following tables set forth selected consolidated statement of operations data, operating data, other financial data, and balance sheet data as of and for the periods indicated. The selected consolidated statement of operations and balance sheet data for each of the five fiscal years presented below are derived from our consolidated financial statements. You should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this report.

	Year Ended September 30,				
	2008	2007	2006	2005	2004
	(in thousands, except per share amounts)				
Statement of Operations Data:					
Net sales	$564,602	$581,371	$602,744	$561,627	$518,051
Cost of goods sold	281,561	281,155	288,082	277,453	242,751
Gross profit	283,041	300,216	314,662	284,174	275,300
Selling, general and administrative expenses	271,592	279,719	279,713	264,652	248,409
Store closing, asset impairment and asset disposal expenses	2,916	1,788	4,621	5,284	3,621
Restructuring and other charges	3,461	—	—	—	—
Operating income	5,072	18,709	30,328	14,238	23,270
Interest expense, net	6,974	9,848	14,534	15,293	14,765
Loss on extinguishment of debt	97	9,423	873	—	—
Income (loss) before income taxes	(1,999)	(562)	14,921	(1,055)	8,505
Income tax provision (benefit)	(610)	(169)	5,819	(880)	3,466
Net income (loss)	$ (1,389)	$ (393)	$ 9,102	$ (175)	$ 5,039
Net income (loss) per share—Basic	$ (0.23)	$ (0.07)	$ 1.70	$ (0.03)	$ 0.97
Average shares outstanding—Basic	5,924	5,802	5,348	5,242	5,212
Net income (loss) per share—Diluted	$ (0.23)	$ (0.07)	$ 1.63	$ (0.03)	$ 0.92
Average shares outstanding—Diluted	5,924	5,802	5,591	5,242	5,501

	Year Ended September 30,				
	2008	2007	2006	2005	2004
	(unaudited; in thousands, except operating data and ratios)				
Operating Data:					
Comparable store sales increase (decrease)(1)	0.2 %	(4.8)%	4.3 %	(2.5)%	(4.9)%
Average net sales per gross square foot(2)	$ 302	$ 299	$ 305	$ 295	$ 311
Average net sales per store(2)	$ 588,000	$ 568,000	$ 570,000	$ 534,000	$ 537,000
Gross store square footage at period end(3)	1,492,000	1,498,000	1,532,000	1,579,000	1,569,000
Gross retail location square footage at period end(4)	1,623,000	1,811,000	1,819,000	1,874,000	1,693,000
Number of retail locations at period end:					
Motherhood Maternity stores	616	635	659	690	717
Mimi Maternity stores	89	100	106	117	121
A Pea in the Pod stores	30	32	33	37	41
Destination Maternity superstores	19	14	12	8	4
Total stores	754	781	810	852	883
Leased departments	278	795	731	739	232
Total retail locations	1,032	1,576	1,541	1,591	1,115
Other Financial Data:					
Adjusted EBITDA(5)	$ 25,501	$ 38,579	$ 51,715	$ 33,906	$ 40,579
Ratio of total debt to Adjusted EBITDA	3.1x	2.4x	2.3x	3.8x	3.2x
Ratio of Adjusted EBITDA to interest expense, net	3.7x	3.9x	3.6x	2.2x	2.7x
Cash flows provided by operating activities	27,822	27,398	42,413	7,324	18,256
Cash flows used in investing activities	(13,347)	(8,112)	(23,166)	(11,414)	(23,020)
Cash flows used in financing activities	(12,457)	(28,060)	(3,380)	(1,340)	(2,500)
Capital expenditures	15,688	15,444	13,933	17,644	21,540
Balance Sheet Data (at end of period):					
Working capital	$ 61,611	$ 64,923	$ 83,772	$ 71,228	$ 67,833
Total assets	256,248	275,925	287,736	273,317	271,370
Total debt	78,646	93,180	118,349	128,856	127,917
Stockholders' equity	89,468	88,523	80,700	63,328	62,903

(1) Comparable store sales figures represent sales at retail locations that have been in operation by the Company for at least twelve full months at the beginning of the period for which such data is presented. As used in this Form 10-K, "retail locations" include stores and leased departments, and exclude locations where Kohl's sells our products under an exclusive product and license agreement.

(2) Based on stores in operation by the Company during the entire twelve-month period (which does not include leased department or licensed relationships).

(3) Based on stores in operation by the Company at the end of the period.

(4) Based on all retail locations in operation at the end of the period.

(5) Adjusted EBITDA represents operating income before deduction for the following non-cash charges: (i) depreciation and amortization expense; (ii) loss on impairment of long-lived assets; (iii) (gain) loss on disposal of assets; and (iv) stock-based compensation expense. We have presented Adjusted EBITDA to enhance your understanding of our operating results. Adjusted EBITDA, although possibly calculated

differently by us than other companies, is provided because management believes it is an important measure of financial performance used in the retail industry to measure operating results, to determine the value of companies within the industry and to define standards for borrowing from institutional lenders. We use Adjusted EBITDA as a measure of the performance of the Company. We provide Adjusted EBITDA to investors to assist them in performing their analysis of our historical operating results. Adjusted EBITDA reflects a measure of our operating results before consideration of certain non-cash charges and consequently, you should not construe Adjusted EBITDA as an alternative to net income (loss) or operating income as an indicator of our operating performance, or as an alternative to cash flows from operating activities as a measure of our liquidity, as determined in accordance with generally accepted accounting principles. We may calculate Adjusted EBITDA differently than other companies. Presented below is a reconciliation of net income (loss) and operating income (the most directly comparable financial measures calculated and presented in accordance with GAAP) to Adjusted EBITDA.

Reconciliation of Net Income (Loss) to Adjusted EBITDA

(in thousands)

(unaudited)

	Year Ended September 30,				
	2008	2007	2006	2005	2004
Net income (loss)	$(1,389)	$ (393)	$ 9,102	$ (175)	$ 5,039
Add: income tax provision (benefit)	(610)	(169)	5,819	(880)	3,466
Add: interest expense, net	6,974	9,848	14,534	15,293	14,765
Add: loss on extinguishment of debt	97	9,423	873	—	—
Operating income	5,072	18,709	30,328	14,238	23,270
Add: depreciation and amortization expense	15,974	16,410	16,118	15,502	14,270
Add: loss on impairment of long-lived assets	1,628	1,781	2,612	3,440	1,816
Add: (gain) loss on disposal of assets	546	(422)	(139)	726	1,223
Add: stock-based compensation expense	2,281	2,101	2,796	—	—
Adjusted EBITDA	$25,501	$38,579	$51,715	$33,906	$40,579

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion should be read in conjunction with the consolidated financial statements and their related notes included elsewhere in this report.

We are the leading designer and retailer of maternity apparel in the United States with 1,032 retail locations, including 754 stores in all 50 states, Puerto Rico, Guam and Canada and 278 leased departments. During fiscal 2008, we operated our stores under the Motherhood Maternity, Mimi Maternity, A Pea in the Pod and Destination Maternity retail concepts and also sold our merchandise on the Internet at our MaternityMall.com and our brand-specific websites, as well as through an exclusive product and license agreement with Kohl's. In addition to our 754 stores, our retail locations include 278 leased departments within department and specialty stores. We design and contract manufacture approximately 90% of the merchandise we sell.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. These generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of net sales and expenses during the reporting period.

Our significant accounting policies are described in Note 2 of "Notes to Consolidated Financial Statements." We believe that the following discussion addresses our critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. If actual results were to differ significantly from estimates made, future reported results could be materially affected. However, we are not currently aware of any reasonably likely events or circumstances that would result in materially different results.

Our senior management has reviewed these critical accounting policies and estimates and the related Management's Discussion and Analysis of Financial Condition and Results of Operations with the Audit Committee of our Board of Directors.

Inventories. We value our inventories, which consist primarily of maternity apparel, at the lower of cost or market. Cost is determined on the first-in, first-out method (FIFO) and includes the cost of merchandise, freight, duty and broker fees. A periodic review of inventory quantities on hand is performed in order to determine if inventory is properly valued at the lower of cost or market. Factors related to current inventories such as future consumer demand and fashion trends, current aging, current analysis of merchandise based on receipt date, current and anticipated retail markdowns or wholesale discounts, and class or type of inventory are analyzed to determine estimated net realizable values. Criteria utilized by us to quantify aging trends include factors such as the amount of merchandise received within the past twelve months, merchandise received more than one year before with quantities on-hand in excess of 12 months of sales, and merchandise currently selling below cost. A provision is recorded to reduce the cost of inventories to its estimated net realizable value, if required. Inventories as of September 30, 2008 and 2007 totaled $88.1 million and $100.5 million, respectively, representing 34.4% and 36.4% of total assets, respectively. Given the significance of inventories to our consolidated financial statements, the determination of net realizable values is considered to be a critical accounting estimate. Any significant unanticipated changes in the factors noted above could have a significant impact on the value of our inventories and our reported operating results.

Long-Lived Assets. Our long-lived assets consist principally of store leasehold improvements (included in the "Property, plant and equipment, net" line item in our consolidated balance sheets) and, to a much lesser extent, lease acquisition costs (included in the "Other intangible assets, net" line item in our consolidated balance sheets). These long-lived assets are recorded at cost and are amortized using the straight-line method over the shorter of the lease term or their useful life. Net long-lived assets as of September 30, 2008 and 2007 totaled $66.8 million and $69.2 million, respectively, representing 26.1% and 25.1% of total assets, respectively.

In assessing potential impairment of these assets, we periodically evaluate the historical and forecasted operating results and cash flows on a store-by-store basis. Newly opened stores may take time to generate positive operating and cash flow results. Factors such as (i) store concept, that is, Motherhood, Mimi, A Pea in the Pod or Destination Maternity, (ii) store location, for example, urban area versus suburb, (iii) current marketplace awareness of our brands, (iv) local customer demographic data, (v) anchor stores within the mall in which our store is located and (vi) current fashion trends are all considered in determining the time frame required for a store to achieve positive financial results, which is assumed to be within two years from the date a store location is opened. If economic conditions are substantially different from our expectations, the carrying value of certain of our long-lived assets may become impaired. As a result of our impairment assessment, we recorded write-downs of long-lived assets of $1.6 million and $1.8 million during fiscal 2008 and fiscal 2007, respectively.

Goodwill. The purchase method of accounting for business combinations requires the use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. Goodwill represents the excess of the aggregate purchase price over the fair value of net assets acquired in business combinations and is separately disclosed in our consolidated balance sheets. As of both September 30, 2008 and 2007, goodwill totaled $50.4 million, representing 19.7% and 18.3% of total assets, respectively. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually or as impairment indicators arise.

The impairment test requires us to compare the fair value of business reporting units to their carrying value, including assigned goodwill. In assessing potential impairment of goodwill, we have determined that we have one reporting unit for purposes of applying SFAS No. 142 based on our reporting structure. As of September 30, 2008, our book value was $14.74 per share of outstanding common stock and the closing trading price of our common stock was $13.88 per share. The fair value of our single reporting unit is determined based on a combination of the fair market value of our outstanding common stock on a control basis, a discounted cash flow analysis and other generally accepted valuation methodologies and, if necessary, an outside independent valuation is obtained to determine the fair value. The carrying value of our single reporting unit, expressed on a per share basis, is represented by the book value per share of our outstanding common stock. The results of the annual impairment tests performed as of September 30, 2008, 2007 and 2006 indicated the fair value of the reporting unit exceeded its carrying value. As part of our impairment analysis as of September 30, 2008, an outside independent valuation was obtained and the fair value of our single reporting unit exceeded the carrying value. If the per share fair value of our single reporting unit was less than the book value per share on September 30, 2008, our goodwill would have been impaired.

Our goodwill may also need to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of our single reporting unit below its carrying value. The market price of our common stock has been subject to substantial volatility subsequent to September 30, 2008 and is currently trading near historically low prices. Consequently, if our stock price does not increase in the near term, our goodwill would likely be impaired and we would need to recognize a non-cash impairment charge, which could have a material adverse effect on our consolidated balance sheet and results of operations, but would not have any adverse effect on the covenant calculations of our debt agreements or our overall compliance with the covenants of our debt agreements.

Accounting for Income Taxes. We adopted the provisions of FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes" effective as of October 1, 2007 (see "Notes to Consolidated Financial Statements; Note 13. Income Taxes").

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure (including interest and penalties) together with assessing temporary differences resulting from differing treatment of items, such as depreciation of property and equipment and valuation of inventories, for tax and accounting purposes. We establish reserves for certain tax positions that we believe are supportable, but such tax positions are potentially subject to successful challenge by the applicable taxing authority. We determine our provision for income taxes based on federal and state tax laws and regulations currently in effect, some of which have been recently revised. Legislation changes currently proposed by certain of the states in which we operate, if enacted, could increase our transactions or activities subject to tax. Any such legislation that becomes law could result in an increase in our state income tax expense and our state income taxes paid, which could have a material and adverse effect on our net income or cash flow.

The temporary differences between the book and tax treatment of income and expenses result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. Actual results could differ from our assessments if adequate taxable income is not generated in future periods. Net deferred tax assets as of September 30, 2008 and 2007 totaled $23.6 million and $22.3 million, respectively, representing 9.2% and 8.1% of total assets, respectively. To the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. To the extent we establish a valuation allowance or change the allowance in a future period, income tax expense will be impacted.

Accounting for Contingencies. From time to time, we are named as a defendant in legal actions arising from our normal business activities. We account for contingencies such as these in accordance with SFAS No. 5, "Accounting for Contingencies," including the provisions of Emerging Issues Task Force Issue D-77, "Accounting for Legal Costs Expected to be Incurred in Connection with a Loss Contingency." SFAS No. 5 requires us to record an estimated loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. An interpretation of SFAS No. 5 further states that when there is a range of loss and no amount within that range is a better estimate than any other, then the minimum amount of the range shall be accrued. Accounting for contingencies arising from contractual or legal proceedings requires management, after consultation with outside legal counsel, to use its best judgment when estimating an accrual related to such contingencies. As additional information becomes known, our accrual for a loss contingency could fluctuate, thereby creating variability in our results of operations from period to period. Likewise, an actual loss arising from a loss contingency which significantly exceeds the amount accrued for in our financial statements could have a material adverse impact on our operating results for the period in which such actual loss becomes known.

Restructuring

On July 1, 2008, we announced that we were streamlining our merchandise brands and store nameplates and implementing cost reductions in order to simplify our business model, reduce overhead costs and improve and tighten our merchandise assortments. Pursuant to the strategic restructuring, we are rebranding our Mimi Maternity® merchandise brand under our A Pea in the Pod® brand beginning with the Spring 2009 collection, which initially debuted in November 2008. We also plan to streamline our store nameplates, which began in November 2008, by renaming our single-brand Mimi Maternity stores as A Pea in the Pod, and by renaming our multi-brand Mimi Maternity stores as Destination Maternity®. We incurred pre-tax expense of approximately $0.9 million from our restructuring and cost reduction actions in the fourth quarter of fiscal 2008, consisting of approximately $0.7 million for cash severance expense and severance-related benefits, and approximately $0.2 million of non-cash expense for accelerated depreciation of existing store signs resulting from planned store signage changes. Approximately $0.1 million of non-cash expense for additional accelerated depreciation is expected to be recorded in the first quarter of fiscal 2009. We expect to realize approximately $5 million of annualized pre-tax expense savings from the cost reductions associated with our strategic restructuring actions, and we began to realize these savings in the fourth quarter of fiscal 2008.

Leased Departments

As we disclosed in September 2007, we were unable to reach terms on a renewal of our relationship with Sears and, as a result, our relationship with Sears ended on June 20, 2008, resulting in the closure of our leased departments within Sears stores. Even after the end of the Sears relationship, we remain well positioned to service the needs of our customers through our own stores as well as through our exclusive licensed relationship and our other leased departments. After our relationship with Sears ended, the Two Hearts Maternity brand remained our exclusive property. As of September 30, 2007, we operated 501 leased departments within Sears stores.

Results of Operations

The following table sets forth certain operating data from our consolidated statements of operations as a percentage of net sales and as a percentage change for the periods indicated:

	% of Net Sales(1) Year Ended September 30,			% Increase (Decrease) Year Ended September 30,	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Net sales	100.0 %	100.0 %	100.0 %	(2.9)%	(3.5)%
Cost of goods sold(2)	49.9	48.4	47.8	0.1	(2.4)
Gross profit	50.1	51.6	52.2	(5.7)	(4.6)
Selling, general and administrative expenses(3)	48.1	48.1	46.4	(2.9)	—
Store closing, asset impairment and asset disposal expenses	0.5	0.3	0.8	63.1	(61.3)
Restructuring and other charges	0.6	—	—	N.M.	N.M.
Operating income	0.9	3.2	5.0	(72.9)	(38.3)
Interest expense, net	1.2	1.7	2.4	(29.2)	(32.2)
Loss on extinguishment of debt	0.0	1.6	0.1	N.M.	N.M.
Income (loss) before income taxes	(0.4)	(0.1)	2.5	N.M.	N.M.
Income tax provision (benefit)	(0.1)	(0.0)	1.0	N.M.	N.M.
Net income (loss)	(0.2)%	(0.1)%	1.5 %	N.M.	N.M.

N.M.—Not meaningful

(1) Components may not add to total due to rounding.

(2) The "Cost of goods sold" line item includes: merchandise costs (including customs duty expenses), expenses related to inventory shrinkage, product related corporate expenses (including expenses related to our payroll, benefit costs and operating expenses of our buying departments), inventory reserves (including lower of cost or market reserves), inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, and the other costs of our distribution network.

(3) The "Selling, general and administrative expenses" line item includes: advertising and marketing expenses, corporate administrative expenses, and store expenses (including store payroll and store occupancy expenses).

The following table sets forth certain information regarding the number of our retail locations, including stores and leased maternity departments for the fiscal years indicated:

	Year Ended September 30,								
	2008			2007			2006		
Retail Locations	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations
Beginning of period	781	795	1,576	810	731	1,541	852	739	1,591
Opened	28	7	35	18	121	139	17	39	56
Closed	(55)	(524)	(579)	(47)	(57)	(104)	(59)	(47)	(106)
End of period	754	278	1,032	781	795	1,576	810	731	1,541

Years Ended September 30, 2008 and 2007

Net Sales. Our net sales for fiscal 2008 decreased by 2.9%, or $16.8 million, to $564.6 million from $581.4 million for fiscal 2007. The decrease in sales versus last year resulted primarily from a decrease in sales from the Company's leased department and licensed relationships, largely due to a decrease in Sears leased department sales due to the closure of all of the remaining leased departments within Sears stores during June 2008, as well as reduced sales volume from the ongoing closure of certain underperforming stores, partially offset by increased internet sales and a slight increase in comparable store sales. Comparable store sales increased by 0.2% during fiscal 2008, based on 820 retail locations, versus a comparable store sales decrease of 4.8% during fiscal 2007, based on 1,330 retail locations.

As of September 30, 2008, we operated a total of 754 stores and 1,032 total retail locations: 616 Motherhood Maternity stores (including 87 Motherhood Maternity Outlet stores), 89 Mimi Maternity stores, 30 A Pea in the Pod stores, 19 Destination Maternity superstores, and 278 leased maternity departments, which were primarily under the Motherhood brand. In addition, our Oh Baby by Motherhood collection is available at Kohl's stores throughout the United States. In comparison, as of September 30, 2007, we operated a total of 781 stores and 1,576 total retail locations: 635 Motherhood Maternity stores (including 91 Motherhood Maternity Outlet stores), 100 Mimi Maternity stores, 32 A Pea in the Pod stores, 14 Destination Maternity superstores, and 795 leased departments. As of September 30, 2008, our store total included 64 multi-brand stores, including 19 Destination Maternity superstores, with the remaining multi-brand stores under the Mimi Maternity brand. In comparison, as of September 30, 2007, we operated 57 multi-brand stores, including 14 Destination Maternity superstores. These multi-brand store figures for fiscal 2008 and fiscal 2007 exclude our A Pea in the Pod stores, which have traditionally carried a full line of both A Pea in the Pod and Mimi branded merchandise. During fiscal 2008, we opened 28 stores, including 7 multi-brand stores, and closed 55 stores, with 18 of these store closings related to multi-brand store openings. In addition, during fiscal 2008, we opened 7 leased department locations and closed 524 leased department locations, including the 501 Sears leased departments operated by us at the end of September 2007.

Gross Profit. Our gross profit for fiscal 2008 decreased by 5.7%, or $17.2 million, to $283.0 million compared to $300.2 million for fiscal 2007, reflecting the decrease in net sales as well as a decrease in gross margin. Gross profit as a percentage of net sales (gross margin) was 50.1% for fiscal 2008, compared to 51.6% for fiscal 2007. The decrease in gross margin for fiscal 2008 as compared to fiscal 2007 reflects increased markdowns to help manage our inventory level, product cost inflation pressures that are being felt throughout the apparel industry, and the effect of spreading fixed product overhead costs over a smaller sales volume.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses for fiscal 2008 decreased by 2.9%, or $8.1 million, to $271.6 million from $279.7 million for fiscal 2007. This decrease in expense resulted primarily from significantly lower legal expenses, and from lower store occupancy, payroll and employee benefits costs, as a result of our reduced number of stores and leased departments. As a percentage of net sales, selling, general and administrative expenses remained consistent at 48.1% for fiscal 2008 and fiscal 2007.

Store Closing, Asset Impairment and Asset Disposal Expenses. Our store closing, asset impairment and asset disposal expenses for fiscal 2008 increased by 63.1%, or $1.1 million, to $2.9 million from $1.8 million for fiscal 2007. We incurred impairment charges for write-downs of long-lived assets of $1.6 million for fiscal 2008, as compared to $1.8 million for fiscal 2006. We incurred charges relating to store closings and other asset disposals of $1.3 million for fiscal 2008, comprised of $0.7 million of cash lease termination fees and $0.6 million of non-cash other asset disposal costs, which were primarily related to store relocations, as compared to $7,000 for fiscal 2007, comprised of $0.4 million of cash lease termination fees offset by $0.4 million non-cash gain on asset disposals from closed stores.

Restructuring and Other Charges. In the fourth quarter of fiscal 2008, we incurred pre-tax expense of $0.9 million from our strategic restructuring and cost reduction actions. We also recognized a $2.5 million charge in connection with the retirement of our Chief Executive Officer. The charge reflects benefit costs and payroll taxes related to an amendment to the executive's supplemental retirement agreement with us.

Operating Income. Our operating income for fiscal 2008 decreased by 72.9%, or $13.6 million, to $5.1 million from $18.7 million for fiscal 2007, due to the lower sales volume, lower gross margin and associated gross profit reduction, as well as the restructuring and other charges and increased store closing and asset impairment costs, partially offset by lower selling, general and administrative expenses. Operating income as a percentage of net sales (operating income margin) for fiscal 2008 decreased to 0.9% from 3.2% for fiscal 2007. The decrease in operating income margin was primarily due to our decreased gross margin for fiscal 2008 compared to fiscal 2007 and the restructuring and other charges incurred in fiscal 2008.

Interest Expense, Net. Our net interest expense for fiscal 2008 decreased by 29.2%, or approximately $2.8 million, to $7.0 million from $9.8 million in fiscal 2007. This decrease was primarily due to the lower interest rate on our new $90.0 million Term Loan, which was used to redeem the remaining outstanding balance of our $11^{1}/_{4}$% senior notes (the "Senior Notes") and, to a lesser extent, our lower debt level, as a result of the repurchase of $25.0 million of our Senior Notes in December 2006, and the $13.0 million of Term Loan prepayments in fiscal 2008, partially offset by higher average borrowings under our credit facility. During fiscal 2008, our average level of direct borrowings under our credit facility was $5.2 million, but we did not have any direct borrowings under our credit facility as of September 30, 2008. During fiscal 2007, our average level of direct borrowings under our credit facility was $1.0 million.

Loss on Extinguishment of Debt. During fiscal 2008, we prepaid $13.0 million principal amount of our outstanding Term Loan. The $13.0 million Term Loan prepayments resulted in pre-tax charges totaling $0.1 million. During fiscal 2007, we repurchased $25.0 million principal amount of Senior Notes in December 2006 and, with the proceeds of a new Term Loan, we redeemed the remaining $90.0 million principal amount of Senior Notes in April 2007. The $115.0 million of Senior Note repurchases resulted in pre-tax charges totaling $9.4 million in fiscal 2007, representing the premium paid plus the write-off of unamortized debt issuance discount and deferred financing costs.

Income Taxes. Our effective tax rate was a benefit of 30.5% in fiscal 2008, compared to a benefit of 30.1% in fiscal 2007. Our income tax rate for fiscal 2008 reflects the effect of additional income tax expense (including interest and penalties) being recognized in connection with the implementation and ongoing accounting requirements of FIN No. 48. Additionally, our income tax rates for both fiscal 2008 and fiscal 2007 reflect the effects of certain minimum state tax requirements, partially offset by allowable federal tax credits. See Note 13 of the Notes to Consolidated Financial Statements for the reconciliation of the statutory federal income tax rate to our effective tax rate.

Net Loss. Net loss for fiscal 2008 was $(1.4) million, or $(0.23) per share (diluted), compared to net loss of $(0.4) million for fiscal 2007, or $(0.07) per share (diluted). Excluding the debt extinguishment, restructuring and other charges in fiscal 2008, and the debt extinguishment charge in fiscal 2007, net income for fiscal 2008 was $0.9 million, or $0.14 per share (diluted), compared to net income of $5.4 million for fiscal 2007, or $0.87 per share (diluted).

The average diluted shares outstanding of 5,924,000 shares for fiscal 2008 was 2.1% higher than the 5,802,000 shares outstanding for fiscal 2007. The increase in average diluted shares outstanding reflects higher shares outstanding in fiscal 2008 compared to fiscal 2007, as a result of stock option exercises and vesting of restricted stock awards.