

Following is a reconciliation of net loss and net loss per share (diluted) to net income before loss on extinguishment of debt and restructuring and other charges, and net income per share before loss on extinguishment of debt and restructuring and other charges (diluted) for the years ended September 30, 2008 and 2007 (in thousands, except per share amounts):

	Year Ended September 30, 2008			Year Ended September 30, 2007		
	Net Income (Loss)	Shares	Diluted EPS	Net Income (Loss)	Shares	Diluted EPS
Net loss	\$ (1,389 )	5,924	\$ (0.23 )	\$ (393 )	5,802	\$ (0.07)
Loss on extinguishment of debt, net of tax	61	—	—	5,748	—	—
Restructuring and other charges, net of tax	2,171	—	—	—	—	—
Incremental shares from the assumed lapse of restrictions on restricted stock awards	—	22	—	—	36	—
Incremental shares from the assumed exercise of outstanding stock options	—	102	—	—	297	—
Adjusted net income before loss on extinguishment of debt and restructuring and other charges	\$ 843	6,048	\$ 0.14	\$ 5,355	6,135	\$ 0.87

#### Years Ended September 30, 2007 and 2006

*Net Sales.* Our net sales for fiscal 2007 decreased by 3.5%, or approximately \$21.3 million, to \$581.4 million from \$602.7 million for fiscal 2006. The decrease in sales versus last year resulted primarily from a decrease in comparable store sales, partially offset by increased sales from the Company's leased department and licensed relationships and marketing partnerships. Comparable store sales decreased by 4.8% during fiscal 2007, based on 1,330 retail locations, versus a comparable store sales increase of 4.3% during fiscal 2006, based on 932 retail locations.

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 maternity departments, of which 501 were in Sears stores and the balance 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, 2006, we operated a total of 810 stores and 1,541 total retail locations: 659 Motherhood Maternity stores (including 97 Motherhood Maternity Outlet stores), 106 Mimi Maternity stores, 33 A Pea in the Pod stores, 12 Destination Maternity superstores, and 731 leased departments. As of September 30, 2007, our store total included 57 multi-brand stores, including 14 Destination Maternity superstores, with the remaining multi-brand stores under the Mimi Maternity brand. In comparison, as of September 30, 2006, we operated 48 multi-brand stores, including 12 Destination Maternity superstores. These multi-brand store figures for fiscal 2007 and fiscal 2006 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 2007, we opened 18 stores, including nine multi-brand stores, and closed 47 stores, with 20 of these store closings related to multi-brand store openings. In addition, during fiscal 2007, the Company opened 121 leased department locations and closed 57 leased department locations.

*Gross Profit.* Our gross profit for fiscal 2007 decreased by 4.6%, or approximately \$14.5 million, to \$300.2 million compared to \$314.7 million for fiscal 2006, reflecting the decrease in net sales as well as a decrease in gross profit as a percentage of net sales. Gross profit as a percentage of net sales (gross margin) was 51.6% for fiscal 2007, compared to 52.2% for fiscal 2006. The decrease in gross margin for fiscal 2007 as compared to fiscal 2006 reflects the negative effect of spreading product overhead costs over a smaller sales base, partially offset by modestly higher maintained gross margin in

our stores and increased marketing partnership revenues. The increase in our maintained gross margin in our stores for fiscal 2007 primarily reflects decreased markdown levels compared to fiscal 2006 for the first six months of fiscal 2007.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses for fiscal 2007 were equal to fiscal 2006, at \$279.7 million for both fiscal years. Significantly lower variable incentive compensation costs, and lower store occupancy expenses, as a result of our store closings and our new multi-brand stores, were offset by increased legal expenses that were primarily related to certain intellectual property disputes, increased employee benefits costs and increased payroll expenses. As a percentage of net sales, selling, general and administrative expenses increased to 48.1% for fiscal 2007 compared to 46.4% for fiscal 2006. The increase in this percentage was primarily a result of decreased net sales, even though the actual amount of selling, general and administrative expenses for fiscal 2007 was consistent with fiscal 2006. In addition to this unfavorable expense leverage related to decreased net sales, the operating expense percentage increased due to increased legal expenses, increased employee benefits costs and increased payroll expenses. The increase in selling, general and administrative expenses as a percentage of net sales was partially offset by decreases as a percentage of net sales in variable incentive compensation expense.

*Store Closing, Asset Impairment and Asset Disposal Expenses.* Our store closing, asset impairment and asset disposal expenses for fiscal 2007 decreased by 61.3%, or \$2.8 million, to \$1.8 million from \$4.6 million for fiscal 2006. We incurred impairment charges for write-downs of long-lived assets of \$1.8 million for fiscal 2007, as compared to \$2.6 million for fiscal 2006. We incurred charges relating to store closings and other asset disposals of \$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, as compared to \$2.0 million for fiscal 2006, comprised of \$2.1 million of cash lease termination fees and \$0.1 million of non-cash other asset disposal costs, partially offset by \$0.2 million of non-cash gain on asset disposals from closed stores. The majority of the store closing charges for fiscal 2006 were for stores closed in connection with multi-brand store openings, with most of these charges related to the opening of our world flagship Destination Maternity superstore in New York City in February 2006.

*Operating Income.* Our operating income for fiscal 2007 decreased by 38.3%, or \$11.6 million, to \$18.7 million from \$30.3 million for fiscal 2006, due to the lower sales volume and associated gross profit reduction partially offset by lower store closing and asset impairment costs. Operating income as a percentage of net sales (operating income margin) for fiscal 2007 decreased to 3.2% from 5.0% for fiscal 2006. The decrease in operating income margin was primarily due to unfavorable leverage of selling, general and administrative expenses resulting from decreased comparable store sales and, to a lesser extent, due to our decreased gross margin, partially offset by a lower percentage of store closing and asset impairment costs.

*Interest Expense, Net.* Our net interest expense for fiscal 2007 decreased by 32.2%, or \$4.7 million, to \$9.8 million from \$14.5 million in fiscal 2006. This decrease was primarily due to the repurchase of \$35.0 million of our Senior Notes from August 2006 through December 2006 and, to a lesser extent, the partial year benefit of the lower interest rate on our new \$90.0 million Term Loan, which we began to recognize in April 2007. During fiscal 2007, our average level of direct borrowings under our credit facility was \$1.0 million, but we did not have any direct borrowings under our credit facility as of September 30, 2007. During fiscal 2006, our average level of direct borrowings under our credit facility was \$0.3 million.

*Loss on Extinguishment of Debt.* In December 2006, we repurchased \$25.0 million principal amount of our outstanding Senior Notes. In April 2007, we repurchased the remaining \$90.0 million principal amount of our outstanding Senior Notes with the proceeds from a new Term Loan. The \$115.0 million of Senior Note repurchases resulted in pre-tax charges totaling \$9.4 million, 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 30.1% in fiscal 2007, compared to a provision of 39.0% in fiscal 2006, which reflected the effects of certain minimum state tax requirements and allowable federal tax credits in fiscal 2007. 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 Income (Loss).* Net loss for fiscal 2007 was \$0.4 million, or \$(0.07) per share (diluted), compared to net income of \$9.1 million for fiscal 2006, or \$1.63 per share (diluted). Excluding the debt extinguishment charges in fiscal 2007 and fiscal 2006, net income for fiscal 2007 was \$5.4 million, or \$0.87 per share (diluted), compared to net income of \$9.6 million for fiscal 2006, or \$1.72 per share (diluted).

The average diluted shares outstanding of 5,802,000 shares for fiscal 2007 was 3.8% higher than the 5,591,000 shares outstanding for fiscal 2006. The increase in average diluted shares outstanding reflects higher shares outstanding in fiscal 2007 compared to fiscal 2006, as a result of stock option exercises and restricted stock awards, partially offset by the elimination of the dilutive impact of outstanding stock options and restricted stock in fiscal 2007 due to the net loss for fiscal 2007, compared to the dilutive impact of outstanding stock options in fiscal 2006, when we generated net income.

Following is a reconciliation of net income (loss) and net income (loss) per share (diluted) to net income before loss on extinguishment of debt and net income per share before loss on extinguishment of debt (diluted) for the years ended September 30, 2007 and 2006 (in thousands, except per share amounts):

	Year Ended September 30, 2007			Year Ended September 30, 2006		
	Net Income (Loss)	Shares	Diluted EPS	Net Income	Shares	Diluted EPS
Net income (loss)	\$ (393 )	5,802	\$ (0.07 )	\$ 9,102	5,591 (1)	\$ 1.63
Loss on extinguishment of debt, net of tax	5,748	—	—	533	—	—
Incremental shares from the assumed lapse of restrictions on restricted stock awards	—	36	—	—	—	—
Incremental shares from the assumed exercise of outstanding stock options	—	297	—	—	—	—
Adjusted net income before loss on extinguishment of debt	\$ 5,355	6,135	\$ 0.87	\$ 9,635	5,591	\$ 1.72

(1) Includes 243,000 shares from the assumed exercise of outstanding stock options and warrants.

#### Liquidity and Capital Resources

Our cash needs have primarily been for: (i) debt service, (ii) capital expenditures, including leasehold improvements, fixtures and equipment for new stores, store relocations and expansions of our existing stores, as well as improvements and new equipment for our distribution and corporate facilities and information systems, and (iii) working capital, including inventory to support our business. We have historically financed these capital requirements from cash flows from operations, borrowings under our credit facility or available cash balances.

Cash and cash equivalents increased by \$2.0 million during fiscal 2008 compared to a decrease of \$8.8 million during fiscal 2007.

Cash provided by operations of \$27.8 million for fiscal 2008 increased by \$0.4 million from \$27.4 million for fiscal 2007. This increase in cash provided by operations versus the prior year was primarily the result of working capital changes that provided more cash in fiscal 2008 compared to fiscal 2007, primarily due to a decrease in inventories in fiscal 2008, partially offset by the larger net loss and smaller loss on extinguishment of debt in fiscal 2008 compared to fiscal 2007. Total inventories as of September 30, 2008 were \$88.1 million, a decrease of \$12.4 million or 12.4% below the \$100.5 million inventories balance as of September 30, 2007. During fiscal 2008 we used the majority of our cash provided by operations to pay for capital expenditures. For fiscal 2008 we spent \$15.7 million on capital expenditures, including \$12.3 million for leasehold improvements, fixtures and equipment principally for new store facilities, as well as improvements to existing stores, and \$3.4 million for our information systems and distribution and corporate facilities. We funded repayments of long-term debt in fiscal 2008, including \$13.0 million of prepayments of our Term Loan, by using the remaining cash provided by operations and the cash received from the Grantor Trust related to amendments to certain supplemental executive retirement agreements (as described later in this section).

Cash provided by operations of \$27.4 million for fiscal 2007 decreased by \$15.0 million from \$42.4 million for fiscal 2006. This decrease in cash provided by operations versus the prior year was primarily the result of an increase in inventories in fiscal 2007 compared to cash generated from a decrease in inventories during fiscal 2006. Total inventories as of September 30, 2007 were \$100.5 million, an increase of \$6.2 million or 6.6% above the \$94.3 million inventories balance as of September 30, 2006. During fiscal 2007 we used a significant amount of our cash provided by operations to pay for capital expenditures. For fiscal 2007 we spent \$15.4 million in capital expenditures, including \$11.0 million for leasehold improvements, fixtures and equipment principally for new store facilities, as well as improvements to existing stores, and \$4.4 million for our distribution and corporate facilities and information systems. We funded the \$25.0 million repurchase of our Senior Notes in December 2006 by utilizing available cash, cash generated by net proceeds from the sales (net of purchases) of short-term investments, cash generated from stock option exercises, as well as the remaining cash provided by operations.

On December 8, 2006, we completed the repurchase of \$25.0 million principal amount of our Senior Notes at 105.625% of the principal amount, plus accrued and unpaid interest. On April 18, 2007, we completed the redemption of the remaining \$90.0 million principal amount of our outstanding Senior Notes through a new Term Loan financing. The December 2006 and April 2007 redemptions of the Senior Notes, which were both at a price of 105.625% of principal amount, plus accrued interest, resulted in "Loss on extinguishment of debt" of \$9.4 million on a pre-tax basis, consisting of the \$6.5 million cash redemption premium and \$2.9 million of non-cash expense from the write-off of unamortized deferred financing costs and debt issuance costs.

On March 13, 2007, we entered into a Term Loan Agreement for a \$90.0 million senior secured Term Loan B due March 13, 2013, the proceeds of which were received on April 18, 2007 and were used to redeem the remaining \$90.0 million principal amount of our Senior Notes. The new Term Loan extended the maturity for \$90.0 million principal amount of our debt from August 1, 2010 (the maturity date of the redeemed Senior Notes) to March 13, 2013 (the maturity date of the new Term Loan). The interest rate on the Term Loan is equal to, at our election, either (i) the prime rate plus 1.00%, or (ii) the LIBOR rate plus the applicable margin. The applicable margin for LIBOR rate borrowings is either 2.25% or 2.50%, depending on our Consolidated Leverage Ratio (as defined). Based upon our applicable quarterly Consolidated Leverage Ratio during fiscal 2008, the applicable margin for LIBOR rate borrowings remained at 2.50% for fiscal 2008. We are required to make minimum repayments of the principal amount of the Term Loan in quarterly installments of \$225,000 each. We are also required to make an annual principal repayment equal to 25% or 50% of Excess Cash Flow (as defined) in excess of \$5,000,000 for each fiscal year, with the 25% or 50% factor depending on our Consolidated Leverage Ratio. The required principal repayment for fiscal 2008, which was calculated based on the 50% factor, is \$622,000 and is due in December 2008. Additionally, the Term Loan can be prepaid at

our option, in part or in whole, at any time without any prepayment premium or penalty. On March 19, 2008, we prepaid \$5.0 million of the outstanding Term Loan and on June 19, 2008 we prepaid \$8.0 million of the outstanding Term Loan. At September 30, 2008, our indebtedness under the Term Loan Agreement was \$75.7 million.

The Term Loan is secured by a security interest in our accounts receivable, inventory, real estate interests, letter of credit rights, cash, intangibles and certain other assets. The security interest granted to the Term Lenders is, in certain respects, subordinate to the security interest granted to the Credit Facility Lender. The Term Loan Agreement imposes certain restrictions on our ability to, among other things, incur additional indebtedness, pay dividends, repurchase stock, and enter into other various types of transactions. The Term Loan Agreement also contains quarterly financial covenants that require us to maintain a specified maximum permitted Consolidated Leverage Ratio and a specified minimum permitted Consolidated Interest Coverage Ratio (as defined). Since the inception of the Term Loan Agreement we have been in compliance with all covenants of our Term Loan Agreement.

In order to mitigate our floating rate interest risk on the variable rate Term Loan, we entered into an interest rate swap agreement with the Agent bank for the Term Loan that commenced on April 18, 2007, the date the \$90.0 million Term Loan proceeds were received, and expires on April 18, 2012. The interest rate swap agreement enables us to effectively convert an amount of the Term Loan equal to the notional amount of the interest rate swap from a floating interest rate of LIBOR plus 2.50% (subject to reduction to LIBOR plus 2.25% if we achieve a specified leverage ratio), to a fixed interest rate of 7.50% (subject to reduction to 7.25% if we achieve a specified leverage ratio) for the significant majority of the Term Loan. The notional amount of the interest rate swap was \$75.0 million at the inception of the swap agreement and decreases over time to a notional amount of \$5.0 million at the expiration date. The notional amount of the swap was \$57.5 million as of September 30, 2008 and over the next eighteen months decreases as follows: to \$50.0 million starting October 20, 2008; to \$42.5 million starting April 20, 2009; and to \$35.0 million starting October 19, 2009.

In connection with the Term Loan transaction, we amended our existing \$60.0 million revolving Credit Facility in order to permit the new Term Loan financing. This amendment of the Credit Facility also extended its maturity from October 15, 2009 to March 13, 2012, increased its size to \$65.0 million, and reduced the LIBOR-based interest rate option under the facility by 0.25%. There are no financial covenant requirements under the Credit Facility provided that Excess Availability (as defined) does not fall below 10% of the Borrowing Base (as defined). If Excess Availability were to fall below 10% of the Borrowing Base, we would be required to meet a specified minimum Fixed Charge Coverage Ratio (as defined). During all of fiscal 2008 and fiscal 2007, we exceeded the minimum requirements for Excess Availability under the Credit Facility.

As of September 30, 2008, we had no outstanding borrowings under the Credit Facility and \$10.6 million in letters of credit, with \$45.9 million of availability under our credit line based on Borrowing Base limitations, compared to no outstanding borrowings and \$7.0 million in letters of credit, with \$58.0 million of availability under our credit line as of September 30, 2007. Borrowings under the Credit Facility as of September 30, 2008 would have borne interest at a rate of between approximately 4.93% and 5.00% per annum. During fiscal 2008 and 2007, our average level of direct borrowings under the Credit Facility was \$5.2 million and \$1.0 million, respectively. We expect that we will have borrowings under our Credit Facility during certain periods of fiscal 2009, reflecting seasonal and other timing variations in cash flow.

In March 2007, we entered into Supplemental Executive Retirement Agreements (the "SERP Agreements") with our Chairman of the Board and former Chief Executive Officer and our President and Chief Creative Officer (the "SERP Executives"). In April 2007, we made an initial required contribution of \$2.7 million to a Grantor Trust, which was established for the purpose of accumulating assets in anticipation of our payment obligations under the SERP Agreements. In November 2007, we made an additional required contribution to the Grantor Trust of \$1.2 million. In order to impact

positively our ability to comply with the Consolidated Leverage Ratio covenant of our Term Loan Agreement at March 31, 2008, with the consent of the SERP Executives we withdrew \$1.0 million from the Grantor Trust on March 28, 2008. The withdrawn funds were used to repay indebtedness under our credit facility. On May 20, 2008, we entered into (i) a Letter Agreement with the SERP Executives and the trustee for the Grantor Trust (the "Trustee"), and (ii) an amendment to the Grantor Trust agreement with the Trustee (collectively, the "Agreements"). The Agreements amended the SERP Agreements and the Grantor Trust agreement to provide for us to deliver an irrevocable standby letter of credit to the Trustee in an amount equal to our then current funding obligation under the SERP Agreements, which was \$3.9 million. As provided in the Agreements, in the third quarter of fiscal 2008 we received a distribution of the remaining assets held in the Grantor Trust, amounting to \$2.8 million. The amendments affected by the Agreements also allow for the issuance, from time to time, of irrevocable standby letters of credit, or the increase of size of an irrevocable standby letter of credit already held by the Trustee, in lieu of any deposit to the Grantor Trust otherwise required in the future. In addition, the Agreements permit us, from time to time at our sole discretion, to reduce the size of any irrevocable standby letter of credit issued to the Trustee, so long as we simultaneously fund the Grantor Trust with an amount of cash equal to the amount of the reduction of the letter of credit.

Our management believes that our current cash and working capital positions, expected operating cash flows and available borrowing capacity under our Credit Facility, will be sufficient to fund our working capital, capital expenditures and debt repayment requirements and to fund stock and/or debt repurchases, if any, for at least the next twelve months.

#### Contractual Obligations and Commercial Commitments

We have entered into agreements that create contractual obligations and commercial commitments. These obligations and commitments will have an impact on future liquidity and the availability of capital resources. The tables below set forth a summary of these obligations and commitments as of September 30, 2008 (in thousands):

##### Contractual Obligations:

Description	Total Obligations (1)	Payments Due by Period			
		Less Than One Year	One to Three Years	Three to Five Years	After Five Years
Long-term debt	\$ 78,646	\$ 1,860	\$ 2,443	\$ 72,703	\$ 1,640
Interest related to long-term debt (2)	22,114	5,399	9,909	6,438	368
Operating leases (3)	251,824	54,301	88,374	63,232	45,917
Purchase obligations (4)	82,836	82,836	—	—	—
<b>Total contractual cash obligations</b>	<b>\$ 435,420</b>	<b>\$ 144,396</b>	<b>\$ 100,726</b>	<b>\$ 142,373</b>	<b>\$ 47,925</b>

- (1) The amounts in this table exclude obligations under employment and retirement agreements. For a discussion of the compensation of our executive officers, see the information contained under the caption "Executive Compensation" in our proxy statement, which will be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Stockholders scheduled to be held on January 23, 2009.
- (2) Interest costs on our floating rate long-term debt were estimated using the interest rates in effect as of September 30, 2008. This presentation of interest costs on our floating rate long-term debt includes the effects of our interest rate swap agreement further described above in "Liquidity and Capital Resources."
- (3) Includes store operating leases, which generally provide for payment of direct operating costs in addition to rent. The amounts reflected include future minimum lease payments and exclude such direct operating costs.
- (4) Our purchase orders with contract manufacturers are cancelable by us at any time prior to our acceptance of the merchandise. Excludes purchase orders for supplies in the normal course of business.

Commercial Commitments:

Description	Total Obligations	Amount of Commitment Per Period			
		Less Than One Year	One to Three Years	Three to Five Years	After Five Years
Credit facility (1)	\$ 10,605	\$ 10,605	\$ —	\$ —	\$ —
Other standby letters of credit	—	—	—	—	—
Total commercial commitments	\$ 10,605	\$ 10,605	\$ —	\$ —	\$ —

(1) Consists of outstanding letter of credit commitments under our credit facility.

**New Accounting Pronouncements**

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial assets and liabilities that are measured at fair value on a recurring basis for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The FASB has issued a one-year deferral of SFAS No. 157's fair value measurement requirements for non-financial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The adoption of SFAS No. 157 for financial assets and liabilities is not expected to have a material impact on our consolidated financial position or results of operations. The impact from adoption of SFAS No. 157 for non-financial assets and liabilities, if any, on our consolidated financial position or results of operations has not yet been determined.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 is not expected to have a material impact on our consolidated financial position or results of operations.

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133." SFAS No. 161 requires companies to provide qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of and gains and losses on derivative contracts, and details of credit-risk-related contingent features in hedged positions. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of SFAS No. 161 is not expected to have a material impact on our consolidated financial position or results of operations.

**Inflation**

We do not believe that the relatively moderate levels of inflation which have been experienced in the United States in recent years have had a significant effect on our net sales or profitability. However, there can be no assurance that our business will not be affected by inflation in the future.

## Forward-Looking Statements

Some of the information in this report, including the information incorporated by reference (as well as information included in oral statements or other written statements made or to be made by us), contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to: our ability to successfully manage various business initiatives, our ability to successfully implement our merchandise brand and retail nameplate restructuring, the success of our international expansion, our ability to successfully manage and retain our leased department and licensed relationships and marketing partnerships, future sales trends in our existing retail locations, weather, changes in consumer spending patterns, raw material price increases, consumer preferences and overall economic conditions, our ability to anticipate and respond to fashion trends and consumer preferences, anticipated fluctuations in our operating results, the impact of competition and pricing, availability of suitable store locations, continued availability of capital and financing, ability to hire and develop senior management and sales associates, ability to develop and source merchandise, ability to receive production from foreign sources on a timely basis, potential stock repurchases, potential debt prepayments, changes in market interest rates, war or acts of terrorism and other factors referenced in this report, including those set forth under the caption "Item 1A. Risk Factors."

In addition, these forward-looking statements necessarily depend upon assumptions, estimates and dates that may be incorrect or imprecise and involve known and unknown risks, uncertainties and other factors. Accordingly, any forward-looking statements included in this report do not purport to be predictions of future events or circumstances and may not be realized. Forward-looking statements can be identified by, among other things, the use of forward-looking terms such as "believes," "expects," "may," "will," "should," "seeks," "pro forma," "anticipates," "intends," "continues," "could," "estimates," "plans," "potential," "predicts," "goal," "objective," or the negative of any of these terms, or comparable terminology, or by discussions of our outlook, plans, goals, strategy or intentions. Forward-looking statements speak only as of the date made. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission, we assume no obligation to update any of these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting these forward-looking statements.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Destination Maternity Corporation is exposed to market risk from changes in interest rates. We have not entered into any market sensitive instruments for trading purposes. The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates. The range of changes presented reflects our view of changes that are reasonably possible over a one-year period.

As of September 30, 2008, we had cash and cash equivalents of \$12.1 million. Our cash equivalents consist of money market accounts that bear interest at variable rates. A change in market interest rates earned on our investments impacts the interest income and cash flows, but does not materially impact the fair market value of the financial instruments. Due to the average maturity and conservative nature of our investment portfolio, we believe a sudden change in interest rates would not have a material effect on the value of our investment portfolio.

As of September 30, 2008, the principal components of our debt portfolio were the \$75.7 million Term Loan and the \$65.0 million Credit Facility, both of which are denominated in U.S. dollars.



Our Credit Facility carries a variable interest rate that is tied to market indices. As of September 30, 2008, we had no direct borrowings and \$10.6 million of letters of credit outstanding under our Credit Facility. Borrowings under the Credit Facility would have resulted in interest at a rate between approximately 4.9% and 5.0% per annum as of September 30, 2008. Any future borrowings under the Credit Facility would, to the extent of outstanding borrowings, be affected by changes in market interest rates. A change in market interest rates on the variable rate portion of the debt portfolio impacts the interest expense incurred and cash flows.

The Term Loan carries a variable interest rate that is tied to market indices. The sensitivity analysis as it relates to this portion of our debt portfolio assumes an instantaneous 100 basis point move in interest rates from their levels as of September 30, 2008, with all other variables held constant. The Debt Value of the Term Loan is approximately \$75.7 million. A 100 basis point increase in market interest rates would result in additional annual interest expense on the Term Loan of approximately \$0.8 million. A 100 basis point decline in market interest rates would correspondingly lower our annual interest expense on the Term Loan by approximately \$0.8 million.

In order to mitigate our floating rate interest risk on the variable rate Term Loan, we entered into an interest rate swap agreement with the Agent bank for the Term Loan that commenced on April 18, 2007. The interest rate swap agreement enables us to effectively convert an amount of the Term Loan equal to the notional amount of the interest rate swap from a floating interest rate (LIBOR plus 2.50% at inception), to a fixed interest rate (7.50% at inception). The notional amount of the interest rate swap was \$75.0 million at inception of the swap agreement and decreases over time to a notional amount of \$5.0 million at the expiration date. Based on the scheduled swap notional amount during the next 12 months of the swap agreement, a 100 basis point increase in market interest rates would result in interest expense savings for the year of approximately \$0.5 million related to the swap agreement. A 100 basis point decline in market interest rates would correspondingly increase our interest expense for the year by approximately \$0.5 million related to the swap agreement. Thus, a 100 basis point increase in market interest rates during the next 12 months of the swap agreement would result in additional interest expense for the year of approximately \$0.3 million on the Term Loan and swap agreement combined. A 100 basis point decline in market interest rates during the next 12 months of the swap agreement would correspondingly lower our interest expense for the year by approximately \$0.3 million on the Term Loan and swap agreement combined.

Based on the limited other variable rate debt included in our debt portfolio as of September 30, 2008, a 100 basis point increase in interest rates would result in additional interest incurred for the year of less than \$0.1 million. A 100 basis point decrease in interest rates would correspondingly lower our interest expense for the year by less than \$0.1 million.

Other than as described above, we do not believe that the market risk exposure on other financial instruments is material.

#### **Item 8. Financial Statements and Supplementary Data**

Our Consolidated Financial Statements appear on pages F-1 through F-32, as set forth in Item 15.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

#### **Item 9A. Controls and Procedures**

##### **Disclosure Controls and Procedures**

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include controls and

procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to our management on a timely basis to allow decisions regarding required disclosure. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2008. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of September 30, 2008, these controls and procedures were effective.

#### **Internal Control over Financial Reporting**

##### *(a) Management's Annual Report on Internal Control over Financial Reporting*

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the Company's internal control over financial reporting as of September 30, 2008, the end of the Company's fiscal year. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and the Company's overall control environment.

Based on its assessment, management has concluded that the Company's internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. The results of management's assessment were reviewed with the Audit Committee of the Company's Board of Directors.

KPMG LLP independently assessed the effectiveness of the Company's internal control over financial reporting. KPMG LLP has issued an attestation report, which is included below.

##### *(b) Report of Independent Registered Public Accounting Firm*

The Board of Directors and Stockholders  
Destination Maternity Corporation:

We have audited Destination Maternity Corporation's (formerly Mothers Work, Inc.) internal control over financial reporting as of September 30, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Destination Maternity Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Management's Annual Report on Internal Control over Financial Reporting presented above. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain

reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Destination Maternity Corporation maintained, in all material respects, effective internal control over financial reporting as of September 30, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Destination Maternity Corporation and subsidiaries as of September 30, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended September 30, 2008 and the related financial statement schedule, and our report dated December 15, 2008 expressed an unqualified opinion on those consolidated financial statements and the related financial statement schedule.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
December 15, 2008

*(c) Change in Internal Control over Financial Reporting*

There have been no changes in internal control over financial reporting identified in connection with management's evaluation that occurred during the last fiscal quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

Information concerning directors and corporate governance, appearing under the captions "Corporate Governance," "Election of Directors (Proposal 1)" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement, is incorporated herein by reference in response to this Item 10. Information concerning executive officers, appearing under the caption "Item 1. Business—Executive Officers of the Company" in Part I of this Form 10-K, is incorporated herein by reference in response to this Item 10.

The Board of Directors has adopted a Code of Business Conduct and Ethics, which can be found on the Company's corporate website at [www.DestinationMaternityCorp.com/CodeOfConduct.asp](http://www.DestinationMaternityCorp.com/CodeOfConduct.asp). We intend to satisfy the amendment and waiver disclosure requirements under applicable securities regulations by posting any amendments of, or waivers to, the Code of Business Conduct and Ethics on our website.

### **Item 11. Executive Compensation**

The information contained in the Proxy Statement from the sections titled "Compensation Discussion and Analysis," "Reports of Committees of the Board of Directors" and "Executive Compensation" with respect to executive compensation, and in the section titled "Compensation of Directors" with respect to director compensation, is incorporated herein by reference in response to this Item 11.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information contained in the section titled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, with respect to security ownership of certain beneficial owners and management, and in the section titled "Securities Authorized for Issuance Under Equity Compensation Plans," with respect to securities authorized for issuance under equity compensation plans, is incorporated herein by reference in response to this Item 12.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information contained in the sections titled "Corporate Governance" and "Election of Directors (Proposal 1)" in the Proxy Statement with respect to certain relationships and director independence, is incorporated herein by reference in response to this Item 13.

### **Item 14. Principal Accounting Fees and Services**

The information contained in the Proxy Statement in the section titled "Auditor Fees and Services" is incorporated herein by reference in response to this Item 14.

**PART IV.**

**Item 15. Exhibits, Financial Statement Schedules**

(a) (1) Financial Statements

The financial statements listed in the accompanying Index to Consolidated Financial Statements are filed as part of this Form 10-K, commencing on page F-1.

(2) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts.

All other schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits

See following Index of Exhibits.

## INDEX OF EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (effective December 10, 2008).
*3.2	By-Laws of the Company (as amended through December 5, 2008) (Exhibit 3.3 to the Company's Current Report on Form 8-K dated December 5, 2008).
*4.1	Specimen certificate representing shares of the Company's common stock with legend regarding Preferred Stock Purchase Rights (Exhibit 4.2 to the Company's Current Report on Form 8-K dated October 12, 1995).
*4.2	Amended and Restated Rights Agreement, dated as of October 9, 2005, between the Company and StockTrans, Inc., which includes the Form of Series B Rights Certificate, the Certificate of Designation of the voting powers, designations, preferences, and relative, participating, optional or other special rights and qualifications, limitations and restrictions of the Series B Junior Participating Preferred Stock, and a Summary of Rights to Purchase Preferred Stock attached thereto as Exhibits A, B and C respectively (Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 9, 2005).
†*10.1	1994 Director Stock Option Plan (Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended September 30, 1994).
*10.2	Loan Agreement dated September 1, 1995 between Philadelphia Authority For Industrial Development ("PAID") and the Company (Exhibit 10.26 to the Company's Registration Statement on Form S-1, Registration No. 33-97318, dated October 26, 1995 (the "1995 Registration Statement")).
*10.3	Indenture of Trust dated September 1, 1995 between PAID and Society National Bank (Exhibit 10.29 to the Company's 1995 Registration Statement).
*10.4	Variable/Fixed Rate Federally Taxable Economic Development Bond (Mothers Work, Inc.), Series of 1995, in the aggregate principal amount of \$4,000,000 (Exhibit 10.30 to the Company's 1995 Registration Statement).
*10.5	Note dated as of February 14, 1996 from the Company to PIDC Local Development Corporation (Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended September 30, 1996 (the "1996 Form 10-K")).
*10.6	Installment Sale Agreement dated as of April 4, 1996 by and between PIDC Financing Corporation and the Company (Exhibit 10.30 to the 1996 Form 10-K).
*10.7	Open-ended Mortgage dated as of April 4, 1996 between PIDC Financing Corporation and the Pennsylvania Industrial Development Authority ("PIDA") (Exhibit 10.31 to the 1996 Form 10-K).
*10.8	Loan Agreement dated as of April 4, 1996 by and between PIDC Financing Corporation and PIDA (Exhibit 10.32 to the 1996 Form 10-K).
†*10.9	1987 Stock Option Plan (as amended and restated) (Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 333-59529, dated July 21, 1998).
†*10.10	Amendment to the Company's 1987 Stock Option Plan, as amended and restated, effective as of November 13, 2002 (Exhibit 10.25 to the Company's March 2003 Form 10-Q).
†*10.11	Form of Non-Qualified Stock Option Agreement under the Company's 1987 Stock Option Plan (Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended September 30, 2004 (the "2004 Form 10-K")).
†*10.12	Form of Non-Qualified Stock Option Agreement under the Company's 1994 Director Stock Option Plan (Exhibit 10.19 to the 2004 Form 10-K).

Exhibit No.	Description
†*10.13	Description of the Company's Non-Employee Directors Compensation Policy (See "Compensation of Directors" in Company's 2007 Fiscal Year Proxy Statement filed December 15, 2006).
†*10.14	Form of Waiver of Rights Under Company's 1987 Stock Option Plan and 1994 Director Stock Option Plan executed by each of the Company's Non-Management Directors (Exhibit 10.21 to the Company's Current Report on Form 8-K dated December 29, 2005 (the "December 29, 2005 Form 8-K")).
†*10.15	Form of Waiver of Rights Under Company's 1987 Stock Option Plan executed by certain of the Company's executive officers (Exhibit 10.22 to the December 29, 2005 Form 8-K).
†*10.16	Form of Restricted Stock Award Agreement under the Company's 2005 Equity Incentive Plan (Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended September 30, 2006 (the "2006 Form 10-K")).
†*10.17	Form of Non-Qualified Stock Option Agreement under the Company's 2005 Equity Incentive Plan (Exhibit 10.29 to the 2006 Form 10-K).
†*10.18	Management Incentive Program (Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 19, 2006).
†*10.19	Second Amended and Restated Employment Agreement dated as of March 2, 2007, between Rebecca C. Matthias and the Company (Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 8, 2007 (the "March 8, 2007 Form 8-K")).
†*10.20	Second Amended and Restated Employment Agreement dated March 2, 2007, between Dan W. Matthias and the Company (Exhibit 10.2 to the March 8, 2007 Form 8-K).
†*10.21	Supplemental Retirement Agreement dated as of March 2, 2007, between the Company and Rebecca C. Matthias (Exhibit 10.3 to the March 8, 2007 Form 8-K).
†*10.22	Supplemental Retirement Agreement dated as of March 2, 2007, between the Company and Dan W. Matthias (Exhibit 10.4 to the March 8, 2007 Form 8-K).
*10.23	Term Loan and Security Agreement, dated March 13, 2007, among the Company and Cave Springs, Inc., each as a Borrower, and Mothers Work Canada, Inc., as a Guarantor, and Bank of America, N.A, as Term Administrative Agent and Term Collateral Agent, and Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Runner (Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 15, 2007 (the "March 15, 2007 Form 8-K)).
*10.24	Second Amended and Restated Loan and Security Agreement, dated March 13, 2007, among the Company and Cave Springs, Inc., each as a Borrower, and Mothers Work Canada, Inc., as a Guarantor, and Bank of America, N.A, as the Lender (Exhibit 10.2 to the March 15, 2007 Form 8-K).
†*10.25	Second Amended and Restated Employment Agreement dated May 15, 2007 between Edward M. Krell and the Company (Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 21, 2007).
†*10.26	Separation, Transition and Release Agreement between David Mangini and the Company dated July 30, 2007 (Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 30, 2007).
†*10.27	2005 Equity Incentive Plan (as amended in December 2007) (Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 22, 2008 (the "January 22, 2008 Form 8-K")).
†*10.28	Letter between the Company and Lisa Hendrickson (Exhibit 10.2 to the January 22, 2008 Form 8-K).
†*10.29	Employment Agreement dated January 18, 2008 between the Company and Lisa Hendrickson (Exhibit 10.3 to the January 22, 2008 Form 8-K).

Exhibit No.	Description
*10.30	Confidentiality Agreement dated March 10, 2008, by and among the Company, Crescendo Partners II, L.P., Series K, Crescendo Investments II, LLC, Crescendo Partners III, L.P., and Crescendo Investments III, LLC. (Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 10, 2008).
†*10.31	Letter Agreement dated March 28, 2008, between the Company and Dan W. Matthias and Rebecca C. Matthias (Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 28, 2008).
†*10.32	Letter Agreement dated May 20, 2008, between the Company and Dan W. Matthias and Rebecca C. Matthias (Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 20, 2008).
†*10.33	Employment Agreement dated July 23, 2008 between the Company and Judd P. Tirnauer (Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 21, 2008 (the "July 21, 2008 Form 8-K")).
†*10.34	Restrictive Covenant Agreement with Judd P. Tirnauer dated July 23, 2008 (Exhibit 10.2 to the July 21, 2008).
†*10.35	Restricted Stock Award Agreement with Judd P. Tirnauer dated July 23, 2008 (Exhibit 10.3 to the July 21, 2008).
†*10.36	Amendment to Second Amended and Restated Employment Agreement dated September 26, 2008 between Edward M. Krell and the Company (Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 26, 2008 (the "September 26, 2008 Form 8-K")).
†*10.37	Transition Agreement dated September 26, 2008 between Dan W. Matthias and the Company (Exhibit 10.2 to the September 26, 2008 Form 8-K).
21	Subsidiaries of the Company.
23	Consent of KPMG LLP.
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Senior Vice President & Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer 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 the Senior Vice President & Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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*	Incorporated by reference.
†	Management contract or compensatory plan or arrangement.





/s/ ANNE T. KAVANAGH

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**Anne T. Kavanagh**

Director

/s/ DAVID SCHLESSINGER

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**David Schlessinger**

Director

/s/ WILLIAM A. SCHWARTZ, JR.

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**William A. Schwartz, Jr.**

Director

**DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULE**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Destination Maternity Corporation:

We have audited the accompanying consolidated balance sheets of Destination Maternity Corporation (formerly Mothers Work, Inc.) and subsidiaries as of September 30, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended September 30, 2008. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule, Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Destination Maternity Corporation and subsidiaries as of September 30, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Destination Maternity Corporation's internal control over financial reporting as of September 30, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 15, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
December 15, 2008

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30,	
	2008	2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 12,148	\$ 10,130
Trade receivables	7,085	12,094
Inventories	88,056	100,485
Deferred income taxes	8,154	7,123
Prepaid expenses and other current assets	6,777	6,603
Total current assets	<u>122,220</u>	<u>136,435</u>
Property, plant and equipment, net	66,098	68,651
Assets held for sale	207	207
Other assets		
Goodwill	50,389	50,389
Deferred financing costs, net of accumulated amortization of \$358 and \$133	929	1,251
Other intangible assets, net of accumulated amortization of \$2,105 and \$2,478	695	576
Deferred income taxes	15,411	15,189
Other non-current assets	299	3,227
Total other assets	<u>67,723</u>	<u>70,632</u>
Total assets	<u>\$256,248</u>	<u>\$275,925</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Line of credit borrowings	\$ —	\$ —
Current portion of long-term debt	1,860	1,534
Accounts payable	20,937	28,345
Accrued expenses and other current liabilities	37,806	41,633
Total current liabilities	<u>60,603</u>	<u>71,512</u>
Long-term debt	76,786	91,646
Deferred rent and other non-current liabilities	29,391	24,244
Total liabilities	<u>166,780</u>	<u>187,402</u>
Commitments and contingencies (Note 14)		
Stockholders' equity		
Preferred stock, 2,000,000 shares authorized		
Series B junior participating preferred stock, \$.01 par value; 300,000 shares authorized, none outstanding	—	—
Common stock, \$.01 par value; 20,000,000 shares authorized, 6,070,813 and 5,963,434 shares issued and outstanding, respectively	61	60
Additional paid-in capital	83,274	81,047
Retained earnings	7,505	8,820
Accumulated other comprehensive loss	(1,372 )	(1,404)
Total stockholders' equity	<u>89,468</u>	<u>88,523</u>
Total liabilities and stockholders' equity	<u>\$256,248</u>	<u>\$275,925</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.