

(unaudited)

	Year Ended September 30,				
	2012	2011	2010	2009	2008
Net income (loss), as reported	\$19,372	\$22,988	\$16,829	\$(40,682)	\$(1,389)
Add: goodwill impairment expense, net of tax	—	—	—	50,389	—
Adjusted net income (loss), before goodwill impairment expense	19,372	22,988	16,829	9,707	(1,389)
Add: stock-based compensation expense, net of tax	1,472	1,467	1,210	1,253	1,430
Add: restructuring and other charges, net of tax	—	120	3,514	968	2,171
Add: loss on extinguishment of debt, net of tax	14	23	32	76	61
Adjusted net income, before goodwill impairment expense, stock-based compensation expense, restructuring and other charges, and loss on extinguishment of debt	\$20,858	\$24,598	\$21,585	\$ 12,004	\$ 2,273
Net income (loss) per share—Diluted, as reported	\$ 1.46	\$ 1.75	\$ 1.33	\$ (3.39)	\$ (0.12)
Average shares outstanding—Diluted, as reported (1)	13,267	13,120	12,691	11,985	11,849
Adjusted net income (loss) per share—Diluted, before goodwill impairment expense	\$ 1.46	\$ 1.75	\$ 1.33	\$ 0.80	\$ (0.12)
Average shares outstanding—Diluted (1)	13,267	13,120	12,691	12,135	11,849
Adjusted net income per share—Diluted, before goodwill impairment expense, stock-based compensation expense, restructuring and other charges, and loss on extinguishment of debt	\$ 1.57	\$ 1.87	\$ 1.70	\$ 0.99	\$ 0.19
Average shares outstanding—Diluted	13,267	13,120	12,691	12,135	12,096

(1) For fiscal years with net loss or adjusted net loss, diluted shares reflect the elimination of the dilutive impact of outstanding stock options and restricted stock.

37

## 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 2,008 retail locations, including 625 stores in all 50 states, Puerto Rico and Canada, and 1,383 leased departments located within department stores and baby specialty stores throughout the United States and Puerto Rico. We are also the exclusive provider of maternity apparel to Kohl's, which operates approximately 1,146 stores throughout the United States. We operate our stores under the Motherhood Maternity, A Pea in the Pod and Destination Maternity retail nameplates. We are the exclusive maternity apparel provider in each of our leased department relationships. We have expanded internationally and have entered into exclusive store franchise and product supply relationships in the Middle East, India and South Korea. As of September 30, 2012, we have 119 international franchised locations, comprised of 16 stand-alone stores in the Middle East, South Korea and India operated under one of our retail nameplates, and 103 shop-in-shop locations in India and South Korea in which we have a Company branded department operated under retail nameplates owned by our franchise partners. Finally, we also sell merchandise on the Internet, primarily through DestinationMaternity.com and our various brand-specific websites. We design and contract manufacture over 90% of the merchandise we sell using sewing factories located throughout the world, predominantly outside of the United States. Substantially all of the merchandise produced outside of the United States is paid for in United States dollars.

In assessing the performance of our business, we consider a variety of operational and financial measures. The key measures for determining how our business is performing are net income determined in accordance with generally accepted accounting principles ("GAAP net income") and the corresponding net income (or earnings) per share (diluted), net income before stock-based compensation expense, restructuring and other charges, and loss on extinguishment of debt ("Non-GAAP adjusted net income") and the corresponding earnings per share (diluted), Adjusted EBITDA, net sales, and comparable sales (which consists of comparable store sales and Internet sales). Adjusted EBITDA represents operating income before deduction for the following non-cash charges: (i) depreciation and amortization expense; (ii) loss on impairment of tangible and intangible assets; (iii) loss on disposal of assets; and (iv) stock-based compensation expense.

Following is a summary of our fiscal 2012 results with regard to each of the key measures noted above:

**Fiscal 2012 Financial Results**

- GAAP net income for fiscal 2012 was \$19.4 million, a 16% decrease compared to GAAP net income of \$23.0 million for fiscal 2011. GAAP diluted earnings per share for fiscal 2012 was \$1.46, a 17% decrease compared to GAAP diluted earnings per share of \$1.75 for fiscal 2011.
- Non-GAAP adjusted net income for fiscal 2012 was \$20.9 million, a 15% decrease compared to comparably adjusted Non-GAAP net income of \$24.6 million for fiscal 2011. Non-GAAP diluted earnings per share for fiscal 2012 was \$1.57, a 16% decrease compared to Non-GAAP diluted earnings per share of \$1.87 for fiscal 2011.
- Adjusted EBITDA was \$49.9 million for fiscal 2012, an 8% decrease compared to \$54.4 million of Adjusted EBITDA for fiscal 2011.
- Net sales for fiscal 2012 decreased 0.7% to \$541.5 million from \$545.4 million for fiscal 2011.
- Comparable sales for fiscal 2012 decreased 0.3% versus a comparable sales increase of 0.1% for fiscal 2011.

**Results of Operations**

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

	% of Net Sales (1)			% Period to Period Favorable (Unfavorable)	
	Year Ended September 30,			Year Ended September 30,	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
Net sales	100.0%	100.0%	100.0%	(0.7)%	2.7%
Cost of goods sold (2)	46.3	45.6	45.2	(0.9)	(3.5)
Gross profit	53.7	54.4	54.8	(2.1)	2.0
Selling, general and administrative expenses (3)	47.2	47.2	47.4	0.7	(2.3)
Store closing, asset impairment and asset disposal expenses	0.4	0.2	0.4	(90.9)	54.5
Restructuring and other charges	—	0.0	1.1	100.0	96.6
Operating income	6.1	7.0	5.9	(13.4)	21.7
Interest expense, net	0.2	0.4	0.6	45.6	32.3
Loss on extinguishment of debt	0.0	0.0	0.0	40.5	27.5
Income before income taxes	5.9	6.6	5.3	(11.4)	28.1
Income tax provision	2.3	2.4	2.1	3.8	(15.4)
Net income	3.6%	4.2%	3.2%	(15.7)%	36.6%

(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, store opening expenses (including store payroll and store occupancy expenses), and store opening expenses.

The following tables set forth certain information regarding the number of our retail locations and international franchised locations, for the fiscal years indicated. Retail locations include stores and leased maternity apparel departments and exclude locations where Kohl’s sells our products under an exclusive product and license agreement and international franchised locations.

	Year Ended September 30,								
	2012			2011			2010		
	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations
<b>Retail Locations (1)</b>									
Beginning of period	658	1,694	2,352	698	1,027	1,725	724	360	1,084
Opened	8	13	21	12	694	706	11	680	691
Closed	(41)	(324)	(365)	(52)	(27)	(79)	(37)	(13)	(50)
End of period	<u>625</u>	<u>1,383</u>	<u>2,008</u>	<u>658</u>	<u>1,694</u>	<u>2,352</u>	<u>698</u>	<u>1,027</u>	<u>1,725</u>

- (1) Excludes (i) locations where Kohl’s sells our products under an exclusive product and license agreement, and (ii) international franchised locations.

	Year Ended September 30,								
	2012			2011			2010		
	Stores	Shop-in-Shop Locations	Total International Franchised Locations	Stores	Shop-in-Shop Locations	Total International Franchised Locations	Stores	Shop-in-Shop Locations	Total International Franchised Locations
<b>International Franchised Locations</b>									
Beginning of period	15	51	66	8	23	31	1	7	8
Opened	2	54	56	7	29	36	7	16	23
Closed	(1)	(2)	(3)	—	(1)	(1)	—	—	—
End of period	<u>16</u>	<u>103</u>	<u>119</u>	<u>15</u>	<u>51</u>	<u>66</u>	<u>8</u>	<u>23</u>	<u>31</u>

In fiscal 2012 we also operated leased departments in Babies“R”Us stores. However, in connection with our new broad-based partnership with Bed Bath & Beyond Inc. and its subsidiary, Buy Buy Baby, Inc., (which we announced in May 2012) we discontinued operation of our 124 remaining leased departments in Babies“R”Us in late October 2012 and opened leased departments in select buybuy BABY stores. As of November 30, 2012 we operate 10 leased departments in buybuy BABY stores. As of August 25, 2012, Bed Bath & Beyond Inc. had 71 buybuy BABY stores. Over time, we expect to significantly increase the number of buybuy BABY stores in which we have a maternity apparel leased department.

**Year Ended September 30, 2012 Compared to Year Ended September 30, 2011**

*Net Sales.* Our net sales for fiscal 2012 decreased by 0.7% or \$3.9 million, to \$541.5 million from \$545.4 million for fiscal 2011. Comparable sales decreased 0.3% during fiscal 2012 versus a comparable sales increase of 0.1% during fiscal 2011. The decrease in total reported sales for fiscal 2012 compared to fiscal 2011 resulted primarily from decreased sales related to our continued efforts to close underperforming stores and

decreased sales from our licensed relationship, partially offset by increased sales due to the full-year impact of the expansion of our maternity apparel leased department relationship with Macy's in the second quarter of fiscal 2011.

As of September 30, 2012, we operated a total of 625 stores and 2,008 total retail locations: 507 Motherhood Maternity stores (including 84 Motherhood Maternity Outlet stores), 36 A Pea in the Pod stores, 82 Destination Maternity stores, and 1,383 leased maternity apparel departments, of which 515 were in Sears stores under the Two Hearts Maternity brand and the balance were in other department stores and baby specialty stores, 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, 2011, we operated a total of 658 stores and 2,352 total retail locations: 535 Motherhood Maternity stores (including 85 Motherhood Maternity Outlet stores), 43 A Pea in the Pod stores, 80 Destination Maternity stores, and 1,694 leased maternity apparel departments. The decrease in leased department locations at September 30, 2012 versus September 30, 2011 predominantly reflects the closing of our remaining 291 Kmart leased department locations in October 2011. As of September 30, 2012, our store total included 82 Destination Maternity multi-brand stores, including 50 Destination Maternity combo stores and 32 Destination Maternity superstores. In comparison, as of September 30, 2011, we operated 80 Destination Maternity multi-brand stores, including 52 Destination Maternity combo stores and 28 Destination Maternity superstores. During fiscal 2012, we opened eight stores, including six Destination Maternity stores, and closed 41 stores, with 12 of these store closings related to Destination Maternity store openings. In addition, during fiscal 2012, we opened 13 leased department locations and closed 324 leased department locations, reflecting the closing of our remaining 291 Kmart leased department locations in October 2011.

*Gross Profit.* Our gross profit for fiscal 2012 decreased by 2.1%, or \$6.2 million, to \$290.7 million compared to \$296.9 million for fiscal 2011, and our gross profit as a percentage of net sales (gross margin) for fiscal 2012 was 53.7% compared to 54.4% for fiscal 2011. The decrease in gross profit for fiscal 2012 compared to fiscal 2011 was due primarily to our lower gross margin, and to a lesser extent, lower gross profit due to our decreased sales. The decrease in gross margin for fiscal 2012 compared to fiscal 2011 was primarily due to lower

40

---

merchandise margin driven by higher product costs and somewhat higher levels of promotional activity and markdowns.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses for fiscal 2012 decreased by 0.7%, or \$1.8 million, to \$255.6 million from \$257.4 million for fiscal 2011. As a percentage of net sales, selling, general and administrative expenses was 47.2% for both fiscal 2012 and fiscal 2011. The slight decrease in expense for fiscal 2012 compared to fiscal 2011 resulted primarily from lower expenses related to our continued efforts to close underperforming stores (primarily payroll and occupancy costs), our continued tight expense controls, and lower variable incentive compensation expense, substantially offset by higher expenses related to the operation of our additional Macy's leased department locations (primarily payroll and employee benefit costs, and percentage of net sales occupancy payments to Macy's) and higher advertising and marketing expenses.

*Store Closing, Asset Impairment and Asset Disposal Expenses.* Our store closing, asset impairment and asset disposal expenses for fiscal 2012 increased by approximately \$1.0 million, to \$2.0 million from \$1.0 million for fiscal 2011, which primarily reflected higher impairment charges for write-downs of long-lived assets.

*Restructuring and Other Charges.* In fiscal 2011, we incurred pretax expense of \$0.2 million for relocation costs in connection with the hiring of our new President. We did not incur any restructuring and other charges in fiscal 2012.

*Operating Income.* Our operating income for fiscal 2012 decreased by 13.4%, or \$5.1 million, to \$33.1 million from \$38.2 million for fiscal 2011. Operating income as a percentage of net sales for fiscal 2012 decreased to 6.1% from 7.0% for fiscal 2011. The decrease in operating income and

Operating income as a percentage of net sales for fiscal 2012 decreased to 6.1% from 7.0% for fiscal 2011. The decrease in operating income and operating income percentage was primarily due to our lower gross profit and lower gross margin.

*Interest Expense, Net.* Our net interest expense for fiscal 2012 decreased by 45.6%, or \$1.0 million, to \$1.2 million from \$2.2 million in fiscal 2011. This decrease was due to our lower debt level, primarily as a result of the \$15.0 million of Term Loan prepayments we made in fiscal 2012 and the \$12.6 million of Term Loan prepayments we made in fiscal 2011, and to a lesser extent, lower interest rates. During fiscal 2012 and 2011, we did not have any direct borrowings under our credit facility and we did not have any direct borrowings outstanding as of September 30, 2012.

*Loss on Extinguishment of Debt.* During fiscal 2012, we prepaid \$15.0 million principal amount of our outstanding Term Loan, which resulted in pretax charges of \$22,000, representing the write-off of unamortized deferred financing costs. During fiscal 2011, we prepaid \$12.6 million principal amount of our outstanding Term Loan, which resulted in pretax charges totaling \$37,000.

*Income Taxes.* For fiscal 2012, our effective tax rate was 39.2% compared to 36.1% for fiscal 2011. Our effective tax rate for fiscal 2012 was higher than the statutory federal tax rate of 35% primarily due to the effect of state income taxes, net of federal tax benefit, and to a lesser extent, additional income tax expense (including interest and penalties) recognized as required by the accounting standard for uncertain income tax positions. Our effective tax rate for fiscal 2011 was slightly higher than the statutory federal tax rate of 35% primarily due to the effect of state income taxes, net of federal benefit, on our pretax income for fiscal 2011, partially offset by reductions of state income tax expense, net of federal expense, of \$0.9 million recorded in the second quarter of fiscal 2011, which were related to settlements of uncertain income tax positions. See Note 15 of the Notes to Consolidated Financial Statements, included elsewhere in this report, for the reconciliation of the statutory federal income tax rate to our effective tax rate.

*Net Income.* Net income for fiscal 2012 decreased by 15.7%, to \$19.4 million from \$23.0 million for fiscal 2011. Net income per share (diluted) for fiscal 2012 decreased by 16.6%, to \$1.46 per share from \$1.75 per share in fiscal 2011. Net income for fiscal 2012 includes (net of tax) stock-based compensation expense of \$1.5 million and loss on extinguishment of debt of \$14,000. Net income for fiscal 2011 includes (net of tax) stock-based compensation expense of \$1.5 million, restructuring and other charges of \$0.1 million, and loss on extinguishment of debt of \$23,000. Before stock-based compensation expense, restructuring and other charges,

and loss on extinguishment of debt, our fiscal 2012 net income was \$20.9 million or \$1.57 per share (diluted) compared to \$24.6 million or \$1.87 per share (diluted) for fiscal 2011.

Our average diluted shares outstanding of 13.3 million for fiscal 2012 was 1.1% higher than the 13.1 million average diluted shares outstanding for fiscal 2011. The increase in average shares outstanding reflects the higher shares outstanding in fiscal 2012 compared to fiscal 2011, primarily as a result of the exercise of stock options and vesting of restricted stock, slightly offset by lower dilutive impact of outstanding stock options and restricted stock for fiscal 2012 compared to fiscal 2011.

Following is a reconciliation of net income and net income per share (diluted) ("Diluted EPS") to net income and Diluted EPS before stock-based compensation expense, restructuring and other charges, and loss on extinguishment of debt for the years ended September 30, 2012 and 2011 (in thousands, except per share amounts):

	Year Ended September 30, 2012			Year Ended September 30, 2011		
	Net Income	Diluted Shares	Diluted EPS	Net Income	Diluted Shares	Diluted EPS
As reported	\$19,372	13,267	\$ 1.46	\$22,988	13,120	\$ 1.75
Add: stock-based compensation expense, net of tax	1,472	—	—	1,467	—	—
Add: restructuring and other charges, net of tax	—	—	—	120	—	—
Add: loss on extinguishment of debt, net of tax	14	—	—	23	—	—
As adjusted before stock-based compensation expense, restructuring and other charges, and loss on extinguishment of debt	\$20,858	13,267	\$ 1.57	\$24,598	13,120	\$ 1.87

## Year Ended September 30, 2011 Compared to Year Ended September 30, 2010

*Net Sales.* Our net sales for fiscal 2011 increased by 2.7% or \$14.2 million, to \$545.4 million from \$531.2 million for fiscal 2010. Comparable sales increased 0.1% during fiscal 2011 versus a comparable sales decrease of 3.4% during fiscal 2010. The increase in total reported sales for fiscal 2011 compared to fiscal 2010 resulted primarily from increased sales due to the expansion of our maternity apparel leased department relationship with Macy's, partially offset by decreased sales related to our continued efforts to close underperforming stores.

As of September 30, 2011, we operated a total of 658 stores and 2,352 total retail locations: 535 Motherhood Maternity stores (including 85 Motherhood Maternity Outlet stores), 43 A Pea in the Pod stores, 80 Destination Maternity stores, and 1,694 leased maternity apparel departments, of which 821 were in Sears and Kmart stores under the Two Hearts Maternity brand and the balance were in other department stores and baby specialty stores, 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, 2010, we operated a total of 698 stores and 1,027 total retail locations: 567 Motherhood Maternity stores (including 84 Motherhood Maternity Outlet stores), 56 A Pea in the Pod stores, 75 Destination Maternity stores, and 1,027 leased maternity apparel departments. The increase in leased department locations at September 30, 2011 versus September 30, 2010 predominantly reflects the opening of 516 leased department locations in January and February 2011 for our Macy's expansion, and an additional 168 Sears and Kmart leased department locations in October 2010. As of September 30, 2011, our store total included 80 Destination Maternity multi-brand stores, including 52 Destination Maternity combo stores and 28 Destination Maternity superstores. In comparison, as of September 30, 2010, we operated 75 Destination Maternity multi-brand stores, including 49 Destination Maternity combo stores and 26 Destination Maternity superstores. During fiscal 2011, we opened 12 stores, including 7 Destination Maternity stores, and closed 52 stores, with 11 of these store closings related to Destination Maternity store openings. In addition, during fiscal 2011, we opened 694 leased department locations and closed 27 leased department locations.

*Gross Profit.* Our gross profit for fiscal 2011 increased by 2.0%, or \$5.9 million, to \$296.9 million compared to \$291.0 million for fiscal 2010, and our gross profit as a percentage of net sales (gross margin) for

42

---

fiscal 2011 was 54.4% compared to 54.8% for fiscal 2010. The increase in gross profit for fiscal 2011 compared to fiscal 2010 was primarily due to our increased sales, partially offset by the slightly lower gross margin, which resulted primarily from higher promotional activity and markdowns, and to a much lesser extent, from higher product costs for Fall 2011 merchandise.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses for fiscal 2011 increased by 2.3%, or approximately \$5.7 million, to \$257.4 million from \$251.7 million for fiscal 2010. As a percentage of net sales, selling, general and administrative expenses for fiscal 2011 decreased to 47.2% compared to 47.4% for fiscal 2010. The increase in expense for fiscal 2011 compared to fiscal 2010 resulted primarily from higher expenses related to the launch and operation of our additional Macy's leased department locations (primarily payroll and employee benefit costs, and percentage of net sales occupancy payments to Macy's) and increased legal expenses, partially offset by lower variable incentive compensation expense and our continued expense control initiatives. The decrease in expense percentage for fiscal 2011 reflects the favorable leverage from our increased sales and our continued expense control initiatives.

*Store Closing, Asset Impairment and Asset Disposal Expenses.* Our store closing, asset impairment and asset disposal expenses for fiscal 2011 decreased by approximately \$1.3 million, to \$1.0 million from \$2.3 million for fiscal 2010, which primarily reflected lower impairment charges for write-downs of long-lived assets.

*Restructuring and Other Charges.* In fiscal 2011, we incurred pretax expense of \$0.2 million from our management transition. In fiscal 2010, we incurred pretax expense of \$5.7 million from our strategic restructuring, cost reduction and other initiatives, and our management transition. See "Restructuring and Other Charges" in this Item 7 below for a detailed description of these charges.

*Operating Income.* Our operating income for fiscal 2011 increased by 21.7% or \$6.8 million, to \$38.2 million from \$31.4 million for fiscal 2010.

*Operating income.* Our operating income for fiscal 2011 increased by 21.7%, or \$6.0 million, to \$30.2 million from \$24.7 million for fiscal 2010. Operating income as a percentage of net sales for fiscal 2011 increased to 7.0% from 5.9% for fiscal 2010. The increase in operating income was primarily due to our higher gross profit and significantly lower restructuring and other charges, partially offset by higher selling, general and administrative expenses. The increase in operating income percentage was primarily due to our significantly lower restructuring and other charges.

*Interest Expense, Net.* Our net interest expense for fiscal 2011 decreased by 32.3%, or \$1.1 million, to \$2.2 million from \$3.3 million in fiscal 2010. This decrease was due to our lower debt level, primarily as a result of the \$12.6 million of Term Loan prepayments we made in fiscal 2011 and the \$11.0 million of Term Loan prepayments we made in fiscal 2010, and to a much lesser extent, lower interest rates. During fiscal 2011, we did not have any direct borrowings under our credit facility and we did not have any direct borrowings outstanding as of September 30, 2011. During fiscal 2010, our average daily level of direct borrowings under our credit facility was \$0.4 million.

*Loss on Extinguishment of Debt.* During fiscal 2011, we prepaid \$12.6 million principal amount of our outstanding Term Loan, which resulted in pretax charges of \$37,000, representing the write-off of unamortized deferred financing costs. During fiscal 2010, we prepaid \$11.0 million principal amount of our outstanding Term Loan, which resulted in pretax charges totaling \$51,000.

*Income Taxes.* For fiscal 2011, our effective tax rate was 36.1% compared to 40.1% for fiscal 2010. Our effective tax rate for fiscal 2011 was slightly higher than the statutory federal tax rate of 35% primarily due to the effect of state income taxes, net of federal benefit, on our pretax income for fiscal 2011, partially offset by reductions of state income tax expense, net of federal expense, of \$0.9 million recorded in the second quarter of fiscal 2011, which were related to settlements of uncertain income tax positions. Our effective tax rate for fiscal 2010 was higher than the statutory federal tax rate of 35% primarily due to the effect of state income taxes, net of federal benefit, and additional income tax expense (including interest and penalties) recognized as required by the accounting standard for uncertain income tax positions. See Note 15 of the Notes to Consolidated Financial Statements, included elsewhere in this report, for the reconciliation of the statutory federal income tax rate to our effective tax rate.

*Net Income.* Net income for fiscal 2011 increased by 36.6%, to \$23.0 million from \$16.8 million for fiscal 2010. Net income per share (diluted) for fiscal 2011 increased by 31.6%, to \$1.75 per share from \$1.33 per share

---

in fiscal 2010. Net income for fiscal 2011 includes (net of tax) stock-based compensation expense of \$1.5 million, restructuring and other charges of \$0.1 million, and loss on extinguishment of debt of \$23,000. Net income for fiscal 2010 includes (net of tax) stock-based compensation expense of \$1.2 million, restructuring and other charges of \$3.5 million, and loss on extinguishment of debt of \$32,000. Before stock-based compensation expense, restructuring and other charges, and loss on extinguishment of debt, our fiscal 2011 net income was \$24.6 million or \$1.87 per share (diluted) compared to \$21.6 million or \$1.70 per share (diluted) for fiscal 2010.

Our average diluted shares outstanding of 13.1 million for fiscal 2011 was 3.4% higher than the 12.7 million average diluted shares outstanding for fiscal 2010. The increase in average shares outstanding reflects the higher shares outstanding in fiscal 2011 compared to fiscal 2010, primarily as a result of the exercise of stock options and vesting of restricted stock, slightly offset by lower dilutive impact of outstanding stock options and restricted stock for fiscal 2011 compared to fiscal 2010.

Following is a reconciliation of net income and Diluted EPS to net income and Diluted EPS before stock-based compensation expense, restructuring and other charges, and loss on extinguishment of debt for the years ended September 30, 2011 and 2010 (in thousands, except per share amounts):

Year Ended

Year Ended

	September 30, 2011			September 30, 2010		
	Net Income	Diluted Shares	Diluted EPS	Net Income	Diluted Shares	Diluted EPS
As reported	\$22,988	13,120	\$ 1.75	\$16,829	12,691	\$ 1.33
Add: stock-based compensation expense, net of tax	1,467	—	—	1,210	—	—
Add: restructuring and other charges, net of tax	120	—	—	3,514	—	—
Add: loss on extinguishment of debt, net of tax	23	—	—	32	—	—
As adjusted before stock-based compensation expense, restructuring and other charges, and loss on extinguishment of debt	\$24,598	13,120	\$ 1.87	\$21,585	12,691	\$ 1.70

### Restructuring and Other Charges

In July 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, and during fiscal 2009 we began to implement actions to achieve further cost reductions. The objectives of our restructuring and cost reduction program were to improve and simplify critical processes, consolidate activities and infrastructure, and reduce our expense structure. As of September 30, 2010, we had completed the planned activities of these initiatives and we incurred \$3.9 million of pretax expense substantially related to these initiatives in fiscal 2010, primarily for consulting services. These initiatives resulted in approximate pretax savings of \$12 million in fiscal 2009, with incremental pretax savings of approximately \$11 million in fiscal 2010 and an additional approximately \$6 million in fiscal 2011. Thus we estimated that we realized total pretax savings of approximately \$29 million in fiscal 2011 as a result of our cost reduction initiatives, which included the savings realized in fiscal 2009 and fiscal 2010.

After his retirement on September 30, 2008, Dan Matthias, our former Chief Executive Officer ("Former CEO"), agreed to continue to serve us as a director and as non-executive Chairman of the Board of Directors and agreed to remain available to us in an advisory capacity through September 2012. For these services, we agreed to pay the Former CEO an annual retainer of \$200,000 through September 2012. In November 2009, the Former CEO entered into a letter agreement with us, which confirmed that he would not seek reelection to the Board of Directors (and, therefore, would no longer serve as our non-executive Chairman of the Board) after the expiration of his term in January 2010. The letter agreement did not change the terms of payment under the annual retainer for advisory services, however we incurred a pretax charge of \$0.6 million in fiscal 2010, representing the amount due for the remaining term of the arrangement.

In connection with the retirement of Rebecca Matthias, our former President and Chief Creative Officer, at the end of fiscal 2010, we incurred a pretax charge of \$0.9 million in fiscal 2010. The charge reflects benefit costs related to an amendment to the executive's supplemental retirement agreement with us.

In April 2011, we announced the hiring of Chris Daniel as our President effective June 1, 2011. In connection with our efforts to hire a new President, we incurred pretax charges of \$0.2 million in fiscal 2011 for relocation costs and \$0.3 million in fiscal 2010, primarily for executive recruiting costs.

### Liquidity and Capital Resources

Our cash needs have primarily been for: (i) debt service, including principal prepayments, (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. In addition, during the second quarter of fiscal 2011, we initiated a regular quarterly cash dividend. We have historically financed our capital requirements from cash flows from operations, borrowings under our credit facilities or available cash balances.

Cash and cash equivalents increased by \$7.1 million during fiscal 2012 compared to a decrease of \$9.3 million during fiscal 2011.

Cash provided by operations of \$42.7 million for fiscal 2012 increased by \$21.3 million from \$21.4 million for fiscal 2011. This increase in cash



Cash provided by operations of \$127 million for fiscal 2012 increased by \$21.6 million from \$217 million for fiscal 2011. This increase in cash provided by operations versus the prior year was the result of net working capital changes that provided cash in fiscal 2012 versus cash used in fiscal 2011, partially offset by lower net income in fiscal 2012 compared to fiscal 2011. The net working capital changes were primarily (i) an increase in accounts payable, accrued expenses and other liabilities in fiscal 2012, compared to a fiscal 2011 decrease that was primarily due to a \$4.2 million supplemental executive retirement plan ("SERP") benefit payment made in December 2010, and (ii) a decrease in inventories in fiscal 2012 compared to an increase in fiscal 2011, which reflects our efforts to tightly control our inventory levels in fiscal 2012 and the significant number of additional Macy's leased department locations opened in fiscal 2011.

During fiscal 2012 we used cash provided by operations to fund repayments of long-term debt, to pay our quarterly cash dividends, and to pay for capital expenditures. Our \$16.1 million of repayments of long-term debt in fiscal 2012 consisted predominantly of \$15.0 million in optional prepayments of our Term Loan. In fiscal 2012, we paid \$9.3 million in quarterly cash dividends. For fiscal 2012, we also spent \$9.3 million on capital expenditures, including \$7.1 million for leasehold improvements, fixtures and equipment for new store facilities, as well as improvements to existing stores, and \$2.2 million for our information systems and distribution and corporate facilities. The remaining cash provided by operations during fiscal 2012 was used primarily to increase our available cash.

Cash provided by operations of \$21.4 million for fiscal 2011 decreased by approximately \$4.6 million from \$26.0 million for fiscal 2010. This decrease in cash provided by operations versus the prior year was primarily the result of net working capital changes that used a greater amount of cash in fiscal 2011 than in fiscal 2010, partially offset by higher pretax income in fiscal 2011 compared to fiscal 2010. The net working capital changes were primarily (i) a decrease in accounts payable, accrued expenses and other liabilities in fiscal 2011, primarily due to the \$4.2 million SERP benefit payment made in December 2010 and lower accrued variable incentive compensation expense, compared to a small increase in fiscal 2010, and (ii) a larger increase in inventories in fiscal 2011 compared to fiscal 2010, which reflects our increased number of leased department locations during fiscal 2011 and somewhat weaker than planned sales during fiscal 2011, partially offset by (iii) a smaller increase in trade receivables in fiscal 2011 than in fiscal 2010.

In addition to our cash provided by operations in fiscal 2011, we withdrew \$1.5 million from our grantor trust, which was used to partially fund the \$4.2 million December 2010 SERP benefit payment, and we generated \$2.3 million of cash from the proceeds of option exercises. During fiscal 2011 we used cash provided by operations, cash provided by option exercises, and the withdrawal from the Grantor Trust to fund repayments of

---

long-term debt, to pay for capital expenditures, and to pay our quarterly cash dividends. Our \$13.8 million of repayments of long-term debt in fiscal 2011 consisted predominantly of \$12.6 million of prepayments of our Term Loan, including a \$2.6 million prepayment required under the annual excess cash flow provision of the Term Loan. For fiscal 2011 we spent \$12.3 million on capital expenditures, including \$8.2 million for leasehold improvements, fixtures and equipment principally for new store facilities, as well as improvements to existing stores, and \$4.1 million for our information systems and distribution and corporate facilities.

On November 1, 2012, we entered into a five-year \$61.0 million senior secured revolving credit facility (the "Credit Facility"), which replaced our former \$55.0 million credit facility. The Credit Facility consists of two tranches: (a) a senior secured revolving credit and letter of credit facility of up to \$55.0 million, ("Tranche A") and (b) a senior secured first-in-last-out revolving credit facility of up to \$6.0 million ("Tranche A-1"). The Credit Facility will mature on November 1, 2017. Upon our request and with the consent of the lender, permitted borrowings under Tranche A may be increased up to an additional \$15.0 million, in increments of \$2.5 million, up to a Tranche A maximum limit of \$70 million. Proceeds from advances under the Credit Facility, with certain restrictions, may be used to repay our existing term loan or other debt, and to provide financing for working capital, letters of credit, capital expenditures, dividends, share repurchases and other general corporate purposes.

Under the Credit Facility, we are required to maintain minimum Excess Availability (as defined in the related Credit Facility agreement) equal to 10% of the Borrowing Base (as defined in the related Credit Facility agreement). The Credit Facility is secured by a security interest in our trade receivables, inventory, equipment, real estate interests, letter of credit rights, cash, intangibles and certain other assets.

Prior to entering into the Credit Facility, we had in place a senior secured revolving credit facility (the "Prior Credit Facility"), which was amended on July 25, 2011 to decrease the maximum available for borrowings from \$65.0 million to \$55.0 million and to extend its maturity date from March 13, 2012 to January 13, 2013. The amendment also increased our effective interest rate on borrowings, if any, by approximately 0.75% per annum. There were no financial covenant requirements under the Prior Credit Facility provided that Excess Availability (as defined in the related Prior Credit Facility agreement) did not fall below 10% of the Borrowing Base (as defined in the related Prior Credit Facility agreement). If Excess Availability fell below 10% of the Borrowing Base, we would have been required to meet a specified minimum Fixed Charge Coverage Ratio (as defined in the related Prior Credit Facility agreement). Since the inception of the Prior Credit Facility, we have exceeded the minimum requirements for Excess Availability under the Prior Credit Facility and therefore, have not been subject to any financial covenants.

As of September 30, 2012, we had no outstanding borrowings under the Prior Credit Facility and \$7.1 million in letters of credit, with \$47.9 million of availability under our Prior Credit Facility, compared to no outstanding borrowings and \$7.5 million in letters of credit, with \$47.5 million of availability under our Prior Credit Facility, as of September 30, 2011. Borrowings under the Prior Credit Facility as of September 30, 2012 would have borne interest at a rate of between approximately 1.97% and 4.00% per annum. During fiscal 2012 and 2011, we did not have any direct borrowings under the Prior Credit Facility. We may have borrowings under our new Credit Facility during certain periods of fiscal 2013, reflecting seasonal and other timing variations in cash flow. Also, in November 2012 we had average outstanding borrowings of \$2.5 million under the Credit Facility that resulted from our need to deposit \$7.1 million with the agent bank for the Prior Credit Facility as cash collateral on an interim basis while letters of credit issued under the Prior Credit Facility are replaced with letters of credit issued under the Credit Facility (see Commercial Commitments below).

As of September 30, 2012, we had in place an agreement (the "Term Loan Agreement") for our Term Loan. On November 1, 2012, we prepaid the remaining Term Loan balance of \$13.4 million in connection with the execution of our new Credit Facility. The interest rate on the Term Loan was equal to, at our election, either (i) the prime rate plus 1.00%, or (ii) a LIBOR rate plus an applicable margin. The applicable margin was initially fixed at 2.50% through and including the fiscal quarter ended September 30, 2007. Thereafter, the applicable margin for LIBOR rate borrowings was either 2.25% or 2.50%, depending on our Consolidated Leverage Ratio (as defined in the Term Loan Agreement). Based upon our applicable quarterly Consolidated Leverage Ratios, the applicable margin for LIBOR rate borrowings was 2.50% prior to December 30, 2009 and was reduced to

---

2.25% effective from December 30, 2009. We were required to make minimum repayments of the principal amount of the Term Loan in quarterly installments of \$225,000 each. We were also required to make an annual principal repayment equal to 25% or 50% of Excess Cash Flow (as defined in the Term Loan Agreement) in excess of \$5.0 million for each fiscal year, with the 25% or 50% factor depending on our Consolidated Leverage Ratio. There was no required principal repayment related to fiscal 2011 results. Additionally, the Term Loan could be prepaid at our option, in part or in whole, at any time without any prepayment premium or penalty. For fiscal 2012 we made the following prepayments: \$5.0 million in the first quarter and \$10.0 million in the third quarter. For fiscal 2011 we made the following prepayments: \$2.6 million in the first quarter, representing the prepayment required under the annual excess cash flow provision of the Term Loan, and \$10.0 million in the third quarter. At September 30, 2012, our indebtedness under the Term Loan Agreement was \$13.4 million, which was prepaid on November 1, 2012 as described above.

The Term Loan Agreement contained quarterly financial covenants that required us to maintain a specified maximum permitted Consolidated Leverage Ratio and a specified minimum permitted Consolidated Interest Coverage Ratio (as defined in the Term Loan Agreement). Since the inception of the Term Loan Agreement we were 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 Term Loan proceeds were received, and expired on April 18, 2012. The interest rate swap agreement enabled us to effectively convert a significant portion of the Term Loan (equal to the notional amount of the interest rate swap) from a floating interest rate (LIBOR plus 2.50% prior to December 30, 2009, reduced to LIBOR plus 2.25% effective from December 30, 2009, based on our specified leverage ratios), to a fixed interest rate (7.50% prior to December 30, 2009, reduced to 7.25% effective from December 30, 2009, based on our specified leverage ratios). The notional amount of the interest rate swap was \$75.0 million at the inception of

the swap agreement and decreased over time to a notional amount of \$5.0 million at the expiration date of April 18, 2012.

We have \$1.8 million outstanding under an Industrial Revenue Bond (“IRB”) at September 30, 2012. The IRB has a variable interest rate that may be converted to a fixed interest rate at our option. At any time prior to conversion to a fixed interest rate structure, bondholders may put back to us (i.e. require us to repurchase) all or part of the IRB upon notice to the bond trustee, after which the remarketing agent would attempt to resell to third parties the put portion of the IRB. If the remarketing agent is unsuccessful in reselling the put portion of the IRB, the bond trustee may then draw on a letter of credit issued under the Credit Facility to repurchase the put bonds from bondholders on our behalf. During fiscal 2012 and 2011 bondholders put \$1.4 million and \$0.1 million, respectively, of the IRB back to us, and these put bonds were successfully resold by the remarketing agent to third parties. The letter of credit issued to secure the bonds has never been drawn upon. In the event that the bondholders put the bonds back to us and the remarketing agent fails to resell the bonds, which we believe is unlikely, we expect the acceleration of the payment of the bonds would not have a material adverse effect on our financial position or liquidity.

In March 2007, we entered into Supplemental Executive Retirement Agreements, which have been periodically amended (the “SERP Agreements”), with Dan and Rebecca Matthias (the “SERP Executives”). We also have a grantor trust, which was established for the purpose of accumulating assets in anticipation of our payment obligations under the SERP Agreements (the “Grantor Trust”). Our agreements with the SERP Executives and the trustee for the Grantor Trust (the “Trustee”) allow us to make cash deposits to the Grantor Trust, or provide an irrevocable standby letter of credit (the “SERP Letter of Credit”) to the Trustee, in lieu of any deposits otherwise required, for funding obligations under the SERP Agreements. In December 2009, in connection with the additional vesting and scheduled payment of SERP Executives’ benefits in 2010, we made a partial cash contribution to the Grantor Trust of \$1.5 million, with a corresponding reduction of the SERP Letter of Credit to a total of \$4.4 million as of December 31, 2009. In December 2010, we received a distribution of the remaining assets in the Grantor Trust totaling \$1.5 million. The amount withdrawn was used to partially fund the \$4.2 million December 2010 lump sum payment of SERP benefits to Ms. Matthias. As of September 30, 2012, the SERP Letter of Credit was \$150,000, which was equal to the remaining SERP benefits paid to Mr. Matthias on October 1, 2012.

---

On January 26, 2011, we announced the initiation of a regular quarterly cash dividend. During fiscal 2012 and 2011 we paid cash dividends of \$9.3 million (reflecting four quarterly dividend payments or a total of \$0.70 per share) and \$6.9 million (reflecting three quarterly dividend payments or a total of \$0.525 per share), respectively. On November 8, 2012 we declared a quarterly cash dividend of \$0.175 per share payable on December

28, 2012, which will require approximately \$2.4 million of available cash. Based on our current quarterly dividend rate of \$0.175 per share, we project that we will pay approximately \$9.4 million of cash dividends during fiscal 2013.

Our management believes that our current cash and working capital positions, expected operating cash flows and available borrowing capacity will be sufficient to fund our cash requirements for working capital, capital expenditures, debt repayments and dividend payments, as well

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-K**

(Mark One)

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

For the fiscal year ended September 30, 2012

or

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

For the transition period from to  
Commission file number 0-21196

---

**Destination Maternity Corporation**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction)

**13-3045573**  
(IRS Employer)

**Non-Employee Director Compensation Policy & Equity Ownership Guidelines**

(Effective 10/1/12)

Compensation for Non-Employee Directors

Directors of Destination Maternity Corporation (the “Company”) who are also our employees receive no additional compensation for serving as a director or as a member of any Committee of the Board of Directors. Our current arrangements for non-employee directors are as follows:

- (a) The Company pays each non-employee director a retainer of \$12,500 per quarter. Non-employee directors are not compensated for participation in meetings.
- (b) Upon conclusion of the annual meeting of stockholders each year, the Company grants each non-employee director 4,000 shares of restricted stock pursuant to the Company’s 2005 Equity Incentive Plan that will vest on the earlier of: (1) one year from the date of grant or (2) one day before the Company’s next Annual Meeting of Stockholders, subject to acceleration in the event of the non-employee director’s death or disability or upon a change in control of the Company.
- (c) The Chair of each of the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee, and each non-employee director who is a member of a Committee (including the Chair) is paid a quarterly retainer at the rates reflected in the below table:

Committee / Position	Quarterly Retainer
<b>Audit Committee</b>	
Chair	\$ 3,750
Member	\$ 1,875
<b>Compensation Committee</b>	
Chair	\$ 3,750
Member	\$ 1,250
<b>Nominating and Corporate Governance Committee</b>	
Chair	\$ 2,500
Member	\$ 1,250

- (d) Board members are also reimbursed for their reasonable travel expenses incurred to attend meetings of our Board of Directors or Committees of the Board of Directors on which they serve.

Also, our Non-Executive Chairman is entitled to the following additional compensation:

- (a) an additional retainer of \$6,250 per quarter; and
- (b) an additional 2,000 shares of restricted stock granted upon election or reelection of the Non-Executive Chairman to that position by the Board following the annual meeting of stockholders each year, that will vest on the earlier of: (1) one year from the date of grant or (2) one day before the Company’s next Annual Meeting of

---

Stockholders, subject to acceleration in the event of the Non-Executive Chairman's death or disability or upon a change of control of the Company.

Equity Ownership Guidelines for Non-Employee Directors

The Board has adopted these equity ownership guidelines applicable to non-employee directors:

All non-employee directors are expected to hold equity in the Company having a total value equal to \$150,000 (which is three times the annual cash Board member retainer).

Existing directors will have three years from October 1, 2012 to attain the required level of equity ownership. Directors elected after October 1, 2012 will have three years from the date of election to the Board to attain the required level of equity ownership.

The following types of equity instruments count in determining equity ownership for purposes of these guidelines:

- (a) Shares owned separately by the director or owned either jointly with, or separately by, his immediate family members;
- (b) Shares held in trust for the benefit of the director or his immediate family members;
- (c) Shares purchased on the open market;
- (d) Shares obtained through stock option exercise (and not thereafter sold);
- (e) Vested but unexercised stock options; and
- (f) Vested shares of restricted stock.

Equity ownership does not include unvested stock options or unvested shares of restricted stock.

The Compensation Committee will determine what action shall be taken in the event of non-compliance with these equity ownership guidelines. Not in limitation of the foregoing, the Committee may exercise its discretion to declare a director ineligible to receive future equity grants under the Company's plans.

Progress toward meeting the guidelines will be presented to the Board of Directors at least annually in such manner as requested by the Board of the Directors.

There may be rare instances where the equity ownership guidelines would place a severe financial hardship on a director. The Compensation Committee may, in its discretion, modify the equity ownership requirements in special circumstances.

These guidelines shall be administered and interpreted by the Compensation Committee.

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors  
Destination Maternity Corporation:

We consent to the incorporation by reference in the registration statements on Form S-3 (Nos. 333-59309, 333-12321 and 333-27611) and registration statements on Form S-8 (Nos. 33-64580, 33-89726, 333-2404, 333-3480, 333-59529, 333-57766, 333-112158, 333-137136, 333-174059 and 333-175976) of Destination Maternity Corporation (formerly Mothers Work, Inc.) of our reports dated December 14, 2012, with respect to the consolidated balance sheets of Destination Maternity Corporation and subsidiaries as of September 30, 2012 and 2011, and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended September 30, 2012, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of September 30, 2012, which reports appear in the September 30, 2012 annual report on Form 10-K of Destination Maternity Corporation.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
December 14, 2012

**SARBANES-OXLEY  
SECTION 302 CERTIFICATION**

I, Edward M. Krell, certify that:

1. I have reviewed this Annual Report on Form 10-K of Destination Maternity Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2012

/s/ EDWARD M. KRELL

Edward M. Krell  
*Chief Executive Officer*



**SARBANES-OXLEY  
SECTION 302 CERTIFICATION**

I, Judd P. Tirnauer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Destination Maternity Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2012

/s/ JUDD P. TIRNAUER

Judd P. Tirnauer  
*Executive Vice President & Chief Financial Officer*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Destination Maternity Corporation (the "Company") on Form 10-K for the year ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward M. Krell, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ EDWARD M. KRELL  
Edward M. Krell  
*Chief Executive Officer*  
December 14, 2012

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Destination Maternity Corporation (the "Company") on Form 10-K for the year ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Judd P. Tirnauer, Executive Vice President & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JUDD P. TIRNAUER

Judd P. Tirnauer  
*Executive Vice President & Chief Financial Officer*  
December 14, 2012

**Cover - Document and Entity Information**

Document and Entity Information (USD \$)	12 Months Ended		
	Sep. 30, 2012	Dec. 03, 2012	Mar. 31, 2012
<b>Document and Entity Information [Abstract]</b>			
Entity Registrant Name	Destination Maternity Corp		
Entity Central Index Key	0000896985		
Document Type	10-K		
Document Period End Date	Sep. 30, 2012		
Amendment Flag	false		
Document Fiscal Year Focus	2012		
Document Fiscal Period Focus	FY		
Current Fiscal Year End Date	--09-30		
Entity Well-known Seasoned Issuer	No		
Entity Voluntary Filers	No		
Entity Current Reporting Status	Yes		
Entity Filer Category	Accelerated Filer		
Entity Public Float			\$ 241,000,000
Entity Common Stock, Shares Outstanding		13,487,694	

Source: Destination Maternity Corp, XBRL, 12/14/2012 | Powered by Intelligize

## Financial Statements - Consolidated Balance Sheets

<b>Consolidated Balance Sheets (USD \$) In Thousands</b>	<b>Sep. 30, 2012</b>	<b>Sep. 30, 2011</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 22,376	\$ 15,285
Trade receivables, net	13,197	11,015
Inventories	88,754	90,366
Deferred income taxes	7,557	7,572
Prepaid expenses and other current assets	4,220	6,797
<b>Total current assets</b>	<b>136,104</b>	<b>131,035</b>
Property, plant and equipment, net	51,078	55,854
<b>Other assets:</b>		
Deferred financing costs, net of accumulated amortization of \$751 and \$760	92	158
Other intangible assets, net of accumulated amortization of \$2,123 and \$2,082	1,347	1,248
Deferred income taxes	10,667	10,133
Other non-current assets	356	344
<b>Total other assets</b>	<b>12,462</b>	<b>11,883</b>
<b>Total assets</b>	<b>199,644</b>	<b>198,772</b>
<b>Current liabilities:</b>		
Line of credit borrowings		
Current portion of long-term debt	15,257	2,915
Accounts payable	21,987	18,456
Accrued expenses and other current liabilities	35,544	33,680
<b>Total current liabilities</b>	<b>72,788</b>	<b>55,051</b>
Long-term debt		28,427
Deferred rent and other non-current liabilities	21,884	22,599
<b>Total liabilities</b>	<b>94,672</b>	<b>106,077</b>
Commitments and contingencies (Note 16)		
<b>Stockholders' equity:</b>		
Preferred stock, 1,656,381 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, 13,370,149 and 13,225,928 shares issued and outstanding, respectively	134	132
Additional paid-in capital	95,086	92,932
Retained earnings (accumulated deficit)	9,786	(261)
Accumulated other comprehensive loss	(34)	(108)
<b>Total stockholders' equity</b>	<b>104,972</b>	<b>92,695</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 199,644</b>	<b>\$ 198,772</b>

Source: Destination Maternity Corp, XBRL, 12/14/2012 | Powered by Intelligize



**Financial Statements - Consolidated Balance Sheets (Parenthetical)**

<b>Consolidated Balance Sheets (Parenthetical) (USD \$) In Thousands, except Share data</b>	<b>Sep. 30, 2012</b>	<b>Sep. 30, 2011</b>
Deferred financing costs, accumulated amortization	\$ 751	\$ 760
Other intangible assets, accumulated amortization	\$ 2,123	\$ 2,082
Common stock, par value	\$ 0.01	\$ 0.01
Common stock, shares authorized	20,000,000	20,000,000
Common stock, shares issued	13,370,149	13,225,928
Common stock, shares outstanding	13,370,149	13,225,928
Preferred stock, shares authorized	1,656,381	1,656,381
<b>Series B Junior Participating Preferred Stock</b>		
Series B junior participating preferred stock, par value	\$ 0.01	\$ 0.01
Series B junior participating preferred stock authorized	300,000	300,000
Series B junior participating preferred stock, shares outstanding		

## Financial Statements - Consolidated Statements of Income

Consolidated Statements of Income (USD \$) In Thousands, except Per Share data	12 Months Ended		
	Sep. 30, 2012	Sep. 30, 2011	Sep. 30, 2010
<b>Consolidated Statements of Income [Abstract]</b>			
Net sales	\$ 541,476	\$ 545,394	\$ 531,192
Cost of goods sold	250,765	248,497	240,166
Gross profit	290,711	296,897	291,026
Selling, general and administrative expenses	255,623	257,421	251,653
Store closing, asset impairment and asset disposal expenses	1,983	1,039	2,282
Restructuring and other charges		193	5,658
Operating income	33,105	38,244	31,433
Interest expense, net	1,215	2,233	3,300
Loss on extinguishment of debt	22	37	51
Income before income taxes	31,868	35,974	28,082
Income tax provision	12,496	12,986	11,253
Net income	\$ 19,372	\$ 22,988	\$ 16,829
Net income per share-Basic	\$ 1.48	\$ 1.79	\$ 1.37
Average shares outstanding-Basic	13,096	12,820	12,304
Net income per share-Diluted	\$ 1.46	\$ 1.75	\$ 1.33
Average shares outstanding-Diluted	13,267	13,120	12,691

Source: Destination Maternity Corp, XBRL, 12/14/2012 | Powered by Intelligize



**Financial Statements - Consolidated Statements of Stockholders' Equity and Comprehensive Income**

<b>Consolidated Statements of Stockholders' Equity and Comprehensive Income (USD \$)</b>	<b>Total</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Deficit</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Comprehensive Income</b>
Beginning Balance at Sep. 30, 2009	\$ 49,800,000	\$ 122,000	\$ 84,496,000	\$ (33,177,000)	\$ (1,641,000)	
Beginning Balance (in shares) at Sep. 30, 2009		12,223,000				
Net income	16,829,000			16,829,000		16,829,000
Amortization of prior service cost for retirement plans, net of tax	88,000				88,000	88,000
Retirement plan amendment, net of tax	281,000				281,000	281,000
Change in fair value of interest rate swap, net of tax	692,000				692,000	692,000
Comprehensive Income						17,890,000
Stock-based compensation	1,936,000	1,000	1,935,000			
Stock-based compensation (in shares)		89,000				
Exercise of stock options, net	1,369,000	5,000	1,364,000			
Exercise of stock options, net, shares		466,000				
Excess tax benefit from stock option exercises and restricted stock vesting	1,563,000		1,563,000			
Repurchase and retirement of common stock	(960,000)	(1,000)	(959,000)			
Repurchase and retirement of common stock (in shares)		(87,000)				
Ending Balance at Sep. 30, 2010	71,598,000	127,000	88,399,000	(16,348,000)	(580,000)	
Ending Balance (in shares) at Sep. 30, 2010		12,691,000				
Net income	22,988,000			22,988,000		22,988,000
Change in fair value of interest rate swap, net of tax	490,000				490,000	490,000
Foreign currency translation adjustments	(18,000)				(18,000)	(18,000)
Comprehensive Income						23,460,000
Cash dividends	(6,901,000)			(6,901,000)		
Stock-based compensation	2,344,000	1,000	2,343,000			
Stock-based compensation (in shares)		117,000				
Exercise of stock options, net	2,285,000	5,000	2,280,000			
Exercise of stock options, net, shares		547,000				
Excess tax benefit from stock option exercises and restricted stock vesting	2,695,000		2,695,000			
Repurchase and retirement of common stock	(2,786,000)	(1,000)	(2,785,000)			
Repurchase and retirement of common stock (in shares)		(129,000)				
Ending Balance at Sep. 30, 2011	92,695,000	132,000	92,932,000	(261,000)	(108,000)	

Source: Destination Maternity Corp, XBRL, 12/14/2012 | Powered by Intelligize

Ending Balance (in shares) at Sep. 30, 2011			13,226,000			
Net income	19,372,000			19,372,000		19,372,000
Change in fair value of interest rate swap, net of tax	90,000				90,000	90,000
Foreign currency translation adjustments	(16,000)				(16,000)	(16,000)
Comprehensive Income						19,446,000
Cash dividends	(9,325,000)			(9,325,000)		
Stock-based compensation	2,357,000	1,000	2,356,000			
Stock-based compensation (in shares)		91,000				
Exercise of stock options, net	107,000	1,000	106,000			
Exercise of stock options, net, shares	135,000	84,000				
Excess tax benefit from stock option exercises and restricted stock vesting	289,000		289,000			
Repurchase and retirement of common stock	(597,000)		(597,000)			
Repurchase and retirement of common stock (in shares)		(31,000)				
Ending Balance at Sep. 30, 2012	\$ 104,972,000	\$ 134,000	\$ 95,086,000	\$ 9,786,000	\$ (34,000)	
Ending Balance (in shares) at Sep. 30, 2012			13,370,000			

Source: Destination Maternity Corp, XBRL, 12/14/2012 | Powered by Intelligize