higher markdowns, as well as the decreased appeal of our brands. Particular fashion trends, or an inaccuracy of our forecasts regarding fashion trends, could have a material adverse effect on our business, financial condition and results of operations. For example, in fiscal 2007 we were negatively impacted from the popularity of certain styles in the non-maternity women's apparel market, such as trapeze and baby-doll dresses and tops, which can more readily fit a pregnant woman early in her pregnancy than typical non-maternity fashions.

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

Our business requires disciplined execution at all levels of our organization in order to timely deliver and display fashionable merchandise in appropriate quantities in our stores. This execution requires experienced and talented management. We currently have a management team with a great deal of experience with us and in apparel retailing. If we were to lose the benefit of this experience, our business, financial condition and results of operations could be materially and adversely affected. On November 6, 2009, we announced the retirement of Rebecca Matthias, our co-founder, at the end of fiscal 2010. Pursuant to our transition agreement with Ms. Matthias, she will be a full-time employee of the Company until June 5, 2010. After June 15, 2010, Ms. Matthias will remain in an employment relationship with us on a part-time basis through September 30, 2010, and will then provide consulting services to us, as requested, through September 30, 2012. If we were unable to compensate for the loss of the benefit of Ms. Matthias' experience, our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Although an immaterial amount of our sales are currently derived from international sales outside of Canada, we are actively seeking to expand our international presence, and we have begun to do so through franchise arrangements in the Middle East and India. We may not be successful in these efforts. International operations and sales subject us to risks and challenges that we would otherwise not face if we conducted our business only in the United States. For example, we may depend on third parties to market our products through foreign sales channels, and we may be challenged by laws and business practices favoring local competitors. In addition, our ability to succeed in foreign markets will depend on our ability to protect our intellectual property. We must also adapt our pricing structure to address different pricing environments and may face difficulty in enforcing revenue collection internationally. Emerging markets are a significant focus of our international growth strategy. The developing nature of these markets presents a number of risks. Deterioration of social, political, labor, or economic conditions in a specific country or region and difficulties in staffing and managing foreign operations may also adversely affect our operations or financial results or those of our franchisees. Operations outside the United States may be affected by changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments. To the extent we achieve significant sales outside of the United States in the future, we may have significant exposure to fluctuating foreign currency exchange rates.

We could have failures in our system of internal controls.

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We own our principal executive offices and distribution facility, which is located at 456 North Fifth Street, Philadelphia, Pennsylvania, subject to a mortgage under the terms of which we owe approximately $2.4 million as of September 30, 2009. This facility consists of approximately 318,000 square feet, of which approximately 45,000 square feet is dedicated to office space and the remaining square footage is used for finished goods warehousing and distribution. On August 26, 2002, we entered into a ten-year lease for a facility located at 2001 Kitty Hawk Avenue, Philadelphia, Pennsylvania in the Philadelphia Naval Business Center. The area leased at this facility, which we use for some finished goods warehousing and distribution, as well as raw material cutting and warehousing, consists of approximately 64,000 square feet of space. To facilitate our store growth in Canada, we entered into a three-year lease commencing November 1, 2002 for approximately 12,000 square feet of finished goods warehouse and distribution space in Mississauga, Ontario in Canada. Since this time, we have renewed this lease in Canada on multiple occasions and it currently expires on October 31, 2010. From time to time we may also utilize third-party warehousing services in the Philadelphia, Pennsylvania area when we have increased storage requirements. These services essentially operate on a month-to-month basis. We believe that these facilities will be adequate to support our anticipated distribution needs for the near term and, potentially, longer. In the event we need additional space to meet our future distribution needs, we believe that such space would be readily available. Our facilities are subject to state and local regulations that range from building codes to health and safety regulations.

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

As of September 30, 2009, the following numbers of store leases are set to expire as listed in the table below. We do not expect the expiration of any leases to have a material adverse impact on our business or operations.

Fiscal Year Leases Expire	Number of Stores
2010	104
2011	108
2012	85
2013	119
2014	136
2015 and later	172
Total	724

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

Item 3. Legal Proceedings

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

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

Not applicable.

PART II.

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

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

	High	Low
Fiscal Year Ended September 30, 2009:		
Quarter ended December 31, 2008	$14.68	$ 5.72
Quarter ended March 31, 2009	8.70	4.42
Quarter ended June 30, 2009	18.13	5.92
Quarter ended September 30, 2009	23.74	16.30
Fiscal Year Ended September 30, 2008:		
Quarter ended December 31, 2007	$19.78	$14.93
Quarter ended March 31, 2008	20.21	14.58
Quarter ended June 30, 2008	18.46	8.97
Quarter ended September 30, 2008	17.39	9.61

As of December 1, 2009, there were 1,288 holders of record and 949 estimated beneficial holders of our common stock.

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

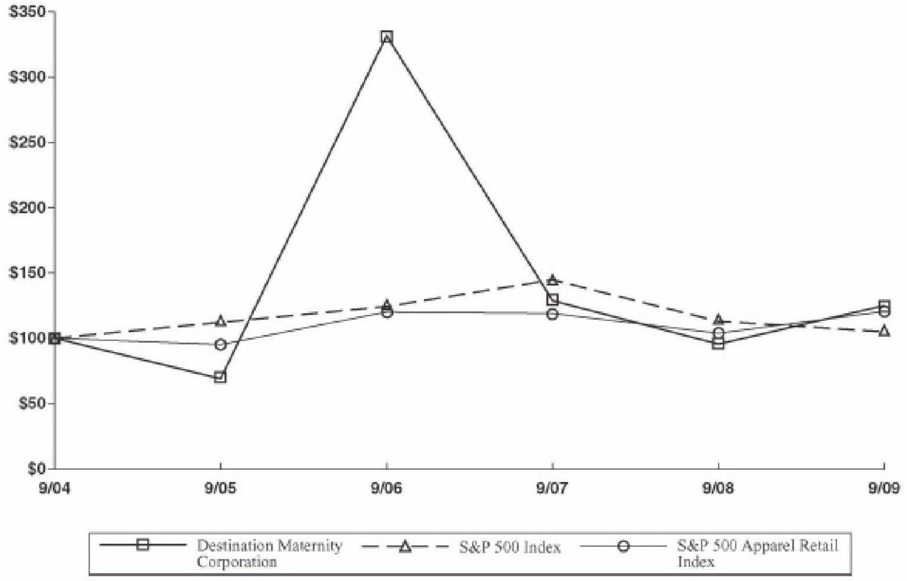
Under our Amended and Restated 2005 Equity Incentive Plan (the "2005 Plan"), awards may be granted in the form of options, stock appreciation rights, restricted stock or restricted stock units. Up to 700,000 shares of our common stock may be issued in respect of awards under our 2005 Plan, with no more than 350,000 of those shares permitted to be issued in respect of restricted stock or restricted stock units granted under the 2005 Plan.

In July 2008, our Board of Directors approved a program to repurchase up to $7.0 million of our outstanding common stock. Under the program, we may repurchase shares from time to time through solicited or unsolicited transactions in the open market or in negotiated or other transactions. The program will be in effect until the end of July 2010. There were no repurchases of common stock under the program during fiscal 2009 or fiscal 2008.

Stock Price Performance Graph

The graph below compares the cumulative total stockholder return on our Common Stock for the period from September 30, 2004 to September 30, 2009, with the cumulative total return of the Standard & Poor's 500 Index and the Standard & Poor's Apparel Retail Index. The comparison assumes $100 was invested on September 30, 2004 in our Common Stock and in each of the foregoing indices and assumes reinvestment of dividends.

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



* $100 invested on 9/30/04 in stock or index—including reinvestment of dividends. Fiscal year ending September 30.

	2004	2005	2006	2007	2008	2009
Destination Maternity Corporation	$ 100.00	$ 68.97	$ 331.86	$ 128.76	$ 95.72	$ 125.03
S&P 500	$ 100.00	$ 112.25	$ 124.36	$ 144.81	$ 112.99	$ 105.18
S&P Apparel Retail Index	$ 100.00	$ 95.12	$ 120.21	$ 119.08	$ 104.08	$ 120.43

Item 6. Selected Consolidated Financial and Operating Data

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

	Year Ended September 30,				
	2009	2008	2007	2006	2005
	(in thousands, except per share amounts)				
Statement of Operations Data:					
Net sales	$531,251	$564,602	$581,371	$602,744	$561,627
Cost of goods sold	248,476	281,561	281,155	288,082	277,453
Gross profit	282,775	283,041	300,216	314,662	284,174
Selling, general and administrative expenses	259,552	271,592	279,719	279,713	264,652
Store closing, asset impairment and asset disposal expenses	536	2,916	1,788	4,621	5,284
Restructuring and other charges	1,557	3,461	—	—	—
Goodwill impairment expense	50,389	—	—	—	—
Operating income (loss)	(29,259)	5,072	18,709	30,328	14,238
Interest expense, net	4,720	6,974	9,848	14,534	15,293
Loss on extinguishment of debt	123	97	9,423	873	—
Income (loss) before income taxes	(34,102)	(1,999)	(562)	14,921	(1,055)
Income tax provision (benefit)	6,580	(610)	(169)	5,819	(880)
Net income (loss)	$(40,682)	$ (1,389)	$ (393)	$ 9,102	$ (175)
Net income (loss) per share—Basic	$ (6.79)	$ (0.23)	$ (0.07)	$ 1.70	$ (0.03)
Average shares outstanding—Basic	5,992	5,924	5,802	5,348	5,242
Net income (loss) per share—Diluted	$ (6.79)	$ (0.23)	$ (0.07)	$ 1.63	$ (0.03)
Average shares outstanding—Diluted	5,992	5,924	5,802	5,591	5,242

	Year Ended September 30,				
	2009	2008	2007	2006	2005
	(unaudited; in thousands, except operating data, ratios and per share amounts)				
Operating Data:					
Comparable store sales increase (decrease) (1)	(4.3)%	0.2%	(4.8)%	4.3%	(2.5)%
Average net sales per gross square foot (2)	$ 290	$ 302	$ 299	$ 305	$ 295
Average net sales per store (2)	$ 573,000	$ 588,000	$ 568,000	$ 570,000	$ 534,000
Gross store square footage at period end (3)	1,462,000	1,492,000	1,498,000	1,532,000	1,579,000
Gross retail location square footage at period end (4)	1,619,000	1,623,000	1,811,000	1,819,000	1,874,000
Number of retail locations at period end:					
Motherhood Maternity stores	591	616	635	659	690
Mimi Maternity stores (5)	—	89	100	106	117
A Pea in the Pod stores (5)	67	30	32	33	37
Destination Maternity stores (5)	66	19	14	12	8
Total stores	724	754	781	810	852
Leased departments	360	278	795	731	739
Total retail locations	1,084	1,032	1,576	1,541	1,591
Other Financial Data:					
Adjusted EBITDA (6)(7)	$ 38,762	$ 25,501	$ 38,579	$ 51,715	$ 33,906
Ratio of total debt to Adjusted EBITDA	1.5x	3.1x	2.4x	2.3x	3.8x
Ratio of Adjusted EBITDA to interest expense, net	8.2x	3.7x	3.9x	3.6x	2.2x
Adjusted EBITDA before restructuring and other charges (6)(7)	40,191	28,717	38,579	51,715	33,906
Adjusted net income (loss), before goodwill impairment expense (7)	9,707	(1,389)	(393)	9,102	(175)
Adjusted net income (loss) per share—Diluted, before goodwill impairment expense (7)	1.60	(0.23)	(0.07)	1.63	(0.03)
Adjusted net income (loss), before goodwill impairment expense, restructuring and other charges, and loss on extinguishment of debt (7)	10,751	843	5,355	9,635	(175)
Adjusted net income (loss) per share—Diluted, before goodwill impairment expense, restructuring and other charges, and loss on extinguishment of debt (7)	1.77	0.14	0.87	1.72	(0.03)
Cash flows provided by operating activities	42,525	27,822	27,398	42,413	7,324
Cash flows used in investing activities	(12,455)	(13,347)	(8,112)	(23,166)	(11,414)
Cash flows used in financing activities	(21,592)	(12,457)	(28,060)	(3,380)	(1,340)
Capital expenditures	(12,639)	(15,688)	(15,444)	(13,933)	(17,644)
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 20,626	$ 12,148	$ 10,130	$ 18,904	$ 3,037
Short-term investments	—	—	—	9,425	—
Working capital	50,580	61,611	64,923	83,772	71,228
Total assets	196,007	256,248	275,925	287,736	273,317
Total debt	57,409	78,646	93,180	118,349	128,856
Net debt (7)(8)	36,783	66,498	83,050	90,020	125,819
Stockholders' equity	49,800	89,468	88,523	80,700	63,328

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

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

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

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

(5) In fiscal 2009, as part of our merchandise brand and store nameplate restructuring, we renamed our single-brand Mimi Maternity stores as A Pea in the Pod, and we renamed our multi-brand Mimi Maternity stores as Destination Maternity.

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

(7) Other Financial and Balance Sheet Data contain non-GAAP financial measures within the meaning of the Securities and Exchange Commission's Regulation G, including: (a) Adjusted EBITDA; (b) Adjusted EBITDA before restructuring and other charges; (c) Adjusted net income (loss), before goodwill impairment expense; (d) Adjusted net income (loss) per share—Diluted, before goodwill impairment expense; (e) Adjusted net income (loss), before goodwill impairment expense, restructuring and other charges, and loss on extinguishment of debt; (f) Adjusted net income (loss) per share—Diluted, before goodwill impairment expense, restructuring and other charges, and loss on extinguishment of debt; and (g) net debt. We believe that each of these non-GAAP financial measures provides useful information about our results of operations and/or financial position to both investors and management. Each non-GAAP financial measure is provided because we believe it is an important measure of financial performance used in the retail industry to measure operating results, to determine the value of companies within the industry and to define standards for borrowing from institutional lenders. We use each of these non-GAAP financial measures as a measure of the performance of the Company. We provide these measures to investors to assist them in performing their analysis of our historical operating results. The non-GAAP financial measures included in Other Financial Data reflect a measure of our operating results before consideration of certain charges and consequently, none of these measures should be construed as an alternative to net income (loss) or operating income (loss) as an indicator of our operating performance, or as an alternative to cash flows from operating activities as a measure of our liquidity, as determined in accordance with generally accepted accounting principles. We may calculate each of these non-GAAP financial measures differently than other companies. With respect to the non-GAAP financial measures included in Other Financial Data, we have presented below a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

(8) Net debt represents total debt minus cash and cash equivalents and short-term investments.

Reconciliation of Net Income (Loss) to Adjusted EBITDA and Adjusted EBITDA Before Restructuring and Other Charges

(in thousands)

(unaudited)

	Year Ended September 30,				
	2009	2008	2007	2006	2005
Net income (loss)	$(40,682)	$(1,389)	$ (393)	$ 9,102	$ (175)
Add: income tax provision (benefit)	6,580	(610)	(169)	5,819	(880)
Add: interest expense, net	4,720	6,974	9,848	14,534	15,293
Add: loss on extinguishment of debt	123	97	9,423	873	—
Operating income (loss)	(29,259)	5,072	18,709	30,328	14,238
Add: depreciation and amortization expense	14,982	15,974	16,410	16,118	15,502
Add: loss on impairment of long-lived assets	667	1,628	1,781	2,612	3,440
Add: goodwill impairment expense	50,389	—	—	—	—
Add: (gain) loss on disposal of assets	(48)	546	(422)	(139)	726
Add: stock-based compensation expense	2,031	2,281	2,101	2,796	—
Adjusted EBITDA	38,762	25,501	38,579	51,715	33,906
Add: restructuring and other charges (1)	1,429	3,216	—	—	—
Adjusted EBITDA before restructuring and other charges	$ 40,191	$28,717	$38,579	$51,715	$33,906

(1) Excludes accelerated depreciation expense of $128 and $245 for the years ended September 30, 2009 and 2008, respectively, included in depreciation and amortization expense above.

Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss), Before Goodwill Impairment Expense and Adjusted Net Income (Loss), Before Goodwill Impairment Expense, Restructuring and Other Charges, and Loss on Extinguishment of Debt and Net Income (Loss) Per Share-Diluted to Adjusted Net Income (Loss) Per Share—Diluted, Before Goodwill Impairment Expense and Adjusted Net Income (Loss) Per Share—Diluted, Before Goodwill Impairment Expense, Restructuring and Other Charges, and Loss on Extinguishment of Debt

(in thousands, except per share amounts)

(unaudited)

	Year Ended September 30,				
	2009	2008	2007	2006	2005
Net income (loss), as reported	$(40,682)	$(1,389)	$ (393)	$9,102	$ (175)
Add: goodwill impairment expense, net of tax	50,389	—	—	—	—
Adjusted net income (loss), before goodwill impairment expense	9,707	(1,389)	(393)	9,102	(175)
Add: restructuring and other charges, net of tax	968	2,171	—	—	—
Add: loss on extinguishment of debt, net of tax	76	61	5,748	533	—
Adjusted net income (loss), before goodwill impairment expense, restructuring and other charges, and loss on extinguishment of debt	$ 10,751	$ 843	$5,355	$9,635	$ (175)
Net income (loss) per share—Diluted, as reported	$ (6.79)	$ (0.23)	$ (0.07)	$ 1.63	$ (0.03)
Average shares outstanding—Diluted, as reported (1)	5,992	5,924	5,802	5,591	5,242
Adjusted net income (loss) per share—Diluted, before goodwill impairment expense	$ 1.60	$ (0.23)	$ (0.07)	$ 1.63	$ (0.03)
Average shares outstanding—Diluted (1)	6,067	5,924	5,802	5,591	5,242
Adjusted net income (loss) per share—Diluted, before goodwill impairment expense, restructuring and other charges, and loss on extinguishment of debt	$ 1.77	$ 0.14	$ 0.87	$ 1.72	$ (0.03)
Average shares outstanding—Diluted (1)	6,067	6,048	6,135	5,591	5,242

(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 warrants and restricted stock.

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

Overview

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

We are the leading designer and retailer of maternity apparel in the United States with 1,084 retail locations, including 724 stores in all 50 states, Puerto Rico, Guam and Canada, and 360 leased departments located within department stores and baby specialty stores throughout the United States. We are also the exclusive provider of maternity apparel to Kohl's®, which operates approximately 1,059 stores throughout the United States. During fiscal 2009, we operated our stores under the Motherhood Maternity, A Pea in the Pod and Destination Maternity retail concepts. We are the exclusive maternity apparel provider in each of our leased department relationships. In October 2009, we re-launched our Two Hearts Maternity by Destination Maternity collection at Sears and Kmart stores. As of November 30, 2009, we operate maternity apparel departments in 522 Sears locations and 101 Kmart locations. The Two Hearts Maternity collection was previously offered in Sears stores from April 2004 through June 2008. We also are expanding internationally and have entered into exclusive store franchise and product supply relationships in India and the Middle East. Finally, we also sell merchandise on the Internet, primarily through DestinationMaternity.com and our various brand-specific websites. We design and contract manufacture approximately 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 U.S. dollars.

Critical Accounting Policies and Estimates

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

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

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

Inventories. We value our inventories, which consist primarily of maternity apparel, at the lower of cost or market. Cost is determined on the first-in, first-out method (FIFO) and includes the cost of merchandise, freight, duty and broker fees, as well as applied product related overhead. A periodic review of inventory quantities on hand is performed in order to determine if inventory is properly valued at the lower of cost or market. Factors related to current inventories such as future consumer demand and fashion trends, current aging, current analysis of merchandise based on receipt date, current and anticipated retail markdowns or wholesale discounts, and class or type of inventory are analyzed to determine estimated net realizable values. Criteria utilized by us to determine the net realizable value of our inventories and the related level of required inventory reserves include factors such as the amount of merchandise received within the past twelve months, merchandise received more than one year before with quantities on-hand in excess of twelve months of sales, and merchandise currently selling below cost. A provision is recorded to reduce the cost of inventories to its estimated net realizable value, if required. Inventories as of September 30, 2009 and 2008 totaled $78.9 million and

$88.1 million, respectively, representing 40.2% and 34.4% of total assets, respectively. Given the significance of inventories to our consolidated financial statements, the determination of net realizable values is considered to be a critical accounting estimate. Any significant unanticipated changes in the factors noted above could have a significant impact on the value of our inventories and our reported operating results.

Long-Lived Assets. Our long-lived assets consist principally of store leasehold improvements and furniture and equipment (included in the "property, plant and equipment, net" line item in our consolidated balance sheets) and, to a much lesser extent, patent and lease acquisition costs (included in the "other intangible assets, net" line item in our consolidated balance sheets). These long-lived assets are recorded at cost and are amortized using the straight-line method over the shorter of the lease term or their useful life. Net long-lived assets as of September 30, 2009 and 2008 totaled $63.8 million and $66.8 million, respectively, representing 32.5% and 26.1% of total assets, respectively.

In assessing potential impairment of these assets, we periodically evaluate the historical and forecasted operating results and cash flows on a store-by-store basis. Newly opened stores may take time to generate positive operating and cash flow results. Factors such as (i) store type, that is, Company store or leased department, (ii) store concept, that is, Motherhood, Pea or Destination Maternity, (iii) store location, for example, urban area versus suburb, (iv) current marketplace awareness of our brands, (v) local customer demographic data, (vi) anchor stores within the mall in which our store is located and (vii) current fashion trends are all considered in determining the time frame required for a store to achieve positive financial results, which is assumed to be within two years from the date a store location is opened. If economic conditions are substantially different from our expectations, the carrying value of certain of our long-lived assets may become impaired. As a result of our impairment assessment, we recorded write-downs of long-lived assets of $0.7 million and $1.6 million during fiscal 2009 and fiscal 2008, respectively.

Goodwill. The purchase method of accounting for business combinations requires the use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. Goodwill represents the excess of the aggregate purchase price over the fair value of net assets acquired in business combinations and is separately disclosed in our consolidated balance sheets. In June 2001, the Financial Accounting Standards Board ("FASB") issued an accounting pronouncement, which required that goodwill no longer be amortized, but instead be tested for impairment at least annually or as impairment indicators arise. The impairment test requires us to compare the fair value of business reporting units to their carrying value, including assigned goodwill. In assessing potential impairment of goodwill, we have determined that we have one reporting unit for purposes of applying the accounting requirements based on our reporting structure. The fair value of our single reporting unit is determined based on a combination of the fair market value of our outstanding common stock on a control basis, a discounted cash flow analysis and other generally accepted valuation methodologies and, if necessary, with the assistance of an outside independent valuation specialist. To arrive at the fair market value of our outstanding common stock we consider our market capitalization as of the valuation date and comparative market multiples of other companies generally influenced by similar business and economic conditions. Our discounted cash flow analysis is based on assumptions that are consistent with our estimates of future growth used to manage the underlying business. Factors requiring significant judgment include assumptions related to future growth rates, discount factors and control premium, among other considerations. The carrying value of our single reporting unit, expressed on a per share basis, is represented by the book value per share of our outstanding common stock.

As of September 30, 2009 and 2008, goodwill totaled zero and $50.4 million, respectively, representing zero percent and 19.7% of total assets, respectively. As of September 30, 2008, our book value was $14.74 per share of outstanding common stock and the closing trading price of our common stock was $13.88 per share. As part of our impairment analysis as of September 30, 2008, an outside independent valuation was obtained and the results indicated the fair value of our single reporting unit exceeded the carrying value. If the per share fair value of our single reporting unit was less than the book value per share on September 30, 2008, our goodwill would have been impaired. Our goodwill also needs to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of our single reporting unit below its carrying value. As a result of a substantial decrease in the market price of our common stock subsequent to

September 30, 2008, reflecting deteriorating overall economic conditions and the very difficult equity market conditions, we reassessed the carrying value of our goodwill as of December 31, 2008, in accordance with the interim period accounting requirements and concluded that our goodwill was impaired. Consequently, we recorded a preliminary non-cash goodwill impairment charge of $47.0 million, on both a pretax and after tax basis, in the first quarter of fiscal 2009. The preliminary goodwill impairment charge reflected the indication from the impairment analysis performed in the first quarter of fiscal 2009, was subject to finalization of certain fair value estimates being performed with the assistance of an outside independent valuation specialist, and was subject to adjustment when all aspects of the analysis were completed. The final results of our evaluation completed during the second quarter of fiscal 2009 indicated the goodwill was fully impaired. Accordingly, we recorded a $3.4 million non-cash goodwill impairment charge, on both a pretax and after tax basis, in the second quarter of fiscal 2009, representing the remaining carrying value of the goodwill as of December 31, 2008. The goodwill impairment analysis involved calculating the implied fair value of our goodwill by allocating the fair value of our single reporting unit to all assets and liabilities other than goodwill (including both recognized and unrecognized intangible assets) and comparing the residual amount to the carrying value of goodwill.

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

The temporary differences between the book and tax treatment of income and expenses result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. Actual results could differ from our assessments if adequate taxable income is not generated in future periods. Net deferred tax assets as of September 30, 2009 and 2008 totaled $21.4 million and $23.6 million, respectively, representing 10.9% and 9.2% of total assets, respectively. To the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. To the extent we establish a valuation allowance or change the allowance in a future period, income tax expense will be impacted.

Accounting for Contingencies. From time to time, we are named as a defendant in legal actions arising from our normal business activities. We account for contingencies such as these in accordance with applicable accounting standards, which require us to record an estimated loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies arising from contractual or legal proceedings requires management, after consultation with outside legal counsel, to use its best judgment when estimating an accrual related to such contingencies. As additional information becomes known, our accrual for a loss contingency could fluctuate, thereby creating variability in our results of operations from period to period. Likewise, an actual loss arising from a loss contingency which significantly exceeds the amount accrued for in our financial statements could have a material adverse impact on our operating results for the period in which such actual loss becomes known.

Restructuring and Other Charges

On July 1, 2008, we announced that we were streamlining our merchandise brands and store nameplates and implementing cost reductions in order to simplify our business model, reduce overhead costs and improve and tighten our merchandise assortments. Pursuant to the strategic restructuring, we rebranded our Mimi Maternity merchandise brand under our A Pea in the Pod brand beginning with the Spring 2009 collection, which initially debuted in November 2008. We also streamlined our store nameplates, which began in November 2008, by renaming our single-brand Mimi Maternity stores as A Pea in the Pod, and by renaming our multi-brand Mimi Maternity stores as Destination Maternity. In connection with the strategic restructuring we also reduced our corporate and field management headcount, and during fiscal 2009 we began to implement actions to achieve further cost reductions. The objectives of our restructuring and cost reduction program are to improve and simplify critical processes, consolidate activities and infrastructure, and reduce our expense structure to be more appropriately aligned with our generation of revenue. We incurred pretax expense of approximately $1.6 million from our restructuring and cost reduction actions in fiscal 2009, consisting of approximately $1.1 million for consulting services related to our cost reduction initiatives, $0.4 million for cash severance expense and severance-related benefits, and approximately $0.1 million of non-cash expense for accelerated depreciation of existing store signs resulting from planned store signage changes. We incurred pretax expense of approximately $0.9 million from our restructuring in fiscal 2008, consisting of approximately $0.7 million for cash severance expense and severance-related benefits, and approximately $0.2 million of non-cash expense for accelerated depreciation of existing store signs. As of September 30, 2009, we had a commitment under a consulting agreement for minimum fees and expenses of approximately $1.6 million, of which approximately $0.6 million was recorded in fiscal 2009, based upon services rendered in fiscal 2009. We expect total additional expense of approximately $3.3 million, including but not entirely consisting of the remaining minimum commitment for consulting services related to our cost reduction initiatives, to be recorded in fiscal 2010, of which the majority may occur in the first quarter. These initiatives resulted in approximate pretax savings of $12 million in fiscal 2009, with incremental pretax savings of approximately $5 million projected for fiscal 2010. We project total annualized pretax savings of approximately $22 to $25 million in fiscal 2011 as a result of our cost reduction initiatives, which includes the savings realized in fiscal 2009 plus the incremental projected savings for fiscal 2010.

In connection with the retirement of Dan Matthias, our former Chief Executive Officer ("Former CEO"), effective September 30, 2008, we recognized pretax expense of $2.5 million in the fourth quarter of fiscal 2008. The charge reflects benefit costs and payroll taxes related to an amendment to the executive's supplemental retirement agreement with us. Subsequent to his retirement, our Former CEO continued to serve us as non-executive Chairman of the Board and is available to our CEO in a consulting capacity, for which our Former CEO is being paid an annual retainer of $200,000 through September 2012. In November 2009, our Former CEO entered into a letter agreement with us, which confirmed that he would not seek reelection to the Board of Directors after the expiration of his current term in January 2010. The agreement does not change the terms of payment under his annual retainer for advisory services, however we will incur a non-cash pretax charge of approximately $0.6 million primarily in the first quarter of fiscal 2010, representing the amount due for the remaining term of the advisory arrangement.

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

Results of Operations

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

	% of Net Sales (1) Year Ended September 30,			% Increase (Decrease) Year Ended September 30,	
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
Net sales	100.0%	100.0%	100.0%	(5.9)%	(2.9)%
Cost of goods sold (2)	46.8	49.9	48.4	(11.8)	0.1
Gross profit	53.2	50.1	51.6	(0.1)	(5.7)
Selling, general and administrative expenses (3)	48.9	48.1	48.1	(4.4)	(2.9)
Store closing, asset impairment and asset disposal expenses	0.1	0.5	0.3	(81.6)	63.1
Restructuring and other charges	0.3	0.6	—	(55.0)	N.M.
Goodwill impairment expense	9.5	—	—	N.M.	N.M.
Operating income (loss)	(5.5)	0.9	3.2	N.M.	(72.9)
Interest expense, net	0.9	1.2	1.7	(32.3)	(29.2)
Loss on extinguishment of debt	0.0	0.0	1.6	26.8	(99.0)
Loss before income taxes	(6.4)	(0.4)	(0.1)	N.M.	N.M.
Income tax provision (benefit)	1.2	(0.1)	(0.0)	N.M.	N.M.
Net loss	(7.7)%	(0.2)%	(0.1)%	N.M.	N.M.

N.M.—Not meaningful

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

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

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

The following table sets forth certain information regarding the number of our retail locations, including stores and leased maternity apparel departments and excluding locations where Kohl's sells our products under an exclusive product and license agreement and international franchise locations, for the fiscal years indicated:

	Year Ended September 30,								
	2009			2008			2007		
Retail Locations	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations
Beginning of period	754	278	1,032	781	795	1,576	810	731	1,541
Opened	13	85	98	28	7	35	18	121	139
Closed	(43)	(3)	(46)	(55)	(524)	(579)	(47)	(57)	(104)
End of period	724	360	1,084	754	278	1,032	781	795	1,576

Year Ended September 30, 2009 Compared to Year Ended September 30, 2008

Net Sales. Our net sales for fiscal 2009 decreased by 5.9%, or approximately $33.3 million, to $531.3 million from $564.6 million for fiscal 2008. Comparable store sales decreased by 4.3% during fiscal 2009 versus a comparable store sales increase of 0.2% during fiscal 2008. The decrease in sales versus last year resulted primarily from the decrease in comparable store sales and the decrease in Sears leased department sales due to the closure of all of the remaining leased departments within Sears stores during June 2008. In October 2009 we re-launched our Two Hearts Maternity collection at over 600 Sears and Kmart locations.

As of September 30, 2009, we operated a total of 724 stores and 1,084 total retail locations: 591 Motherhood Maternity stores (including 86 Motherhood Maternity Outlet stores), 67 A Pea in the Pod stores, 66 Destination Maternity stores, and 360 leased maternity apparel departments, which were primarily under the Motherhood brand. In addition, our Oh Baby by Motherhood collection is available at Kohl's stores throughout the United States. In comparison, as of September 30, 2008, we operated a total of 754 stores and 1,032 total retail locations: 616 Motherhood Maternity stores (including 87 Motherhood Maternity Outlet stores), 89 Mimi Maternity stores, 30 A Pea in the Pod stores, 19 Destination Maternity superstores, and 278 leased maternity apparel departments. As of September 30, 2009, our store total included 66 multi-brand stores, including 44 Destination Maternity combo stores and 22 Destination Maternity superstores. In comparison, as of September 30, 2008, we operated 64 multi-brand stores, including 19 Destination Maternity superstores, with the remaining multi-brand stores under the Mimi Maternity brand. The increase in leased department locations at the end of September 2009 versus the end of September 2008 predominantly reflects the opening of an additional 69 Babies"R"Us® leased department locations in January 2009 and February 2009. During fiscal 2009, we opened 13 stores, including 5 multi-brand stores, and closed 43 stores, with 8 of these store closings related to multi-brand store openings. In addition, during fiscal 2009, we opened 85 leased department locations and closed 3 leased department locations.

Gross Profit. Our gross profit for fiscal 2009 decreased by 0.1%, or approximately $0.2 million, to $282.8 million compared to $283.0 million for fiscal 2008, primarily reflecting the effect of our lower sales volume compared to last year, substantially offset by increased gross profit as a percentage of net sales (gross margin). Gross margin was 53.2% for fiscal 2009, compared to 50.1% for fiscal 2008. The increase in gross margin for fiscal 2009 as compared to fiscal 2008 was due primarily to higher merchandise gross margin from reduced product costs and lower overall markdown levels, and to a lesser extent due to reduced product-related overhead costs related to our cost reduction initiatives.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses for fiscal 2009 decreased by 4.4%, or $12.0 million, to $259.6 million from $271.6 million for fiscal 2008. This decrease in expense resulted primarily from: (1) our restructuring and cost reduction initiatives, including reduced corporate payroll, field management payroll, store payroll and store occupancy expenses; and (2) the elimination of operating expenses related to the Sears leased departments, which were not open at all during fiscal 2009; partially offset by higher variable incentive compensation expense resulting from increased profitability. As a percentage of net sales, selling, general and administrative expenses for fiscal 2009 increased to 48.9% compared to 48.1% for fiscal 2008. This increase in the expense percentage for fiscal 2009 resulted primarily from negative expense leverage from the decrease in sales, partially offset by the $12.0 million decrease in selling, general and administrative expenses.

Store Closing, Asset Impairment and Asset Disposal Expenses. Our store closing, asset impairment and asset disposal expenses for fiscal 2009 decreased by 81.6%, or $2.4 million, to $0.5 million from $2.9 million for fiscal 2008. We incurred impairment charges for write-downs of long-lived assets of $0.7 million for fiscal 2009, as compared to $1.6 million for fiscal 2008. We incurred charges relating to store closings and other asset disposals of approximately $0.1 million for fiscal 2009, comprised primarily of non-cash other asset disposal costs related to store closings, as compared to $1.3 million for fiscal 2008, comprised of $0.7 million of cash lease termination costs and $0.6 million of non-cash other asset disposal costs, which were primarily related to store relocations. In fiscal 2009, we recognized a gain of $0.3 million from the sale of the remaining Costa Rica facility acquired in a fiscal 2002 business purchase.

Restructuring and Other Charges. In fiscal 2009, we incurred pretax expense of $1.6 million from our restructuring and cost reduction initiatives compared to $0.9 million in fiscal 2008. In fiscal 2008 we also recognized a $2.5 million charge in connection with the retirement of our Former CEO. The charge reflects benefit costs and payroll taxes related to an amendment to the executive's supplemental retirement agreement with us. See "Restructuring and Other Charges" in this Item 7 above for a detailed description of these charges.

Goodwill Impairment Expense. We recorded non-cash goodwill impairment charges of $50.4 million in fiscal 2009 to reflect the full impairment of our goodwill based on the results of the impairment analysis performed in fiscal 2009. See Note 5 of the Notes to Consolidated Financial Statements, included elsewhere in this report for additional discussion.

Operating Income (Loss). We had an operating loss of $(29.3) million for fiscal 2009. Before the goodwill impairment charges, our operating income for fiscal 2009 was $21.1 million, an increase of 317% or approximately $16.0 million, from the $5.1 million of operating income for fiscal 2008, which had no goodwill impairment charge. The increase in operating income, before the goodwill impairment charges, was primarily due to lower selling, general and administrative expenses, and lower store closing, asset impairment and asset disposal costs. Operating income, before the goodwill impairment charges, as a percentage of net sales for fiscal 2009 increased to 4.0% from 0.9% for fiscal 2008. The increase in operating income, before the goodwill impairment charges, as a percentage of net sales was primarily due to our higher gross margin, partially offset by our higher operating expense ratio compared to fiscal 2008.

Interest Expense, Net. Our net interest expense for fiscal 2009 decreased by 32.3%, or $2.3 million, to $4.7 million from $7.0 million in fiscal 2008. This decrease was due to our lower debt level, primarily as a result of the $20.0 million of Term Loan prepayments we made in fiscal 2009, and to a lesser extent, lower interest rates and lower credit line borrowings. During fiscal 2009 and 2008, our average daily level of direct borrowings under our credit facility was $0.2 million and $5.2 million, respectively. We did not have any direct borrowings outstanding under our credit facility as of September 30, 2009.

Loss on Extinguishment of Debt. During fiscal 2009, we prepaid $20.0 million principal amount of our outstanding Term Loan, which resulted in pretax charges totaling $0.1 million, representing the write-off of unamortized deferred financing costs. During fiscal 2008, we prepaid $13.0 million principal amount of our outstanding Term Loan, which resulted in pretax charges totaling $0.1 million.

Income Taxes. Our income tax provision for fiscal 2009 was $6.6 million. There was no tax benefit associated with our $50.4 million of goodwill impairment charges. Before the goodwill impairment charges, our income before income taxes was $16.3 million and our effective tax rate was a provision of 40.4% for fiscal 2009 compared to a benefit of 30.5% in fiscal 2008. Our income tax rates for fiscal 2009 and fiscal 2008 reflect the effect of additional income tax expense (including interest and penalties) recognized as required by the accounting standard for uncertain income tax positions. Additionally, our income tax rates for both fiscal 2009 and fiscal 2008 reflect the effects of certain minimum state tax requirements, partially offset by allowable federal tax credits. 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 Loss. Net loss for fiscal 2009 was $(40.7) million, or $(6.79) per share (diluted), compared to net loss of $(1.4) million for fiscal 2008, or $(0.23) per share (diluted). Net loss for fiscal 2009 includes the goodwill impairment charges of $50.4 million, restructuring and other charges of $1.6 million and loss on extinguishment of debt of $0.1 million. Net loss for fiscal 2008 includes restructuring and other charges of $3.5 million and loss on extinguishment of debt of $0.1 million. Before the goodwill impairment expense, restructuring and other charges, and loss on extinguishment of debt, our net income was $10.8 million or $1.77 per share (diluted), compared to $0.8 million or $0.14 per share (diluted) for fiscal 2008.

Our average shares outstanding (basic and diluted) of 5,992,000 shares for fiscal 2009 was 1.1% higher than the 5,924,000 average shares outstanding (basic and diluted) for fiscal 2008. The increase in average shares outstanding reflects higher shares outstanding in fiscal 2009 compared to fiscal 2008, as a result of vesting of restricted stock awards and stock option exercises. There is no difference between basic and diluted shares outstanding for both fiscal 2009 and fiscal 2008, as a result of the elimination of the dilutive impact of outstanding stock options and restricted stock, due to the net loss in both fiscal 2009 and fiscal 2008. Had we reported a profit for fiscal 2009 and fiscal 2008, the weighted average number of dilutive shares outstanding for computation of diluted earnings per share ("Diluted EPS") would have been approximately 6,067,000 and 6,048,000, respectively.

Following is a reconciliation of net loss and net loss per share (diluted) to net income before goodwill impairment expense, restructuring and other charges, and loss on extinguishment of debt, and net income per share before goodwill impairment expense, restructuring and other charges, and loss on extinguishment of debt (diluted) for the years ended September 30, 2009 and 2008 (in thousands, except per share amounts):

	Year Ended September 30, 2009			Year Ended September 30, 2008		
	Net Income (Loss)	Shares	Diluted EPS	Net Income (Loss)	Shares	Diluted EPS
As reported	$(40,682)	5,992	$(6.79)	$(1,389)	5,924	$(0.23)
Goodwill impairment expense, net of tax	50,389	—		—	—	
Restructuring and other charges, net of tax	968	—		2,171	—	
Loss on extinguishment of debt, net of tax	76	—		61	—	
Incremental shares from the assumed lapse of restrictions on restricted stock awards	—	16		—	22	
Incremental shares from the assumed exercise of outstanding stock options	—	59		—	102	
As adjusted before goodwill impairment expense, restructuring and other charges, and loss on extinguishment of debt	$ 10,751	6,067	$ 1.77	$ 843	6,048	$ 0.14

Year Ended September 30, 2008 Compared to Year Ended September 30, 2007

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

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

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

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

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

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

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

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

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

Income Taxes. Our effective tax rate was a benefit of 30.5% in fiscal 2008, compared to a benefit of 30.1% in fiscal 2007. Our income tax rate for fiscal 2008 reflects the effect of additional income tax expense (including interest and penalties) recognized as required by the accounting standard for uncertain income tax positions implemented during fiscal 2008. Additionally, our income tax rates for both fiscal 2008 and fiscal 2007