- delayed receipt or non-delivery of goods due to organized labor strikes or unexpected or significant port congestion at United States ports; and
- local business practice and political issues, including issues relating to compliance with domestic or international labor standards, which may result in adverse publicity.

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

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

To support our distribution of product throughout the world, we operate our main distribution facility and one significantly smaller distribution facility, both in Philadelphia, Pennsylvania. Finished garments from contractors and other manufacturers are inspected and stored for distribution. We do not have other distribution facilities to support our distribution needs. If our main Philadelphia distribution facility were to shut down or otherwise become inoperable or inaccessible for any reason (such as, for example, due to natural disasters, like the recent Hurricane Sandy, which affected our region in early fiscal 2013), we could incur significantly higher costs and longer lead times associated with the distribution of our products to our stores and to our third-party retailers during the time it takes to reopen or replace this facility. In light of our strategic emphasis on rapid replenishment as a competitive strength, a distribution disruption might have a disproportionately adverse effect on our operations and profitability relative to other retailers. In addition, the loss or material disruption of service from any of our shippers for any reason, whether due to freight difficulties, strikes, natural disaster or other difficulties at our principal transport providers or otherwise, could have a material adverse impact on our business, financial condition and results of operations.

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

We do not own any manufacturing facilities and therefore depend on third parties to manufacture our products. We place our orders for production of merchandise and raw materials by purchase order and do not have any long-term contracts with any manufacturer or supplier. We compete with many other companies for production facilities and raw materials. Furthermore, we have received in the past, and may receive in the future, shipments of products from manufacturers that fail to conform to our quality control standards or environmental standards. In such event, unless we are able to obtain replacement products in a timely manner, we may lose sales. We have no ability to control the environmental compliance (including compliance with climate change requirements) of these third-party manufacturers. If we fail to maintain favorable relationships with these third parties, or if we cannot obtain an adequate supply of quality raw materials on commercially reasonable terms, it could have a material adverse impact on our business, financial condition and results of operations.

***Fluctuations in commodity prices could result in an increase in component costs, delivery costs, and overall product costs.***

The results of our business operations could suffer due to significant increases or volatility in the prices of certain commodities, including but not limited to cotton, wool and other ingredients used in the production of fabric and accessories, as well as fuel, oil and natural gas. In addition, increases in the price of food and food commodities may result in increased labor rates related to textile and apparel production. Increases in prices of these commodities or other inflationary pressures may result in significant cost increases for our raw materials, product components and finished products, as well as increases in the cost of distributing merchandise to our retail locations and shipping products to our customers. For example, in the latter part of fiscal 2011 and for most of fiscal 2012, we experienced product cost of sales increases due, in part, to the increased cost of cotton as well as, to a lesser extent, increased labor rates in certain production countries. To the extent we are unable to offset any such increased costs through value engineering and similar initiatives, or through price increases, our profitability, cash flows and financial condition may be materially and adversely impacted. If we choose to increase prices to offset the increased costs, our unit sales volumes could be adversely impacted.



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

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

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

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

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

***The failure to 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.

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 sales, the timing of new retail location openings, the timing of retail location closings, net sales and profitability contributed by new retail locations, the timing of the fulfillment of purchase orders under our product and license arrangements, adverse weather conditions, shifts



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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 peak Spring 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 peak Spring selling season. 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.

***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 or received 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. For example, in October 2012 we filed a lawsuit against Target Corporation and others for infringement of our proprietary patented Secret Fit Belly technology. There is no guarantee that this effort to enforce our rights will be successful. 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



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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.

***If climate change laws or regulations were to become applicable to our business, or if any third party with whom we have a leased or licensed relationship imposed reporting or other obligations on us due to their own compliance programs, we could incur additional expense to meet the requirements and our failure to comply could have a material adverse effect on our business.***

With respect to manufacturing within the United States, United States Environmental Protection Agency ("EPA") greenhouse gas ("GHG") emission reporting rules require certain United States manufacturers to report GHG emissions. These rules are unlikely to require reporting of our third-party contract apparel manufacturers because the amount of emissions from retail stores and apparel manufacturing facilities are currently estimated to be below the EPA reporting threshold. With respect to manufacturing outside of the United States, international treaties, such as the Kyoto Protocol and the Copenhagen Protocol, do not currently require the countries in which our non-United States contract apparel manufacturers are located to control GHG emissions and it is unlikely that climate change requirements in the foreseeable future will require significant GHG emission reductions on our non-United States contract apparel manufacturers. Our manufacturers are required to follow all applicable laws, including climate change laws. If domestic or international laws or regulations were expanded to require GHG emission reporting or reduction by us or our third-party contract apparel manufacturers, or if we engage third-party contract manufacturers in countries that have existing GHG emission reporting or reduction laws or regulations, we would need to expend financial and other resources to comply with such regulations and/or monitor our third-party contract apparel manufacturers' compliance with such regulations. In addition, we cannot control the actions of our third-party manufacturers or the public's perceptions of them, nor can we assure that these manufacturers will conduct their businesses using climate change proactive or sustainable practices. Violations of climate change laws or regulations by third parties with whom we do business could result in negative public perception of us and/or 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.

Some retailers have adopted "sustainability" or other policies that encourage or require suppliers to report and/or reduce GHG emissions. No third party with whom we have a leased or licensed relationship currently requires us to report GHG emissions to them. However, we expect that certain of these third parties may do so in the future, which would require us to expend financial and other resources to comply with such requirements. In addition, if such requirements are imposed on us, our relationship with such third parties could be damaged if we were unable to comply.

***Changes in the health care regulatory environment could cause us to incur additional expense and our failure to comply with related legal requirements could have a material adverse effect on our business.***

In 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the United States. This legislation expands health care coverage to many uninsured individuals and expands coverage to those already insured. The changes required by this legislation could cause us to incur additional health care and other costs, but we do not expect any material short-term impact on our financial results as a result of the legislation.

The costs and other effects of other new legal requirements cannot be determined with certainty. For example, new legislation or regulations may result in increased costs directly for our compliance or indirectly to the extent such requirements increase prices of goods and services because of increased compliance costs or reduced availability of raw materials.

***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 and consumer demand for our merchandise may be negatively affected. A substantial portion of our



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merchandise is imported from other countries. In addition, we not only generate sales in the United States and Canada through our own retail locations, but also in foreign countries through our international franchise relationships. 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 materially and adversely affected. Further, if consumer demand in any country where we do business is negatively affected, our sales in such country would suffer. In the event that commercial transportation is curtailed or substantially delayed, our business may be materially and 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 new credit facility contains 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;
- effect a consolidation or merger or transfer of all or substantially all of our assets; and
- engage in other lines of business unless reasonably related to our existing business.

These limitations and restrictions may materially and 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, we may be in default under our credit facility. If we default, 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 bylaws 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.



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***If we are unable to pay quarterly dividends at intended levels or if our Board of Directors decides to reduce the level of our dividend, our reputation and stock price may be harmed.***

Our quarterly cash dividend is currently $0.175 per common share. The dividends declared and paid by us to date meet all requirements under the terms of our debt agreements and applicable law; however, any future payment of dividends will be at the discretion of our Board of Directors and the ability to pay any such future dividends, or to pay such dividends at the current level, will 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. In addition, our ability or decision to pay dividends at all or at the current level may be subject to certain economic, financial, competitive and other factors (such as the level of taxation of dividends) that are beyond our control. Our Board of Directors may, at its discretion, decrease the intended level of dividends or entirely discontinue the payment of dividends at any time. Any failure to pay dividends after we have announced our intention to do so may negatively impact our reputation and investor confidence in us, and may also negatively impact our stock price.

***The increase in our sales and marketing efforts that target markets outside the United States and Canada 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, India and South Korea. 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 materially and 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 causing us to inaccurately report our financial results or to fail to prevent fraud.***

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 over 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, if significant, recommend prompt remediation. We devote 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.



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## Item 2. Properties

We own our principal executive offices and distribution facility, which is located at 456 North Fifth Street, Philadelphia, Pennsylvania. 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. In August 2002, we entered into a ten-year lease, with renewal options for two successive five year terms, for a facility located at 2001 Kitty Hawk Avenue, Philadelphia, Pennsylvania in the Philadelphia Naval Business Center. In May 2012, we amended the lease to extend the initial term for one additional year to August 2013. The area leased at this facility, which we use for some finished goods warehousing and distribution, raw material cutting and warehousing, and office space consists of approximately 69,000 square feet of space, of which 8,000 square feet is dedicated to office space. 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, 2012, 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 |
|---|---|
| 2013 | 145 |
| 2014 | 163 |
| 2015 | 91 |
| 2016 | 53 |
| 2017 | 47 |
| 2018 and later | 126 |
| Total | 625 |

In addition to the stores we operate, we have arrangements with department and specialty stores, including Macy's, Sears, buybuy BABY, Gordmans and Boscov's 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, results of operations or liquidity.

## Item 4. Mine Safety Disclosures

Not applicable.



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## 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." On January 26, 2011, we announced that our Board of Directors approved a two-for-one split of our common stock in the form of a stock dividend, pursuant to which on March 1, 2011, stockholders of record at the close of business on February 16, 2011 received one additional common share for every share held. In accordance with the provisions of our equity award plans and as determined by our Board of Directors, the number of shares available for issuance, the number of shares subject to outstanding equity awards and the exercise prices of outstanding stock option awards were also adjusted to equitably reflect the effect of the two-for-one stock split. All share and per share amounts give effect to the stock split and have been adjusted retroactively for all periods presented.

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, and the per share amount of cash dividends paid on our common stock:

| | Market Prices | | Dividends Declared and Paid |
|---|---|---|---|
| | High | Low | |
| **Fiscal Year Ended September 30, 2012:** | | | |
| Quarter ended December 31, 2011 | $17.79 | $12.17 | $ 0.175 |
| Quarter ended March 31, 2012 | 19.15 | 14.38 | 0.175 |
| Quarter ended June 30, 2012 | 22.17 | 18.00 | 0.175 |
| Quarter ended September 30, 2012 | 22.53 | 16.32 | 0.175 |
| **Fiscal Year Ended September 30, 2011:** | | | |
| Quarter ended December 31, 2010 | $19.50 | $15.93 | $ — |
| Quarter ended March 31, 2011 | 23.33 | 18.92 | 0.175 |
| Quarter ended June 30, 2011 | 25.28 | 15.66 | 0.175 |
| Quarter ended September 30, 2011 | 21.14 | 12.58 | 0.175 |

As of December 3, 2012, there were 1,366 holders of record and 2,208 estimated beneficial holders of our common stock.

On January 26, 2011, we announced the initiation of a regular quarterly cash dividend. During fiscal 2012 and 2011 we paid cash dividends of approximately $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 we will pay approximately $9.4 million of cash dividends for fiscal 2013. The terms of our new credit facility provide certain restrictions on our ability to declare dividends and limit the amount of dividends we may pay on our common stock. The dividends declared and paid by us met all requirements under the terms of our prior credit facility and our prior senior secured Term Loan B (the "Term Loan"); however, any future payment of dividends will be at the discretion of our Board of Directors and will be based upon certain restrictive financial covenants in our new credit facility, earnings, capital requirements and our financial condition, among other factors (including tax considerations), 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 2,000,000 shares of our common stock may be issued in respect of awards under our 2005 Plan, with no more than 1,000,000 of those shares permitted to be issued in respect of restricted stock or restricted stock units granted under the 2005 Plan.



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The following table provides information about purchases by us during the quarter ended September 30, 2012 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program (2) | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (2) |
|---|---|---|---|---|
| July 1 to July 31, 2012 | — | — | — | $10,000,000 |
| August 1 to August 31, 2012 | — | — | — | $10,000,000 |
| September 1 to September 30, 2012 | 237 | $18.64 | — | $10,000,000 |
| Total | 237 | $18.64 | — | $10,000,000 |

(1) Represents shares repurchased directly from an employee to satisfy income tax withholding obligations for such employee in connection with a restricted stock award that vested during the period.

(2) 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. In July 2012, our Board of Directors extended its authorization of the program from July 31, 2012 to July 31, 2014, and increased the amount of our outstanding stock authorized to be repurchased from $7.0 million to $10.0 million.



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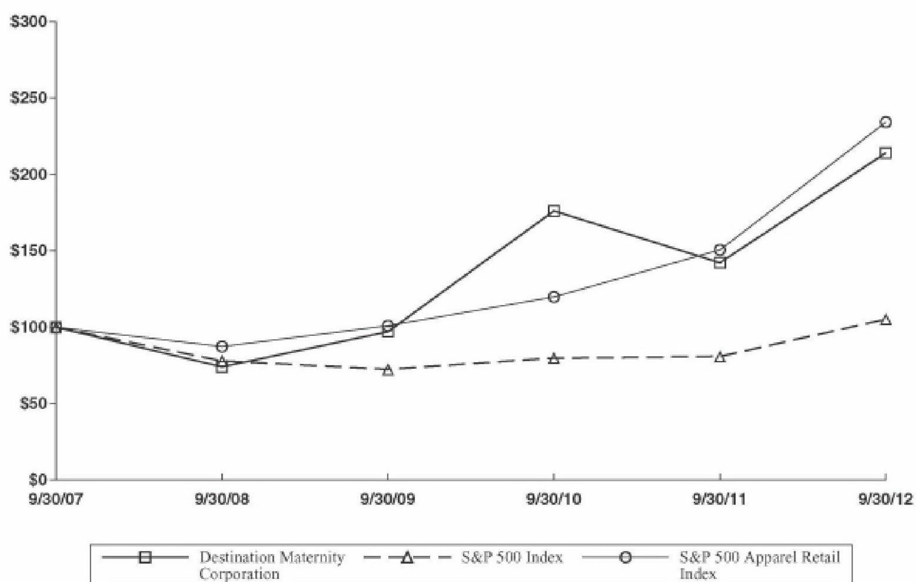
**Stock Price Performance Graph**

The graph below compares the cumulative total stockholder return on our common stock for the period from September 30, 2007 to September 30, 2012, with the cumulative total return of the Standard & Poor's 500 Index and the Standard & Poor's 500 Apparel Retail Index. The comparison assumes $100 was invested on September 30, 2007 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 500 Apparel Retail Index**




* $100 invested on September 30, 2007 in stock or index—including reinvestment of dividends.

Fiscal year ending September 30:

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Destination Maternity Corporation | $ 100.00 | $ 74.34 | $ 97.11 | $ 176.33 | $ 142.06 | $ 214.23 |
| S&P 500 Index | $ 100.00 | $ 78.02 | $ 72.63 | $ 80.01 | $ 80.93 | $ 105.37 |
| S&P 500 Apparel Retail Index | $ 100.00 | $ 87.41 | $ 101.13 | $ 119.70 | $ 150.55 | $ 234.28 |



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### Item 6. Selected Consolidated Financial and Operating Data

The following tables set forth selected consolidated statement of operations data, operating data, other consolidated financial data, and consolidated 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, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (in thousands, except per share amounts) | | | | |
| **Consolidated Statement of Operations Data:** | | | | | |
| Net sales | $541,476 | $545,394 | $531,192 | $531,251 | $564,602 |
| Cost of goods sold | 250,765 | 248,497 | 240,166 | 248,476 | 281,561 |
| Gross profit | 290,711 | 296,897 | 291,026 | 282,775 | 283,041 |
| Selling, general and administrative expenses | 255,623 | 257,421 | 251,653 | 259,552 | 271,592 |
| Store closing, asset impairment and asset disposal expenses | 1,983 | 1,039 | 2,282 | 536 | 2,916 |
| Restructuring and other charges | — | 193 | 5,658 | 1,557 | 3,461 |
| Goodwill impairment expense | — | — | — | 50,389 | — |
| Operating income (loss) | 33,105 | 38,244 | 31,433 | (29,259) | 5,072 |
| Interest expense, net | 1,215 | 2,233 | 3,300 | 4,720 | 6,974 |
| Loss on extinguishment of debt | 22 | 37 | 51 | 123 | 97 |
| Income (loss) before income taxes | 31,868 | 35,974 | 28,082 | (34,102) | (1,999) |
| Income tax provision (benefit) | 12,496 | 12,986 | 11,253 | 6,580 | (610) |
| Net income (loss) | $ 19,372 | $ 22,988 | $ 16,829 | $(40,682) | $ (1,389) |
| Net income (loss) per share—Basic | $ 1.48 | $ 1.79 | $ 1.37 | $ (3.39) | $ (0.12) |
| Average shares outstanding—Basic | 13,096 | 12,820 | 12,304 | 11,985 | 11,849 |
| Net income (loss) per share—Diluted | $ 1.46 | $ 1.75 | $ 1.33 | $ (3.39) | $ (0.12) |
| Average shares outstanding—Diluted | 13,267 | 13,120 | 12,691 | 11,985 | 11,849 |



Source: Destination Maternity Corp, 10-K, 12/14/2012 | Powered by Intelligize

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| | Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (unaudited; in thousands, except operating data, ratios and per share amounts) | | | | |
| **Operating Data:** | | | | | |
| Comparable sales (decrease) increase (1)(2) | (0.3)% | 0.1% | (3.4)% | (4.6)% | 0.9% |
| Internet sales increase (decrease) | 26.4% | 22.0% | 32.3% | (8.7)% | 15.9% |
| Average net sales per gross square foot (3) | $ 270 | $ 275 | $ 273 | $ 290 | $ 302 |
| Average net sales per store (3) | $ 575,000 | $ 566,000 | $ 551,000 | $ 573,000 | $ 588,000 |
| Gross store square footage at period end (4) | 1,330,000 | 1,376,000 | 1,445,000 | 1,462,000 | 1,492,000 |
| Gross retail location square footage at period end (5) | 1,959,000 | 2,078,000 | 1,750,000 | 1,619,000 | 1,623,000 |
| Number of retail locations at period end: | | | | | |
| Motherhood Maternity stores | 507 | 535 | 567 | 591 | 616 |
| Mimi Maternity stores (6) | — | — | — | — | 89 |
| A Pea in the Pod stores (6) | 36 | 43 | 56 | 67 | 30 |
| Destination Maternity stores (6) | 82 | 80 | 75 | 66 | 19 |
| Total stores | 625 | 658 | 698 | 724 | 754 |
| Leased departments | 1,383 | 1,694 | 1,027 | 360 | 278 |
| Total retail locations | 2,008 | 2,352 | 1,725 | 1,084 | 1,032 |
| **Other Consolidated Financial Data:** | | | | | |
| Adjusted EBITDA (7)(8) | $ 49,898 | $ 54,395 | $ 48,347 | $ 38,762 | $ 25,501 |
| Adjusted EBITDA margin (adjusted EBITDA as a percentage of net sales) (8) | 9.2% | 10.0% | 9.1% | 7.3% | 4.5% |
| Ratio of total debt to Adjusted EBITDA (8) | 0.3x | 0.6x | 0.9x | 1.5x | 3.1x |
| Ratio of Adjusted EBITDA to interest expense, net (8) | 41.1x | 24.4x | 14.7x | 8.2x | 3.7x |
| Adjusted EBITDA before restructuring and other charges (7)(8) | 49,898 | 54,588 | 54,005 | 40,191 | 28,717 |
| Adjusted EBITDA margin before restructuring and other charges (8) | 9.2% | 10.0% | 10.2% | 7.6% | 5.1% |
| Adjusted net income (loss), before goodwill impairment expense (8) | 19,372 | 22,988 | 16,829 | 9,707 | (1,389) |
| Adjusted net income (loss) per share—Diluted, before goodwill impairment expense (8) | 1.46 | 1.75 | 1.33 | 0.80 | (0.12) |
| Adjusted net income, before goodwill impairment expense stock-based compensation expense, restructuring and other charges, and loss on extinguishment of debt (8) | 20,858 | 24,598 | 21,585 | 12,004 | 2,273 |
| Adjusted net income per share—Diluted, before goodwill impairment expense, stock-based compensation expense, restructuring and other charges, and loss on extinguishment of debt (8) | 1.57 | 1.87 | 1.70 | 0.99 | 0.19 |
| Cash flows provided by operating activities | 42,697 | 21,443 | 25,974 | 42,525 | 27,822 |
| Cash flows used in investing activities | (9,521) | (11,079) | (12,241) | (12,455) | (13,347) |
| Cash flows used in financing activities | (26,073) | (19,699) | (9,726) | (21,592) | (12,457) |
| Capital expenditures | (9,256) | (12,270) | (10,448) | (12,639) | (15,688) |
| **Consolidated Balance Sheet Data (at end of period):** | | | | | |
| Cash and cash equivalents | $ 22,376 | $ 15,285 | $ 24,633 | $ 20,626 | $ 12,148 |
| Working capital | 63,316 | 75,984 | 63,650 | 50,580 | 61,611 |
| Total assets | 199,644 | 198,772 | 205,154 | 196,007 | 256,248 |
| Total debt | 15,257 | 31,342 | 45,161 | 57,409 | 78,646 |
| Net cash (debt) (8)(9) | 7,119 | (16,057) | (20,528) | (36,783) | (66,498) |
| Stockholders' equity | 104,972 | 92,695 | 71,598 | 49,800 | 89,468 |



Source: Destination Maternity Corp, 10-K, 12/14/2012 | Powered by Intelligize

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(1) Comparable sales figures represent comparable store sales and Internet sales.

(2) Comparable store sales figures represent sales at retail locations (which does not include licensed or franchised relationships) 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. Comparable store sales figures do not include retail locations opened during a period even if such location was opened in connection with the closure of other retail locations in the same geographic area (including, for example, the opening of a new Destination Maternity combo store or superstore). Also, our comparable store sales figures generally do not include: (i) retail locations which change store nameplate, location type or format; (ii) retail locations which are expanded, contracted or relocated if the square footage of the retail location has changed by 20% or more, or, if in the judgment of management, such expansion, contraction or relocation materially alters the comparability of the retail location (either with respect to the manner of its operation or otherwise); (iii) in the case of relocations only, retail locations which are not in the same immediate geographical vicinity (such as, without limitation, the same mall, the same part of a mall, or the same street) after the relocation; or (iv) retail locations which, in the judgment of management, have undergone other significant changes which materially alter the comparability of the retail location (either with respect to the manner of its operation or otherwise) (such as, for example only, in the case of closure of retail locations in connection with the cessation of a leased department relationship where the manner of operation of such retail location has been materially altered prior to closure, or in the case of construction in, on or near a retail location, which significantly interferes with the customer traffic, visibility or operation of a retail location).

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

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

(5) Based on all retail locations in operation at the end of the period (which does not include licensed or franchised relationships).

(6) 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.

(7) 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) loss (gain) on disposal of assets; and (iv) stock-based compensation expense. We have presented Adjusted EBITDA to enhance your understanding of our operating results.

(8) Other Consolidated Financial and Consolidated Balance Sheet Data contain non-GAAP financial measures and ratios within the meaning of the SEC's Regulation G, including: (i) Adjusted EBITDA; (ii) Adjusted EBITDA margin; (iii) Ratio of total debt to Adjusted EBITDA; (iv) Ratio of Adjusted EBITDA to interest expense, net; (v) Adjusted EBITDA before restructuring and other charges; (vi) Adjusted EBITDA margin before restructuring and other charges; (vii) Adjusted net income (loss), before goodwill impairment expense; (viii) Adjusted net income (loss) per share-Diluted, before goodwill impairment expense; (ix) Adjusted net income, before goodwill impairment expense, restructuring and other charges, stock-based compensation expense and loss on extinguishment of debt; (x) Adjusted net income per share-Diluted, before goodwill impairment expense, restructuring and other charges, stock-based compensation expense and loss on extinguishment of debt; and (xi) Net cash (debt). We believe that each of these non-GAAP financial measures and ratios provides useful information about our results of operations and/or financial position to both investors and management. Each non-GAAP financial measure and ratio 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 and ratios as a measure of the performance of the Company. We provide these non-GAAP financial measures and ratios to investors to assist them in performing their analysis of our historical operating results. The non-GAAP



Source: Destination Maternity Corp, 10-K, 12/14/2012 | Powered by Intelligize

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financial measures and ratios included in Other Consolidated Financial Data reflect a measure of our operating results before consideration of certain charges and consequently, none of these measures and ratios 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 and ratios differently than other companies. With respect to the non-GAAP financial measures included in Other Consolidated Financial Data, we have presented below a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

(9) Net cash (debt) represents cash and cash equivalents minus total debt.

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

**(in thousands)**

**(unaudited)**

| | Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Net income (loss) | $19,372 | $22,988 | $16,829 | $(40,682) | $(1,389) |
| Add: income tax provision (benefit) | 12,496 | 12,986 | 11,253 | 6,580 | (610) |
| Add: interest expense, net | 1,215 | 2,233 | 3,300 | 4,720 | 6,974 |
| Add: loss on extinguishment of debt | 22 | 37 | 51 | 123 | 97 |
| Operating income (loss) | 33,105 | 38,244 | 31,433 | (29,259) | 5,072 |
| Add: depreciation and amortization expense | 12,445 | 12,769 | 12,917 | 14,982 | 15,974 |
| Add: loss on impairment of long-lived assets | 1,876 | 768 | 1,865 | 667 | 1,628 |
| Add: goodwill impairment expense | — | — | — | 50,389 | — |
| Add: loss (gain) on disposal of assets | 115 | 270 | 196 | (48) | 546 |
| Add: stock-based compensation expense | 2,357 | 2,344 | 1,936 | 2,031 | 2,281 |
| Adjusted EBITDA | 49,898 | 54,395 | 48,347 | 38,762 | 25,501 |
| Add: restructuring and other charges (1) | — | 193 | 5,658 | 1,429 | 3,216 |
| Adjusted EBITDA before restructuring and other charges | $49,898 | $54,588 | $54,005 | $ 40,191 | $28,717 |
| Adjusted EBITDA margin | 9.2% | 10.0% | 9.1% | 7.3% | 4.5% |
| Adjusted EBITDA margin before restructuring and other charges | 9.2% | 10.0% | 10.2% | 7.6% | 5.1% |

(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.



Source: Destination Maternity Corp, 10-K, 12/14/2012 | Powered by Intelligize

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

**(in thousands, except per share amounts)**

**(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.



Source: Destination Maternity Corp, 10-K, 12/14/2012 | Powered by Intelligize

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**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.



Source: Destination Maternity Corp, 10-K, 12/14/2012 | Powered by Intelligize

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### 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) Year Ended September 30, | | | % Period to Period Favorable (Unfavorable) 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 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 | | |
|---|---|---|---|---|---|---|---|---|---|
| Retail Locations (1) | Stores | Leased Departments | Total Retail Locations | Stores | Leased Departments | Total Retail Locations | Stores | Leased Departments | Total Retail Locations |
| 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 | 625 | 1,383 | 2,008 | 658 | 1,694 | 2,352 | 698 | 1,027 | 1,725 |

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



Source: Destination Maternity Corp, 10-K, 12/14/2012 | Powered by Intelligize

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| International Franchised Locations | 2012 Stores | 2012 Shop-in-Shop Locations | 2012 Total International Franchised Locations | 2011 Stores | 2011 Shop-in-Shop Locations | 2011 Total International Franchised Locations | 2010 Stores | 2010 Shop-in-Shop Locations | 2010 Total International Franchised Locations |
|---|---|---|---|---|---|---|---|---|---|
| | Year Ended September 30, | | | | | | | | |
| 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 | 16 | 103 | 119 | 15 | 51 | 66 | 8 | 23 | 31 |

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



Source: Destination Maternity Corp, 10-K, 12/14/2012 | Powered by Intelligize

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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 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,



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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



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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 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



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