Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Any borrowings under our revolving credit facility, which could significantly increase in the future, would bear interest at a variable rate. We have exposure for the variable interest rate borrowings under our revolving credit facility. As a result, an increase in interest rates could result in a substantial increase in interest expense, especially if our borrowings under our revolving credit facility increase.

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

The efficient operation of our business is heavily dependent on our internally developed management information systems ("MIS"). In particular, we rely on point-of-sale terminals, which provide information to our customized merchandise analysis and planning system used to track sales and inventory, and we rely on our Internet websites through which we sell merchandise to our customers. The merchandise analysis and planning system helps integrate our design, manufacturing, distribution and financial functions, and also provides daily financial and merchandising information. Although our software programs and data are backed up and securely stored off-site, our servers and computer systems are located at our headquarters in Philadelphia, Pennsylvania. These systems and our operations are vulnerable to damage or interruption from:

— fire, flood and other natural disasters;

— power loss, computer systems failures, Internet and telecommunications or data network failures;

— operator negligence, and improper operation by or supervision of employees;

— physical and electronic loss of data or security breaches, misappropriation and similar events;

— computer viruses; and

— any failure to minimize any operational disruption in our systems caused by the planned relocation of our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey.

Any disruption in the operation of our MIS, the loss of employees knowledgeable about such systems or our failure to continue to effectively modify such systems could interrupt our operations or interfere with our ability to monitor inventory, which could result in reduced net sales and affect our operations and financial performance. In addition, any interruption in the operation of our Internet websites could cause us to lose sales due to the inability of customers to purchase merchandise from us through our websites during such interruption.

We also need to ensure that our systems are consistently adequate to handle our anticipated business growth and are upgraded as necessary to meet our needs. The cost of any such system upgrades or enhancements could be significant. As a result, our business and results of operations could be materially and adversely affected if our servers and systems were inoperable, inaccessible, or inadequate.

From time to time, we improve and upgrade our MIS and the functionality of our Internet websites. If we are unable to maintain and upgrade our systems or Internet websites, or to integrate new and updated systems or changes to our Internet websites in an efficient and timely manner, our business and results of operations could be materially and adversely affected.

A cybersecurity incident could have a negative impact on our business and results of operations.

A cyber attack may bypass the security for our MIS causing an MIS security breach and leading to a material disruption of our MIS and/or the loss of business information and/or Internet sales. Such a cyber attack could result in any of the following:

— theft, destruction, loss, misappropriation or release of confidential data or intellectual property;

— operational or business delays resulting from the disruption of MIS and subsequent clean-up and mitigation activities;

— negative publicity resulting in reputation or brand damage with our customers, partners or industry peers; and

— loss of sales generated through our Internet websites through which we sell merchandise to customers, to the extent these websites are affected by a cyber attack.

As a result, our business and results of operations could be materially and adversely affected.

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

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

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

— political instability or the threat of terrorism, particularly in countries where our vendors source merchandise;

— enhanced security measures at United States and foreign ports, which could delay delivery of imports;

— imposition of new or supplemental duties, taxes and other charges on imports;

— delayed receipt or non-delivery of goods due to the failure of foreign-source suppliers to comply with applicable import regulations;

— delayed receipt or non-delivery of goods due to organized labor strikes or unexpected or significant port congestion at 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 and results of operations.

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

To support our distribution of product throughout the world, we currently operate our main distribution facility and one significantly smaller distribution facility, both in Philadelphia, Pennsylvania. We plan to relocate our distribution operations from Philadelphia, Pennsylvania to southern New Jersey. Our distribution operations (which are currently split between our main distribution center at North 5th Street in Philadelphia and our distribution facility in the Philadelphia Navy Yard) will move approximately 23 miles from the current North 5th Street distribution center to a new 406,000 square foot build-to-suit distribution center to be built in Florence Township, New Jersey. We expect this move to occur in early to mid 2015. Finished garments from contractors and other manufacturers are inspected and stored in our distribution facilities. We do not have other distribution facilities to support our distribution needs. If our main distribution facility were to shut down or otherwise become inoperable or inaccessible for any reason (such as, for example, due to natural disasters, like Hurricane Sandy, which affected our region in early fiscal 2013, or due to our failure to manage the distribution operations relocation with minimal disruption), 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 and results of operations.

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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, many of which are larger and have substantially greater financial and other resources than us, 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.

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 on 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 the past 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 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 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

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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, license brand and international business 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 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, 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 contract 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, independent 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, merchandising concept, store design or private label 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.

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If climate change laws or regulations were to become applicable to our business, or if any third party with whom we have a leased department, licensed brand or international business 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 department, licensed brand or international franchise 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.

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 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, retail locations, and licensed brand and international business partners, as well as fulfilling Internet orders.

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

Our 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;

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— 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.

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 $0.1875 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 franchise arrangements in the Middle East, South Korea and Mexico. We may not be successful in these efforts. In November 2013, we announced that we were unable to reach mutual agreement on acceptable renewal terms with our franchisee for India and, thus, this franchise relationship, which began in April 2009, will end in March 2014, however we do not expect that the discontinuation of this franchise relationship will have a significant impact on our financial results. 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

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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.

Although our initial international strategy has consisted primarily of franchising, licensing or similar arrangements with foreign partners, for certain markets we may consider direct investment in international operations, such as by entering into joint ventures or developing our own operations in certain countries. This approach will expose us to the risks identified above with respect to franchising as well as to the risk of loss of our direct investment (such as, for example, loss on investments made through capital contributions in a joint venture, and/or in connection with capital expenditures to develop our own operations in certain countries). Further, the risk of direct investment in a joint venture in which we are a minority owner presents the unique risk of having a significant investment in a business that is controlled by, and effectively operated by, an unrelated third party.

New regulations related to conflict minerals could adversely impact our business.

The SEC has promulgated final rules pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding disclosure of the use of tin, tantalum, tungsten and gold, known as conflict minerals, included in components of products either manufactured by public companies or for which public companies have contracted to manufacture. These new rules require due diligence to determine whether such minerals originated from the Democratic Republic of Congo (the "DRC") or an adjoining country and whether such minerals helped finance the armed conflict in the DRC. The first conflict minerals report required by the new rules is due by May 31, 2014 and annually thereafter. While we do not manufacture products, we may be deemed to contract to manufacture products. There will be costs associated with complying with these disclosure requirements, including costs to determine the origin of conflict minerals used in any products we are deemed to contract to manufacture. In addition, the implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. Also, we may face reputational challenges if the due diligence procedures we implement do not enable us to verify the origins for all conflict minerals or to determine that such minerals are DRC conflict-free.

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.

Item 2. Properties

Currently, we own our principal executive offices and distribution facility, which is located at 456 North 5th 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. We have since amended the lease to extend the initial term through February 2014. 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 have also utilized third-party warehousing services in the Philadelphia,

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Pennsylvania area when we had increased storage requirements. These services essentially operated on a month-to-month basis. Our facilities are subject to state and local regulations that range from building codes to health and safety regulations.

In September 2013 we announced our plans to relocate our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey. Our corporate office operations (which are currently split between our headquarters at North 5th Street in Philadelphia and our offices in the Philadelphia Navy Yard) will move 12 miles from the current 5th Street headquarters facility to a 74,000 square foot Class A office building in Moorestown, New Jersey. We expect this move to occur in Fall 2014. Our distribution operations (which are currently split between our main distribution center at North 5th Street in Philadelphia and our distribution facility in the Philadelphia Navy Yard) will move approximately 23 miles from the current 5th Street distribution center to a new 406,000 square foot build-to-suit distribution center to be built in Florence Township, New Jersey. We expect this move to occur in early to mid 2015. Since our Navy Yard lease term ends in February 2014, until our new facilities are ready for occupancy we will temporarily relocate our Navy Yard operations partly to our principal office and distribution center in Philadelphia and partly to temporary office space in close proximity to our current Navy Yard facility. After we relocate our distribution operations, we believe that our facilities will be adequate to support our anticipated distribution needs. In the event we need additional space to meet our future distribution needs, we believe that such space would be readily available.

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, 2013, 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
2014	179
2015	109
2016	68
2017	55
2018	65
2019 and later	120
Total	596

In addition to the stores we operate, we have arrangements with department and specialty stores, including Macy's, Sears, Gordmans, buybuy BABY, Boscov's and Century 21 to operate maternity apparel departments in their stores. These leased departments typically involve the retail 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 retail 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 retail 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.

Source: Destination Maternity Corp, 10-K, 12/13/2013 | Powered by Intelligize

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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." 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, 2013:			
Quarter ended December 31, 2012	$ 22.47	$ 17.99	$ 0.1750
Quarter ended March 31, 2013	23.90	21.33	0.1750
Quarter ended June 30, 2013	25.86	21.91	0.1875
Quarter ended September 30, 2013	32.77	24.74	0.1875
Fiscal Year Ended September 30, 2012:			
Quarter ended December 31, 2011	$ 17.79	$ 12.17	$ 0.1750
Quarter ended March 31, 2012	19.15	14.38	0.1750
Quarter ended June 30, 2012	22.17	18.00	0.1750
Quarter ended September 30, 2012	22.53	16.32	0.1750

As of December 4, 2013, there were 1,353 holders of record and 3,861 estimated beneficial holders of our common stock.

We initiated a regular quarterly cash dividend during fiscal 2011. During fiscal 2013 and 2012 we paid cash dividends of approximately $9.8 million (reflecting a total of $0.725 per share) and $9.3 million (reflecting a total of $0.70 per share), respectively. On November 14, 2013 we declared a quarterly cash dividend of $0.1875 per share payable on December 27, 2013, which will require approximately $2.6 million of available cash. Based on our current quarterly dividend rate of $0.1875 per share, we project we will pay approximately $10.3 million of cash dividends for fiscal 2014. The terms of our 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 credit facility, 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 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 2,800,000 shares of our common stock may be issued in respect of awards under our 2005 Plan, with no more than 1,500,000 of those shares permitted to be issued in respect of restricted stock or restricted stock units granted under the 2005 Plan.

The following table provides information about purchases by us during the quarter ended September 30, 2013 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, 2013	2,838	$ 30.07	—	$ 10,000,000
August 1 to August 31, 2013	—	—	—	$ 10,000,000
September 1 to September 30, 2013	237	$ 27.95	—	$ 10,000,000
Total	3,075	$ 29.91	—	$ 10,000,000

(1) Represents shares repurchased directly from certain employees to satisfy income tax withholding obligations for such employees in connection with restricted stock awards that vested during the period.

Source: Destination Maternity Corp, 10-K, 12/13/2013 | Powered by Intelligize

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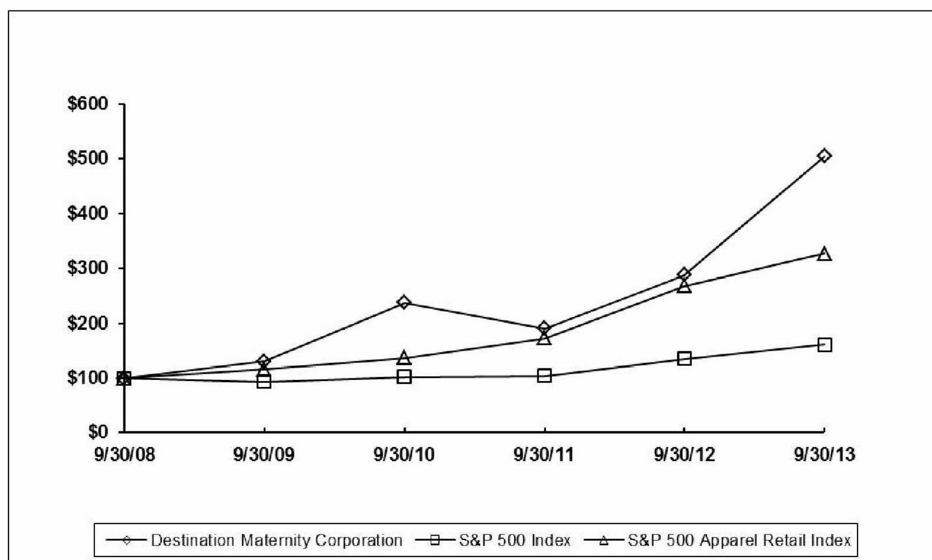
(2) In July 2008, our Board of Directors approved a program to repurchase up to $7.0 million of our outstanding common stock. Under the program, we may repurchase shares from time to time through solicited or unsolicited transactions in the open market or in negotiated or other transactions. In July 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. No shares have been repurchased under this program as of September 30, 2013.

Stock Price Performance Graph

The graph below compares the cumulative total stockholder return on our common stock for the period from September 30, 2008 to September 30, 2013, 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, 2008 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, 2008 in stock or index—including reinvestment of dividends.

Fiscal year ending September 30:

	2008	2009	2010	2011	2012	2013
Destination Maternity Corporation	$ 100.00	$ 130.62	$ 237.18	$ 191.09	$ 288.16	$ 504.45
S&P 500 Index	$ 100.00	$ 93.09	$ 102.55	$ 103.73	$ 135.05	$ 161.18
S&P 500 Apparel Retail Index	$ 100.00	$ 115.70	$ 136.95	$ 172.24	$ 268.03	$ 326.51

Source: Destination Maternity Corp, 10-K, 12/13/2013 | Powered by Intelligize

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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,				
	2013	2012	2011	2010	2009
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Net sales	$ 540,259	$ 541,476	$ 545,394	$ 531,192	$ 531,251
Cost of goods sold	249,298	250,765	248,497	240,166	248,476
Gross profit	290,961	290,711	296,897	291,026	282,775
Selling, general and administrative expenses	252,026	255,623	257,421	251,653	259,552
Store closing, asset impairment and asset disposal expenses	1,441	1,983	1,039	2,282	536
Restructuring and other charges	—	—	193	5,658	1,557
Goodwill impairment expense	—	—	—	—	50,389
Operating income (loss)	37,494	33,105	38,244	31,433	(29,259)
Interest expense, net	532	1,215	2,233	3,300	4,720
Loss on extinguishment of debt	9	22	37	51	123
Income (loss) before income taxes	36,953	31,868	35,974	28,082	(34,102)
Income tax provision	13,010	12,496	12,986	11,253	6,580
Net income (loss)	$ 23,943	$ 19,372	$ 22,988	$ 16,829	$ (40,682)
Net income (loss) per share—Basic	$ 1.80	$ 1.48	$ 1.79	$ 1.37	$ (3.39)
Average shares outstanding—Basic	13,272	13,096	12,820	12,304	11,985
Net income (loss) per share—Diluted	$ 1.78	$ 1.46	$ 1.75	$ 1.33	$ (3.39)
Average shares outstanding—Diluted	13,439	13,267	13,120	12,691	11,985

Source: Destination Maternity Corp, 10-K, 12/13/2013 | Powered by Intelligize

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	Year Ended September 30,				
	2013	2012	2011	2010	2009
	(unaudited; in thousands, except operating data, ratios and per share amounts)				
Operating Data:					
Comparable sales increase (decrease) – reported basis (1) (2) (3)	2.6%	(0.3)%	0.1%	(3.4)%	(4.6)%
Comparable sales increase (decrease) – adjusted for calendar timing shift (1) (2) (3)	3.2%	(0.8)%	0.1%	(3.4)%	(4.4)%
Internet sales increase (decrease)	13.3%	26.2%	28.3%	32.3%	(8.7)%
Average net sales per gross square foot (4)	$ 278	$ 270	$ 275	$ 273	$ 290
Average net sales per store (4)	$ 594,000	$ 575,000	$ 566,000	$ 551,000	$ 573,000
Gross store square footage at period end (5)	1,285,000	1,330,000	1,376,000	1,445,000	1,462,000
Gross retail location square footage at period end (6)	1,903,000	1,959,000	2,078,000	1,750,000	1,619,000
Number of retail locations at period end:					
Motherhood Maternity stores	476	507	535	567	591
A Pea in the Pod stores	31	36	43	56	67
Destination Maternity stores	89	82	80	75	66
Total stores	596	625	658	698	724
Leased departments	1,311	1,383	1,694	1,027	360
Total retail locations	1,907	2,008	2,352	1,725	1,084
Other Consolidated Financial Data:					
Adjusted EBITDA (7) (8)	$ 54,003	$ 49,898	$ 54,395	$ 48,347	$ 38,762
Adjusted EBITDA margin (adjusted EBITDA as a percentage of net sales) (8)	10.0%	9.2%	10.0%	9.1%	7.3%
Adjusted EBITDA before restructuring and other charges (7) (8)	54,003	49,898	54,588	54,005	40,191
Adjusted EBITDA margin before restructuring and other charges (8)	10.0%	9.2%	10.0%	10.2%	7.6%
Net income, before goodwill impairment expense (8)	23,943	19,372	22,988	16,829	9,707
Net income per share—Diluted, before goodwill impairment expense (8)	1.78	1.46	1.75	1.33	0.80
Adjusted net income (8)	22,733	19,386	23,131	20,375	10,751
Adjusted net income per share—Diluted (8)	1.69	1.46	1.76	1.61	0.89
Cash flows provided by operating activities	42,153	42,697	21,443	25,974	42,525
Cash flows used in investing activities	(16,022)	(9,521)	(11,079)	(12,241)	(12,455)
Cash flows used in financing activities	(23,926)	(26,073)	(19,699)	(9,726)	(21,592)
Capital expenditures	(15,059)	(9,256)	(12,270)	(10,448)	(12,639)
Consolidated Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 24,555	$ 22,376	$ 15,285	$ 24,633	$ 20,626
Working capital	75,276	63,316	75,984	63,650	50,580
Total assets	207,981	199,644	198,772	205,154	196,007
Total debt	—	15,257	31,342	45,161	57,409
Net cash (debt) (8) (9)	24,555	7,119	(16,057)	(20,528)	(36,783)
Stockholders' equity	122,633	104,972	92,695	71,598	49,800

(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 brand or international franchise relationships) that have been in operation by us for at least twelve full months at the beginning of the period for which

Source: Destination Maternity Corp, 10-K, 12/13/2013 | Powered by Intelligize

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such data is presented, as well as Internet sales. 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). There may be variations in the way in which other retailers calculate comparable sales. As a result, data in this annual report regarding our comparable sales may not be comparable to similar data made available by other retailers.

(3) We report sales on a calendar period basis, rather than on a "4-5-4 retail fiscal calendar" where each fiscal period starts on a Sunday and ends on a Saturday. Thus, for each calendar-based fiscal year, there is a "days adjustment calendar shift" which may help or hurt reported calendar-based fiscal year sales and comparable sales due to different days of the week typically contributing more sales than other days of the week. In order to quantify and eliminate the effect on reported comparable sales results of the "days adjustment calendar shift", we also present comparable sales on a calendar-adjusted basis. For example, for fiscal 2013, calendar-adjusted comparable sales were measured for the period Monday October 1, 2012 through Monday September 30, 2013 compared to the period Monday October 3, 2011 through Monday October 1, 2012.

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

(5) Based on stores in operation by us at the end of the period (which does not include leased department, licensed brand or international franchise relationships).

(6) Based on all retail locations in operation at the end of the period (which does not include licensed brand or international franchise relationships).

(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) Adjusted EBITDA before restructuring and other charges; (iv) Adjusted EBITDA margin before restructuring and other charges; (v) Net income, before goodwill impairment expense; (vi) Net income per share-Diluted, before goodwill impairment expense; (vii) Adjusted net income; (viii) Adjusted net income per share-Diluted; and (ix) 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 financial measures and ratios included in Other Consolidated Financial Data reflect a measure of our operating results before consideration of certain charges or credits, when applicable, 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.

Source: Destination Maternity Corp, 10-K, 12/13/2013 | Powered by Intelligize

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

	Year Ended September 30,				
	2013	2012	2011	2010	2009
Net income (loss)	$ 23,943	$ 19,372	$ 22,988	$ 16,829	$ (40,682)
Add: income tax provision	13,010	12,496	12,986	11,253	6,580
Add: interest expense, net	532	1,215	2,233	3,300	4,720
Add: loss on extinguishment of debt	9	22	37	51	123
Operating income (loss)	37,494	33,105	38,244	31,433	(29,259)
Add: depreciation and amortization expense	12,424	12,445	12,769	12,917	14,982
Add: loss on impairment of long-lived assets	786	1,876	768	1,865	667
Add: goodwill impairment expense	—	—	—	—	50,389
Add: loss (gain) on disposal of assets	528	115	270	196	(48)
Add: stock-based compensation expense	2,771	2,357	2,344	1,936	2,031
Adjusted EBITDA	54,003	49,898	54,395	48,347	38,762
Add: restructuring and other charges (1)	—	—	193	5,658	1,429
Adjusted EBITDA before restructuring and other charges	$ 54,003	$ 49,898	$ 54,588	$ 54,005	$ 40,191
Adjusted EBITDA margin	10.0%	9.2%	10.0%	9.1%	7.3%
Adjusted EBITDA margin before restructuring and other charges	10.0%	9.2%	10.0%	10.2%	7.6%

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

Reconciliation of Net Income (Loss) to Net Income, Before Goodwill Impairment Expense and Adjusted Net Income, and Net Income (Loss) Per Share – Diluted to Net Income Per Share – Diluted, Before Goodwill Impairment Expense and Adjusted Net Income Per Share – Diluted
(in thousands, except per share amounts)
(unaudited)

	Year Ended September 30,				
	2013	2012	2011	2010	2009
Net income (loss), as reported	$ 23,943	$ 19,372	$ 22,988	$ 16,829	$ (40,682)
Add: goodwill impairment expense, net of tax	—	—	—	—	50,389
Net income, before goodwill impairment expense	23,943	19,372	22,988	16,829	9,707
Add: restructuring and other charges, net of tax	—	—	120	3,514	968
Add: loss on extinguishment of debt, net of tax	6	14	23	32	76
Less: recognition of state income tax benefits resulting from regulation changes	(1,216)	—	—	—	—
Adjusted net income	$ 22,733	$ 19,386	$ 23,131	$ 20,375	$ 10,751
Net income (loss) per share—Diluted, as reported	$ 1.78	$ 1.46	$ 1.75	$ 1.33	$ (3.39)
Average shares outstanding—Diluted, as reported (1)	13,439	13,267	13,120	12,691	11,985
Net income per share—Diluted, before goodwill impairment expense	$ 1.78	$ 1.46	$ 1.75	$ 1.33	$ 0.80
Average shares outstanding—Diluted	13,439	13,267	13,120	12,691	12,135
Adjusted net income per share—Diluted	$ 1.69	$ 1.46	$ 1.76	$ 1.61	$ 0.89
Average shares outstanding—Diluted	13,439	13,267	13,120	12,691	12,135

(1) For the year ended September 30, 2009 diluted shares reflect the elimination of the dilutive impact of outstanding stock options and restricted stock.

Source: Destination Maternity Corp, 10-K, 12/13/2013 | Powered by Intelligize

DMC Exhibit 2042_032
Target v. DMC
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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 1,907 retail locations, including 596 stores in all 50 states, Puerto Rico and Canada, and 1,311 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 1,158 stores throughout the United States and offers maternity apparel in a significant number of its stores. 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 locations. We also sell merchandise on the Internet, primarily through DestinationMaternity.com and our various brand-specific websites. We have store franchise and product supply relationships in the Middle East, South Korea and Mexico. In November 2013, we announced our expansion into Mexico through a franchise agreement with the largest department store company in Mexico. Also in November 2013, we announced that we were unable to reach mutual agreement on acceptable renewal terms with our franchisee for India and, thus, this franchise relationship, which began in April 2009, will end in March 2014. We do not expect that the discontinuation of our India franchise relationship will have a significant impact on our financial results. As of September 30, 2013, we have 143 international franchised locations, comprised of 20 stand-alone stores in the Middle East, South Korea and India operated under one of our retail nameplates, and 123 shop-in-shop locations in India and South Korea in which we have a Company branded department operated by our franchise partners within other retail stores. As of September 30, 2013, the international franchised locations include one stand-alone store and 110 shop-in-shop locations operated by our India franchisee that are expected to close in March 2014. 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 certain charges or credits, when applicable, such as restructuring and other charges, loss on extinguishment of debt and certain infrequent income tax adjustments ("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: (1) depreciation and amortization expense, (2) loss on impairment of tangible and intangible assets, (3) loss on disposal of assets, and (4) stock-based compensation expense.

Following is a summary of our fiscal 2013 results with regard to each of the key measures noted above:

Fiscal 2013 Financial Results

— GAAP net income for fiscal 2013 was $23.9 million, a 24% increase compared to GAAP net income of $19.4 million for fiscal 2012. GAAP diluted earnings per share for fiscal 2013 was $1.78, a 22% increase compared to GAAP diluted earnings per share of $1.46 for fiscal 2012.

— Non-GAAP adjusted net income for fiscal 2013 was $22.7 million, a 17% increase compared to comparably adjusted Non-GAAP net income of $19.4 million for fiscal 2012. Non-GAAP diluted earnings per share for fiscal 2013 was $1.69, a 16% increase compared to Non-GAAP diluted earnings per share of $1.46 for fiscal 2012.

- GAAP net income for fiscal 2013 includes a reduction of state income tax expense, net of federal expense, of $1.2 million, or $0.09 per share (diluted), recognized in the fourth quarter, resulting from state income tax regulation changes.

— Adjusted EBITDA was $54.0 million for fiscal 2013, an 8.2% increase compared to $49.9 million of Adjusted EBITDA for fiscal 2012.

— Net sales for fiscal 2013 decreased 0.2% to $540.3 million from $541.5 million for fiscal 2012.

— Comparable sales (which include Internet sales) for fiscal 2013 increased 2.6% versus a comparable sales decrease of 0.3% for fiscal 2012. Adjusting for the calendar timing shift, as described in Item 6 in this report, our calendar-adjusted comparable sales increased 3.2% for fiscal 2013 and decreased 0.8% for fiscal 2012. Internet sales increased 13% for fiscal 2013, on top of a 26% increase for fiscal 2012.

Source: Destination Maternity Corp, 10-K, 12/13/2013 | Powered by Intelligize

DMC Exhibit 2042_033
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