Results of Operations

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

	% of Net Sales (1)			% Period to Period Favorable (Unfavorable)	
	Year Ended September 30,			Year Ended September 30,	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Net sales	100.0%	100.0%	100.0%	(0.2)%	(0.7)%
Cost of goods sold (2)	46.1	46.3	45.6	0.6	(0.9)
Gross profit	53.9	53.7	54.4	0.1	(2.1)
Selling, general and administrative expenses (3)	46.6	47.2	47.2	1.4	0.7
Store closing, asset impairment and asset disposal expenses	0.3	0.4	0.2	27.3	(90.9)
Other charges	—	—	0.0	—	100.0
Operating income	6.9	6.1	7.0	13.3	(13.4)
Interest expense, net	0.1	0.2	0.4	56.2	45.6
Loss on extinguishment of debt	0.0	0.0	0.0	59.1	40.5
Income before income taxes	6.8	5.9	6.6	16.0	(11.4)
Income tax provision	2.4	2.3	2.4	(4.1)	3.8
Net income	4.4%	3.6%	4.2%	23.6%	(15.7)%

(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 (1) locations where Kohl's sells our products under an exclusive product and license agreement, and (2) international franchised locations.

	Year Ended September 30,								
	2013			2012			2011		
Retail Locations (1)	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations
Beginning of period	625	1,383	2,008	658	1,694	2,352	698	1,027	1,725
Opened	15	74	89	8	13	21	12	694	706
Closed	(44)	(146)	(190)	(41)	(324)	(365)	(52)	(27)	(79)
End of period	596	1,311	1,907	625	1,383	2,008	658	1,694	2,352

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

International Franchised Locations (1)	2013 Stores	2013 Shop-in-Shop Locations	2013 Total 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
Beginning of period	16	103	119	15	51	66	8	23	31
Opened	5	30	35	2	54	56	7	29	36
Closed	(1)	(10)	(11)	(1)	(2)	(3)	—	(1)	(1)
End of period (1)	20	123	143	16	103	119	15	51	66

Year Ended September 30,

(1) As of September 30, 2013, includes one store and 110 shop-in-shop locations operated by our India franchisee that are expected to close in March 2014.

In fiscal 2012 we also operated leased departments in Babies“R”Us stores. However, in connection with our broad-based partnership with Bed Bath & Beyond Inc. and its subsidiary, Buy Buy Baby, Inc., we discontinued operation of our 124 remaining leased departments in Babies“R”Us in late October 2012 and began to open leased departments in select buybuy BABY stores. According to Bed Bath & Beyond Inc.’s latest public disclosure, as of October 9, 2013 there are 86 buybuy BABY stores. As of September 30, 2013 we operate leased departments in 59 buybuy BABY stores. We expect to continue to increase the number of buybuy BABY stores in which we have a maternity apparel leased department. The decrease in leased department locations at the end of September 2013 compared to September 2012 predominantly reflects this change of partners in October 2012.

Year Ended September 30, 2013 Compared to Year Ended September 30, 2012

Net Sales. Our net sales for fiscal 2013 decreased by 0.2% or $1.2 million, to $540.3 million from $541.5 million for fiscal 2012. Comparable sales increased 2.6% during fiscal 2013 versus a comparable sales decrease of 0.3% during 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. Our Internet sales, which are included in comparable sales, increased 13.3% for fiscal 2013, on top of a 26.2% increase for fiscal 2012. The decrease in total reported sales for fiscal 2013 compared to fiscal 2012 resulted primarily from decreased sales related to our continued efforts to close underperforming stores and decreased sales due to the closure of all of our remaining leased departments within Babies“R”Us stores during the month of October 2012, substantially offset by the increase in comparable sales and increased sales from our licensed brand relationship.

As of September 30, 2013, we operated a total of 596 stores and 1,907 total retail locations: 476 Motherhood Maternity stores (including 86 Motherhood Maternity Outlet stores), 31 A Pea in the Pod stores, 89 Destination Maternity stores, and 1,311 leased maternity apparel departments, of which 502 were in Sears stores under the Two Hearts Maternity brand and the balance were in other department stores and baby specialty stores. In addition, our Oh Baby by Motherhood collection is available at Kohl’s stores throughout the United States. In comparison, 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. As of September 30, 2013, our store total included 89 multi-brand Destination Maternity nameplate stores, including 56 Destination Maternity combo stores and 33 Destination Maternity superstores. In comparison, as of September 30, 2012, we operated 82 multi-brand Destination Maternity nameplate stores, including 50 Destination Maternity combo stores and 32 Destination Maternity superstores. During fiscal 2013, we opened 15 stores, including nine Destination Maternity nameplate stores, and closed 44 stores, with 14 of these store closings related to Destination Maternity nameplate store openings. In addition, during fiscal 2013, we opened 74 leased department locations and closed 146 leased department locations.

Gross Profit. Our gross profit for fiscal 2013 increased by 0.1%, or $0.3 million, to $291.0 million compared to $290.7 million for fiscal 2012, and our gross profit as a percentage of net sales (gross margin) for fiscal 2013 was 53.9% compared to 53.7% for fiscal 2012. The increase in gross profit for fiscal 2013 compared to fiscal 2012 was due to our higher gross margin. The increase in gross margin for fiscal 2013 compared to fiscal 2012 was primarily due to lower product costs.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses for fiscal 2013 decreased by 1.4%, or $3.6 million, to $252.0 million from $255.6 million for fiscal 2012. As a percentage of net sales, selling, general and administrative expenses decreased to 46.6% for fiscal 2013 compared to 47.2% for fiscal 2012. This decrease in expense and expense percentage for fiscal 2013 compared to fiscal 2012 resulted primarily from lower expenses (primarily payroll and occupancy costs) related to our continued closure of underperforming stores and the closure of all of our remaining leased departments within Babies“R”Us stores during October 2012, and continued tight expense controls, partially offset by higher expenses for variable incentive compensation, advertising and marketing, and corporate payroll to drive increased sales. We also recognized a non-recurring reduction to selling, general and administrative expenses of $0.9 million during the fourth quarter of fiscal 2013, for the sale of our rights to a portion of a Visa®/MasterCard® class action settlement fund.

Store Closing, Asset Impairment and Asset Disposal Expenses. Our store closing, asset impairment and asset disposal expenses for fiscal 2013 decreased by approximately $0.6 million, to $1.4 million from $2.0 million for fiscal 2012, reflecting lower impairment charges for write-downs of long-lived assets.

Operating Income. Our operating income for fiscal 2013 increased by 13.3%, or $4.4 million, to $37.5 million from $33.1 million for fiscal 2012. Operating income as a percentage of net sales for fiscal 2013 increased to 6.9% from 6.1% for fiscal 2012. The increase in operating income and operating income percentage was primarily due to our lower selling, general and administrative expenses.

Interest Expense, Net. Our net interest expense for fiscal 2013 decreased by 56.2%, or $0.7 million, to $0.5 million from $1.2 million in fiscal 2012. This decrease was due to our lower debt level, primarily as a result of the $15.3 million of debt repayments we made in fiscal 2013.

Loss on Extinguishment of Debt. In November 2012, we prepaid the remaining $13.4 million of our outstanding Term Loan. The $13.4 million Term Loan prepayment resulted in a pretax charge of $9,000 in fiscal 2013, representing the write-off of unamortized deferred financing costs. 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.

Income Taxes. Income tax expense for fiscal 2013 includes a reduction of state income tax expense, net of federal expense, of $1.2 million, or $0.09 per diluted share, for the estimated carryforward tax benefit of certain state net operating losses based upon recently enacted changes in applicable state income tax regulations, which was recognized in the fourth quarter of fiscal 2013. For fiscal 2013, our effective tax rate was 35.2% compared to 39.2% for fiscal 2012. Our effective tax rate for fiscal 2013 was slightly 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, largely offset by the recognition of the estimated tax benefit of the state net operating loss carryforwards. 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. See Note 14 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 2013 increased by 23.6%, to $23.9 million from $19.4 million for fiscal 2012. Net income per share (diluted) for fiscal 2013 increased by 21.9%, to $1.78 per share from $1.46 per share in fiscal 2012. Net income for fiscal 2013 includes (net of tax) loss on extinguishment of debt of $6,000 and $1.2 million of state income tax benefits resulting from regulation changes. Net income for fiscal 2012 includes (net of tax) loss on extinguishment of debt of $14,000. Before these charges or credits, our fiscal 2013 adjusted net income was $22.7 million or $1.69 per share (diluted) compared to $19.4 million or $1.46 per share (diluted) for fiscal 2012.

Our average diluted shares outstanding of 13.4 million for fiscal 2013 was 1.3% higher than the 13.3 million average diluted shares outstanding for fiscal 2012. The increase in average shares outstanding reflects the higher shares outstanding in fiscal 2013 compared to fiscal 2012, primarily as a result of the exercise of stock options and vesting of restricted stock.

Following is a reconciliation of net income and net income per share (diluted) ("Diluted EPS") to adjusted net income and adjusted Diluted EPS for the years ended September 30, 2013 and 2012 (in thousands, except per share amounts):

	Year Ended September 30, 2013			Year Ended September 30, 2012		
	Net Income	Diluted Shares	Diluted EPS	Net Income	Diluted Shares	Diluted EPS
As reported	$ 23,943	13,439	$ 1.78	$ 19,372	13,267	$ 1.46
Add: loss on extinguishment of debt, net of tax	6	—		14	—	
Less: recognition of state income tax benefits resulting from regulation changes	(1,216)	—		—	—	
As adjusted	$ 22,733	13,439	$ 1.69	$ 19,386	13,267	$ 1.46

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. Adjusting for the calendar timing shift, as described in Item 6 in this report, our calendar-adjusted comparable sales decreased 0.8% for fiscal 2012 and increased 0.1% for fiscal 2011. Our Internet sales, which are included in comparable sales, increased 26.2% for fiscal 2012, on top of a 28.3% increase for 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 brand 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 multi-brand Destination Maternity nameplate stores, including 50 Destination Maternity combo stores and 32 Destination Maternity superstores. In comparison, as of September 30, 2011, we operated 80 Destination Maternity nameplate stores, including 52 Destination Maternity combo stores and 28 Destination Maternity superstores. During fiscal 2012, we opened eight stores, including six Destination Maternity nameplate stores, and closed 41 stores, with 12 of these store closings related to Destination Maternity nameplate 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 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.

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 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 14 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) loss on extinguishment of debt of $14,000. Net income for fiscal 2011 includes (net of tax) other charges of $0.1 million, and loss on extinguishment of debt of $23,000. Before these charges, our fiscal 2012 net income was $19.4 million or $1.46 per share (diluted) compared to $23.1 million or $1.76 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 adjusted net income and adjusted Diluted EPS 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: other charges, net of tax	—	—		120	—	
Add: loss on extinguishment of debt, net of tax	14	—		23	—	
As adjusted	$ 19,386	13,267	$ 1.46	$ 23,131	13,120	$ 1.76

Liquidity and Capital Resources

Our cash needs have primarily been for: (1) debt service, including principal prepayments, (2) capital expenditures, including leasehold improvements, fixtures and equipment for new stores, store relocations and expansions of our existing stores, as well as improvements and new equipment for our distribution and corporate facilities and information systems, (3) quarterly cash dividends, which we initiated during the second quarter of fiscal 2011, and (4) working capital, including inventory to support our business. We have historically financed our capital requirements from cash flows from operations, borrowings under our credit facilities or available cash balances.

Cash and cash equivalents increased by $2.2 million during fiscal 2013 compared to an increase of $7.1 million during fiscal 2012.

Cash provided by operations of $42.2 million for fiscal 2013 decreased by $0.5 million from $42.7 million for fiscal 2012. This decrease in cash provided by operations versus the prior year was primarily the result of net working capital changes that provided less cash in fiscal 2013 than was provided in fiscal 2012, largely offset by higher net income in fiscal 2013 compared to fiscal 2012. The net working capital changes were primarily: (1) an increase in prepaid expenses and other current assets in fiscal 2013 compared to a decrease in fiscal 2012, primarily reflecting timing of federal, state and foreign income tax payments, and (2) an increase in accounts payable, accrued expenses and other liabilities in fiscal 2013 that provided less cash compared to the fiscal 2012 increase, partially offset by (1) a decrease in accounts receivable in fiscal 2013 compared to an increase in fiscal 2012, and (2) a decrease in inventories in fiscal 2013 that provided somewhat more cash compared to the decrease in fiscal 2012.

During fiscal 2013 we used cash provided by operations to fund repayments of long-term debt, to pay for capital expenditures, and to pay our quarterly cash dividends. On November 1, 2012, we prepaid the remaining Term Loan balance of $13.4 million in connection with the execution of our current Credit Facility, and on April 3, 2013, we prepaid the remaining $1.8 million principal amount of our Industrial Revenue Bond ("IRB") debt. In fiscal 2013, we paid $9.8 million for our quarterly cash dividends. For fiscal 2013, we spent $15.1 million on capital expenditures, including $12.0 million for leasehold improvements, fixtures and equipment for new store facilities, as well as improvements to existing stores, and $3.1 million for our information systems and distribution and corporate facilities. The remaining cash provided by operations during fiscal 2013 was used primarily to increase our available cash.

Cash provided by operations of $42.7 million for fiscal 2012 increased by $21.3 million from $21.4 million for fiscal 2011. This increase in cash provided by operations versus the prior year was the result of net working capital changes that provided cash in fiscal 2012 versus cash used in fiscal 2011, partially offset by lower net income in fiscal 2012 compared to fiscal 2011. The net working capital changes were primarily: (1) an increase in accounts payable, accrued expenses and other liabilities in fiscal 2012, compared to a fiscal 2011 decrease that was primarily due to a $4.2 million supplemental executive retirement plan ("SERP") benefit payment made in December 2010, and (2) a decrease in inventories in fiscal 2012 compared to an increase in fiscal 2011, which reflects our efforts to tightly control our inventory levels in fiscal 2012 and the significant number of additional Macy's leased department locations opened in fiscal 2011.

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

On November 1, 2012, we entered into a five-year $61.0 million senior secured revolving credit facility (the "Credit Facility"), which replaced our former $55.0 million credit facility (the "Prior Credit Facility"). The Credit Facility consists of two tranches: (1) a senior secured revolving credit and letter of credit facility of up to $55.0 million, ("Tranche A") and (2) a senior secured first-in-last-out revolving credit facility of up to $6.0 million ("Tranche A-1"). The Credit Facility will mature on November 1, 2017. Upon our request and with the consent of the lender, permitted borrowings under Tranche A may be increased up to an additional $15.0 million, in increments of $2.5 million, up to a Tranche A maximum limit of $70 million. Proceeds from advances under the Credit Facility, with certain restrictions, were permitted to be used to repay our then existing term loan or other debt, and may be used to provide financing for working capital, letters of credit, capital expenditures, dividends, share repurchases and other general corporate purposes. Under the Credit Facility, we are required to maintain minimum Excess Availability (as defined in the related Credit Facility agreement) equal to 10% of the Borrowing Base (as defined in the related Credit Facility agreement). The Credit Facility is secured by a security interest in our trade receivables, inventory, equipment, real estate interests, letter of credit rights, cash, intangibles and certain other assets.

As of September 30, 2013, we had no outstanding borrowings under the Credit Facility and $5.7 million in letters of credit, with $55.3 million of availability under our Credit Facility. As of September 30, 2012, we had no outstanding borrowings under the Prior Credit Facility and $7.1 million in letters of credit, with $47.9 million of availability under our Prior Credit Facility. As of September 30, 2013, Tranche A borrowings under the Credit Facility would have resulted in interest at a rate between approximately 1.68% and 3.75% per annum, and Tranche A-1 borrowings under the Credit Facility would have resulted in interest at a rate between approximately 3.18% and 5.25% per annum. During fiscal 2013, our average level of direct borrowings (all of which was under the Credit Facility) was $0.2 million, and our maximum borrowings at any time were $6.2 million. During fiscal 2012 we did not have any direct borrowings under the Prior Credit Facility.

On November 1, 2012, we prepaid the remaining Term Loan balance of $13.4 million in connection with the execution of our new Credit Facility. Prior to its repayment, the Term Loan required minimum principal repayments in quarterly installments of $225,000 each, in addition to an annual principal repayment equal to 25% of Excess Cash Flow (as defined in the Term Loan Agreement) in excess of $5.0 million for each fiscal year, based on our Consolidated Leverage Ratio. There was no required principal repayment related to fiscal 2011 results. The Term Loan was permitted to be prepaid at our option, in part or in whole, at any time without any prepayment premium or penalty. During fiscal 2013 and 2012, we made optional prepayments of $13.4 million and $15.0 million, respectively, on the outstanding Term Loan.

We had $1.8 million outstanding under an IRB at September 30, 2012. On February 11, 2013, we notified the IRB trustee of our intention to redeem all remaining outstanding bonds effective April 3, 2013. As provided under the indenture of trust for the bonds, on April 3, 2013, the IRB trustee drew down $1.8 million plus accrued interest under the letter of credit issued as security for the bonds, at which time we had no further obligations, and the bonds had no further rights, under the indenture.

During fiscal 2013 and 2012 we paid cash dividends of $9.8 million (or $0.725 per share) and $9.3 million (or $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. The $0.1875 per share cash dividend, which was initially paid in June 2013, represents a 7.1% increase from our previous quarterly dividend rate of $0.175 per share and an annual dividend rate of $0.75 per share compared to our previous annual rate of $0.70 per share. Based on our new current quarterly dividend rate of $0.1875 per share, we project that we will pay approximately $10.3 million of cash dividends during fiscal 2014.

In September 2013 we announced our plans to relocate our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey. To help us offset the costs of these relocations, the Board of the New Jersey Economic Development Authority approved us for an incentive package of $40 million in benefits, over a 10-year period, from the State of New Jersey under the Grow New Jersey Assistance Program. We project capital expenditures associated with these relocations of approximately $17 million in fiscal 2014 and $12 to $14 million in fiscal 2015. Although we expect to incur some, predominantly non-cash, charges to earnings in fiscal 2014 and 2015 related to the closure of our existing facilities and the preparation for occupancy of our new facilities, we expect to generate ongoing annual cash and earnings benefits from our relocations once we are operating in both our new headquarters and new distribution center facilities. We project that our charges, predominantly non-cash, associated with the headquarters and distribution operations relocations, will be: (1) approximately $2.9 million pretax, or approximately $1.8 million after tax ($0.13 per diluted share) for fiscal 2014, and (2) approximately $0.8 million pretax, or approximately $0.5 million after tax ($0.04 per diluted share) for fiscal 2015. We project that, once we are operating in both our new headquarters and new distribution center facilities, which we expect to begin during the middle of fiscal 2015, our ongoing annualized after-tax earnings benefit from the relocations will be approximately $0.11 per diluted share, and our ongoing annualized after-tax cash benefit from the relocations will be approximately $4 million.

Our management believes that our current cash and working capital positions, expected operating cash flows and available borrowing capacity will be sufficient to fund our cash requirements for working capital, capital expenditures (including our relocations), and dividend payments, and to fund stock repurchases, if any, for at least the next twelve months.

Contractual Obligations and Commercial Commitments

We have entered into agreements that create contractual obligations and commercial commitments. These obligations and commitments will have an impact on future liquidity and the availability of capital resources. The tables below set forth a summary of these obligations and commitments as of September 30, 2013 (in thousands):

Contractual Obligations:

		Payments Due by Period			
Description	Total Obligations (1)	Less Than One Year	One to Three Years	Three to Five Years	After Five Years
Long-term debt (2)	$ —	$ —	$ —	$ —	$ —
Operating leases (3) (4)	219,416	42,200	62,064	42,420	72,732
Purchase obligations (5)	82,986	82,986	—	—	—
Total contractual cash obligations	$ 302,402	$ 125,186	$ 62,064	$ 42,420	$ 72,732

(1) The amounts in this table exclude obligations under employment agreements. For a discussion of the compensation of our executive officers, see the information contained under the caption "Executive Compensation" in our Proxy Statement, which will be filed with the SEC in connection with the Annual Meeting of Stockholders expected to be held in the second quarter of fiscal 2014.

(2) During fiscal 2013 we prepaid the remaining $15.3 million of our long-term debt.

(3) Includes store operating leases, which generally provide for payment of direct operating costs in addition to rent. The amounts reflected include future minimum lease payments and exclude such direct operating costs.

(4) Includes future minimum lease payments for the leases of our new corporate headquarters building, signed September 19, 2013 and expected to commence in Fall 2014, and our new build-to-suit distribution center building, signed December 3, 2013 and expected to commence in early to mid 2015. The leases provide for payment of direct operating costs in addition to rent and the future minimum lease payments reflected above exclude such direct operating costs. See Item 9B in this report for a description of the leases and our relocation plans.

(5) Our purchase orders with contract manufacturers are cancelable by us at any time prior to our acceptance of the merchandise subject to negotiated payment of certain of vendors' nonrecoverable costs. The amount in this table excludes purchase orders for supplies in the normal course of business.

Commercial Commitments:

Description	Total Obligations	Amount of Commitment Per Period: Less Than One Year	One to Three Years	Three to Five Years	After Five Years
Credit facility (1)	$ 5,695	$ 5,695	$ —	$ —	$ —
Other standby letters of credit	—	—	—	—	—
Total commercial commitments	$ 5,695	$ 5,695	$ —	$ —	$ —

(1) Consists of outstanding letter of credit commitments under our Credit Facility at September 30, 2013.

Critical Accounting Policies and Estimates

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

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

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

Inventories. We value our inventories, which consist primarily of maternity apparel, at the lower of cost or market. Cost is determined on the first-in, first-out method (FIFO) and includes the cost of merchandise, freight, duty and broker fees, as well as applied product-related overhead. A periodic review of inventory quantities on hand is performed in order to determine if inventory is properly valued at the lower of cost or market. Factors related to current inventories such as future consumer demand and fashion trends, current aging, current analysis of merchandise based on receipt date, current and anticipated retail markdowns or wholesale discounts, and class or type of inventory are analyzed to determine estimated net realizable values. Criteria utilized by us to determine the net realizable value of our inventories and the related level of required inventory reserves include factors such as the amount of merchandise received within the past twelve months, merchandise received more than one year before with quantities on-hand in excess of twelve months of sales, and merchandise currently selling below cost. A provision is recorded to reduce the cost of inventories to its estimated net realizable value, if required. Inventories as of September 30, 2013 and 2012 totaled $86.5 million and $88.8 million, respectively, representing 41.6% and 44.5% of total assets, respectively. Given the significance of inventories to our consolidated financial statements, the determination of net realizable values is considered to be a critical accounting estimate. Any significant unanticipated changes in the factors noted above could have a significant impact on the value of our inventories and our reported operating results.

Long-Lived Assets. Our long-lived assets consist principally of store leasehold improvements and furniture and equipment (included in "property, plant and equipment, net" in our consolidated balance sheets) and, to a much lesser extent, patent and lease acquisition costs (included in "other intangible assets, net" in our consolidated balance sheets). These long-lived assets are recorded at cost and are amortized using the straight-line method over the shorter of the lease term or their useful life. Net long-lived assets as of September 30, 2013 and 2012 totaled $55.8 million and $52.4 million, respectively, representing 26.8% and 26.3% of total assets, respectively.

In assessing potential impairment of these assets, we periodically evaluate the historical and forecasted operating results and cash flows on a store-by-store basis. Newly opened stores may take time to generate positive operating and cash flow results. Factors such as (1) store type, that is, Company store or leased department, (2) store concept, that is, Motherhood, Pea or Destination Maternity, (3) store location, for example, urban area versus suburb, (4) current marketplace awareness of our brands, (5) local customer demographic data, (6) anchor stores within the mall in which our store is located and (7) current fashion trends are all considered in determining the time frame required for a store to achieve positive financial results, which is assumed to be within two years from the date a store location is opened. If economic conditions are substantially different from our expectations, the carrying value of certain of our long-lived assets may become impaired. As a result of our impairment assessment, we recorded write-downs of long-lived assets of $0.8 million and $1.9 million during fiscal 2013 and fiscal 2012, respectively.

Self-Insurance Reserves. We are primarily self-insured for most workers' compensation claims, general liability and automotive liability losses, and for employee-related healthcare claims. We have purchased insurance coverage in order to establish certain limits to our exposure on a per claim basis and on an aggregate basis. Our accrued insurance expense, which was primarily for self-insurance reserves, as of September 30, 2013 and 2012 totaled $5.9 million and $5.3 million, respectively, representing 2.8% and 2.7% of total assets, respectively. The estimated reserves for our self-insured liabilities and our reported operating results could be significantly affected if future occurrences and claims differ from the factors noted below.

We determine the estimated reserve required for workers' compensation claims, general liability and automotive liability losses in each accounting period. This requires that we determine estimates of the costs of claims incurred (including claims incurred but not yet reported) and accrue for such expenses in the period in which the claims are incurred (including claims incurred but not yet reported). Actual workers' compensation claims, and general liability and automotive liability losses, are reported to us by third party administrators. The third party administrators also report initial estimates of related loss reserves. The open claims and initial loss reserves and estimates of claims incurred but not yet reported are subjected to examination by us utilizing a consistent methodology which involves various assumptions, judgment and other factors. Such factors include, but are not limited to, the probability of settlement, the amount at which settlement can be achieved, the probable duration of the claim, the cost development pattern of the claim and the applicable cost development factor. In addition, we utilize a cooperative arrangement with a number of other companies to assist in managing these insurance risks for certain occurrences prior to March 1, 2010. Based on this arrangement, our expenses could be impacted by the loss history associated with the cooperative as a whole for the years for which we remain a participant. The liabilities associated with claims for workers' compensation, general liability and automotive liability are measured through the use of actuarial methods to project an estimate of ultimate cost for claims incurred.

We record an accrual for the estimated amount of self-insured healthcare claims incurred but not yet reported using a method based on our historical claims experience. The most significant factors in addition to our historical claims experience that impact the determination of the required accrual are the historical timing of claims processing, medical cost trends and inflation, employer-employee cost sharing factors and changes in plan benefits. We continually monitor historical experience and cost trends, and accruals are adjusted when warranted by changes in facts and circumstances.

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

The temporary differences between the book and tax treatment of income and expenses, as well as certain state net operating loss carryforwards, result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not more likely than not, we must establish a valuation allowance to reduce deferred tax assets to the amount considered realizable. Actual results could differ from our assessments if adequate taxable income is not generated in future periods. Net deferred tax assets as of September 30, 2013 and 2012 totaled $20.5 million and $18.2 million, respectively, representing 9.8% and 9.1% of total assets at September 30, 2013 and 2012, respectively. To the extent we establish a valuation allowance or change a previously established valuation allowance in a future period, income tax expense will be impacted.

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

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU No. 2013-11 requires presentation of an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit would be presented in the financial statements as a liability and would not be combined with deferred tax assets. ASU No. 2013-11 is effective for financial statements issued for annual reporting periods beginning after December 15, 2013 and interim periods within those years. Adoption of the new requirements of ASU No. 2013-11 is not expected to have a material impact on our consolidated financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU No. 2013-02 requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present, either on the face of the income statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under generally accepted accounting principles in the United States ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The standard does not change the current requirements for reporting net income or other comprehensive income in financial statements. ASU No. 2013-02 is effective for financial statements issued for annual reporting periods beginning after December 15, 2012 and interim periods within those years. Because this guidance impacts presentation only, the adoption of the new requirements of ASU No. 2013-02 will not have any impact on our consolidated financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 required companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminated the option to present components of other comprehensive income as part of the statement of stockholders' equity. The standard did not change the items which must be reported in other comprehensive income. In December 2011, the FASB issued ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which deferred the effective date of the requirement to present separate line items on the statement of income for reclassification adjustments out of accumulated other comprehensive income into net income. ASU No. 2011-05 and No. 2011-12 were effective for financial statements issued for annual reporting periods beginning after December 15, 2011 and interim periods within those years. In accordance with ASU No. 2011-05 and No. 2011-12 we have presented two separate but consecutive statements in our consolidated financial statements, which include the components of net income and other comprehensive income. Because this guidance impacted presentation only, the adoption of the new requirements of ASU No. 2011-05 and No. 2011-12 did not have any impact on our consolidated financial position or results of operations.

Off Balance Sheet Arrangements

None.

Inflation

We do not believe that inflation has had a material effect on our net sales or profitability in the periods presented. However, there can be no assurance that our business will not be affected by inflation in the future.

Forward-Looking Statements

Some of the information in this report, including the information incorporated by reference (as well as information included in oral statements or other written statements made or to be made by us), contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to: the strength or weakness of the retail industry in general and of apparel purchases in particular, our ability to successfully manage our various business initiatives, the success of our international business and its expansion, our ability to successfully manage, retain and expand our leased department, licensed brand and international franchise relationships, and marketing partnerships, future sales trends in our various sales channels, unusual weather patterns, changes in consumer spending patterns, raw material price increases, overall economic conditions and other factors affecting consumer confidence, demographics and other macroeconomic factors that may impact the level of spending for maternity apparel (such as fluctuations in pregnancy rates and birth rates), expense savings initiatives, our ability to anticipate and respond to fashion trends and consumer preferences, unanticipated fluctuations in our operating results, the impact of competition and fluctuations in the price, availability and quality of raw materials and contracted products, availability of suitable store locations, continued availability of capital and financing, our ability to hire and develop senior management and sales associates, our ability to develop and source merchandise, our ability to receive production from foreign sources on a timely basis, potential stock repurchases, the continuation of the regular quarterly cash dividend, the trading liquidity of our common stock, changes in market interest rates, our ability to successfully manage and accomplish our planned relocation of our headquarters and distribution operations with minimal disruption to our overall operations, war or acts of terrorism and other factors referenced in this report, including those set forth under the caption "Item 1A. Risk Factors."

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

As of September 30, 2013, we had cash equivalents of $20.4 million. Our cash equivalents consist of investments in money market funds that bear interest at variable rates. A change in market interest rates earned on our investments impacts the interest income and cash flows, but does not materially impact the fair market value of the financial instruments. Due to the average maturity and conservative nature of our investment portfolio, we believe a sudden change in interest rates would not have a material effect on the value of our investment portfolio. The impact on our future interest income resulting from changes in investment yields will depend largely on the gross amount of our investment portfolio at that time. However, based upon the conservative nature of our investment portfolio and current experience, we do not believe a decrease in investment yields would have a material negative effect on our interest income.

As of September 30, 2013, our debt portfolio consisted of our $61.0 million Credit Facility, which is denominated in United States dollars. Our Credit Facility has variable interest rates that are tied to market indices. As of September 30, 2013, we had no direct borrowings and $5.7 million of letters of credit outstanding under our Credit Facility. As of September 30, 2013, Tranche A borrowings under the new Credit Facility would have resulted in interest at a rate between approximately 1.68% and 3.75% per annum, and Tranche A-1 borrowings under the new Credit Facility would have resulted in interest at a rate between approximately 3.18% and 5.25% per annum. Interest on any future borrowings under the Credit Facility would, to the extent of outstanding borrowings, be affected by changes in market interest rates. A change in market interest rates on the variable rate portion of our debt portfolio would impact the interest expense incurred and cash flows.

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

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements appear on pages F-1 through F-29, as set forth in Item 15.

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to our management on a timely basis to allow decisions regarding required disclosure. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2013. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of September 30, 2013, these controls and procedures were effective.

Internal Control over Financial Reporting

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

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

Management assessed the Company's internal control over financial reporting as of September 30, 2013, the end of the Company's fiscal year. Management based its assessment on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and the Company's overall control environment.

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

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

(b) Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Destination Maternity Corporation:

We have audited Destination Maternity Corporation's internal control over financial reporting as of September 30, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Destination Maternity Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting presented above. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Destination Maternity Corporation maintained, in all material respects, effective internal control over financial reporting as of September 30, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Destination Maternity Corporation and subsidiaries as of September 30, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended September 30, 2013 and the related financial statement schedule, and our report dated December 13, 2013 expressed an unqualified opinion on those consolidated financial statements and the related financial statement schedule.

/s/ KPMG LLP

Philadelphia, Pennsylvania
December 13, 2013

(c) Change in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting identified in connection with management's evaluation that occurred during the last fiscal quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

In connection with our plans to relocate our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey we entered into the following leases:

On September 19, 2013 we entered into a Lease Agreement ("HQ Lease") with 232 Strawbridge Associates, LLC to lease an approximately 74,000 square foot building located at Moorestown Corporate Center, 232 Strawbridge Drive, in Moorestown, New Jersey. This facility, once renovated, will serve as our new corporate headquarters. We expect to relocate 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) to this newly renovated facility in Fall 2014. The HQ Lease has a term of eleven years. In addition, we have an option to extend the HQ Lease for an additional ten years at the expiration of the initial term.

On December 3, 2013 we entered into a Single-Tenant Industrial Lease ("DC Lease") with Haines Center – Florence, LLC to lease a new 406,000 square foot build-to-suit building at 1000 John Galt Way, in Florence Township, New Jersey. This facility, once built to our specifications by the landlord, will serve as our new distribution center. We expect to relocate 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) to this new facility in early to mid 2015. The DC Lease has a term of 15 years. In addition, we have three option periods, each for five years, to extend the DC Lease for a total of an additional 15 years after the expiration of the initial term.

As discussed in our earnings press release dated November 21, 2013, although we expect to incur some, predominantly non-cash, charges to earnings in fiscal 2014 and 2015 related to the closure of our existing facilities and the preparation for occupancy of our new facilities, we expect to generate ongoing annual cash and earnings benefits from our relocations once we are operating in both our new headquarters and new distribution center facilities. We project that our charges, predominantly non-cash, associated with the facilities relocations, will be: (1) approximately $2.9 million pretax, or approximately $1.8 million after tax ($0.13 per diluted share) for fiscal 2014, and (2) approximately $0.8 million pretax, or approximately $0.5 million after tax ($0.04 per diluted share) for fiscal

2015. We project that, once we are operating in both our new headquarters and new distribution center facilities, which we expect to begin during the middle of fiscal 2015, our ongoing annualized after-tax earnings benefit from the relocations will be approximately $0.11 per diluted share, and our ongoing annualized after-tax cash benefit from the relocations will be approximately $4 million.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

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

The Board of Directors has adopted a Code of Business Conduct and Ethics, which can be found on the Company's corporate website at investor.destinationmaternity.com. We intend to satisfy the amendment and waiver disclosure requirements under applicable securities regulations by posting any amendments of, or waivers to, the Code of Business Conduct and Ethics on our website.

Item 11. Executive Compensation

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

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of September 30, 2013, regarding the number of shares of common stock that may be issued under our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)	
Equity compensation plans approved by security holders	508,369	(1)	$ 14.94	1,095,106	(2)
Equity compensation plans not approved by security holders	40,000	(3)	$ 20.62	—	
Total	548,369		$ 15.35	1,095,106	

(1) Reflects shares subject to options outstanding under the Company's Amended and Restated 1987 Stock Option Plan, the 1994 Director Stock Option Plan and the 2005 Plan.

(2) Reflects shares available under the 2005 Plan (641,347 of which may be issued as shares of restricted stock).

(3) Reflects shares subject to an outstanding option agreement awarded as a non-plan based inducement grant in connection with the hiring of our President in fiscal 2011.

The information contained in the section titled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, with respect to security ownership of certain beneficial owners and management, is incorporated herein by reference in response to this Item 12.

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

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

Item 14. Principal Accounting Fees and Services

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

PART IV.

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

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

(2) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts.

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

(3) Exhibits

See following Index of Exhibits.

INDEX OF EXHIBITS

Exhibit No.	Description
*3.1	Restated Certificate of Incorporation of the Company (Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 2008)
*3.2	Bylaws of the Company (Exhibit 3.2 to the Company's Current Report on Form 8-K dated November 14, 2013)
*4.1	Specimen certificate representing shares of the Company's common stock with legend regarding Preferred Stock Purchase Rights (Exhibit 4.2 to the Company's Current Report on Form 8-K dated October 12, 1995)
*4.2	Amended and Restated Rights Agreement, dated as of October 9, 2005, between the Company and StockTrans, Inc., which includes the Form of Series B Rights Certificate, the Certificate of Designation of the voting powers, designations, preferences, and relative, participating, optional or other special rights and qualifications, limitations and restrictions of the Series B Junior Participating Preferred Stock, and a Summary of Rights to Purchase Preferred Stock attached thereto as Exhibits A, B and C respectively (Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 9, 2005)
†*10.1	1994 Director Stock Option Plan (Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended September 30, 1994)
†*10.2	1987 Stock Option Plan (as amended and restated) (Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 333-59529, dated July 21, 1998)
†*10.3	Amendment to the Company's 1987 Stock Option Plan, as amended and restated, effective as of November 13, 2002 (Exhibit 10.25 to the Company's Form 10-Q for the quarter ended March 31, 2003)
†*10.4	Form of Non-Qualified Stock Option Agreement under the Company's 1987 Stock Option Plan (Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended September 30, 2004 (the "2004 Form 10-K"))
†*10.5	Form of Non-Qualified Stock Option Agreement under the Company's 1994 Director Stock Option Plan (Exhibit 10.19 to the 2004 Form 10-K)
†*10.6	Form of Waiver of Rights Under Company's 1987 Stock Option Plan and 1994 Director Stock Option Plan executed by each of the Company's Non-Management Directors (Exhibit 10.21 to the Company's Current Report on Form 8-K dated December 29, 2005 (the "December 29, 2005 Form 8-K"))
†*10.7	Form of Waiver of Rights Under Company's 1987 Stock Option Plan executed by certain of the Company's executive officers (Exhibit 10.22 to the December 29, 2005 Form 8-K)
†*10.8	Form of Restricted Stock Award Agreement under the Company's 2005 Equity Incentive Plan (Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended September 30, 2006 (the "2006 Form 10-K"))
†*10.9	Form of Non-Qualified Stock Option Agreement under the Company's 2005 Equity Incentive Plan (Exhibit 10.29 to the 2006 Form 10-K)
†*10.10	Supplemental Retirement Agreement dated as of March 2, 2007, between the Company and Rebecca C. Matthias (Exhibit 10.3 to the Company's Current Report on Form 8-K dated March 2, 2007 (the "March 2, 2007 Form 8-K")
†*10.11	Supplemental Retirement Agreement dated as of March 2, 2007, between the Company and Dan W. Matthias (Exhibit 10.4 to the March 2, 2007 Form 8-K)
†*10.12	Letter Agreement, dated March 28, 2008, between the Company and Dan W. Matthias and Rebecca C. Matthias (Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 28, 2008)
†*10.13	Letter Agreement, dated May 20, 2008, between the Company and Dan W. Matthias and Rebecca C. Matthias (Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 20, 2008)
†*10.14	Employment Agreement, dated July 23, 2008, between the Company and Judd P. Tirnauer (Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 21, 2008 (the "July 21, 2008 Form 8-K"))
†*10.15	Restrictive Covenant Agreement with Judd P. Tirnauer dated July 23, 2008 (Exhibit 10.2 to the July 21, 2008 Form 8-K)
†*10.16	Restricted Stock Award Agreement with Judd P. Tirnauer dated July 23, 2008 (Exhibit 10.3 to the July 21, 2008 Form 8-K)
†*10.17	Transition Agreement, dated September 26, 2008, between Dan W. Matthias and the Company (Exhibit 10.2 to the Company's Current Report on Form 8-K dated September 26, 2008)
†*10.18	Letter Agreement, dated November 6, 2009, between Dan W. Matthias and the Company (Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 4, 2009 (the "November 4, 2009 Form 8-K"))

Exhibit No.	Description
†*10.19	Transition Agreement, dated November 6, 2009, between Rebecca C. Matthias and the Company (Exhibit 10.3 to the November 4, 2009 Form 8-K)
†*10.20	Employment Agreement, dated April 11, 2011, between Christopher F. Daniel and the Company (Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 11, 2011 (the "April 11, 2011 Form 8-K"))
†*10.21	Non-Qualified Stock Option Award Agreement between Christopher F. Daniel and the Company (Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (the "June 30, 2011 Form 10-Q"))
†*10.22	Form of Restricted Stock Award Agreement between Christopher F. Daniel and the Company (Exhibit 10.45 to the June 30, 2011 Form 10-Q)
†*10.23	Executive Employment Agreement, dated July 16, 2009, between Ronald J. Masciantonio and the Company (Exhibit 10.4 to the April 11, 2011 Form 8-K)
†*10.24	Amendment to Executive Employment Agreement, dated April 27, 2010, between Ronald J. Masciantonio and the Company (Exhibit 10.5 to the April 11, 2011 Form 8-K)
†*10.25	Restrictive Covenant Agreement, dated July 16, 2009, between Ronald J. Masciantonio and the Company (Exhibit 10.6 to the April 11, 2011 Form 8-K)
†*10.26	Amendment, dated August 10, 2011, to the Employment Agreement dated as of July 23, 2008 between Judd P. Tirnauer and the Company (Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 10, 2011 (the "August 10, 2011 Form 8-K"))
†*10.27	Amendment, dated August 10, 2011, to the Employment Agreement dated as of July 16, 2009 (as amended) between Ronald J. Masciantonio and the Company (Exhibit 10.3 to the August 10, 2011 Form 8-K)
†*10.28	Amendment, dated November 22, 2011, to the Employment Agreement dated as of July 23, 2008 (as amended) between Judd P. Tirnauer and the Company (Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended September 30, 2011 (the "2011 Form 10-K"))
†*10.29	Amendment, dated November 22, 2011, to the Employment Agreement dated as of July 16, 2009 (as amended) between Ronald J. Masciantonio and the Company (Exhibit 10.46 to the 2011 Form 10-K)
†*10.30	Form of Restricted Stock Unit Award Agreement under the Company's 2005 Equity Incentive Plan (Exhibit 10.47 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011)
†*10.31	Third Amended and Restated Employment Agreement dated March 6, 2012 between Edward M. Krell and the Company (Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 6, 2012)
*10.32	Credit Agreement, dated November 1, 2012, among the Company and Cave Springs, Inc., each as a Borrower, and Mothers Work Canada, Inc., as a Guarantor, and Wells Fargo, N.A., as the Lender and Administrative Agent (Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 1, 2012)
†*10.33	Amendment, dated November 15, 2012, to the Employment Agreement dated as of July 16, 2009 (as amended) between Ronald J. Masciantonio and the Company (Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 15, 2012)
†*10.34	Non-Employee Director Compensation Policy & Equity Ownership Guidelines (Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended September 30, 2012)
†*10.35	Management Incentive Program (Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 25, 2013 (the "January 25, 2013 Form 8-K"))
†*10.36	2005 Equity Incentive Plan (as amended and restated) (Exhibit 10.2 to the January 25, 2013 Form 8-K)
†*10.37	Letter Amendment dated December 7, 2013 to the Employment Agreement between the Company and Christopher F. Daniel (Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 4, 2013 (the "December 4, 2013 Form 8-K"))
†*10.38	Letter Amendment dated December 7, 2013 to the Employment Agreement between the Company and Judd P. Tirnauer (Exhibit 10.2 to the December 4, 2013 Form 8-K)
†*10.39	Letter Amendment dated December 7, 2013 to the Employment Agreement between the Company and Ronald J. Masciantonio (Exhibit 10.3 to the December 4, 2013 Form 8-K)
†10.40	Letter, dated August 16, 2013, from Ronald J. Masciantonio to the Company pursuant to employment agreement

Exhibit No.	Description
21	Subsidiaries of the Company
23	Consent of KPMG LLP
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Executive Vice President & Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Executive Vice President & Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Incorporated by reference.

† Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Philadelphia, Commonwealth of Pennsylvania, on December 13, 2013.

DESTINATION MATERNITY CORPORATION

By: /S/ EDWARD M. KRELL
Edward M. Krell
Chief Executive Officer
(Principal Executive Officer)

By: /S/ JUDD P. TIRNAUER
Judd P. Tirnauer
Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on December 13, 2013, in the capacities indicated:

/S/ EDWARD M. KRELL **Edward M. Krell**	Chief Executive Officer and Director (Principal Executive Officer)
/S/ JUDD P. TIRNAUER **Judd P. Tirnauer**	Executive Vice President & Chief Financial Officer (Principal Financial and Accounting Officer)
/S/ ARNAUD AJDLER **Arnaud Ajdler**	Director (Non-Executive Chairman of the Board)
/S/ MICHAEL J. BLITZER **Michael J. Blitzer**	Director
/S/ BARRY ERDOS **Barry Erdos**	Director
/S/ JOSEPH A. GOLDBLUM **Joseph A. Goldblum**	Director
/S/ MELISSA PAYNER-GREGOR **Melissa Payner-Gregor**	Director
/S/ WILLIAM A. SCHWARTZ, JR. **William A. Schwartz, Jr.**	Director
/S/ B. ALLEN WEINSTEIN **B. Allen Weinstein**	Director

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE