Destination Maternity Corp
Form 10-K
December 13, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2013

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 0-21196

Destination Maternity Corporation

(Exact name of Registrant as specified in its charter)

Delaware	13-3045573
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
456 North Fifth Street, Philadelphia, PA	19123
(Address of principal executive offices)	(Zip Code)

(215) 873-2200

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

Series B Junior Participating Preferred Stock Purchase Rights

(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed using $23.40, the price at which the common equity was last sold as of March 28, 2013 (the last trading day of the Registrant s most recently completed second fiscal quarter), was approximately $305,000,000.

On December 4, 2013, there were 13,679,228 shares of the Registrant s common stock, $.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Stockholders, expected to be held in the second quarter of fiscal 2014, are incorporated by reference into Part III of this Form 10-K.

PART I.

Our fiscal year ends on September 30. All references in this report to our fiscal years refer to the fiscal year ended on September 30 in the year mentioned. For example, our fiscal 2013 ended on September 30, 2013. Unless otherwise indicated, operating data referred to in this report is as of September 30, 2013. As used in this report, the term retail locations includes our stores and leased departments and excludes locations where Kohl s® sells our products under an exclusive product and license agreement, and also excludes international franchised locations. As used in this report, stores means our stand-alone stores in the United States, Puerto Rico and Canada, which we operate.

Item 1. Business
Overview

Destination Maternity Corporation (the Company , we , us , our) is the leading designer and retailer of maternity appa in the United States and is the only nationwide chain of maternity apparel specialty stores. As of September 30, 2013, we operate 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 our maternity apparel in a significant number of its stores. We operate our 596 stores under three retail nameplates: Motherhood Maternity®, A Pea in the Pod® and Destination Maternity®. In addition to our 596 stores, we operate 1,311 maternity apparel departments, which we refer to as leased departments, within leading retailers such as Macy s®, Sears®, Gordmans®, buybuy BABY®, Boscov s® and Century 21. 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 international store franchise and product supply relationships in the Middle East, South Korea, Mexico and India. 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 the Destination Maternity retail nameplate, and 123 shop-in-shop locations in South Korea and India, in which we have a Company-branded department operated by our franchise partners within other retail stores. 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 and which covers 110 maternity shop-in-shops and one franchise store, will end in March 2014.

We maintain our leading position across all major price points of maternity apparel through our four distinct merchandise brands, which enable us to reach a broad range of maternity customers. Through our 596 stores and certain of our leased departments, we offer maternity apparel under one or both of our two primary merchandise brands, Motherhood Maternity (Motherhood or Motherhood Maternity) at value prices and A Pea in the Pod (Pea or Pea in the Pod) at both contemporary and luxury prices. Our A Pea in the Pod Collection® (Pea Collection) is the distinctive premier maternity apparel line within the A Pea in the Pod brand, featuring exclusive designer label product at luxury prices. We also have two additional value-priced maternity apparel brands, our Oh Baby by Motherhood® collection, which we sell exclusively through Kohl s, and our Two Hearts® Maternity by Destination Maternity® collection, available exclusively at Sears stores. Our brands are the exclusive maternity apparel offering in each of these chains.

We believe that one of our key competitive advantages is our ability to fulfill, in a high-service store environment, all of an expectant or nursing mother s clothing needs, including casual and career wear, formal attire, lingerie, sportswear and outerwear, in sizes that cover all trimesters of the maternity cycle. We believe that our vertically-integrated business model enables us to offer the broadest assortment of in-stock, fashionable maternity apparel. 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.

We have developed and introduced multi-brand store concepts to offer merchandise from our various brands in a single location, in order to provide a broader product assortment at multiple price ranges to our customers and to increase average store sales and profitability. We believe the continued rollout of our multi-brand store initiative provides the opportunity for us to improve store operating profit margins over time by reducing store operating expense percentages through economies of scale, and may increase overall sales in the geographical markets they serve. Our multi-brand stores are operated under our Destination Maternity nameplate, which includes Destination Maternity combo stores (carrying Motherhood Maternity and A Pea in the Pod merchandise) and Destination Maternity superstores, which also carry both our Motherhood and Pea merchandise brands, as well as a significant array of maternity-related products and customer service features. These Destination Maternity stores are larger and have historically had higher average sales than our average store. Opening these Destination Maternity stores will often involve closing two or more smaller stores and may result in one-time store closing costs resulting primarily from early lease terminations.

In recent years, in addition to having closed some stores in connection with the opening of Destination Maternity nameplate stores, we have also evaluated our retail store base to identify and, in many cases, close underperforming stores (referred to as prunings) where we can do so without disproportionate exit cost. These prunings typically add to our profitability by eliminating the operating expense of an underperforming store while also typically transferring some of the sales from the closed store to other stores and/or leased departments we operate in that geographical area.

In fiscal 2013 we closed 44 stores, 14 of which were closed in connection with the opening of Destination Maternity nameplate stores, with the remaining 30 store closings primarily consisting of prunings of underperforming stores. In fiscal 2013, we opened 15 stores, including nine Destination Maternity nameplate store openings. From fiscal 2005 through fiscal 2013, we closed 436 stores, 143 of which were closed in connection with the opening of Destination Maternity nameplate stores, with the remaining 293 store closings primarily consisting of prunings of underperforming stores. From fiscal 2005 through fiscal 2013, we opened 149 stores, including 67 Destination Maternity nameplate store openings.

We plan to open approximately 19 to 21 new retail stores during fiscal 2014, of which we expect approximately 5 to 6 will be new Destination Maternity nameplate stores. We estimate that we will close approximately 47 to 53 stores in fiscal 2014, with approximately 12 to 14 of these store closings related to the opening of new Destination Maternity nameplate stores, and the remainder of these store closings primarily related to prunings of underperforming stores.

Currently, we operate 31 Motherhood stores and two Destination Maternity superstores in Canada and a Motherhood website under a Canadian URL (MotherhoodCanada.ca). In addition, we believe there is a significant opportunity to continue to develop international sales beyond Canada. We currently have franchise agreements in place in the Middle East, South Korea and Mexico. The initial franchise stores through our arrangement in the Middle East opened during 2009 and, as of September 30, 2013, there are 15 of our franchise stores operating in the Middle East. During fiscal 2011, we began offering our Motherhood Maternity branded merchandise in South Korea in maternity shop-in-shops operated by our franchise partner within other retail stores and in franchise stores. As of September 30, 2013, our merchandise is offered in 13 shop-in-shops and four franchise stores in South Korea. In November 2013, we announced our expansion into Mexico through a franchise agreement with El Puerto de Liverpool, S.A.B. de C.V. (Liverpool), the largest department store company in Mexico. We will initially make our Motherhood Maternity and A Pea in the Pod branded merchandise available for sale in maternity shop-in-shops located in our Mexico franchisee s Liverpool department stores throughout Mexico, with plans to open freestanding franchise stores in Mexico later in 2014 and beyond. 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 this franchise relationship will have a significant impact on our financial results. As of September 30, 2013, our merchandise is offered in 110 maternity shop-in-shops and one franchise store in India.

We believe that our customers, particularly first-time mothers, are entering a new life stage that drives widespread changes in purchasing needs and behavior, thus making our maternity customer and her family a highly-valued demographic for a range of consumer products and services companies. As a result, we have been able to expand and leverage the relationship we have with our customers and generate incremental revenues and earnings by offering other value-added baby and parent-related products and services through a variety of marketing partnership programs utilizing our extensive opt-in customer database and various in-store marketing initiatives.

The Company was founded in 1982 as a mail-order maternity apparel catalog. We began operating retail stores in 1985 and completed our initial public offering in 1993. To address multiple price points in maternity apparel and improve operating productivity, we acquired Motherhood Maternity and A Pea in the Pod in 1995 and acquired other maternity apparel specialty chains from 1994 to 2001. Since the acquisitions of Motherhood Maternity and A Pea in the Pod, we have developed and grown these brands along with growing our Destination Maternity brand. Also, since the 1990s we have partnered with other retailers to sell our products through maternity apparel departments within their stores. On December 8, 2008, we changed our corporate name from Mothers Work, Inc. to Destination Maternity Corporation and our Nasdaq® symbol from MWRK to DEST coincident with the name change.

Industry Overview

We are unaware of any reliable external data on the size of the maternity apparel business. We believe that there is an opportunity to grow our business by selling maternity clothes to those pregnant women who currently purchase loose-fitting or larger-sized non-maternity clothing as a substitute or partial substitute for maternity wear. We also believe that our business can grow by reducing the amount of hand-me-down and borrowing associated with maternity apparel, particularly in the value-priced segment. Additionally, although we are not wholly unaffected by external factors (such as fluctuations in the birth rate), we believe that the demand for maternity apparel is relatively stable when compared to non-maternity apparel. Expectant mothers continue to need to replace most of their wardrobe and the current rate of approximately four million United States births per year has remained relatively stable over the last decade, although the number of births has declined by approximately 8.4% in the United States from 2007 to 2012, the period of latest available information. Also, although we are affected by fashion trends, we believe that maternity apparel is less fashion sensitive than women s specialty apparel in general, as demand is driven primarily by the need to replace wardrobe basics as opposed to a desire to add to one s wardrobe in order to meet current fashion trends.

Our Competitive Strengths

We are the leader in maternity apparel. We are the leading designer and retailer of maternity apparel in the United States and are the only nationwide chain of maternity apparel specialty stores. We believe that our brands are the most recognized in maternity apparel. We have established a broad distribution network, with stores in a wide range of geographic areas and retailing venues. In addition, we have a leading position across all major price points of maternity apparel through our retail store nameplates and our merchandise brands. Our exclusive focus on maternity apparel and our leadership position enable us to gain a comprehensive understanding of the needs of our maternity customers and keep abreast of fashion and product developments. We further enhance our leadership position, increase market penetration and build our brands by distributing our products under leased department, licensed brand and international franchise relationships. We are also using the strength of our products, brands and store nameplates in the United States to expand internationally.

We offer a comprehensive assortment of maternity apparel and accessories. A primary consideration for expectant mothers shopping for maternity clothes is product assortment, as pregnant women typically need to replace almost their entire wardrobe. We believe that we offer the widest selection of merchandise in the maternity apparel business. We also offer product for multiple seasons, as pregnant women s clothing needs vary depending on their due date. Our ability to offer a broad assortment of product is due, in large part, to our vertically-integrated business model, which includes our extensive in-house design and contract manufacturing capabilities, as well as our rapid inventory replenishment system.

We are vertically integrated. We design and contract manufacture over 90% of the merchandise we sell. We believe that vertical integration enables us to offer the broadest assortment of maternity apparel, to respond quickly to fashion trends and to optimize in-stock levels. We combine our in-house design expertise, domestic and international sourcing capabilities, a rapid inventory replenishment process and extensive proprietary systems to enhance operational and financial results.

We utilize a rapid inventory replenishment system. We are able to offer a wide selection of merchandise in our retail locations due, in large part, to our rapid inventory replenishment system. Our proprietary inventory replenishment system enables us to offer our customers a much broader selection than any of our competitors, without dedicating retail space to back-stock storage. We coordinate the rapid replenishment of inventory for all of our retail locations through our Mid-Atlantic distribution facilities to meet the individualized needs of our retail locations. Our stores receive shipments from our distribution facilities between one and seven times per week. This enables us to maintain a high percentage in-stock merchandise position in each of our stores.

We have proprietary systems that support our business. In order to support our vertically-integrated business model and inventory replenishment system, we have developed a fully integrated, proprietary enterprise resource planning (ERP) system. This system includes our point-of-sale systems, our merchandise analysis and planning systems, our materials requirement planning system, and our web-based, global sourcing and logistics systems. These systems also support our automated picking and sorting systems and other aspects of our logistics infrastructure. We believe that our proprietary systems enable us to offer a broad product assortment, rapidly replenish inventory in our retail locations, and respond quickly to fashion trends.

We are able to obtain prime real estate locations. We believe our ability to lease attractive real estate locations is enhanced due to the brand awareness of our concepts, our multiple price point approach, our highly sought after maternity customer and our real estate management and procurement capabilities. We are the only maternity apparel retailer to provide mall operators with differently priced retail concepts, depending on the mall s target demographics. We are also able to provide a Destination Maternity multi-brand store for malls whose maternity customers seek a wide range of price alternatives. In addition, in the case of multi-mall operators, we have the flexibility to provide several stores across multiple malls. As a result, we have been able to locate stores in many of what we believe are the most desirable shopping malls in the country and are able to obtain attractive locations within these malls.

We are able to enhance our leadership position by distributing our products under exclusive leased department and licensed brand relationships. As of September 30, 2013 we operate 1,311 leased departments within leading retailers such as Macy s, Sears, Gordmans, buybuy BABY, Boscov s and Century 21. We are the exclusive maternity apparel provider in each of our leased department locations. We are also the exclusive provider of maternity apparel to Kohl s pursuant to an exclusive licensed brand relationship. We believe that we have an opportunity to continue to increase the sales we generate from these ongoing relationships through expanding our relationships with our current retail partners as well as potentially developing relationships with new retail partners. In fiscal 2013, in connection with our broad-based partnership with Bed Bath & Beyond Inc. and its subsidiary, Buy Buy Baby, Inc., we began opening 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. Over time, we expect to continue to increase the number of buybuy BABY stores in which we have a maternity apparel leased department.

We have a highly experienced management team. We have a management team with significant experience in all aspects of the retail and apparel business, including our Chief Executive Officer (CEO), Ed Krell, who has served as a senior executive of the Company for nearly 12 years and has over 25 years of business experience encompassing apparel, retail, finance and overall management, and our President, Chris Daniel, who has over 20 years of women s apparel merchandising experience.

Merchandise Brands

We believe that our brands are the most recognized brands in the maternity apparel business. We sell our merchandise under the following four distinct brands:

Brand	Brand Positioning	Typical Apparel Price Range
Motherhood Maternity	Broad assortment of the latest fashions, offering great quality merchandise at everyday low prices	$10 - $45
A Pea in the Pod	Contemporary, fashion forward and luxury, offering sophisticated career, as well as fun casual merchandise, including exclusive designer labels	$18 - $395
Two Hearts Maternity by Destination Maternity	Select assortment of the latest fashions, offering great quality merchandise at value price points	$8 - $36
Oh Baby by Motherhood	Select assortment of the latest fashions, offering great quality merchandise at value price points	$8 - $36 (1)

(1) Kohl s, which sells our Oh Baby by Motherhood brand under an exclusive product and license agreement, sets the prices for this merchandise.

Motherhood Maternity. Our Motherhood Maternity brand serves the value-priced portion of the maternity apparel business, which has the greatest number of customers. The Motherhood brand is positioned with a broad assortment of quality fashion at everyday low prices. We believe that the Motherhood customer shops at moderate-priced department stores, specialty stores and discount stores when she is not expecting.

A Pea in the Pod. Our A Pea in the Pod brand serves both the medium-priced (or better) portion and, through our A Pea in the Pod Collection line, the luxury portion of the maternity apparel business. The Pea brand is generally positioned as contemporary, fashion-forward and luxury, with prices ranging from affordable mid-priced to true luxury prices, offering the mom-to-be exceptional contemporary maternity pieces that reflect her uncompromising sense of style in both casual and career apparel. The Pea Collection is the distinctive premier maternity luxury line within the Pea brand, featuring a selection of extraordinary styles along with exclusive designer labels. In our stores which carry A Pea in the Pod brand merchandise, we also offer exclusive maternity versions of select styles from well-known designer and contemporary brands, where we have assisted in developing these maternity versions. We believe that the typical Pea customer shops at department stores and specialty apparel chains when she is not expecting, with the Pea Collection customer typically shopping at higher-end department stores and luxury designer boutiques when she is not expecting. We believe the Pea brand is the leading luxury maternity brand in the United States. Publicity, including celebrities wearing our clothes, is an important part of the marketing and positioning of the Pea brand.

Two Hearts Maternity by Destination Maternity. Our Two Hearts Maternity by Destination Maternity collection is available at over 500 Sears locations throughout the United States through an exclusive leased department relationship. This collection delivers the latest in career and casual sportswear as well as dresses, swimwear, lingerie and nursing-friendly sleepwear, all specially designed to compliment the pregnant silhouette, with most items selling for under $25.

Oh Baby by Motherhood. Our Oh Baby by Motherhood collection is available at Kohl s stores throughout the United States and on Kohls.com. The Oh Baby by Motherhood collection is available under an exclusive product and license agreement with Kohl s. The collection features a modern assortment of quality fashions, with most items having initial prices (before price promotions) under $40. As of September 30, 2013, Kohl s operates approximately 1,158 stores throughout the United States and offers our maternity apparel in a significant number of its stores.

Retail Nameplates

We sell maternity apparel through our stores, and our leased department and licensed brand relationships, identified in the table below.

Store Nameplate	Description of Target Location	Brand(s) Carried	Typical Apparel Price Range	Average Size (Sq. Ft.)
Stores:				
Motherhood Maternity	Mid-priced and moderate regional malls, strip and power centers, and central business districts	Motherhood	\$10 - \$45	1,800
A Pea in the Pod	Mid-priced and high-end regional malls, lifestyle centers, central business districts and some stand-alone stores in affluent street locations	Pea (including, in some cases, Pea Collection)	\$18 - \$395	2,100
Destination Maternity	Combo stores located in mid-priced regional malls and lifestyle centers	Motherhood; Pea (including, in some cases, Pea Collection)	\$10 - \$395	Combo stores 3,000
	Superstores located primarily in outdoor and power centers and central business districts			Superstores 6,200
Leased Departments:				
Macy s	Mid-priced regional malls	Motherhood; Pea (including, in some cases, Pea Collection)	\$10 - \$395	
Sears	Mid-priced and moderate regional malls	Two Hearts Maternity by Destination Maternity	\$8 - \$36	
Gordmans	Big box power centers	Motherhood	\$10 - \$45	
buybuy BABY	Big box power centers	Motherhood; Pea	\$10 - \$198	
Boscov s	Mid-priced and moderate regional malls	Motherhood	\$10 - \$45	
Century 21	World Trade Center, New York City	Motherhood; Pea	\$15 - \$350	
Exclusive Licensed Brand Relationship:				

Kohl s	Big box power centers	Oh Baby by Motherhood	$8 - $36 (1)

(1) Kohl s, which sells our Oh Baby by Motherhood brand under an exclusive product and license agreement, sets the apparel price range for this merchandise.

The following table sets forth our store count by nameplate as of September 30, 2013.

	Number of Stores
Motherhood Maternity	476
A Pea in the Pod	31
Destination Maternity:	
Combo stores	56
Superstores	33
Total Destination Maternity stores	89
Total stores (1)	596

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

Major regional malls with several department stores and a wide range of price points may be able to accommodate a Destination Maternity store, or more than one maternity store. Our retail nameplates provide us with the ability to address multiple price alternatives at a given mall. Assuming we can obtain suitable locations under acceptable financial terms, our preference is to operate one larger-sized multi-brand store under the Destination Maternity nameplate in or near major regional malls, rather than two smaller single-brand stores. Over the last five fiscal years, we have reduced the number of major regional malls in which we had at least two of our store concepts, from 21 to five.

Motherhood Maternity Stores. Motherhood Maternity is our largest chain with 476 stores as of September 30, 2013. Motherhood is positioned with a broad assortment of quality fashion at everyday low prices. Motherhood stores average approximately 1,800 square feet and are located primarily in mid-priced and moderate regional malls, strip and power centers, and central business districts. Motherhood stores include 86 outlet locations that carry Motherhood-branded merchandise as well as some closeout merchandise. In fiscal 2013, we opened six new Motherhood stores and outlets and closed 37 Motherhood stores and outlets, with 11 of these store closings related to Destination Maternity nameplate store openings. As of September 30, 2013, we operated 31 Motherhood stores in Canada and believe that market opportunities may permit us to open additional stores in Canada in the future.

A Pea in the Pod Stores. As of September 30, 2013, we had 31 A Pea in the Pod stores, averaging approximately 2,100 square feet. Certain of the A Pea in the Pod stores are located in mid-priced regional malls, lifestyle centers and central business districts while others are located in upscale venues, including Beverly Hills, Water Tower Place (Chicago), South Coast Plaza (Orange County, California) and Newbury Street (Boston). In fiscal 2013, we closed five Pea stores, with two of these store closings related to Destination Maternity nameplate store openings.

Destination Maternity Stores. As of September 30, 2013, we had 89 Destination Maternity nameplate stores averaging approximately 4,200 square feet, including 56 Destination Maternity combo stores and 33 Destination Maternity superstores.

Destination Maternity Combo Stores. As of September 30, 2013, we had 56 Destination Maternity combo stores. Our combo stores are larger (average of approximately 3,000 square feet) than our single-brand stores, generally have higher average sales volume than our average store and provide the opportunity to improve store operating profit margins over time. A new combo store often involves closing two stores (often one Motherhood store and one Pea store), although we sometimes close only one store in a given geographical market in situations where we believe we can expand sales through replacing a single-brand store with a Destination Maternity combo store. Store closings will sometimes involve one-time store closing costs resulting primarily from early lease terminations. In fiscal 2013, we opened seven Destination Maternity combo stores, including one in Canada, and closed one Destination Maternity combo store.

Destination Maternity Superstores. As of September 30, 2013, we had 33 Destination Maternity superstores. Destination Maternity superstores currently carry both of our primary merchandise brands (Motherhood and Pea), plus a greatly expanded line of maternity-related accessories, nursing products, health and fitness products, books, and body and nutritional products. Our Destination Maternity superstores also typically feature a dedicated learning center area for maternity-related classes, a relax area for husbands and shoppers alike, and an inside play area for the pregnant mom s toddlers and young children, with six of our superstores also having our edamame® Maternity Spa®. These elements combine to give our Destination Maternity superstore not only the largest assortment of maternity apparel and accessories available, but also a unique and engaging atmosphere and experience for the maternity customer. A new Destination Maternity superstore typically involves closing at least two, and sometimes more, single-brand stores, is expected to decrease store operating expense percentages through economies of scale, and may increase overall sales in the geographical areas it serves. Destination Maternity superstores range from nearly 3,700 square feet to approximately 11,400 square feet, with an average of approximately 6,200 square feet for the 33 stores open as of September 30, 2013. Our flagship Destination Maternity superstore is located on the corner of 57th Street and Madison Avenue in New York City s Manhattan borough. This is the largest maternity apparel store in the world, spanning three floors and including our edamame Maternity Spa, all of our primary apparel brands, prenatal education and yoga classes, a juice bar with Internet access, relax area and children s play area. As the only national apparel retailer that is solely focused on maternity, we are further differentiating ourselves as the ultimate maternity apparel destination with these large, well-assorted, must visit superstores. In fiscal 2013, we opened two Destination Maternity superstores, including our first Destination Maternity superstore in Canada, and closed one Destination Maternity superstore, which was related to a Destination Maternity combo store opening.

Leased Departments. In addition to the stores we operate, we have arrangements with department stores and baby specialty stores, including Macy s, Sears, Gordmans, buybuy BABY, Boscov s and Century 21 to operate maternity apparel departments in their stores. We are the exclusive maternity apparel provider in each of our leased department locations. We staff these leased departments at varying levels and maintain control of the pricing terms and the timing and degree of the markdowns of our merchandise that is sold in the leased departments. We operate our leased departments during the same hours and days as the host store and are responsible for replenishment of the merchandise in the leased departments. These leased departments typically involve the lease partner collecting all of the revenue from the leased department. The revenue is remitted to us, less a fixed percentage of the net sales earned by the lease partner as stipulated in each agreement.

The following table sets forth our leased department count by retail partner as of September 30, 2013.

	Number of Leased Departments
Macy s	614
Sears	502
Gordmans	93
buybuy BABY	59
Boscov s	42
Century 21	1
Total leased departments (1)	1,311

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

Exclusive Licensed Brand Relationship. Our Oh Baby by Motherhood collection is available at Kohl s stores under an exclusive product and license agreement. The collection was launched in February 2005 at Kohl s stores throughout the United States and on Kohls.com. As of September 30, 2013, Kohl s operates approximately 1,158 stores throughout the United States and offers our maternity apparel in a significant number of its stores.

International. Currently, we operate 31 Motherhood stores and two Destination Maternity superstores in Canada, and a Motherhood website under a Canadian URL (MotherhoodCanada.ca).

In October 2008, we announced our planned expansion into six key markets in the Middle East through a franchise agreement with Multi Trend, a member of the Al-Homaizi Group, to introduce our brands into the Middle East. The initial franchise stores through our arrangement in the Middle East opened during 2009. As of September 30, 2013, our Motherhood and Pea merchandise is offered in 15 franchise stores operating in the Middle East.

In June 2011, we announced our expansion into South Korea through a franchise agreement with Agabang & Company, to introduce our brands into South Korea. Our Motherhood and Pea product is available for sale in maternity shop-in-shops operated by Agabang in its Agabang Gallery and Nextmom stores (which carry infant and children s apparel and non-apparel merchandise, as well as maternity apparel) and other retail stores, and in franchise stores in South Korea. As of September 30, 2013, our Motherhood and Pea merchandise is offered in 13 shop-in-shops and four franchise stores in South Korea.

In November 2013, we announced our expansion into Mexico through a franchise agreement with El Puerto de Liverpool, S.A.B. de C.V., the largest department store company in Mexico. We will initially make our Motherhood Maternity and A Pea in the Pod product available for sale in maternity shop-in-shops located in Liverpool s department stores (which carry a wide range of products, including infant and children s apparel and non-apparel merchandise, as well as maternity apparel) throughout Mexico, with plans to open freestanding franchise stores in Mexico later in 2014 and beyond.

In November 2013, we announced that we were unable to reach mutual agreement on acceptable renewal terms with Mahindra Retail, 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 this franchise relationship will have a significant impact on our financial results. As of September 30, 2013, our Motherhood and Pea merchandise is offered in 110 of Mahindra s Mom & Me stores and one franchise store in India.

We continue to evaluate other international sales opportunities. As our Middle East, South Korea and Mexico franchise relationships demonstrate, our initial international strategy has consisted of franchising, licensing or similar arrangements with foreign partners. Our future international strategy may include franchising or licensing arrangements with foreign partners, as well as potentially entering into wholesale business arrangements, entering into joint ventures or developing our own operations in certain countries.

Internet Operations

We sell our merchandise on the Internet primarily at our DestinationMaternity.com website and our brand-specific websites such as Motherhood.com and APeaInThePod.com. We also sell our merchandise through our Canadian website, MotherhoodCanada.ca. We believe that many pregnant women use the Internet to find maternity-related information and to purchase maternity clothes. Our websites are therefore important tools for educating existing and potential customers about our brands and driving traffic to our stores. Our DestinationMaternity.com website contains maternity advice and information, related baby product information and editorial content. Our marketing and technology capabilities and the replenishment capabilities of our distribution facilities and stores enable us to incorporate Internet design, operations and fulfillment into our existing operations. We believe that our Internet operations represent a continued growth opportunity for the Company both by increasing Internet sales and by using the Internet to drive store sales. Our Internet sales increased 13% in fiscal 2013 and 144% over the last four fiscal years, and we look to continue to increase sales driven by our Internet operations in the future.

Marketing Partnerships

We believe our customers, particularly first-time mothers, are entering a new life stage that drives widespread changes in purchasing needs and behavior, thus making our maternity customer and her family a highly-valued demographic for a range of consumer products and services companies. We have been able to leverage the relationship we have with our customers to earn incremental revenues. We expect to continue to expand and leverage the relationship we have with our customers and earn incremental revenues through a variety of marketing partnership programs utilizing our extensive opt-in customer database and various in-store marketing initiatives, which help introduce our customers to various baby and parent-related products and services offered by leading third-party consumer products companies.

Operations

Brand-Specific Operations Teams. To obtain maximum efficiencies, we are organized primarily along functional lines, such as store operations, merchandising, design and production. Our business consists of four merchandise brands, which each require decisions on a brand-specific basis. As such, we have built business teams by brand where the functional leaders within each brand work together. Each brand team is led by the head merchant and includes a brand-specific head designer, head planner and distributor, key production manager, and, where applicable, a director of stores. These teams also include visual, fabric purchasing and other necessary professionals.

Store Operations. The typical maternity customer, especially the first-time mother, seeks more advice and assistance than the typical non-maternity customer. Therefore, we aim to employ skilled and motivated store team members who are trained to provide the high level of service and reassurance needed by our customers. We attempt to provide a boutique level of attentive service that differentiates us from our competitors. Our centralized merchandising and store operations also enable our store team members to focus primarily on selling and maintaining the appearance of the stores. In addition, visual merchants coordinate with the merchandising department to develop floor-sets, design store display windows and define and enhance the product presentation.

The field/store management reporting structure for each chain consists of a director, regional managers, district managers and store managers. These members of field/store management are each eligible to receive incentive-based compensation related to store, district, regional and chain-level performance.

Merchandising, Design and Inventory Planning and Allocation

Merchandising. We strive to maintain an appropriate balance between new merchandise and proven styles, as well as between basic and fashion items. Our merchandising decisions are based on current fashion trends, as well as input from our designers and outside vendors. This information is used in conjunction with the item-specific sales data provided by our proprietary merchandising and replenishment system. Each brand has its own team of merchants, designers and planners. These teams are led by the head merchant of the brand who each report to our President.

Design. Our design department creates and produces samples and patterns for our contract-manufactured products under the guidance of the merchandising department. The design of our products begins with a review of global runway trends, current non-maternity retail fashion trends, fashion reporting service information and fabric samples.

The designers review our best selling items from prior seasons and integrate current fashion ideas from the non-maternity apparel business.

Inventory Planning and Allocation. Our inventory planning and allocation department is responsible for planning future inventory purchases and markdowns, as well as targeting overall inventory levels and turnover. We establish target inventories for each store using our inventory planning system with the goals of optimizing our merchandise assortment and turnover, maintaining adequate depth of merchandise by style and managing closeout and end-of-season merchandise consolidation. Our proprietary capabilities enable us to continually monitor and quickly respond to consumer demand and are integral to our inventory management program. These capabilities are facilitated by our customized merchandise analysis and planning system, which provides daily product sell-through data and merchandising information.

Production and Distribution

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, and we continue to seek additional contractors for our sourcing needs. No individual contractor represents a material portion of our sewing. A majority of our merchandise is purchased full package as finished product made to our specifications, typically utilizing our designs. Fabric, trim and other supplies are obtained from a variety of sources. Substantially all of the merchandise produced outside of the United States is paid for in United States dollars.

Our production personnel monitor production at contractor facilities in the United States and work with our buying representatives abroad to ensure quality control, compliance with our design specifications and timely delivery of finished goods. This quality control effort is enhanced by our worldwide Internet-based contracting and logistics systems, which include advanced features such as measurement specifications and digital photography. We also use a third-party consulting firm to help monitor working conditions at our contractors facilities on a worldwide basis.

Currently, we operate our two distribution facilities in Philadelphia, Pennsylvania. We own our primary distribution center in Philadelphia, Pennsylvania and lease a facility located in the Philadelphia Naval Business Center in Philadelphia, Pennsylvania, which we use for warehousing, distribution and raw material cutting. 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 North 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 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 received at our primary distribution center in Philadelphia, Pennsylvania. Garments are inspected using statistical sampling methods and stored for picking. Our primary distribution center utilizes sophisticated fulfillment technology to serve as a replenishment center, as opposed to solely a distribution center. This distribution center sends selections from our overall inventory that meet the specific needs of each individual retail location, with shipments sent to each retail location between one and seven times per week. Retail location replenishment decisions are made automatically based upon target inventories established by the planning and allocation department and individual retail location sales data. Our primary distribution center uses several automated systems, including our pick-to-light system for flat-packed goods and our hanging garment sortation system, which speed up deliveries to our retail locations and reduce costs. Freight is routed through zone-skipping, over-the-road carriers and delivered locally by a variety of carriers, and is supplemented by a small percentage of second-day air, providing one to three day delivery to our retail locations.

Since 2003 we have been certified to participate in Customs-Trade Partnership Against Terrorism (C-TPAT), a United States Department of Homeland Security sponsored program, with United States Customs and Border Protection (U.S. Customs), through which we implement and monitor our procedures to manage the security of our supply chain as part of the effort to protect the United States and our imported products against potential acts of terrorism. Since 2005 we have been certified to participate in the Importer Self-Assessment Program (ISA), a U.S. Customs program available only to C-TPAT participants with strong internal controls. Through our participation in the ISA program, we assume responsibility for monitoring our own compliance activities with applicable U.S. Customs regulations in exchange for certain benefits, which may help increase efficiency in importing. These benefits include exemption from certain government audits, increased speed of cargo release from U.S. Customs, front of the line access to U.S.

Customs cargo exams, enhanced prior disclosure rights from U.S. Customs in the event of alleged trade violations, availability of voluntary additional compliance guidance from U.S. Customs, and less intrusive government oversight of trade compliance. In 2010, we were granted Tier 3 Status within the C-TPAT program, the highest level of recognition currently available.

In 2007 we were accepted to participate in the U.S. Customs and Border Protection s Drawback Compliance Program. The benefits of this program include (1) waiver of prior notice where we do not have to notify U.S. Customs at the time of export of product to Canada and (2) accelerated payment privileges, with respect to goods we export from the United States, which we previously imported into the United States, to receive drawback refunds of United States import duties previously paid within 30 days of filing the claim for refund.

Management Information and Control Systems

We believe that our proprietary systems are instrumental to our ability to offer the broadest assortment of maternity apparel merchandise and accomplish rapid replenishment of inventory. We continuously develop, maintain and upgrade our systems and we employ an in-house team of programmers. Our stores have point-of-sale terminals that provide information used in our customized merchandise analysis and planning system. This system provides daily financial and merchandising information that is integral to monitoring trends and making merchandising decisions. Our systems have numerous features designed to integrate our retail operations with our design, manufacturing and financial functions. These features include custom merchandise profiles for each store, rapid inventory replenishment, item-tracking providing daily updated selling information for every style, classification open-to-buy and inventory control, as well as the daily collection of customer payment data, including cash, check, credit card, debit card and gift card sales data.

As part of our proprietary ERP system, we employ a comprehensive materials requirement planning (MRP) system to manage our production inventories, documentation, work orders and scheduling. This system provides a perpetual inventory of raw materials, actual job costing, scheduling and bill of materials capabilities. The foundation of our proprietary ERP system is a perpetual inventory of finished goods by stock keeping unit (SKU) and location across all of our retail locations, which interfaces directly with our distribution facility.

Our proprietary, Internet-based point-of-sale system provides real-time access to financial and merchandising information in addition to rapid credit authorization. This point-of-sale system significantly reduces the amount of training required for new sales associates and store managers. In addition, we regularly add new features and functionality to the system, and the system improves our customer relationship management capabilities by enhancing our ability to create customized promotional and marketing strategies.

Given the importance of our management information systems, we have taken extensive measures to ensure their responsiveness and security. Our hardware and communications systems are based on a redundant and multiprocessing architecture, which allows their continued operation on a parallel system in the event that there is a disruption within the primary system. Our main computer system, located at our headquarters in Philadelphia, Pennsylvania, is duplicated by a fully mirrored system in a separate part of the building with a separate power source that is designed to assume full operations should disruption in the primary system occur. In addition, our software programs and data are backed up and securely stored off-site. Our communications links come from two telephone frame rooms and are delivered through underground and aboveground feeds.

Advertising and Marketing

We believe that we drive traffic into our stores through the power of our brands, referrals to friends and family from current and prior customers, our various websites and, perhaps most importantly, our convenient, high-traffic locations in various types of shopping malls and, to a much lesser extent, street locations. The key objectives of our marketing strategy are helping every new mom-to-be discover our brands and recognize us as the authority in maternity fashion; motivating her to purchase; reaffirming her decision to shop with us was the right one; and creating a memorable experience that she will share. We believe the marketing channels that are most relevant and engaging to a new mom-to-be include strategically placed national print advertising in pregnancy-targeted publications such as Fit Pregnancy, New Parent and American Baby; digital advertising; e-mail marketing; impactful in-store signage and visual presentations; publicity, celebrity outreach, and social media. For our Destination Maternity superstores, we advertise locally prior to each grand opening and continue to advertise both nationally and, at times, locally after the store opens. In addition, we utilize our publicity efforts to generate free editorial coverage locally and nationally in a variety of media formats for all of our brands.

Competition

Our business is highly competitive and characterized by low barriers to entry. The following are several factors important to competing successfully in the retail apparel industry: ability to anticipate fashion trends and customer preferences; product procurement and pricing; breadth of selection in sizes, colors and styles of merchandise; inventory control; quality of merchandise; store design and location; visual presentation and advertising; customer service and reputation. We face competition in our maternity apparel lines from various sources, including department stores, specialty retail chains, discount stores, independent retail stores and catalog and Internet-based retailers, from both new and existing competitors. Many of our competitors are larger and have substantially greater financial and other resources than us. Our mid- and luxury-priced merchandise faces a highly fragmented competitive landscape that includes locally based, single unit retailers, as well as a handful of multi-unit maternity operations, none of which we believe has more than 10 stores nationwide. In the value-priced maternity apparel business, we currently face competition on a nationwide basis from retailers such as Gap®, H&M®, Old Navy®, Target® and Wal-Mart®. In addition, with our exit from Babies R Us® in late October 2012 (in connection with our new broad-based partnership with Bed Bath & Beyond Inc. and its subsidiary, Buy Buy Baby, Inc.), in November 2012, Toys R Us, Inc. announced that it had entered into a partnership with Thyme Maternity, a Canada-based company, for a collection of maternity apparel and accessories to be featured in approximately 150 Babies R Us stores in the United States. Substantially all of these competitors also sell maternity apparel on their websites.

Employees

As of September 30, 2013, we had approximately 1,600 full-time and 2,700 part-time employees. None of our employees are covered by a collective bargaining agreement. We consider our employee relations to be good.

Executive Officers of the Company

The following table sets forth the name, age and position of each of our executive officers:

Name	Age	Position
Edward M. Krell	51	Chief Executive Officer
Christopher F. Daniel	56	President
Judd P. Tirnauer	45	Executive Vice President & Chief Financial Officer
Ronald J. Masciantonio	36	Executive Vice President & Chief Administrative Officer

Edward M. Krell has served as our Chief Executive Officer and a director since October 2008. From August 2010 to May 2011, Mr. Krell also served as the Company s President. From July 2008 until October 2008, Mr. Krell served as our Chief Operating Officer and from May 2007 to July 2008, Mr. Krell served as our Chief Operating Officer & Chief Financial Officer. From November 2003 to May 2007, Mr. Krell served as our Executive Vice President Chief Financial Officer, having served as Senior Vice President Chief Financial Officer from the time he joined us in January 2002 until November 2003. Prior to joining us, Mr. Krell served in various senior financial management positions, including having served as Chief Financial Officer of London Fog Industries, Inc., a wholesale and retail distributor of rainwear and outerwear. Mr. Krell began his career as an investment banker with Kidder, Peabody & Co. Incorporated and earned a Master of Business Administration degree from Stanford University and a Bachelor of Arts degree from Harvard University. In 2010, Mr. Krell was named Citizen of the Year by the March of Dimes, Southeast Pennsylvania Division. In 2012, Mr. Krell was honored by Dignity U Wear as one of Dignity s Champions, for his leadership role in facilitating our partnership with this charitable organization benefitting disadvantaged women. In 2013, Mr. Krell was named SmartCEO of the Year by Philadelphia SmartCEO magazine.

Christopher F. Daniel has served as our President since June 2011. Prior to joining us, Mr. Daniel served as President of Torrid, a division of Hot Topic, Inc., from November 2006. Mr. Daniel has also served in executive and management positions in merchandising and product development at Mervyn s and Dayton-Hudson (divisions of Target Corporation), Structure (a division of Limited Brands, Inc.), and Charming Shoppes, Inc. Mr. Daniel earned a Bachelor of Arts degree in English Literature from the University of Richmond.

Judd P. Tirnauer has served as our Executive Vice President & Chief Financial Officer since November 2011. From July 2008 to November 2011, Mr. Tirnauer served as our Senior Vice President & Chief Financial Officer, having previously served as our Vice President Finance from June 2005 to July 2008, Vice President Financial Planning & Analysis from October 2003 to June 2005, and Director of Financial Planning & Analysis from the time he joined us in November 2001 until October 2003. Mr. Tirnauer has earned both a Master of Business Administration degree and a Juris Doctorate legal degree, and has earned a Certified Public Accountant designation.

Ronald J. Masciantonio has served as our Executive Vice President & Chief Administrative Officer since November 2012. From November 2012 to August 2013, Mr. Masciantonio also served as our General Counsel. From November 2011 until November 2012, Mr. Masciantonio served as our Executive Vice President & General Counsel, having previously served as our Senior Vice President & General Counsel from April 2010 to November 2011, and, prior to that, as our Vice President & General Counsel from August 2006. In August 2006, Mr. Masciantonio rejoined us, after having previously served as our Assistant General Counsel from February 2004 to May 2005. From May 2005 to August 2006, Mr. Masciantonio was Assistant General Counsel, North America for Taylor Nelson Sofres, N.A., a market research company with global headquarters in London, England. Prior to joining us originally in February

2004, Mr. Masciantonio was an Associate at the law firm of Pepper Hamilton LLP in Philadelphia, Pennsylvania from September 2001 to February 2004. Mr. Masciantonio earned his Juris Doctorate legal degree from Temple University School of Law in Philadelphia, Pennsylvania.

Our executive officers are appointed annually by our Board of Directors and serve at the discretion of the Board. There are no family relationships among any of our executive officers.

Intellectual Property

We own trademark and service mark rights that we believe are sufficient to conduct our business as currently operated. We own several trademarks, including Destination Maternity Corporation®, A Pea in the Pod®, A Pea in the Pod Collection®, Motherhood®, Motherhood Maternity®, Destination Maternity®, edamame® Maternity Spa®, Two Hearts® Maternity, Oh Baby by Motherhood® and Motherhood Maternity Outlet®. Additionally, we own the marks Secret Fit Belly®, Mimi Maternity® and Maternity Redefined®.

In addition, from time to time, we may pursue patent protection for certain maternity apparel related technologies that we develop. For example, in October 2010 and March 2011 we were granted patents for our Secret Fit Belly. The Secret Fit Belly is made of seamless super stretch fabric that can form part of nearly any type of bottom (such as jeans, pants, shorts and skirts) to provide a better, more comfortable fit and a seamless look. In October 2012 we filed a lawsuit against Target Corporation and others for infringement of our proprietary patented Secret Fit Belly® technology.

Seasonality

Our business, like that of many other retailers, is seasonal. 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. 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 store openings and new leased department openings, net sales and profitability contributed by new stores and leased departments, the timing of the fulfillment of purchase orders under our product and license arrangements, adverse weather conditions, shifts in the timing of certain holidays and promotions, changes in inventory and production levels and the timing of deliveries of inventory, and changes in our merchandise mix.

Securities and Exchange Commission Filings

Our Securities and Exchange Commission (SEC) filings are available free of charge on our website, investor.destinationmaternity.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are posted on our website as soon as practicable after we furnish such materials to the SEC.

Item 1A. Risk Factors

You should consider carefully all of the information set forth or incorporated by reference in this document and, in particular, the following risk factors associated with our business and forward-looking information in this document (see also Forward-Looking Statements included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations). The risks described below are not the only ones we face. Additional risks not presently known to us or that we do not currently consider significant may also have an adverse effect on us. If any of the risks below actually occur, our business, results of operations, cash flows, financial condition or stock price could suffer.

Our performance may be affected by general economic conditions and financial difficulties.

Our performance is subject to worldwide economic conditions and their impact on levels of consumer spending. Some of the factors that have, or have had, an impact on discretionary consumer spending include general economic conditions, employment, consumer debt, changes in personal net worth based on changes in securities market price levels, residential real estate and mortgage markets, taxation, healthcare costs, fuel and energy prices, interest rates, credit availability, consumer confidence and other macroeconomic factors.

The worldwide apparel industry is heavily influenced by general economic cycles. Apparel retailing is a cyclical industry that is heavily dependent upon the overall level of consumer spending. Purchases of specialty apparel and related goods tend to be highly correlated with the cycles of the levels of disposable income of consumers. As a result, any substantial deterioration in general economic conditions could materially and adversely affect our net sales and results of operations. Downturns, or the expectation of a downturn, in general economic conditions could materially and adversely affect consumer spending patterns, our sales and our results of operations.

Consumer purchases of discretionary items generally decline during recessionary periods and other periods where disposable income is adversely affected. Any downturn in the economy may affect consumer purchases of our merchandise and have an adverse impact on our sales, results of operations and cash flow. Because apparel generally is a discretionary purchase, declines in consumer spending may have a more negative effect on apparel retailers than on other retailers. We may not be profitable if there is a decline in consumer spending.

The turmoil in the financial markets in 2008-2009 resulted in extreme volatility in security prices and diminished liquidity and credit availability, and there can be no assurance that our liquidity will not be affected if similar turmoil were to arise in the financial markets and the global economy. Tightening of the credit markets and future turmoil in the financial markets could also make it more difficult for us to access funds, to refinance our indebtedness (if necessary), to enter into agreements for new indebtedness, or to obtain funding through the issuance of our securities.

In addition, the effect from the 2008-2009 credit crisis had a significant negative impact on businesses around the world, and the potential impact of this crisis, or potential future crises, on our suppliers cannot be predicted. The inability of suppliers to access liquidity, or the insolvency of suppliers, could lead to their failure to deliver our merchandise. Worsening economic conditions could also result in difficulties for financial institutions (including bank failures) and other parties that we may do business with, which could potentially impair our ability to access financing under existing arrangements or to otherwise recover amounts as they become due under our other contractual arrangements. Additionally, either as a result of, or independent of, any financial difficulties and economic weakness in the United States, material fluctuations in currency exchange rates could have a negative impact on our business.

Our sales, comparable sales and quarterly results of operations have fluctuated in the past and can be expected to continue to fluctuate in the future and, as a result, the market price of our common stock may fluctuate or decline substantially.

Our sales, comparable sales and quarterly results of operations have fluctuated in the past and can be expected to continue to fluctuate in the future and are affected by a variety of factors, including:

- the opening of new stores, the closing of existing stores, and the success of our leased department, licensed brand and international franchise relationships;
- the timing of new store openings, and leased department, licensed brand and international franchised business openings;
- the timing of the fulfillment of purchase orders under our product and license arrangements;
- any disruption to our operations that may arise in connection with the relocations of our corporate office and distribution operations;
- the extent of cannibalization of sales volume of some of our existing retail locations by our new retail locations opened in the same geographic markets or by our Internet sales;
- changes in our merchandise mix;
- any repositioning of our brands;
- general economic conditions and, in particular, the retail sales environment;
- calendar shifts, including shifts of holiday or seasonal periods, or shifts in the number of weekend days occurring in a given calendar period;
- changes in pregnancy rates and birth rates;

actions of competitors;

the level of success and/or actions of anchor tenants where we have stores, or leased department, licensed brand and international franchise relationships;

fashion trends; and

weather conditions and seasonality.

If, at any time, our sales, comparable sales or quarterly results of operations decline or do not meet the expectations of investors, the price of our common stock could decline substantially.

Our share price may be volatile and could decline substantially.

The market price of our common stock has been, and is expected to continue to be, volatile, both because of actual and perceived changes in our financial results and prospects, and because of general volatility in the stock market. The factors that could cause fluctuations in our share price may include, among other factors discussed in this section, the following:

actual or anticipated variations in the financial results and prospects of our business or other companies in the retail business;

changes in financial estimates by Wall Street research analysts;

actual or anticipated changes in the United States economy or the retailing environment;

changes in the market valuations of other specialty apparel or retail companies;

announcements by our competitors or us;

additions and departures of key personnel;

changes in accounting principles;

the passage of legislation or other developments affecting us or our industry;

the trading volume of our common stock in the public market;

changes in economic conditions;

financial market conditions;

natural disasters, terrorist acts, acts of war or periods of civil unrest; and

the realization of some or all of the risks described in this section entitled Risk Factors.

In addition, the stock markets have experienced significant price and trading volume fluctuations from time to time, and the market prices of the equity securities of retailers have been extremely volatile and are sometimes subject to sharp price and trading volume changes. These broad market fluctuations may materially and adversely affect the market price of our common stock.

We may not be successful in maintaining and expanding our business and opening new retail locations.

Any future growth depends significantly on:

our ability to successfully establish and operate new stores (including Destination Maternity combo stores and superstores) on a profitable basis;

our ability to successfully establish new, and to maintain our current, leased department and licensed brand relationships, and to operate such leased department and licensed brand relationships on a profitable basis; and

the success and profitability of our international business, including our ability to successfully establish new, and to maintain our current, international franchise relationships.

This growth, if it occurs, will place increased demands on our management, operational and administrative resources. These increased demands and operating complexities could cause us to operate our business less effectively, which, in turn, could cause a deterioration in our financial performance and negatively impact our growth. Any planned growth will also require that we continually monitor and upgrade our management information and other systems, as well as our procurement and distribution infrastructure.

Our ability to establish and operate new stores and our leased department and licensed brand relationships successfully depends on many factors, including, among others, our ability to:

identify and obtain suitable store locations, including mall locations, the availability of which is outside of our control;

retain existing, expand existing and establish new leased department and licensed brand relationships;

negotiate favorable lease terms for stores, including desired tenant improvement allowances;

negotiate favorable lease terminations for existing store locations in markets where we intend to open new Destination Maternity combo stores or superstores;

source sufficient levels of inventory to meet the needs of new stores and our leased department and licensed brand relationships;

successfully address competition, merchandising and distribution challenges; and

hire, train and retain a sufficient number of qualified store personnel.

The success and profitability of our international business depends on many factors, including, among others:

our ability to retain our current international franchisees and our ability to identify and reach agreement with new international franchisees or partners;

the ability of our international franchisees or partners to identify and obtain suitable store locations, including mall locations, the availability of which is outside of their control;

the ability of our international franchisees or partners to negotiate favorable lease terms for stores, including desired tenant improvement allowances;

our ability to source sufficient levels of inventory to meet the needs of our franchisees or partners international operations;

our ability and the ability of our international franchisees or partners to successfully address competition, merchandising and distribution challenges; and

the ability of our international franchisees or partners to hire, train and retain a sufficient number of qualified store personnel.

There can be no assurance that we will be able to grow our business and achieve our goals. Even if we succeed in establishing new stores, further developing our leased department and licensed brand relationships, and further expanding our international relationships, we cannot assure that these initiatives will achieve planned revenue or profitability levels in the time periods estimated by us, or at all. If any of these initiatives fails to achieve or is unable to sustain acceptable revenue and profitability levels, we may incur significant costs. For example, in connection with our new 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 October 2012 and opened leased departments in select buybuy BABY stores. Although we are confident that the new relationship with Bed Bath & Beyond Inc. and Buy Buy Baby, Inc. will be a profitable one for our Company and our stockholders, there is no guarantee of success.

Our business, financial condition and results of operations may be materially and adversely impacted at any time by a significant number of competitors.

We operate in a highly competitive environment characterized by few barriers to entry. We compete against department stores, specialty retail chains, discount stores, independent retail stores and catalog and Internet-based retailers. Many of our competitors are larger and have substantially greater financial and other resources than us. Further, we do not typically advertise using television and radio media and thus do not reach customers through means our competitors may use. Our mid- and luxury-priced merchandise faces a highly fragmented competitive landscape that includes locally based, single unit retailers, as well as a handful of multi-unit maternity operations, none of which we believe have more than 10 stores nationwide. In the value-priced maternity apparel business, we face competition on a nationwide basis from retailers such as Gap, H&M, Old Navy, Target and Wal-Mart. In addition, with our exit from Babies R Us in late October 2012 (in connection with our broad-based partnership with Bed Bath & Beyond Inc. and its subsidiary, Buy Buy Baby, Inc.), in November 2012, Toys R Us, Inc. announced that it had entered into a partnership with Thyme Maternity, a Canada based company, for a collection of maternity apparel and accessories to be featured in approximately 150 Babies R Us stores in the United States. Substantially all of these competitors also sell maternity apparel on their websites. Our business, financial condition and results of operations may be materially and adversely affected by this competition, including the potential for increased competition in the future. For example, the maternity apparel business has previously experienced oversupply conditions due to increased competition in the maternity apparel business, which resulted in a greater level of industry-wide markdowns and markdowns recognized by us on sales from our retail locations. There can be no assurance that these conditions will not occur again or worsen.

Our relationships with third-party retailers may not be successful.

We cannot guarantee successful results from or the continuation of our leased department and licensed brand relationships with third-party retailers such as Macy s, Sears, Gordmans, buybuy BABY, Boscov s, Century 21 and Kohl s. Under our agreement with Kohl s, subject to certain notice obligations, Kohl s is not obligated to purchase any maternity apparel from us and we are not obligated to sell any maternity apparel to them. We do not control the pricing terms or the timing or degree of the markdowns at Kohl s. Under our agreements with our retail partners, those partners do not make any promises or representations as to the potential amount of business we can expect from the sale of our product in their stores. For example, we discontinued offering maternity apparel in our 124 remaining Babies R Us locations in October 2012 in connection with our broad-based partnership with Bed Bath & Beyond Inc. and its subsidiary, Buy Buy Baby, Inc. The success of our leased department and licensed brand businesses is highly dependent on the actions and decisions of the third-party retailers, which are outside of our control. The retailers could limit the merchandise carried, close stores, go out of business or terminate their agreements with us. Our failure to properly manage our leased department and licensed brand businesses (including any failure by us in timely delivering goods to any third-party retailer or any failure to respond to the actions of, or changes in, business conditions at third-party retailers) would have a direct impact on the profitability and continuation of these relationships.

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

Our business depends upon sustained demand for maternity clothing. Our future performance will be subject to a number of factors beyond our control, including demographic changes, fashion trends, economic conditions and consumer spending. If demand for maternity clothing were to decline for any reason, such as a decrease in the number of pregnancies, our operating results could be materially and adversely affected. For example, according to the United States Census Bureau and United States Centers for Disease Control and Prevention, births declined 1.1% in calendar 2011 compared to calendar 2010, declined 3.2% in calendar 2010 compared to calendar 2009, and declined a total of 8.4% from calendar 2007 to calendar 2012. If this trend were to continue it could negatively affect our business and results of operations. Additionally, our operating results could be materially and adversely affected if certain non-maternity women s apparel fashions have a more pregnancy-friendly fit. For example, in the past, we were negatively impacted by the popularity of certain styles in the non-maternity women s apparel market, such as trapeze and baby-doll dresses and tops, which can more readily fit a pregnant woman early in her pregnancy than typical non-maternity fashions. Downturns, or the expectation of a downturn, in general economic conditions could materially and adversely affect consumer spending patterns, our business, financial condition and results of operations. In addition, the specialty apparel retail business historically has been subject to cyclical variations. Consumer purchases of specialty apparel products, including maternity wear, may decline during recessionary periods and at other times when disposable income is lower. Declines in consumer spending patterns may have a more negative effect on apparel retailers than some other retailers. Therefore, we may not be able to maintain our historical sales and earnings, or remain as profitable, if there is a decline in consumer spending patterns. A prolonged economic downturn could have a material adverse impact on our business and results of operations.

We may not be successful in maintaining and expanding our marketing partnership programs.

We cannot guarantee successful results from the continuation of, or the expansion of, our marketing partnership programs which utilize our opt-in customer database and various in-store marketing initiatives. The success of our marketing partnership programs is highly dependent on the actions and decisions of the third-party consumer products companies to whom we provide these services. Should these third-party consumer products companies decide to limit the services provided by us, go out of business or terminate their agreements with us, our business, financial condition and results of operations could be materially and adversely affected. Further, there is no guarantee that we will be able to expand this part of our business through agreements with new third parties. In addition, our ability to provide the services is dependent on our successful collection of opt-in customer data as well as applicable law relating to the collection and transfer of the personally identifiable information of our customers. A failure on our part to collect adequate amounts of customer data or any change in state, local or federal law which further restricts our ability to collect this information could cause us to terminate or limit the services we can provide to the third-party consumer products companies and would ultimately adversely affect our revenue from these relationships. Further, although we believe there may be an opportunity to more actively market our full customer database to a much broader range of consumer products and services companies that market to families with children, we cannot guarantee that these efforts will be successful.

We may not successfully minimize the disruption to our operations that may result from our planned relocations of our headquarters and distribution facilities, and/or we may not actually collect the incentive package benefits offered to us in connection with such relocations.

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 North 5th Street headquarters facility to a completely renovated 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 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. Although we will make every effort to minimize the operational disruption caused by these relocations, we cannot provide any assurance that these efforts will be successful. Any material disruption to our overall operations that results from this relocation could have a material adverse impact on our business and results of operations.

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. In order to receive the benefits of the incentive package we need to meet certain levels of annual jobs and other requirements. If we do not meet these job levels or other requirements on an annual basis, we will not receive some or all of the benefits. Our inability to receive these benefits could have a material adverse impact on our business and results of operations.

We require a significant amount of cash to pay quarterly dividends as well as to fund our operations and future growth.

Our ability to pay quarterly dividends, as well as to fund our operations and future growth, depends upon our ability to generate cash. Our success in generating cash depends upon the results of our operations and the amount of cash we use in investing activities, as well as upon general economic, financial, competitive and other factors beyond our control.

An inability to generate sufficient cash could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors;
- limit our ability to borrow money;
- make it more difficult for us to open new stores or improve or expand existing stores;
- restrict our ability to pay dividends or make distributions to our stockholders;
- require us to incur significant additional indebtedness; and
- make it more difficult for us to pursue strategic acquisitions, alliances and partnerships.

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.

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.

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 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.

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;

- 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 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,

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.

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
	High	Low	and Paid
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.

(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

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

	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	1.78	1.46	1.75	1.33	0.80

expense (8)					
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

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.

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					