

Destination Maternity Corp
Form 10-K
April 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 30, 2016

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
(State or other jurisdiction
of incorporation or organization)

232 Strawbridge Drive

Moorestown, New Jersey

13-3045573
(IRS Employer
Identification No.)

08057

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(Address of principal executive offices) (Zip Code)

(856) 291-9700

(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

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

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 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 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.

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 <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed using \$9.87, the price at which the common equity was last sold as of July 31, 2015 (the last trading day of the Registrant's most recently completed second fiscal quarter), was approximately \$134,000,000.

On April 4, 2016 there were 13,982,288 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 May 2016, are incorporated by reference into Part III of this Form 10-K.

PART I

Historically, our fiscal year ended on September 30. On December 4, 2014 we announced that our Board of Directors approved a change in our fiscal year end from September 30 to the Saturday nearest January 31 of each year. The fiscal year end change aligns our reporting cycle with the National Retail Federation fiscal calendar. We had a transition period from October 1, 2014 through January 31, 2015 and filed a Transition Report on Form 10-Q on March 12, 2015 for such transition period. Our fiscal year 2015 covers the period that began February 1, 2015 and ended January 30, 2016. References in this Form 10-K to our fiscal years prior to fiscal 2015 refer to the fiscal years ended on September 30 in those years, unless otherwise indicated. For example, our “fiscal 2014” ended on September 30, 2014.

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 that we operate in the United States, Canada and Puerto Rico.

Item 1. Business Overview

Destination Maternity Corporation (the “Company”, “we”, “us”, “our”) is the leading designer and retailer of maternity apparel in the United States and is the only nationwide chain of maternity apparel specialty stores. As of January 30, 2016 we operate 1,815 retail locations, including 536 stores in the United States, Canada and Puerto Rico, and 1,279 leased departments located within department stores and baby specialty stores throughout the United States, in Puerto Rico and, most recently, in England. We sell merchandise on the Internet, primarily through our Motherhood.com, APeaInThePod.com and DestinationMaternity.com websites. We also sell our merchandise through our Canadian website, MotherhoodCanada.ca, through Amazon.com in the United States, and through websites of certain of our retail partners. We are the exclusive provider of maternity apparel to Kohl’s, which operates more than 1,100 stores throughout the United States and offers our maternity apparel in a significant number of its stores. We operate our 536 stores under three retail nameplates: Motherhood Maternity®, A Pea in the Pod® and Destination Maternity®. In addition to our 536 stores, we operate 1,279 maternity apparel departments, which we refer to as leased departments, within leading retailers such as Macy’s®, buybuy BABY®, Boscov’s®, Harrods and Century 21®. Generally we are the exclusive maternity apparel provider in our leased department locations. As previously announced, in an effort to direct resources to the highest return opportunities and further optimize real estate while reducing costs, we plan to discontinue our Two Hearts® Maternity by Destination Maternity® (“Two Hearts”) line, thus ending our relationship with Sears in June 2016, resulting in the closure of our leased departments within Sears stores. As of January 30, 2016, we operated 475 leased departments within Sears stores. We have also decided to phase out production of our Oh Baby by Motherhood® (“Oh Baby”) line during fiscal 2016 after being informed that Kohl’s has elected to scale back and ultimately discontinue its exclusive license with us for this line in early fiscal 2017.

We have international store franchise and product supply relationships in the Middle East, South Korea, Mexico, Israel and India. As of January 30, 2016 we have 193 international franchised locations, comprised of 25 stand-alone stores in the Middle East, South Korea, Mexico and Israel operated under our retail nameplates, and 168 shop-in-shop locations in South Korea, Mexico and Israel, in which we have a Company-branded department operated by our franchise partners within other retail stores.

We maintain our leading position through our two key brands, which enable us to reach a broad range of maternity customers. Through our 536 stores and certain of our leased departments, we offer maternity apparel under one or

both of our two primary brands, Motherhood Maternity (“Motherhood” or “Motherhood Maternity”) at value prices and A Pea in the Pod (“Pea” or “A Pea in the Pod”) at both contemporary and premium 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 premium prices.

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 fashionable maternity apparel. We design and contract the manufacture of over 90% of the merchandise we sell using factories located throughout the world, predominantly outside of the United States.

In fiscal 2015 we opened 18 stores. In fiscal 2015 we closed 46 stores, primarily consisting of closings of underperforming stores. In recent years we have evaluated our retail store base to identify and, in many cases, close underperforming stores where we can do so without disproportionate exit cost. These store closings 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.

Currently, we operate 32 stores and one leased department in Canada, including 27 Motherhood stores, four Destination Maternity combo stores and one Destination Maternity superstore, and a Motherhood website under a Canadian URL (MotherhoodCanada.ca). In July 2015 we opened an A Pea in the Pod branded leased department in Harrods department store in London, England. In addition, we currently have franchise agreements in place in the Middle East, South Korea, Mexico, Israel and India. As of January 30, 2016 our merchandise is offered in 193 international franchised locations, including 25 stand-alone stores operated under one of our retail nameplates and 168 shop-in-shop locations.

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. Also, since the 1990s we have partnered with other retailers to sell our products through maternity apparel departments within their stores.

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. The current rate of approximately four million United States births per year has remained relatively stable over the last decade and this rate is forecasted to continue through 2018.

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 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 that meet her style. We further enhance our leadership position, increase market penetration and build our brands by distributing our products under leased department and international franchise relationships.

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 at least a portion of their 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.

We are vertically integrated. We design and contract the manufacture of 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 are able to enhance our leadership position by distributing our products under select exclusive leased department relationships. As of January 30, 2016 we operate 1,279 leased departments within leading retailers such as Macy's, buybuy BABY, Boscov's, Harrods and Century 21. Generally we are the exclusive maternity apparel provider in our leased department locations. As previously announced we plan to discontinue our Two Hearts line, thus ending our relationship with Sears in June 2016, resulting in the closure of our leased departments within Sears stores. In addition, our leased department relationship with Gordmans ended in March 2016. As of January 30, 2016, we operate 475 leased departments within Sears stores and 100 leased departments in Gordmans stores. We have also decided to phase out production of our Oh Baby line during fiscal 2016 after being informed that Kohl's has

elected to scale back and ultimately discontinue its exclusive license with us for this line in early fiscal 2017. We believe that we have an opportunity to continue to increase the sales we generate from our ongoing leased department relationships by growing our relationships with our current retail partners, as well as potentially developing leased department or licensed relationships with new retail partners.

We have an 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”), Anthony Romano, who has over 25 years of experience in specialty retail. We have complemented our leadership team by adding experienced specialty retail executives with proven track records in Planning & Allocation, Store Operations, Human Resources, Merchandising, e-Commerce and Strategic Partnerships.

Our Brands

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

| Brand | Brand Positioning | Typical Apparel Price Range |
|-----------------------|---|-----------------------------|
| Motherhood Maternity | Expansive on-trend fashion assortment ranging from wardrobe essentials to special occasion; offering quality merchandise at affordable value prices | \$10 - \$50 |
| A Pea in the Pod | Contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium prices | \$25 - \$300 |
| Oh Baby by Motherhood | Select assortment of the latest fashions, offering quality merchandise at value prices | \$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. We have decided to phase out production of our Oh Baby line during fiscal 2016 after being informed that Kohl’s has elected to scale back and ultimately discontinue its exclusive license with us for this line in early fiscal 2017.

Motherhood Maternity. Our Motherhood Maternity brand serves the moderate priced portion of the maternity apparel business, which has the greatest number of customers. The Motherhood brand is positioned with an expansive on-trend fashion assortment ranging from wardrobe essentials to special occasion, offering quality merchandise at affordable value. 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 is a contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium pricing, offering the mom2be fashionable maternity pieces that reflect her uncompromising sense of style in both casual and career apparel. In our stores that 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 upscale department stores and specialty apparel chains when she is not expecting, with the Pea Collection customer typically shopping at higher-end department stores and designer boutiques when she is not expecting.

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 January 30, 2016 Kohl's operates more than 1,100 stores throughout the United States and offers our maternity apparel in a significant number of its stores. We have decided to phase out production of our Oh Baby line during fiscal 2016 after being informed that Kohl's has elected to scale back and ultimately discontinue its exclusive license with us for this line in early fiscal 2017.

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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 - \$50 | 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) | \$25 - \$300 | 2,100 |
| Destination Maternity | Combo stores located in mid-priced regional malls and lifestyle centers | Motherhood; Pea (including, in some cases, Pea Collection) | \$10 - \$300 | Combo stores 2,900 |
| | Superstores located primarily in outdoor and power centers and central business districts | | | Superstores 5,900 |
| Leased Departments: | | | | |
| Macy's | Mid-priced regional malls | Motherhood; Pea (including, in some cases, Pea Collection) | \$10 - \$300 | — |
| buybuy BABY | Big box power centers | Motherhood; Pea | \$10 - \$115 | — |
| Boscov's | Mid-priced and moderate regional malls | Motherhood | \$10 - \$50 | — |
| Harrods | London, United Kingdom | Pea | \$25 - \$300 | — |
| Century 21 | World Trade Center, New York City | Motherhood; Pea | \$25 - \$250 | — |
| 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. We have decided to phase out production of our Oh Baby line during fiscal 2016 after being informed that Kohl's has elected to scale back and ultimately discontinue its exclusive license with us for this line in early fiscal 2017.

The following table sets forth our store count by nameplate as of January 30, 2016.

| Store Nameplate | Number of Stores |
|------------------------------------|------------------------|
| Motherhood Maternity | 425 |
| A Pea in the Pod | 23 |
| Destination Maternity: | |
| Combo stores | 53 |
| Superstores | 35 |
| Total Destination Maternity stores | 88 |
| Total stores (1) | 536 |

(1) Excludes leased departments, locations where Kohl's sells our products under an exclusive product and license agreement and international franchised 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 varied store formats 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.

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Motherhood Maternity Stores. Motherhood Maternity is our largest chain with 425 stores as of January 30, 2016. Our Motherhood Maternity brand serves the moderate priced portion of the maternity apparel business, which has the greatest number of customers. The Motherhood brand is positioned with an expansive on-trend fashion assortment ranging from wardrobe essentials to special occasion, offering quality merchandise at affordable value. 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 93 outlet locations that carry Motherhood-branded merchandise as well as some closeout merchandise. In fiscal 2015 we opened 16 new Motherhood stores including outlets and closed 41 Motherhood stores including outlets. As of January 30, 2016 we operated 32 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 January 30, 2016 we had 23 A Pea in the Pod stores. Our A Pea in the Pod brand is a contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium pricing, offering the mom2be fashionable maternity pieces. A Pea in the Pod stores average approximately 2,100 square feet and 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 2015 we opened one Pea store and closed two Pea stores.

Destination Maternity Stores. As of January 30, 2016 we had 88 Destination Maternity nameplate stores averaging approximately 4,100 square feet, including 53 Destination Maternity combo stores and 35 Destination Maternity superstores. Our Destination Maternity stores carry both of our primary brands (Motherhood and Pea). Our Destination Maternity combo stores are larger (average of approximately 2,900 square feet) than our single-brand stores. Our Destination Maternity superstores carry both of our primary brands, plus an 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 “relax area” for husbands and shoppers alike, and an inside play area for the pregnant mom’s toddlers and young children. Destination Maternity superstores range from nearly 3,700 square feet to approximately 11,400 square feet, with an average of approximately 5,900 square feet for the 35 stores open as of January 30, 2016. In fiscal 2015 we opened one Destination Maternity store and closed three Destination Maternity stores.

Leased Departments. In addition to the stores we operate, we have arrangements with department stores and baby specialty stores, including Macy’s, buybuy BABY, Boscov’s, Harrods and Century 21 to operate maternity apparel departments in their stores. Generally we are the exclusive maternity apparel provider in our leased department locations. We staff these leased departments at varying levels and maintain control of the pricing and promotional terms, as well as 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 January 30, 2016.

| Retail Partner | Number of Leased Departments | |
|----------------|---------------------------------|-----|
| Macy’s | 555 | |
| Sears | 475 | (1) |
| buybuy BABY | 103 | |

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| | | |
|------------------------------|-------|-----|
| Gordmans | 100 | (2) |
| Boscov's | 44 | |
| Harrods | 1 | (3) |
| Century 21 | 1 | |
| Total leased departments (4) | 1,279 | |

(1) We plan to discontinue our Two Hearts line, thus ending our relationship with Sears in June 2016, resulting in the closure of our leased departments within Sears stores.

(2) During March 2016 our relationship with Gordmans ended.

(3) In July 2015 we opened an A Pea in the Pod branded leased department in Harrods department store in London, England.

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

International. Currently, we operate 32 stores and one leased department in Canada, including 27 Motherhood stores, four Destination Maternity combo stores and one Destination Maternity superstore, and a Motherhood website under a Canadian URL

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(MotherhoodCanada.ca). In July 2015 we opened an A Pea in the Pod branded leased department in Harrods department store in London, England.

We have a franchise agreement with Multi Trend, a member of the Al-Homaizi Group, covering six key markets in the Middle East. As of January 30, 2016 our Motherhood and Pea merchandise is offered in 16 franchise stores operating in the Middle East.

We have a franchise agreement with Agabang & Company, to sell our brands in South Korea. Our Motherhood and Pea merchandise 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 January 30, 2016 our Motherhood and Pea merchandise is offered in 31 shop-in-shops and three franchise stores in South Korea.

We have a franchise agreement with El Puerto de Liverpool, S.A.B. de C.V., the largest department store company in Mexico. Our Motherhood Maternity and A Pea in the Pod product available for sale primarily 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, and in select freestanding franchise stores in Mexico. As of January 30, 2016 our Motherhood and Pea merchandise is offered in 101 shop-in-shops and four franchise stores in Mexico.

In October 2014 we announced our expansion into Israel through a franchise agreement with H&O Fashion Ltd., one of Israel's largest and dominant fashion-retail chains. In June 2015 we commenced our expansion into Israel and Destination Maternity brands are offered through both shop-in-shops in select H&O stores and freestanding Destination Maternity stores. As of January 30, 2016 our Motherhood and Pea merchandise is offered in 36 shop-in-shops and two franchise stores in Israel.

In October 2015 we entered into a franchise agreement with Rhea Retail Private Limited, a leader in the sale of women's, children's, and infants' clothing and accessories in India. The initial franchise stores through our arrangement in India are expected to open during the second half of fiscal 2016.

We continue to evaluate other international sales opportunities. As our Middle East, South Korea, Mexico, Israel and India franchise relationships demonstrate, our initial international strategy has primarily 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 through our brand-specific websites, Motherhood.com and APeaInThePod.com, as well as through our DestinationMaternity.com website. We also sell our merchandise through our Canadian website, MotherhoodCanada.ca, through Amazon.com in the United States, and through websites of certain of our leased department and licensed brand retail partners. We believe that many pregnant women, particularly millennials, 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 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 us both by increasing Internet sales and by using the Internet to drive store sales. In light of the importance of this channel, we have made the important decision to invest in the re-platforming of our sites through integration with a best-in-class enterprise cloud commerce solution. The provider is the category-defining leader of enterprise cloud commerce solutions used by a variety of best-in-class Internet retailers, including a significant number of fashion focused specialty retailers. We

believe this integration will help us keep current with the ever changing digital landscape while focusing our efforts on our core merchandising and operational strengths. Our re-designed sites are scheduled to launch in the fourth quarter of fiscal year 2016.

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.

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Operations

Merchandising Operations Teams. To obtain maximum efficiencies, we are organized primarily along functional lines, such as merchandising, design, planning and allocation, and production. Our merchandising, design, and planning and allocation teams are organized on a brand-specific basis. Each brand team is led by the head merchant and includes a brand-specific head designer and head planner. These teams are also supported by centralized production, purchasing, marketing 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 merchandisers 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 consists of zone store directors, regional managers, district managers and store managers. Generally, these members of field/store management are each eligible to receive incentive-based compensation related to store, district and regional performance.

Merchandising, Design and Inventory Planning and Allocation

Merchandising. Our product styling decisions are based on current fashion trends, as well as input from our designers and outside vendors as we seek to create fashionable product that flatters and comfortably fits the pregnant woman's body, allowing her to maintain her pre-pregnancy sense of style. We strive to maintain an appropriate balance between introducing new and proven styles, as well as between basic essential wardrobe pieces and fashion items. Each brand has its own team of merchandisers, designers and planners. These teams are led by the head merchant of the brand who each report to our Senior Vice President of Merchandising and Design.

Design. Our design department creates and produces samples and patterns for our manufactured products in partnership with our 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.

Planning and Allocation. Our inventory planning and allocation department is responsible for planning future inventory purchases and pricing, as well as targeting overall inventory levels and turnover. We establish target inventories for storefronts within each channel 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 planning and allocation team continually monitors and responds to consumer demand through utilization of available tools. Our capabilities to perform these tasks will be significantly enhanced with the implementation of our new cloud-based allocation tool and related processes that will become functional in fiscal 2016.

Production and Distribution

We design and contract the manufacture of over 90% of the merchandise we sell using factories located throughout the world, predominantly outside of the United States. In fiscal 2015 we focused on reducing our contractor base and the countries in which they operate to improve costs, streamline operations, ensure quality and improve speed to market. We maintain the flexibility to add new contractors, if necessary, to fulfill our sourcing needs. No individual contractor represents a material portion of our production. 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 work with our suppliers abroad to ensure quality control, compliance with our design specifications and timely delivery of finished goods. This quality control effort is enhanced by our Internet-based contracting and logistics systems, which include features such as measurement specifications and digital photography. We use a third-party consulting firm to help monitor working conditions at our contractors' facilities on a worldwide basis.

In September 2013 we announced our plans to relocate our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey. In January 2015 our corporate office operations (which were split between our headquarters at North 5th Street in Philadelphia and our offices in the Philadelphia Navy Yard) moved twelve miles from the previous North 5th Street headquarters facility to a 74,000 square foot Class A office building in Moorestown, New Jersey. In August 2015 our distribution operations (which were located at North 5th Street in Philadelphia) moved approximately 23 miles from the previous North 5th Street distribution center to a new 406,000 square foot build-to-suit distribution center in Florence, New Jersey. In

connection with the planned relocations, in September 2014 we sold the building that housed our principal executive offices and distribution facility in a sale and leaseback arrangement. Under the agreement we continued to occupy the premises and used them for the wind down of our business operations through October 31, 2015.

Finished garments from manufacturers and vendors are received at our distribution center in Florence, New Jersey. Garments are inspected and then channeled into our automated storage and retrieval devices, as well as traditional bulk storage. The Florence distribution facility utilizes a fully-integrated equipment and software system capable of servicing all business channels. This integrated system allows for optimum inventory utilization, rapid replenishment and extremely accurate fulfillment of all orders. Retail location replenishment decisions are made based upon target inventories established by our planning and allocation department and individual retail location sales data and will be enhanced with the implementation of our new cloud-based allocation tool. Freight is routed through small parcel carriers while utilizing zone-skipping methodologies, which improves cost effectiveness and speed to market.

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 2013 we participated in a revalidation of our C-TPAT process in Vietnam with U.S. Customs.

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 to receive drawback refunds of United States import duties previously paid within 30 days of filing the claim for refund, with respect to goods we export from the United States that we previously imported into the United States.

Information Technology Systems

Historically, our information technology systems have been developed in-house or highly customized versions of external software with our custom Enterprise Resource Planning (“ERP”) system serving as the central brain of most of our systems, including our core merchandising system. Our current ERP system manages our production inventories, documentation, purchase orders and scheduling. In addition we have an in-house developed Internet-based point-of-sale system that provides daily access to financial and merchandising information in addition to payment processing. This point-of-sale system feeds information back to the ERP for use in our core merchandising tasks.

Although our current systems, including our in-house developed ERP and point of sale systems, are serviceable and adequate to meet our business needs, we have identified improving our systems over the next few years as a core strategy to enable repeatable and scalable success. An important part of this strategy is the implementation of best-in-class third-party software programs to add key functionality. In furtherance of this strategy, in fiscal 2016 we will launch new best-in-class planning and allocation software, a new web platform and a new e-commerce focused order management system.

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In August 2015 we completed the relocation of our distribution operations to a new 406,000 square foot distribution center in Florence, New Jersey. Our new warehouse management system enhances our business workflow and decision making process while reducing the time to deliver product to our stores.

Given the importance of our information technology 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. We have two data centers supporting our business functions: one in our corporate headquarters location in Moorestown, New Jersey and the second in distribution center in Florence, New Jersey. The data centers communicate via diverse broadband connections using multiple service providers. In addition, our software programs and data are backed up and securely stored off-site.

Advertising and Marketing

Our advertising and marketing program serves to strengthen the power of our brands, to drive traffic to our stores, to increase customer loyalty and word-of-mouth referrals, and to support our e-commerce platforms. The key objectives of our marketing strategy are helping every new mom2be 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 understand that our customers have a limited window of need, so we target our messaging through a robust customer relationship management (CRM) program that utilizes focused email messaging and traditional direct-mail advertising. In addition, we advertise on her favorite websites and provide social media content to ensure that our messaging reaches and engages her. On our own e-commerce sites we have additional marketing opportunities through exclusive sales and on-site features that help our customers discover the right fashion to fit her style based on her pregnancy stage.

In our stores we use inspirational imagery and informative signage to enhance each customer's shopping experience and to encourage her to buy. Our in-store signage provides visuals of seasonal collections and new styles. Our publicity efforts generate editorial coverage locally and nationally in a variety of media formats for our brands. In addition, our public relations efforts and partnerships with bloggers, celebrities and other third parties expand our reach.

Through this omni-channel marketing strategy we are able to connect and engage with the mom2be to convince her that her pregnancy can be both fun and fashionable.

Competition

Our business is highly competitive and characterized by low barriers to entry, especially online. 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 better and premium-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®. Substantially all of these competitors also sell maternity apparel on their websites. We also face increasing competition from Internet-based retailers such as ASOS, Pink Blush, Zulily and Hatch.

Employees

As of January 30, 2016 we had approximately 1,400 full-time and 2,800 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:

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| Name | Age | Position |
|------------------------|-----|---|
| Anthony M. Romano | 53 | Chief Executive Officer & President |
| Judd P. Tirnauer | 47 | Executive Vice President & Chief Financial Officer |
| Ronald J. Masciantonio | 39 | Executive Vice President & Chief Administrative Officer |

Anthony M. Romano has served as our Chief Executive Officer since August 2014 and assumed the additional title of President in December 2015. Prior to joining us, Mr. Romano held executive leadership positions at major publicly-held retailers, including as CEO and President of Charming Shoppes, both before and after its acquisition by Ascena Retail Group, Inc., and ANN INC. Mr. Romano began his career as a certified public accountant with the predecessor firm to Ernst & Young. Mr. Romano is a member of the Board of Directors and Chairman of the Finance Committee of Benco Dental Supply Company. Mr. Romano is a summa cum laude graduate of Syracuse University where he earned a Bachelor of Science degree in Accounting.

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,

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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. On March 29, 2016 we announced that Mr. Tirnauer has resigned as Executive Vice President & Chief Financial Officer effective April 22, 2016 to take a senior leadership role with a private specialty retailer.

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 a Juris Doctorate legal degree from Temple University School of Law in Philadelphia, Pennsylvania. Mr. Masciantonio is also a member of the Board of Directors of the Chamber of Commerce of Southern Jersey.

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®, Motherhood Maternity Outlet® and Secret Fit Belly®.

Seasonality

Our business, like that of many other retailers, is seasonal. Our quarterly net sales were historically highest in the peak Spring selling season during our third fiscal quarter that previously ended on June 30 of our fiscal years that ended on September 30. Under our new 4-5-4 retail fiscal calendar ending on the Saturday nearest January 31 of each year, the peak Spring selling season will generally occur during our new first and second fiscal quarters. Given the historically higher sales level in that timeframe 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 the calendar months of March through May. We expect our typical seasonal trends to continue in future periods within our new fiscal calendar. 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 closings, and new leased department openings and closings, 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.

Future increases in interest rates or other tightening of the credit markets, or future turmoil in the financial markets, could 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. Any such adverse changes in the credit or financial markets could also impact the ability of our suppliers to access liquidity, or could result in the insolvency of suppliers, which in turn 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 and international franchise relationships;
- the timing of new store openings, and leased department 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 implementation of system enhancements (such as our new third-party planning and allocation tool, our new e-commerce platform or our new e-commerce order management systems);
- 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, 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 and international franchise relationships;

- fashion trends; and
- weather conditions and seasonality.

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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 on a profitable basis;
- our ability to improve and expand our e-commerce business in an increasingly competitive environment (including by gaining the benefits from, and mitigating the risks of, our e-commerce re-platforming initiative);
- our ability to successfully establish new, and to maintain our current, leased department relationships, and to operate such leased department 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 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;

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- retain existing, expand existing and establish new leased department 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;

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- source sufficient levels of inventory to meet the needs of new stores and our leased department 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.

The success and profitability of our e-commerce business depends on many factors, including, among others, our ability to:

- successfully re-platform our retail websites from a customized in-house system to a third-party software as a service (“SaaS”) platform and to mitigate any associated risks of this transition;
- successfully implement a new e-commerce-focused third-party SaaS order management system, and to mitigate any associated risks of this transition;
- drive traffic to our retail websites through our, digital marketing and search engine optimization initiatives;
- changes in federal or state regulation that may impose restrictions on e-commerce or make e-commerce more costly, including privacy or other consumer protection laws;
- breaches of Internet security; and
- failure to keep up with changes in technology.

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 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 fiscal 2016 we have ended or will end our leased department relationships with both Gordmans and Sears. Although we believe that the cessation of these relationships will allow us to place a greater focus on our core brands, Motherhood Maternity and A Pea in the Pod, and thus will ultimately be beneficial to the Company as a whole from a profitability perspective, 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 premium-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. Substantially all of these competitors also sell maternity apparel on their websites. We also face increasing competition from Internet-based

retailers such as ASOS, Pink Blush, Zulily and Hatch. 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 relationships with third-party retailers such as Macy's, buybuy BABY, Boscov's, Harrods and Century 21. 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, our relationships with Sears, Gordmans and Kohl's will wind down substantially or end altogether by the end of fiscal 2016. The success of our leased department business 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 business (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 relationships with third-party retailers may be terminated at any time.

We cannot guarantee the continuation of our leased department relationships with third-party retailers. Such retailers can discontinue our products at any time and offer a competitor's maternity apparel products, or none at all. The contractual commitments of our retailer customers are not long-term in nature. For example, our relationships with Sears, Gordmans and Kohl's will wind down substantially or end altogether by the end of fiscal 2016. Continued positive relations with a retailer depend upon various factors, including price, customer service, consumer demand and competition. Certain of our retailers have multiple vendor policies and may seek to offer a competitor's products or services at new or existing locations. If any significant retailer materially reduces, terminates or is unwilling to expand its relationship with us, or requires price reductions or other adverse modifications in our selling terms, our sales would suffer.

Additionally, most major retailers continually evaluate and often modify their in-store retail strategies, including product placement, store set-up and design, promotions and demographic targets. Our business could suffer significant setbacks in net sales and operating income if one or more of our major retail customers modified its current retail strategy resulting in a termination or reduction of its business relationship with us, a reduction in store penetration or an unfavorable product placement within such retailer's stores, any or all of which could materially adversely affect our business, financial condition, results of operations and cash flows.

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, consumer spending and general health concerns that may impact the number of pregnant women. 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 increased nominally from calendar 2013 to calendar 2014, and declined a total of approximately 8.9% from calendar 2007 to calendar 2013. Although recent statistics suggest that this trend has slowed or reversed, if this trend had continued 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, we have been negatively impacted by the recent popularity of many looser-fitting fashion trends in the non-maternity women's apparel market, such as maxi dresses, baby doll dresses, active bottoms with elastic waists, other soft knit elastic-waist bottoms and shorts, and oversized peasant-style woven tops, all of which can more readily fit a pregnant woman than typical non-maternity fashions, and could thus be purchased in numerous non-maternity retail stores. 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 actually collect the incentive package benefits offered to us in connection with the relocations of our headquarters and distribution facility.

In fiscal 2015 we completed the relocation of our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey. To help us offset the costs of these relocations, the Board of the New Jersey Economic Development Authority approved us for an incentive package of \$40 million in benefits, over a 10-year period, from the State of New Jersey under the Grow New Jersey Assistance Program. 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 fund our operations and future growth.

Our ability 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;
- 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.

Our \$32.0 million term loan bears interest at a variable rate equal to a LIBOR rate (with a 1.00% LIBOR floor) plus 7.50%. Borrowings under our \$70.0 million revolving credit facility bear interest at a variable rate equal to, at our election, either the lender's base rate plus 0.50%, or a LIBOR rate plus 1.50%. Additional 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 indebtedness under these debt instruments and, as a result, an increase in interest rates could result in a substantial increase in interest expense, especially if borrowings under our revolving credit facility increase.

We are heavily dependent on our information technology systems and our ability to effectively maintain and upgrade these systems from time to time. Pending upgrades to our inventory planning and allocation systems and e-commerce platform may not be successful.

Historically, the operation of our vertically-integrated business model relied heavily dependent on our internally-developed information technology systems (“IT Systems”). In particular, we have relied on point-of-sale terminals, which provide information to our core merchandise system used to track sales and inventory, and on our Internet websites through which we sell merchandise to our customers. In order to ensure that our systems are adequate to handle our anticipated business growth and are upgraded as necessary to effectively manage our store inventory and our e-commerce operations, we have decided to augment our internal IT Systems with best-in-class third party solutions. We are in the late stages of implementing a new merchandise allocation system and we are in the early stages of re-platforming our historically internally-managed e-commerce website to a leading third party digital commerce solution provider, to be integrated with a third party e-commerce order management system. The cost of these system upgrades and enhancements may be significant. There can be no assurance that our investment in these new systems will be successful or that the

transition to these new systems will not result in disruptions to our business. If these systems are not successful or if we suffer any such disruptions, our business and results of operations could be materially and adversely affected.

We have two data centers supporting our business functions: one in our corporate headquarters location in Moorestown, New Jersey and the second in our distribution center in Florence, New Jersey. Although our software programs and data are backed up and securely stored off-site, our servers and computer 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; and
- computer viruses.

Any disruption in the operation of our IT Systems, 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. Our business and results of operations could be materially and adversely affected if our servers and systems were inoperable, inaccessible, or inadequate. 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.

From time to time, we improve and upgrade our IT Systems and the functionality of our Internet websites. For example, we are currently in the process of implementing a new planning and allocation tool and we have made the decision to re-platform our retail websites from a customized in-house system to an SaaS platform. If we are unable to maintain and upgrade our systems, to integrate new and updated systems, or to successfully re-platform our Internet websites in an efficient and timely manner, our business and results of operations could be materially and adversely affected.

Failure to execute our new inventory management strategy could adversely affect our business.

We design and contract the manufacture of over 90% of the merchandise we sell using factories located throughout the world, predominantly outside of the United States. Fluctuations in the maternity apparel retail market impact the levels of inventory we hold, as merchandise is typically ordered from our contract manufacturers well in advance of the applicable selling season and frequently before fashion trends are confirmed by customer purchases. In addition, the nature of the retail maternity apparel business requires us to carry a significant amount of inventory. As a result, we are vulnerable to demand and pricing shifts and to suboptimal selection and timing of merchandise purchases. In the past, we have not always predicted our customers' preferences and acceptance levels of our merchandise with accuracy. If sales do not meet expectations, too much inventory may cause excessive markdowns and, therefore, lower than planned margins.

We have recently adopted key strategic initiatives designed to optimize our inventory levels and increase the efficiency and responsiveness of our supply chain, including a new product life cycle calendar and the creation of a new inventory planning and allocation team. Combined with our new retail calendar fiscal year, these new initiatives are intended to allow more proactive and deliberate inventory allocation and replenishment based on forecasting and channel dynamics, including mid-season adjustment. These initiatives involve significant systems and operational changes and we have limited experience operating in this manner. If we are unable to implement these initiatives successfully, we may not realize the return on our investment that we anticipate, and our operating results could be materially adversely affected.

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

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A cyber attack may bypass the security for our IT Systems causing an IT System security breach and leading to a material disruption of our IT Systems 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 IT Systems 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.

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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 a distribution facility in Florence, New Jersey. Finished garments from contractors and other manufacturers are inspected and stored in our distribution facility. We do not have other distribution facilities to support our distribution needs. If our 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), 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 the shopping malls in which many of our stores are located; any decrease in customer traffic in those malls could cause our sales to be less than expected.

We depend heavily on locating our stores in successful shopping malls in order to generate customer traffic. Sales at these stores are derived, in part, from the volume of traffic in those malls. 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. Our sales volume and mall traffic generally may be adversely affected by, among other things, economic downturns in a particular area, the closing of anchor tenants, competition from e-commerce retailers, non-mall retailers and other malls where we do not have stores, increases in gasoline prices and the closing or decline in popularity of other stores in the malls in which we are located. 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. An uncertain economic outlook could curtail new shopping mall development, decrease shopping mall traffic, reduce the number of hours that shopping mall operators keep their shopping malls open or force them to cease operations entirely. A reduction in mall traffic as a result of these or any other factors could have a material adverse effect on our business, results of operations and financial condition.

Our success depends on our ability to identify and respond to fashion trends on a timely basis.

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, at times we have been negatively impacted by the popularity of many looser-fitting fashion trends in the non-maternity women's apparel market, such as maxi dresses, baby doll dresses, active bottoms with elastic waists, other soft knit elastic-waist bottoms and shorts, and oversized peasant-style woven tops, all of which can more readily fit a pregnant woman than typical non-maternity fashions, and could thus be purchased in numerous non-maternity retail stores.

Our elimination of the separate corporate office of President and the recent resignation of our Chief Financial Officer could result in disruption to our business or have a material adverse impact on our business and results of operations.

In December 2015, in connection with the implementation of a program to evaluate our business processes, key management personnel and planning resources, we reduced the size of our executive officer complement and eliminated the separate office of the

President. The title of President, along with the duties of that office, have been assumed by our Chief Executive Officer. In April, 2016, our Chief Financial Officer resigned effective April 22, 2016, and we have commenced a search for a replacement. As a result of these changes, we may experience disruptions or have difficulty in maintaining or developing our business during this transition. Further, any potential search for, and hiring of, a permanent Chief Financial Officer may also cause disruption or result in difficulty in maintaining or developing our business or managing our financial affairs.

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 were historically highest in the peak Spring selling season during our third fiscal quarter that previously ended on June 30 of our fiscal years that ended on September 30. Under our new 4-5-4 retail fiscal calendar ending on the Saturday nearest January 31, of each year, the peak Spring selling season will generally occur during our new first and second fiscal quarters. Given the historically higher sales level in that timeframe 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 the calendar months of March through May. Thus, any factors which result in a material reduction of our sales during the first and second fiscal quarters 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.

Changes in regulatory and statutory laws, such as increases in the minimum wage, proposed changes to overtime requirements, and new health care laws, and the costs of compliance and non-compliance with such laws, may result in increased costs to our business.

Labor is a primary component in the cost of operating our business. Increased labor costs, whether due to competition, unionization, increased minimum wage, overtime requirements, state unemployment rates, employee benefits costs, employment taxes, or otherwise, may adversely impact our operating expenses. A considerable amount of our store team members are paid at rates related to the federal or state minimum wage and any changes to the minimum wage rate may increase our operating expenses. A number of states and cities in which we do business have recently increased or are considering increasing the minimum wage, with increases generally phased over several years depending upon the size of the employer. We are subject to the Fair Labor Standards Act, which governs such matters as minimum wages, overtime and other working conditions, along with the ADA, family leave mandates and a variety of other laws enacted by the states that govern these and other employment law matters. The Department of Labor is also proposing changes to the technical requirements for classification of employees deemed to be exempt from the overtime requirements of the Fair Labor Standards Act that could increase the number of employees eligible to receive overtime pay. Increases in minimum wages and overtime pay could significantly increase our costs, and our ability to offset these increases through price increases is limited. Changes in labor laws could also increase the likelihood of some or all of our employees being subjected to greater organized labor influence. If a significant portion of our employees were to become unionized, it could have an adverse effect on our business and financial results.

In March 2010, The Patient Protection and Affordable Care Act was enacted requiring employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. These costs were incurred in fiscal 2015, however, there is no assurance that we will be able to absorb and/or pass through the costs of future health care legislation in a manner that will not adversely impact our results or operations.

In addition to employment laws, we are also subject to a wide range of federal, state, provincial and local laws and regulations, including those affecting public companies, product manufacture and sale, and employment matters in the jurisdictions in which we operate, as well as foreign laws and regulations governing our franchisor-franchisee relationships. Compliance with new, complex and changing laws may cause our expenses to increase. In addition, any non-compliance with laws or regulations could result in penalties, fines, product recalls and enforcement actions or otherwise restrict our ability to market certain products or attract or retain employees, which could adversely affect 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 IT Systems and our proprietary rights in products for which we have applied for or received patent protection will be adequate to prevent imitation of our marks, products or services by others or to prevent others from seeking to block sales of our products as a violation of their trademarks, service marks or other proprietary rights. Also, others may assert rights in, or ownership of, our trademarks and other proprietary rights or may allege that we have or are infringing on their intellectual property rights and we may not be able to successfully resolve these types of conflicts. In addition, the laws of certain foreign countries may not protect our trademarks and proprietary rights to the same extent as do the laws of the United States. We cannot assure 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 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.

War, acts of terrorism or other types of mall violence or the threat of any such hostilities may negatively impact availability of merchandise and otherwise adversely impact our business.

Most of our stores are located in shopping malls. Any threat of terrorist attacks or actual terrorist events, or other types of mall violence, such as shootings in malls, particularly in public areas, could lead to lower customer traffic in shopping malls. In addition, our ability to obtain merchandise available for sale and consumer demand for our merchandise may be negatively affected. Local authorities or mall management could close shopping malls in response to security concerns. Mall closures, as well as lower customer traffic due to security concerns, could result in decreased sales. Additionally, the armed conflicts and civil unrest in the Middle East, or the threat, escalation or commencement of war or other armed conflict elsewhere, could significantly diminish consumer spending, and result in decreased sales for us. Decreased sales could have a material adverse effect on our business, financial condition and results of operations.

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 leased department or 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 international business partners, as well as fulfilling Internet orders.

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

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

- incur additional indebtedness;
- pay dividends or make other distributions in respect of our equity securities, or purchase or redeem capital stock, or make certain investments;
- have our subsidiaries pay dividends, make loans or transfer assets to us;
- sell assets, including the capital stock of our subsidiaries;
- enter into any transactions with our affiliates;
- transfer any capital stock of any subsidiary or permit any subsidiary to issue capital stock;
- create liens;
- enter into certain sale/leaseback transactions;
- effect a consolidation or merger or transfer of all or substantially all of our assets; and
- engage in other lines of business unless substantially related or incidental 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 the borrowing base requirements of both our term loan and our credit facility agreements. If we breach any of the covenants under our term loan and credit facility agreements, we may be in default under either or both of these agreements. If we default, the lenders under our term loan agreement and the lender under our credit facility agreement could declare all borrowings owed to them, including accrued interest and other fees, to be due and payable.

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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. 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.

We have been and may continue to be the subject of actions taken by so-called “activist” stockholders, which may cause us to incur substantial costs which could harm our business and which could adversely affect our operating results and financial condition.

We have been and may continue to be the subject of actions taken by so-called “activist” stockholders. Future actions may include, but are not limited to, making public demands that we consider certain strategic alternatives for the Company, engaging in public campaigns to attempt to influence our corporate governance and/or our management, and commencing proxy contests to attempt to elect the activists’ representatives or others to our board of directors. Responding to actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Such actions may materially harm our relationships with current and potential customers, current and potential stockholders, current and potential lenders, and others, may otherwise materially harm our business, and may adversely affect our operating results and financial condition. In addition, the perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.

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 have recently opened a leased department in Harrods in London and we have franchise arrangements in the Middle East, South Korea, Mexico, Israel and India. 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. To the extent emerging markets are a part 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.

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

In September 2013 we announced our plans to relocate our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey. In January 2015 our corporate office operations (which were split between our headquarters at North 5th Street in Philadelphia and our offices in the Philadelphia Navy Yard) moved twelve miles from the previous North 5th Street headquarters facility to a 74,000 square foot Class A office building in Moorestown, New Jersey. In August 2015 our distribution operations (which were previously located at North 5th Street in Philadelphia) moved approximately 23 miles to a new 406,000 square foot build-to-suit distribution center in Florence, New Jersey. 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.

On September 19, 2013 we entered into a Lease Agreement (“HQ Lease”) with 232 Strawbridge Associates, LLC to lease an approximately 74,000 square foot building located at Moorestown Corporate Center, 232 Strawbridge Drive, in Moorestown, New Jersey. After completion of renovations, we moved into this facility in January 2015 and it now serves as our new corporate headquarters. The HQ Lease has a term of eleven years. In addition, we have an option to extend the HQ Lease for an additional ten years at the expiration of the initial term.

On December 3, 2013 we entered into a Single-Tenant Industrial Lease (“DC Lease”) with Haines Center – Florence, LLC to lease a new 406,000 square foot build-to-suit building at 1000 John Galt Way, in Florence, New Jersey. After completion of building construction and the installation and testing of our fully-integrated material handling equipment and software system, in August 2015 we completed the move into our new distribution center. The DC Lease has a term of 15 years. In addition, we have three option periods, each for five years, to extend the DC Lease for a total of an additional 15 years after the expiration of the initial term.

To help us offset the costs of these relocations, the Board of the New Jersey Economic Development Authority (“NJEDA”) 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 (“Grow NJ”).

Previously our principal executive offices and distribution facility were located at 456 North 5th Street, Philadelphia, Pennsylvania. The facility consisted of approximately 318,000 square feet, of which approximately 45,000 square feet was dedicated to office space and the remaining square footage was used for finished goods warehousing and distribution. In connection with the planned relocations, in September 2014 we sold the building that housed our principal executive offices and distribution facility in a sale and leaseback arrangement. Under the agreement we continued to occupy the premises and used them for the wind down of our business operations through October 31, 2015.

Our facilities are subject to state and local regulations that range from building codes to health and safety regulations.

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

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As of January 30, 2016 the following numbers of store leases are set to expire during our future fiscal years ending on the Saturday nearest January 31 of each year, 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.

| | Number |
|---------------------------|-----------|
| Fiscal Year Leases Expire | of Stores |
| 2016 | 117 |
| 2017 | 96 |
| 2018 | 65 |
| 2019 | 71 |
| 2020 | 37 |
| 2021 and later | 150 |
| Total | 536 |

In addition to the stores we operate, we have arrangements with department and specialty stores, including Macy's, buybuy BABY, Boscov's, Harrods 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 and Paid |
|---|---------------|----------|-----------------------------|
| | High | Low | |
| Fiscal Year Ended January 30, 2016: | | | |
| Quarter ended January 30, 2016 | \$ 10.21 | \$ 4.99 | \$ 0.2000 |
| Quarter ended October 31, 2015 | 12.43 | 6.90 | 0.2000 |
| Quarter ended August 1, 2015 | 13.38 | 9.19 | 0.2000 |
| Quarter ended May 2, 2015 | 16.74 | 11.78 | 0.2000 |
| Transition Period Ended January 31, 2015: | | | |
| October 1, 2014 to January 31, 2015 | \$ 17.11 | \$ 13.87 | \$ 0.2000 |
| Fiscal Year Ended September 30, 2014: | | | |
| Quarter ended September 30, 2014 | \$ 25.01 | \$ 15.37 | \$ 0.2000 |
| Quarter ended June 30, 2014 | 28.81 | 22.00 | 0.2000 |
| Quarter ended March 31, 2014 | 30.27 | 24.72 | 0.2000 |
| Quarter ended December 31, 2013 | 32.98 | 28.69 | 0.1875 |

As of April 4, 2016 there were 1,192 holders of record and 3,120 estimated beneficial holders of our common stock.

During fiscal 2015, 2014 and the four months ended January 31, 2015 we paid cash dividends of approximately \$11.0 million (reflecting a total of \$0.80 per share), \$10.8 million (reflecting a total of \$0.7875 per share) and \$2.7 million (reflecting a total of \$0.20 per share), respectively. Our new term loan agreement, effective March 25, 2016, prohibits the payment of dividends for three years. The dividends declared and paid by us met all requirements at the time under the terms of our credit facility.

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 January 30, 2016 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

| Period | Total Number of Shares | Average Price Paid per Share | Total Number of Shares Purchased as Part of a | Maximum Approximate Dollar Value of Shares that |
|--------|------------------------|------------------------------|---|---|
|--------|------------------------|------------------------------|---|---|

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| | Purchased (1) | | Publicly Announced Program (2) | May Yet Be Purchased Under the Program (2) |
|--|---------------|---------|--------------------------------------|--|
| November 1, 2015 to November 28, 2015 | 5,061 | \$ 5.24 | — | \$ 10,000,000 |
| November 29, 2015 to January 2, 2016 | 5,780 | \$ 6.78 | — | \$ 10,000,000 |
| January 3, 2016 to January 30, 2016 | — | — | — | \$ 10,000,000 |
| Total | 10,841 | \$ 6.06 | — | \$ 10,000,000 |

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

(2) Our Board of Directors has approved a program to repurchase up to \$10.0 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 2014 our Board of Directors extended our authorized stock repurchase program from July 31, 2014 to July 31, 2016. No shares have been repurchased under this program as of January 30, 2016. Our new term loan agreement, effective March 25, 2016, prohibits share repurchases for three years.

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Stock Price Performance Graph

The graph below compares the cumulative total stockholder return on our common stock for the period from September 30, 2010 to January 30, 2016 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, 2010 in our common stock and in each of the foregoing indices and assumes reinvestment of dividends. The stock performance shown in the graph is not intended to forecast or be indicative of future performance.

COMPARISON OF CUMULATIVE TOTAL RETURN

Among Destination Maternity Corporation, the S&P 500 Index

and the S&P 500 Apparel Retail Index

Fiscal periods ended as follows:

| | Year Ended | | | | | Four Months Ended | Year Ended |
|-----------------------------------|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|------------------------|
| | September 30, 2010 | September 30, 2011 | September 30, 2012 | September 30, 2013 | September 30, 2014 | January 31, 2015 | January 30, 2016 |
| Destination Maternity Corporation | \$ 100.00 | \$ 80.57 | \$ 121.50 | \$ 212.69 | \$ 106.96 | \$ 107.39 | \$ 51.41 |
| S&P 500 Index | \$ 100.00 | \$ 101.15 | \$ 131.69 | \$ 157.17 | \$ 188.18 | \$ 191.54 | \$ 190.26 |
| S&P 500 Apparel Retail Index | \$ 100.00 | \$ 125.77 | \$ 195.71 | \$ 238.41 | \$ 253.81 | \$ 289.60 | \$ 311.47 |

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 periods 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.

Four Months Year Ended

Year Ended

January 30, 2016 January 31, 2015 September 30, 2014 September 30, 2013 September 30, 2012 September 30, 2011
(in thousands, except per share amounts)

Consolidated Statement of Operations Data:

| | | | | | | |
|--|------------|-------------|-----------|------------|-----------|-----------|
| Net sales | \$498,753 | \$ 165,644 | \$516,959 | \$ 540,259 | \$541,476 | \$545,394 |
| Cost of goods sold | 252,713 | 96,667 | 247,501 | 249,298 | 250,765 | 248,497 |
| Gross profit | 246,040 | 68,977 | 269,458 | 290,961 | 290,711 | 296,897 |
| Selling, general and administrative expenses | 246,914 | 86,688 | 250,253 | 252,026 | 255,623 | 257,421 |
| Store closing, asset impairment and asset disposal (income) expenses | (2,084) | 4,599 | 1,469 | 1,441 | 1,983 | 1,039 |
| Other charges, net | 6,979 | 5,354 | 3,229 | — | — | 193 |
| Operating income (loss) | (5,769) | (27,664) | 14,507 | 37,494 | 33,105 | 38,244 |
| Interest expense, net | 1,520 | 242 | 404 | 532 | 1,215 | 2,233 |
| Loss on extinguishment of debt | — | — | — | 9 | 22 | 37 |
| Income (loss) before income taxes | (7,289) | (27,906) | 14,103 | 36,953 | 31,868 | 35,974 |
| Income tax (benefit) provision | (2,806) | (10,526) | 3,606 | 13,010 | 12,496 | 12,986 |
| Net income (loss) | \$(4,483) | \$(17,380) | \$10,497 | \$23,943 | \$19,372 | \$22,988 |
| Net income (loss) per share—Basic | \$(0.33) | \$(1.28) | \$0.78 | \$1.80 | \$1.48 | \$1.79 |
| Average shares outstanding—Basic | 13,596 | 13,541 | 13,451 | 13,272 | 13,096 | 12,820 |
| Net income (loss) per share—Diluted | \$(0.33) | \$(1.28) | \$0.77 | \$1.78 | \$1.46 | \$1.75 |
| Average shares outstanding—Diluted | 13,596 | 13,541 | 13,572 | 13,439 | 13,267 | 13,120 |

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| | Four Months | | Year Ended | | | |
|---------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|--|
| Year Ended | Ended | | Ended | | Ended | |
| January 30, 2016 | January 31, 2015 | September 30, 2014 | September 30, 2013 | September 30, 2012 | September 30, 2011 | |

(unaudited; in thousands, except operating data,
ratios and per share amounts)

Operating Data:

| | | | | | | | | | | | | |
|---|-----------|----|-----------|----|-----------|----|-----------|---|-----------|----|-----------|---|
| Comparable sales increase (decrease) – reported basis (1) (2) (3) | (1.5) |)% | (2.0) |)% | (3.7) |)% | 2.6 | % | (0.3) |)% | 0.1 | % |
| Comparable sales increase (decrease) – adjusted for calendar timing shift (1) (2) (3) | N.A. | | (2.7) |)% | (3.7) |)% | 3.2 | % | (0.8) |)% | 0.1 | % |
| Internet sales increase | 0.7 | % | 13.8 | % | 2.6 | % | 13.3 | % | 26.2 | % | 28.3 | % |
| Average net sales per gross square foot (4) | \$254 | | \$85 | | \$272 | | \$278 | | \$270 | | \$275 | |
| Average net sales per store (4) | \$555,000 | | \$184,000 | | \$579,000 | | \$594,000 | | \$575,000 | | \$566,000 | |
| Gross store square footage at period end (5) | 1,164,000 | | 1,226,000 | | 1,233,000 | | 1,285,000 | | 1,330,000 | | 1,376,000 | |
| Gross retail location square footage at period end (6) | 1,766,000 | | 1,841,000 | | 1,855,000 | | 1,903,000 | | 1,959,000 | | 2,078,000 | |
| Number of retail locations at period end: | | | | | | | | | | | | |
| Motherhood Maternity stores | 425 | | 450 | | 454 | | 476 | | 507 | | 535 | |
| A Pea in the Pod stores | 23 | | 24 | | 25 | | 31 | | 36 | | 43 | |
| Destination Maternity stores | 88 | | 90 | | 89 | | 89 | | 82 | | 80 | |
| Total stores | 536 | | 564 | | 568 | | 596 | | 625 | | 658 | |
| Leased departments | 1,279 | | 1,311 | | 1,326 | | 1,311 | | 1,383 | | 1,694 | |
| Total retail locations | 1,815 | | 1,875 | | 1,894 | | 1,907 | | 2,008 | | 2,352 | |

Other Consolidated
Financial Data:

| | | | | | | | | | | | | |
|---|----------|---|------------|----|----------|---|----------|---|----------|---|----------|---|
| Adjusted EBITDA (7) (8) | \$16,101 | | \$(16,815) |) | \$30,556 | | \$54,003 | | \$49,898 | | \$54,395 | |
| Adjusted EBITDA margin (adjusted EBITDA as a percentage of net sales) (8) | 3.2 | % | (10.2) |)% | 5.9 | % | 10.0 | % | 9.2 | % | 10.0 | % |
| | 22,847 | | (11,732) |) | 36,768 | | 54,003 | | 49,898 | | 54,588 | |

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| | | | | | | | | | | | | |
|---|---------|---|---------|----|----------|---|----------|---|----------|---|----------|---|
| Adjusted EBITDA before other charges (7) (8) | | | | | | | | | | | | |
| Adjusted EBITDA margin before other charges (8) | 4.6 | % | (7.1 |)% | 7.1 | % | 10.0 | % | 9.2 | % | 10.0 | % |
| Adjusted net income (loss) (8) | (168 |) | (14,109 |) | 10,700 | | 22,733 | | 19,386 | | 22,369 | |
| Adjusted net income (loss) per share—Diluted (8) | (0.01 |) | (1.04 |) | 0.79 | | 1.69 | | 1.46 | | 1.70 | |
| Cash flows provided by operating activities | 16,094 | | 3,831 | | 25,845 | | 42,153 | | 42,697 | | 21,443 | |
| Cash flows used in investing activities | (29,400 |) | (21,866 |) | (29,544 |) | (16,022 |) | (9,521 |) | (11,079 |) |
| Cash flows provided by (used in) financing activities | 14,081 | | 6,805 | | (8,279 |) | (23,926 |) | (26,073 |) | (19,699 |) |
| Capital expenditures | (29,272 |) | (21,098 |) | (40,185 |) | (15,059 |) | (9,256 |) | (12,270 |) |
| Consolidated Balance Sheet Data (at end of period): | | | | | | | | | | | | |
| Cash and cash equivalents | \$2,116 | | \$1,349 | | \$12,580 | | \$24,555 | | \$22,376 | | \$15,285 | |
| Working capital | 15,851 | | 37,433 | | 56,276 | | 75,276 | | 63,316 | | 75,984 | |
| Total assets | 219,074 | | 220,060 | | 230,533 | | 207,981 | | 199,644 | | 198,772 | |
| Total debt | 40,599 | | 15,000 | | — | | — | | 15,257 | | 31,342 | |
| Net (debt) cash (8) (9) | (38,483 |) | (13,651 |) | 12,580 | | 24,555 | | 7,119 | | (16,057 |) |
| Stockholders' equity | 92,898 | | 106,002 | | 125,521 | | 122,633 | | 104,972 | | 92,695 | |

N.A. Not applicable

(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) Prior to the change in our fiscal year end, we reported 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 the transition period calendar-adjusted comparable sales were measured for the period Wednesday, October 1, 2014 through Saturday, January 31, 2015 compared to the period Tuesday, October 1, 2013 through Friday, January 31, 2014, and for fiscal 2014 calendar-adjusted comparable sales were measured for the period Tuesday October 1, 2013 through Tuesday September 30, 2014 compared to the period Tuesday October 2, 2012 through Tuesday October 1, 2013.
- (4) Based on stores in operation by us during the entire 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 other charges, (iv) Adjusted EBITDA margin before other charges, (v) Adjusted net income (loss), (vi) Adjusted net income (loss) per share-Diluted, and (vii) Net (debt) cash. 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 or operating income 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 (debt) cash represents cash and cash equivalents minus total debt.

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Reconciliation of Net Income (Loss) to Adjusted EBITDA

and Adjusted EBITDA Before Other Charges

(in thousands)

(unaudited)

| | Year Ended | | Four Months | Year Ended | | | |
|--|-------------|--------------|-------------|------------|-----------|-----------|-----------|
| | Year Ended | Ended | | September | September | September | September |
| | January | January 31, | September | September | September | September | September |
| | 30, 2016 | 2015 | 30, | 30, 2013 | 30, 2012 | 30, 2011 | 30, 2011 |
| | | | 2014 | | | | |
| Net income (loss) | \$ (4,483) | \$ (17,380) | \$ 10,497 | \$ 23,943 | \$ 19,372 | \$ 22,988 | |
| Add: income tax (benefit) provision | (2,806) | (10,526) | 3,606 | 13,010 | 12,496 | 12,986 | |
| Add: interest expense, net | 1,520 | 242 | 404 | 532 | 1,215 | 2,233 | |
| Add: loss on extinguishment of debt | — | — | — | 9 | 22 | 37 | |
| Operating income (loss) | (5,769) | (27,664) | 14,507 | 37,494 | 33,105 | 38,244 | |
| Add: depreciation and amortization expense | 17,231 | 5,223 | 15,197 | 12,424 | 12,445 | 12,769 | |
| Add: loss on impairment of long-lived assets | 1,662 | 4,444 | 1,136 | 786 | 1,876 | 768 | |
| Add: loss (gain) on disposal of assets | 193 | 109 | (4,031) | 528 | 115 | 270 | |
| Add: stock-based compensation expense | 2,784 | 1,073 | 3,747 | 2,771 | 2,357 | 2,344 | |
| Adjusted EBITDA | 16,101 | (16,815) | 30,556 | 54,003 | 49,898 | 54,395 | |
| Add: other charges (1) | 6,746 | 5,083 | 6,212 | — | — | 193 | |
| Adjusted EBITDA before other charges | \$ 22,847 | \$ (11,732) | \$ 36,768 | \$ 54,003 | \$ 49,898 | \$ 54,588 | |
| Adjusted EBITDA margin | 3.2 % | (10.2)% | 5.9 % | 10.0 % | 9.2 % | 10.0 % | |
| Adjusted EBITDA margin before other charges | 4.6 % | (7.1)% | 7.1 % | 10.0 % | 9.2 % | 10.0 % | |

(1) For fiscal 2015, 2014 and the four months ended January 31, 2015 other charges excludes accelerated depreciation expense of \$233, \$1,127 and \$271, respectively, included in depreciation and amortization expense above. For fiscal 2014 other charges excludes gain on sale of building of \$4,110, included in gain on disposal of assets above. Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss) and

Net Income (Loss) Per Share – Diluted to Adjusted Net Income (Loss) Per Share – Diluted

(in thousands, except per share amounts)

(unaudited)

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| | Four Months | | Year Ended | | | |
|---|---------------------|---------------------|-------------|-----------------------|-----------------------|-----------------------|
| | Year Ended | Ended | September | | | |
| | January 30, 2016 | January 31, 2015 | 30, 2014 | September 30, 2013 | September 30, 2012 | September 30, 2011 |
| Net income (loss) | \$ (4,483) | \$ (17,380) | \$ 10,497 | \$ 23,943 | \$ 19,372 | \$ 22,988 |
| Add: other charges, net of tax (1) | 4,315 | 3,326 | 2,027 | — | — | 120 |
| Add: loss on extinguishment of debt, net of tax (2) | — | — | — | 6 | 14 | 23 |
| Less: reductions of state income tax expense, net of federal expense, related to settlements of uncertain income tax positions | — | (55) | (1,824) | — | — | (762) |
| Less: recognition of state income tax benefits resulting from regulation changes | — | — | — | (1,216) | — | — |
| Adjusted net income (loss) | \$ (168) | \$ (14,109) | \$ 10,700 | \$ 22,733 | \$ 19,386 | \$ 22,369 |
| Net income (loss) per share—Diluted | \$ (0.33) | \$ (1.28) | \$ 0.77 | \$ 1.78 | \$ 1.46 | \$ 1.75 |
| Average shares outstanding—Diluted | 13,596 | 13,541 | 13,572 | 13,439 | 13,267 | 13,120 |
| Adjusted net income (loss) per share—Diluted | \$ (0.01) | \$ (1.04) | \$ 0.79 | \$ 1.69 | \$ 1.46 | \$ 1.70 |
| Average shares outstanding—Diluted | 13,596 | 13,541 | 13,572 | 13,439 | 13,267 | 13,120 |

(1) For fiscal 2015, 2014, 2011 and the four months ended January 31, 2015 other charges is net of income tax benefit of \$2,664, \$1,202, \$73 and \$2,028, respectively, which represents the difference in income tax provision calculated with and without the specified pretax expense.

(2) For fiscal 2013, 2012 and 2011 loss on extinguishment of debt is net of income tax benefit of \$3, \$8 and \$14, respectively, which represents the difference in income tax provision calculated with and without the specified pretax expense.

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

Historically, our fiscal year ended on September 30. On December 4, 2014 we announced that our Board of Directors approved a change in our fiscal year end from September 30 to the Saturday nearest January 31 of each year. The fiscal year end change aligns our reporting cycle with the National Retail Federation fiscal calendar. We had a transition period from October 1, 2014 through January 31, 2015 and filed a Transition Report on Form 10-Q on March 12, 2015 for such transition period. Our fiscal year 2015 covers the period that began February 1, 2015 and ended January 30, 2016. References in this discussion to our fiscal years prior to fiscal 2015 refer to the fiscal years ended on September 30 in those years, unless otherwise indicated. For example, our "fiscal 2014" ended on September 30, 2014.

Overview

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

We are the leading designer and retailer of maternity apparel in the United States with 1,815 retail locations, including 536 stores in the United States, Canada and Puerto Rico, and 1,279 leased departments located within department stores and baby specialty stores throughout the United States, in Puerto Rico and, most recently, in England. In July 2015 we opened an A Pea in the Pod branded leased department in Harrods department store in London, England. We operate our stores under the Motherhood Maternity, A Pea in the Pod and Destination Maternity retail nameplates. Generally we are the exclusive maternity apparel provider in our leased department locations. We also sell merchandise on the Internet, primarily through our brand-specific websites, Motherhood.com and APeaInThePod.com, as well as through our DestinationMaternity.com website. We have store franchise and product supply relationships in the Middle East, South Korea, Mexico, Israel and India. As of January 30, 2016 we have 193 international franchised locations, comprised of 25 stand-alone stores in the Middle East, South Korea, Mexico and Israel operated under one of our retail nameplates, and 168 shop-in-shop locations in South Korea, Mexico and Israel, in which we have a Company branded department operated by our franchise partners within other retail stores. We are also the exclusive provider of maternity apparel to Kohl's, which operates more than 1,100 stores throughout the United States and offers maternity apparel in a significant number of its stores. We design and contract the manufacture of over 90% of the merchandise we sell using sewing factories located throughout the world, predominantly outside of the United States. Substantially all of the merchandise produced outside of the United States is paid for in United States dollars.

In assessing the performance of our business, we consider a variety of operational and financial measures. The key measures for determining how our business is performing are net income (loss) determined in accordance with generally accepted accounting principles ("net income (loss)") and the corresponding net income (loss) (or earnings (loss)) per share (diluted), net income (loss) before certain charges or credits, when applicable, such as other charges, loss on extinguishment of debt and certain infrequent income tax adjustments ("adjusted net income (loss)") and the corresponding earnings (loss) per share (diluted), Adjusted EBITDA, Adjusted EBITDA before other charges, net sales, and comparable sales (which consists of comparable store sales and Internet sales). Adjusted EBITDA represents operating income (loss) before deduction for the following non-cash charges: 1) depreciation and amortization expense, 2) loss on impairment of tangible and intangible assets, 3) loss (gain) on disposal of assets, and 4) stock-based compensation expense.

Presented below is a summary of our results the year ended January 30, 2016 and the four month period October 1, 2014 to January 31, 2015 with regard to each of the key measures noted above. To enhance the presentation and to provide greater comparability financial results for the year ended January 30, 2016 are compared to the twelve month period ended January 31, 2015 and financial results for the four month period October 1, 2014 to January 31, 2015 are compared to the four month period October 1, 2013 to January 31, 2014:

Fiscal 2015 Financial Results

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- Net loss for fiscal 2015 was \$4.5 million, or \$0.33 per share (diluted), compared to net loss of \$10.1 million, or \$0.75 per share (diluted), for the comparable retail calendar based twelve month period ended January 31, 2015.
- Net loss for fiscal 2015 includes other charges of 1) \$1.7 million, net of tax, or approximately \$0.13 per share (diluted), related to the relocations of our headquarters and distribution facilities and 2) \$2.6 million, net of tax, or \$0.19 per share (diluted), related to management and organizational changes, and the fiscal year change. Net loss for the twelve months ended January 31, 2015 includes other charges of 1) \$1.7 million, net of tax, or \$0.12 per share (diluted), related to the relocations of our headquarters and distribution facilities, 2) \$4.5 million, net of tax, or \$0.33 per share (diluted), related to management and organizational changes, 3) \$0.8 million, net of tax, or \$0.06 per share (diluted), related to our fiscal year change, and 4) \$0.6 million, net of tax, or \$0.05 per share (diluted), related to a proposed business combination that was withdrawn, partially offset by a gain of \$2.5 million, net of tax, or \$0.19 per share (diluted), from the sale of our prior headquarters/distribution facility. Net loss for the twelve months ended January 31, 2015 also includes \$1.7 million, net of

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tax, or \$0.12 per share (diluted), for reductions of state income tax expense related to settlements of uncertain income tax positions.

- Adjusted net loss for fiscal 2015 was \$0.2 million, or \$0.01 per share (diluted), compared to the comparably adjusted net loss for the twelve months ended January 31, 2015 of \$6.7 million, or \$0.50 per share (diluted).
- Adjusted EBITDA was \$16.1 million for fiscal 2015, compared to \$2.5 million of Adjusted EBITDA for the twelve months ended January 31, 2015.
- Adjusted EBITDA before other charges was \$22.8 million for fiscal 2015, compared to \$13.7 million of Adjusted EBITDA before other charges for the twelve months ended January 31, 2015.
- Net sales for fiscal 2015 decreased 2.3% to \$498.8 million from \$510.6 million for the twelve months ended January 31, 2015.
- Comparable sales for fiscal 2015 decreased 1.5% versus a comparable sales decrease of 4.4% for the twelve months ended January 31, 2015.

Transition Period Financial Results

- Net loss for the four months ended January 31, 2015 was \$17.4 million, or \$1.28 per share (diluted), compared to net income of \$3.1 million, or \$0.23 per share (diluted), for the four months ended January 31, 2014.
- Net loss for the four months ended January 31, 2015 includes 1) other charges of (a) \$0.7 million, net of tax, or \$0.05 per share (diluted), related to the relocations of our headquarters and distribution facilities, (b) \$1.8 million, net of tax, or \$0.14 per share (diluted), related to management and organizational changes, and (c) \$0.8 million, net of tax, or \$0.06 per share (diluted), related to our fiscal year change, and 2) reductions of state income tax expense, net of federal expense, of \$0.1 million, or less than \$0.01 per share (diluted), related to settlements of uncertain income tax positions. Net income for the four months ended January 31, 2014 includes 1) other charges of \$0.3 million, net of tax, or \$0.02 per share (diluted), related to the relocations of our headquarters and distribution facilities, and 2) reductions of state income tax expense, net of federal expense, of \$0.2 million, or \$0.01 per share (diluted), related to settlements of uncertain income tax positions.
- Adjusted net loss excluding other charges and the income tax adjustment for the four months ended January 31, 2015 was \$14.1 million, or \$1.04 per share (diluted), compared to the comparably adjusted net income for the four months ended January 31, 2014 of \$3.2 million, or \$0.24 per share (diluted).
- Operating loss for the four months ended January 31, 2015 includes pretax charges of \$10.9 million for the write-down of excess out-of-season inventory, \$3.4 million for the impairment of intangible assets and \$1.1 million for store asset impairments (discussed in more detail below).
- Adjusted EBITDA was \$(16.8) million for the four months ended January 31, 2015, compared to \$11.2 million of Adjusted EBITDA for the four months ended January 31, 2014.
- Adjusted EBITDA before other charges was \$(11.7) million for the four months ended January 31, 2015, compared to \$11.3 million of Adjusted EBITDA before other charges for the four months ended January 31, 2014.
- Net sales for the four months ended January 31, 2015 decreased 2.9% to \$165.6 million from \$170.6 million for the four months ended January 31, 2014.
- Comparable sales for the four months ended January 31, 2015 decreased 2.0% compared to a comparable sales decrease of 0.9% for the four months ended January 31, 2014. Adjusting for calendar timing shifts, as described in Item 6 in this report, our calendar-adjusted comparable sales decreased 2.7% for the four months ended January 31, 2015 and decreased 0.7% for the four months ended January 31, 2014.

Leased Department and Licensed Relationships

As previously announced, in an effort to direct resources to the highest return opportunities and further optimize real estate while reducing costs, we plan to discontinue our Two Hearts line, thus ending our relationship with Sears in June 2016, resulting in the closure of our leased departments within Sears stores. In addition, our leased department relationship with Gordmans ended in March 2016. As of January 30, 2016, we operated 475 leased departments within Sears stores and 100 leased departments in Gordmans stores. We have also decided to phase out production of our Oh Baby line during fiscal 2016 after being informed that Kohl's has elected to scale back and ultimately discontinue its exclusive license with us for this line in early fiscal 2017. Even after the end of these relationships, we remain well positioned to service the needs of our customers through our own stores, as well as through our other

leased departments and our various websites.

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Fiscal Year Ended January 30, 2016 Compared to Retail Calendar-Based Twelve Month Period Ended January 31, 2015

Results of Operations

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

| | Twelve Months Ended January 30, | | January 31, | | % Period to Period |
|---|------------------------------------|-----------------------|---------------------------------|-----------------------|----------------------------|
| | 2016 | | 2015 | | |
| | Amount | | Amount | | |
| | (in thousands) | % of Net Sales (1) | (in thousands, unaudited) | % of Net Sales (1) | Favorable (Unfavorable) |
| Net sales | \$498,753 | 100.0 % | \$ 510,592 | 100.0 % | (2.3)% |
| Cost of goods sold (2) | 252,713 | 50.7 | 263,109 | 51.5 | 4.0 |
| Gross profit | 246,040 | 49.3 | 247,483 | 48.5 | (0.6) |
| Selling, general and administrative expenses (3) | 246,914 | 49.5 | 251,757 | 49.3 | 1.9 |
| Store closing, asset impairment and asset disposal (income) expenses | (2,084) | (0.4) | 5,855 | 1.1 | 135.6 |
| Other charges, net | 6,979 | 1.4 | 8,107 | 1.6 | 13.9 |
| Operating loss | (5,769) | (1.2) | (18,236) | (3.6) | 68.4 |
| Interest expense, net | 1,520 | 0.3 | 506 | 0.1 | (200.4) |
| Loss before income taxes | (7,289) | (1.5) | (18,742) | (3.7) | 61.1 |
| Income tax benefit | (2,806) | 0.6 | (8,652) | (1.7) | 67.6 |
| Net loss | \$(4,483) | (0.9)% | \$ (10,090) | (2.0)% | 55.6 % |

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

(2) Cost of goods sold includes merchandise costs (including customs duty expenses), expenses related to inventory shrinkage, product-related corporate expenses (including expenses related to payroll, benefit costs and operating expenses of our design and sourcing departments), inventory reserves (including lower of cost or market reserves), inbound freight charges, purchasing and receiving costs, inspection costs, distribution center costs (including occupancy expenses and equipment depreciation), internal transfer costs, and the other costs of our distribution network, partially offset by the allocable amount of our Grow NJ award benefit.

(3) Selling, general and administrative expenses includes advertising and marketing expenses, corporate administrative expenses, corporate headquarters occupancy expenses, store expenses (including store payroll and store occupancy expenses), and store opening expenses, partially offset by the allocable amount of our Grow NJ award benefit.

The following tables set forth certain information regarding the number of our retail locations and international franchised locations, for the periods indicated. Retail locations include stores and leased maternity apparel departments and exclude locations where Kohl's sells our products under an exclusive product and license agreement, and international franchised locations.

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| Retail Locations (1) | Twelve Months Ended January 30, 2016 | | | January 31, 2015 | | |
|----------------------|---|-----------------------|------------------------------|------------------|-----------------------|------------------------------|
| | Stores | Leased Departments | Total Retail Locations | Stores | Leased Departments | Total Retail Locations |
| Beginning of period | 564 | 1,311 | 1,875 | 586 | 1,321 | 1,907 |
| Opened | 18 | 19 | 37 | 20 | 27 | 47 |
| Closed | (46) | (51) | (97) | (42) | (37) | (79) |
| End of period | 536 | 1,279 | 1,815 | 564 | 1,311 | 1,875 |

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

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| | Twelve Months Ended January 30, 2016 | | | January 31, 2015 | | |
|---------------------|--|----------------------------|---|-------------------------|----------------------------|---|
| | International Franchised Locations (1) Stores | Shop-in- Shop Locations | Total International Franchised Locations | International Stores | Shop-in- Shop Locations | Total International Franchised Locations |
| Beginning of period | 23 | 62 | 85 | 20 | 127 | 147 |
| Opened | 4 | 110 | 114 | 6 | 53 | 59 |
| Closed | (2) | (4) | (6) | (3) | (118) | (121) |
| End of period | 25 | 168 | 193 | 23 | 62 | 85 |

(1) During April 2014 we commenced our expansion in Mexico. As of January 30, 2016 our merchandise is offered in 101 shop-in-shops and four franchise stores in Mexico. During June 2015 we commenced our expansion into Israel. As of January 30, 2016 our merchandise is offered in 36 shop-in-shops and two franchise stores in Israel. During March 2014 one franchise store and 116 shop-in-shop locations operated by our former India franchisee were closed.

Net Sales. Our net sales for fiscal 2015 decreased by 2.3%, or \$11.8 million, to \$498.8 million from \$510.6 million for the twelve months ended January 31, 2015. Comparable sales for fiscal 2015 decreased 1.5% compared to a comparable sales decrease of 4.4% for the twelve months ended January 31, 2015. The decrease in total reported sales for fiscal 2015 compared to the twelve months ended January 31, 2015 resulted primarily from decreased sales related to the Company's continued efforts to close underperforming stores (see our discussion in Item 1. Business regarding closing underperforming stores), and to a lesser extent, the comparable sales decrease. The comparable sales decrease primarily reflects higher year-over-year price promotional and markdown activity, as well as lower transactions from decreased traffic. We estimate the temporary disruption from our distribution center move that occurred during the third quarter of fiscal 2015 negatively impacted our reported comparable sales by approximately 0.5% for fiscal 2015.

As of January 30, 2016 we operated a total of 536 stores and 1,815 total retail locations: 425 Motherhood Maternity stores (including 93 Motherhood Maternity Outlet stores), 23 A Pea in the Pod stores, 88 Destination Maternity stores, and 1,279 leased maternity apparel departments, of which 475 were in Sears stores under the Two Hearts Maternity brand and the balance were in other department stores and baby specialty stores. In comparison, as of January 31, 2015 we operated a total of 564 stores and 1,875 total retail locations: 450 Motherhood Maternity stores (including 91 Motherhood Maternity Outlet stores), 24 A Pea in the Pod stores, 90 Destination Maternity stores, and 1,311 leased maternity apparel departments. As of January 30, 2016 our store total included 88 multi-brand Destination Maternity nameplate stores, including 53 Destination Maternity combo stores and 35 Destination Maternity superstores. In comparison, as of January 31, 2015 we operated 90 multi-brand Destination Maternity nameplate stores, including 53 Destination Maternity combo stores and 37 Destination Maternity superstores. During fiscal 2015 we opened 18 stores, including one Destination Maternity nameplate stores, and closed 46 stores. In addition, during fiscal 2015 we opened 19 leased department locations and closed 51 leased department locations.

Gross Profit. Our gross profit for fiscal 2015 decreased by 0.6%, or approximately \$1.5 million, to \$246.0 million from \$247.5 million for the twelve months ended January 31, 2015, and our gross margin for fiscal 2015 was 49.3% compared to 48.5% for the twelve months ended January 31, 2015. Gross profit for the twelve months ended January 31, 2015 included a \$10.9 million inventory write-down at January 31, 2015 for the planned disposal of certain out-of-season merchandise (see Four Month results below). Excluding the inventory write-down, gross margin decreased by 130 basis points in fiscal 2015. The year-over-year decrease in gross margin reflects promotional activity to liquidate excess inventory, and benefit from the Grow NJ award. Due to the timing of the initial benefit recognition in the second half of fiscal 2015, we estimate our full year fiscal 2015 gross margin was approximately 0.2% higher than the annualized benefit expected in the future.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses for fiscal 2015 decreased by 1.9%, or approximately \$4.9 million, to \$246.9 million from \$251.8 million for the twelve months ended January 31, 2015. As a percentage of net sales, selling, general and administrative expenses increased to 49.5% for fiscal 2015 from 49.3% for the twelve months ended January 31, 2015. This decrease in expense for the twelve month period reflects lower marketing and advertising expense, cost reductions resulting from our continued closure of underperforming stores and a non-recurring reduction of \$1.2 million from settlement of certain unclaimed property matters during the first quarter of fiscal 2015, partially offset by higher expenses for self-insured employee healthcare benefits and variable incentive compensation. The increase in expense percentage for the twelve month period reflects the unfavorable leverage from our decreased sales due to the relatively fixed nature of much of our expenses.

Store Closing, Asset Impairment and Asset Disposal (Income) Expenses. For fiscal 2015 we had \$2.1 million of income from store closings, asset impairments and asset disposals compared to \$5.9 million of expense for the twelve months ended January 31, 2015. During fiscal 2015 we received \$4.1 million as incentive for early termination of the lease for our superstore located on Madison Avenue in New York City. During the twelve months ended January 31, 2015 we had a \$3.4 million for impairment of intangible assets related to our Secret Fit Belly technology (see Four Month results below).

Other Charges, Net. In fiscal 2015 we incurred other charges of \$7.0 million primarily related to management and organizational changes and the relocations of our headquarters and distribution facilities. Other charges related to management and organizational changes were \$4.2 million, primarily severance and other benefits in connection with the replacement of certain key management personnel and some reductions in headcount, and to a lesser extent, consulting fees. Key management changes included elimination of the separate function of President in December 2015 in a further effort to streamline our operations and our reporting structure. Other charges related to the relocations of our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey were \$2.7 million, primarily for pre-opening rent expense for the new distribution center, moving costs for the new distribution center, shut down costs of the prior facility and accelerated depreciation. In the twelve months ended January 31, 2015 we incurred other charges of \$8.1 million related to management and organizational changes, the relocations of our headquarters and distribution operations, our fiscal year change, and a proposed business combination that was withdrawn, partially offset by gain from the sale of our prior headquarters and distribution center building. Other charges related to management and organizational changes were \$7.2 million, primarily for severance and other benefits in connection with the resignation of our former CEO, severance and other benefits in connection with the replacement of certain key management personnel and some reductions in headcount, and to a lesser extent, termination of an e-commerce development contract and consulting fees. Other charges related to our relocations were \$2.7 million, primarily for pre-opening rent expense for the new headquarters and distribution center facilities and accelerated depreciation. Other charges related to our fiscal year change were \$1.2 million, primarily for audit and tax professional fees for the additional SEC, IRS and other reporting requirements related to the transition period. Other charges related to a proposed business combination that was withdrawn were \$1.0 million, reflecting legal and other professional fees. These other charges in the twelve months ended January 31, 2015 were partially offset by a gain of \$4.1 million on the sale our prior headquarters/distribution facility.

Operating Loss. We had an operating loss of \$5.8 million for fiscal 2015 compared to an operating loss of \$18.2 million for the twelve months ended January 31, 2015. Excluding the \$10.9 million inventory write-down and the \$3.4 million intangible asset impairment in the twelve months ended January 31, 2015, the adjusted operating loss for that period was approximately \$3.9 million. The approximately \$1.9 million higher adjusted operating loss on a year-over-year basis was due to our lower gross margin and the resultant gross profit (\$12.3 million), partially offset by decreased selling, general and administrative expenses (approximately \$4.9 million), the gain on the sale our prior headquarters/distribution facility (\$4.1 million), and the decrease in other charges (\$1.1 million).

Interest Expense, Net. Our net interest expense for fiscal 2015 increased to \$1.5 million from \$0.5 million for the twelve months ended January 31, 2015. This increase was due to borrowings under our Credit Facility during fiscal 2015 and the \$15.0 million of equipment financing received during the four month transition period ended January 31, 2015.

Income Tax Benefit. For fiscal 2015 our effective tax benefit rate was 38.5%. Our effective tax benefit rate for fiscal 2015 was higher than the statutory federal tax rate of 35% primarily due to state income tax benefits, net of federal expense, including reductions related to uncertain income tax positions. For the twelve months ended January 31, 2015 our effective tax benefit rate was 46.2%. See Note 15 of the Notes to Consolidated Financial Statements, included elsewhere in this report, for the reconciliation of the statutory federal income tax rate to our effective tax rate. Our effective tax rate for the twelve months ended January 31, 2015 was higher than the statutory federal tax rate of 35% primarily due to reductions of state income tax expense, net of federal expense, of \$1.7 million, which were related to settlements of uncertain income tax positions, and to a lesser extent, state income tax benefits, net of federal expense.

Net Loss. Net loss for fiscal 2015 was \$4.5 million, or \$0.33 per share (diluted), compared to net loss of \$10.1 million, or \$0.75 per share (diluted), for the twelve months ended January 31, 2015. Net loss for fiscal 2015 includes other charges of \$1.7 million, net of tax, related to the relocations of our headquarters and distribution facilities and approximately \$2.6 million, net of tax, related to management and organizational changes, and other matters. Net loss for the twelve months ended January 31, 2015 includes other charges of \$1.7 million, net of tax, related to the

relocations of our headquarters and distribution facilities, \$4.5 million, net of tax, related to management and organizational changes, \$0.8 million, net of tax, related to our fiscal year change, and \$0.6 million, net of tax, related to a proposed business combination, offset by a gain of \$2.5 million, net of tax, on the sale our prior headquarters/distribution facility. Net income for the twelve months ended January 31, 2015 also includes \$1.7 million for reductions of state income tax expense, net of federal expense, related to settlements of uncertain income tax positions. Before these charges and credits, our adjusted net loss for fiscal 2015 was \$0.2 million, or \$0.01 per share (diluted), compared to net loss of \$6.7 million, or \$0.50 per share (diluted), for the twelve months ended January 31, 2015.

Our average diluted shares outstanding of 13.6 million for fiscal 2015 were slightly higher than the 13.5 million average diluted shares outstanding for the twelve months ended January 31, 2015. We had higher shares outstanding in fiscal 2015 compared to the twelve months ended January 31, 2015 as a result of stock option exercises and restricted stock awards.

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Following is a reconciliation of net loss and net loss per share (diluted) (“Diluted EPS”) to adjusted net income (loss) and adjusted Diluted EPS for the twelve months ended January 30, 2016 and January 31, 2015 (in thousands, except per share amounts):

| | Twelve Months Ended | | | January 31, 2015 | | |
|--|---------------------|----------------|-------------|------------------|----------------|-------------|
| | January 30, 2016 | | | January 31, 2015 | | |
| | Net Loss | Diluted Shares | Diluted EPS | Net Loss | Diluted Shares | Diluted EPS |
| As reported | \$(4,483) | 13,596 | \$(0.33) | \$(10,090) | 13,498 | \$(0.75) |
| Add: other charges for relocations, net of tax (1) | 1,667 | — | | 1,692 | — | |
| Add: other charges for management and organizational changes, net of tax (2) | 2,593 | — | | 4,462 | — | |
| Add: other charges for fiscal year change, net of tax (3) | 17 | — | | 775 | — | |
| Add: other charges for proposed business combinations, net of tax (4) | 38 | — | | 647 | — | |
| Less: gain on sale of building, net of tax (5) | — | — | | (2,540) | — | |
| Less: reductions of state income tax expense, net of federal expense, related to settlements of uncertain income tax positions | — | — | | (1,654) | — | |
| As adjusted | \$(168) | 13,596 | \$(0.01) | \$(6,708) | 13,498 | \$(0.50) |

(1) Other charges for relocations is net of income tax benefit of \$1,028 and \$1,028, respectively, which represents the difference in income tax provision calculated with and without the specified pretax expense.

(2) Other charges for management and organizational changes is net of income tax benefit of \$1,603 and \$2,745, respectively, which represents the difference in income tax provision calculated with and without the specified pretax expense.

(3) Other charges for fiscal year change is net of income tax benefit of \$10 and \$470, respectively, which represents the difference in income tax provision calculated with and without the specified pretax expense.

(4) Other charges for proposed business combinations is net of income tax benefit of \$23 and \$398, respectively, which represents the difference in income tax provision calculated with and without the specified pretax expense.

(5) Gain on sale of building is net of income tax expense of \$1,570, which represents the difference in income tax provision calculated with and without the specified pretax income.

Following is a reconciliation of net loss to Adjusted EBITDA and Adjusted EBITDA before other charges for the twelve months ended January 30, 2016 and January 31, 2015 (in thousands):

| | Twelve Months Ended | |
|----------------------------|---------------------|------------------|
| | January 30, 2016 | January 31, 2015 |
| Net loss | \$(4,483) | \$(10,090) |
| Add: income tax benefit | (2,806) | (8,652) |
| Add: interest expense, net | 1,520 | 506 |

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| | | |
|--|----------|----------|
| Operating loss | (5,769) | (18,236) |
| Add: depreciation and amortization expense | 17,231 | 15,401 |
| Add: loss on impairment of long-lived assets | 1,662 | 5,541 |
| Add: loss (gain) on disposal of assets | 193 | (3,858) |
| Add: stock-based compensation expense | 2,784 | 3,675 |
| Adjusted EBITDA | 16,101 | 2,523 |
| Add: other charges for relocations (1) | 2,462 | 1,696 |
| Add: other charges for management and organizational changes | 4,196 | 7,207 |
| Add: other charges for fiscal year change | 27 | 1,245 |
| Add: other charges for proposed business combination | 61 | 1,045 |
| Adjusted EBITDA before other charges | \$22,847 | \$13,716 |

(1) For the twelve months ended January 30, 2016 other charges for relocations excludes accelerated depreciation expense of \$233 (included in depreciation and amortization expense above). For the twelve months ended January 31, 2015 other charges for relocations excludes accelerated depreciation expense of \$1,024 (included in depreciation and amortization expense above) and \$(4,110) representing gain on sale of our prior headquarters/distribution facility (included in gain on disposal of assets above).

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Four Months Ended January 31, 2015 Compared to Four Months Ended January 31, 2014

Results of Operations

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

| | Four Months Ended January 31, 2015 | | 2014 | | % Period to Period |
|---|---------------------------------------|--|--|--|----------------------------|
| | Amount | % of Net Sales (1) | Amount | % of Net Sales (1) | |
| | (in thousands) | (in thousands, % of Net Sales (1)) | (in thousands, % of Net Sales (1)) | (in thousands, % of Net Sales (1)) | Favorable (Unfavorable) |
| Net sales | \$165,644 | 100.0 % | \$170,594 | 100.0 % | (2.9)% |
| Cost of goods sold (2) | 96,667 | 58.4 | 80,493 | 47.2 | (20.1) |
| Gross profit | 68,977 | 41.6 | 90,101 | 52.8 | (23.4) |
| Selling, general and administrative expenses (3) | 86,688 | 52.3 | 84,535 | 49.6 | (2.5) |
| Store closing, asset impairment and asset disposal expenses | 4,599 | 2.8 | 211 | 0.1 | NM |
| Other charges, net | 5,354 | 3.2 | 476 | 0.3 | NM |
| Operating income (loss) | (27,664) | (16.7) | 4,879 | 2.9 | (667.0) |
| Interest expense, net | 242 | 0.1 | 138 | 0.1 | (75.4) |
| Income (loss) before income taxes | (27,906) | (16.8) | 4,741 | 2.8 | (688.6) |
| Income tax (benefit) provision | (10,526) | (6.4) | 1,655 | 1.0 | 736.0 |
| Net income (loss) | \$(17,380) | (10.5)% | \$3,086 | 1.8 % | (663.2)% |

NM—Not meaningful

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

(2) Cost of goods sold includes merchandise costs (including customs duty expenses), expenses related to inventory shrinkage, product-related corporate expenses (including expenses related to our payroll, benefit costs and operating expenses of our design and sourcing departments), inventory reserves (including lower of cost or market reserves), inbound freight charges, purchasing and receiving costs, inspection costs, distribution center costs (including occupancy expenses and equipment depreciation), internal transfer costs, and the other costs of our distribution network.

(3) Selling, general and administrative expenses includes advertising and marketing expenses, corporate administrative expenses, corporate headquarters occupancy expenses, store expenses (including store payroll and store occupancy expenses), and store opening expenses.

The following tables set forth certain information regarding the number of our retail locations and international franchised locations, for the periods indicated. Retail locations include stores and leased maternity apparel departments and exclude locations where Kohl's sells our products under an exclusive product and license agreement, and international franchised locations.

Four Months Ended January 31,

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| | 2015 | | | 2014 | | |
|----------------------|--------|-----------------------|------------------------------|--------|-----------------------|------------------------------|
| Retail Locations (1) | Stores | Leased Departments | Total Retail Locations | Stores | Leased Departments | Total Retail Locations |
| Beginning of period | 568 | 1,326 | 1,894 | 596 | 1,311 | 1,907 |
| Opened | 5 | 5 | 10 | 6 | 21 | 27 |
| Closed | (9) | (20) | (29) | (16) | (11) | (27) |
| End of period | 564 | 1,311 | 1,875 | 586 | 1,321 | 1,907 |

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

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| | Four Months Ended January 31, 2015 | | | 2014 | | |
|---------------------|--|-------------------------------|---|-------------------------|-------------------------------|---|
| | International Franchised Locations (1) Stores | Shop-in- Shop Locations | Total International Franchised Locations | International Stores | Shop-in- Shop Locations | Total International Franchised Locations |
| Beginning of period | 19 | 59 | 78 | 20 | 123 | 143 |
| Opened | 4 | 4 | 8 | — | 7 | 7 |
| Closed | — | (1) | (1) | — | (3) | (3) |
| End of period | 23 | 62 | 85 | 20 | 127 | 147 |

(1) During the third quarter of fiscal 2014 we commenced our expansion in Mexico. As of January 31, 2015 our merchandise was offered in 49 shop-in-shops and four franchise stores in Mexico. During March 2014 one store and 116 shop-in-shop locations operated by our former India franchisee were closed.

Net Sales. Our net sales for the four months ended January 31, 2015 decreased by 2.9%, or \$5.0 million, to \$165.6 million from \$170.6 million for the four months ended January 31, 2014. Comparable sales for the four months ended January 31, 2015 decreased 2.0% compared to a comparable sales decrease of 0.9% for the four months ended January 31, 2014. Our reported comparable sales decrease of 2.0% for the four months ended January 31, 2015 was favorably impacted by 0.7 percentage points, and our reported comparable sales decrease of 0.9% for the four months ended January 31, 2014 was unfavorably impacted by 0.1 percentage points, due to calendar timing shifts as described above. Adjusting for these calendar shifts, our calendar-adjusted comparable sales decreased 2.7% for the four months ended January 31, 2015 and decreased 0.7% for the four months ended January 31, 2014. The decrease in total reported sales for the four months ended January 31, 2015 compared to the four months ended January 31, 2014 resulted primarily from 1) decreased sales related to our continued efforts to close underperforming stores (see our discussion in Item 1. Business regarding closing underperforming stores) and 2) the decrease in comparable sales, partially offset by increased international sales. We attribute the comparable sales decrease to a number of factors, including a continued difficult overall retail environment, which resulted in decreased store traffic, and weaker consumer reception than expected to our merchandise assortments, resulting in both lower unit sales and higher price promotional and markdown activity on a year-over-year basis.

As of January 31, 2015 we operated a total of 564 stores and 1,875 total retail locations: 450 Motherhood Maternity stores (including 91 Motherhood Maternity Outlet stores), 24 A Pea in the Pod stores, 90 Destination Maternity stores, and 1,311 leased maternity apparel departments, of which 487 were in Sears stores under the Two Hearts Maternity brand and the balance were in other department stores and baby specialty stores. In comparison, as of January 31, 2014 we operated a total of 586 stores and 1,907 total retail locations: 468 Motherhood Maternity stores (including 88 Motherhood Maternity Outlet stores), 29 A Pea in the Pod stores, 89 Destination Maternity stores, and 1,321 leased maternity apparel departments. As of January 31, 2015 our store total included 90 multi-brand Destination Maternity nameplate stores, including 53 Destination Maternity combo stores and 37 Destination Maternity superstores. In comparison, as of January 31, 2014 we operated 89 multi-brand Destination Maternity nameplate stores, including 54 Destination Maternity combo stores and 35 Destination Maternity superstores. During the four months ended January 31, 2015 we opened five stores and closed nine stores. In addition, during the four months ended January 31, 2015 we opened five leased department locations and closed 20 leased department locations.

Gross Profit. Our gross profit for the four months ended January 31, 2015 decreased by 23.4%, or \$21.1 million, to \$69.0 million from \$90.1 million for the four months ended January 31, 2014, and our gross profit as a percentage of net sales (gross margin) for the four months ended January 31, 2015 was 41.6% compared to 52.8% for the four months ended January 31, 2014. The decrease in gross profit for the four months ended January 31, 2015 compared to the four months ended January 31, 2014 was primarily due to our lower gross margin, reflecting higher year over year price promotional and markdown activity to spur sales and more aggressively manage inventory, including a \$10.9

million inventory write-down at January 31, 2015 for the planned disposal of certain out-of-season merchandise.

The \$10.9 million inventory write-down reflects a significant transformation to our inventory management program. The previous inventory management program viewed inventory as non-perishable and fungible from one year to the next. Inventory that was not liquidated in-season was recalled to the distribution center and redistributed to stores in a future period. Our transformation recognizes the evolution of the millennial consumer as an increasingly greater percentage of our customer base coupled with ongoing strong competition. The millennial consumer has high expectations regarding her shopping experience and demands a stronger, more relevant, current fashion assortment. The inventory write-down was necessary to address these changes in our marketplace and will allow us to remove excess units of prior season styles, which impact the visual quality of our presentations and most importantly, actively compete with new receipts at much lower price points and gross margins. This investment will help us accelerate improvement in our presentations and reduce competition with new receipts, driving higher average unit retail selling prices and average dollar sales per transaction and ultimately generating increased comparable sales and higher gross margin dollars.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses for the four months ended January 31, 2015 increased by 2.5%, or \$2.2 million, to \$86.7 million from \$84.5 million for the four months ended January 31, 2014. As a percentage of net sales, selling, general and administrative expenses increased to 52.3% for the four months ended January 31, 2015 compared to 49.6% for the four months ended January 31, 2014. This increase in expense for the quarter resulted primarily from higher expenses for marketing and advertising, and corporate payroll to drive increased sales, partially offset by lower expenses (primarily store payroll and occupancy costs) driven by our continued closure of underperforming stores. The increase in expense percentage for the four month period reflects the unfavorable leverage from our decreased sales due to the relatively fixed nature of most of our expenses.

Store Closing, Asset Impairment and Asset Disposal Expenses. Our store closing, asset impairment and asset disposal expenses for the four months ended January 31, 2015 increased by \$4.4 million, to \$4.6 million from \$0.2 million for the four months ended January 31, 2014. For the four months ended January 31, 2015 store closing, asset impairment and asset disposal expenses were comprised of 1) \$3.4 million for impairment of intangible assets related to our Secret Fit Belly technology, 2) \$1.1 million for impairment of store assets, and 3) \$0.1 million for store closings and other asset disposals. For the four months ended January 31, 2014 store closing, asset impairment and asset disposal expenses were comprised of 1) \$40,000 for impairment of store assets and 2) \$0.2 million for store closings and other asset disposals.

The Secret Fit impairment was primarily for capitalized legal costs incurred in connection with a lawsuit asserting infringement of patents held by us on our Secret Fit Belly technology. The impairment resulted from decisions of the United States Patent and Trademark Office ("USPTO") in Inter Partes Review ("IPR") proceedings through which it was decided by the USPTO that certain of the claims of the subject patents are not valid. The increase in store asset impairments reflects lower projected cash flows for certain stores due to sales and gross margin declines that are not expected to recover sufficiently in the future to allow for full recovery of the investment in store assets.

Other Charges, Net. In the four months ended January 31, 2015 we incurred other charges of \$5.4 million related to the relocations of our headquarters and distribution facilities, management and organizational changes, and our fiscal year change. Other charges related to our relocations of our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey were \$1.2 million, primarily for non-cash pre-opening rent expense for the new buildings, and to a lesser extent, accelerated depreciation. Other charges related to management and organizational changes were \$3.0 million, primarily for severance and other benefits in connection with the replacement of certain key management personnel and some reductions in headcount, and to a lesser extent, termination of an e-commerce development contract and consulting fees. Other charges related to our fiscal year change were \$1.2 million, primarily for audit and tax professional fees for the additional SEC, IRS and other reporting requirements related to the transition period.

Operating Income (Loss). We had an operating loss of \$27.7 million for the four months ended January 31, 2015 compared to operating income of \$4.9 million for the four months ended January 31, 2014. The approximately \$32.6 million decrease in operating income was primarily due to the write-down of excess out-of-season inventory (\$10.9 million), our lower sales and gross profit (\$10.2 million), increased other charges (\$4.9 million) and increased asset impairments (\$4.4 million).

Interest Expense, Net. Our net interest expense for the four months ended January 31, 2015 increased to \$0.2 million from \$0.1 million for the four months ended January 31, 2014. This slight increase was due to the \$15.0 million of equipment financing received during the four months ended January 31, 2015.

Income Tax (Benefit) Provision. For the four months ended January 31, 2015 our effective tax benefit rate was 37.7% compared to our tax provision rate of 34.9% for the four months ended January 31, 2014. Our effective tax benefit rate for the four months ended January 31, 2015 was higher than the statutory federal tax rate of 35% primarily due to state income tax benefits from our net operating loss, net of federal expense. Our effective tax provision rate for

the four months ended January 31, 2014 was slightly lower than the statutory federal tax rate of 35% primarily due to reductions of state income tax expense, net of federal tax benefit, which were related to settlements of uncertain income tax positions, largely offset by the effect of state income taxes, net of federal benefit. See Note 15 of the Notes to Consolidated Financial Statements, included elsewhere in this report, for the reconciliation of the statutory federal income tax rate to our effective tax rate.

Net Income (Loss). Net loss for the four months ended January 31, 2015 was \$17.4 million, or \$1.28 per share (diluted), compared to net income of \$3.1 million, or \$0.23 per share (diluted), for the four months ended January 31, 2014. Net loss for the four months ended January 31, 2015 includes 1) other charges of (a) \$0.7 million, net of tax, related to the relocations of our headquarters and distribution facilities, (b) \$1.8 million, net of tax, related to management and organizational changes, and (c) \$0.8 million, net of tax, related to our fiscal year change, and 2) reductions of state income tax expense, net of federal expense, of \$0.1 million, related to settlements of uncertain income tax positions. Net income for the four months ended January 31, 2014 includes 1) other charges of \$0.3 million, net of tax, related to the relocations of our headquarters and distribution facilities, and 2) reductions of state income tax expense, net of federal expense, of \$0.2 million, related to settlements of uncertain income tax positions. Before these charges or

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credits, our net loss for the four months ended January 31, 2015 was \$14.1 million, or \$1.04 per share (diluted), compared to net income of \$3.2 million, or \$0.24 per share (diluted), for the four months ended January 31, 2014.

Our average diluted shares outstanding of 13.5 million for the four months ended January 31, 2015 were 0.3% lower than the 13.6 million average diluted shares outstanding for the four months ended January 31, 2014. We had higher shares outstanding in the four months ended January 31, 2015 compared to the four months ended January 31, 2014, as a result of stock option exercises and restricted stock awards. However, diluted shares for the four months ended January 31, 2015 exclude the antidilutive impact of outstanding stock options and restricted stock due to the net loss for that period, compared to the inclusion of the dilutive impact of outstanding stock options and restricted stock in four months ended January 31, 2014, when we generated net income.

Following is a reconciliation of net income (loss) and Diluted EPS to adjusted net income (loss) and adjusted Diluted EPS for the four months ended January 31, 2015 and 2014 (in thousands, except per share amounts):

| | Four Months Ended January 31, | | | 2014 | | |
|--|-------------------------------|-------------------|----------------|---------------|-------------------|----------------|
| | 2015 Net Loss | Diluted Shares | Diluted EPS | Net Income | Diluted Shares | Diluted EPS |
| As reported | \$(17,380) | 13,541 | \$(1.28) | \$3,086 | 13,581 | \$ 0.23 |
| Add: other charges for relocations, net of tax (1) | 721 | — | | 297 | — | |
| Add: other charges for management and organizational changes, net of tax (2) | 1,830 | — | | — | — | |
| Add: other charges for fiscal year change, net of tax (3) | 775 | — | | — | — | |
| Less: reductions of state income tax expense, net of federal expense, related to settlements of uncertain income tax positions | (55) | — | | (170) | — | |
| As adjusted | \$(14,109) | 13,541 | \$(1.04) | \$3,213 | 13,581 | \$ 0.24 |

(1) For the four months ended January 31, 2015 and 2014 other charges for relocations is net of income tax benefit of \$437 and \$179, respectively, which represents the difference in income tax provision calculated with and without the specified pretax expense.

(2) Other charges for management and organizational changes is net of income tax benefit of \$1,121, which represents the difference in income tax provision calculated with and without the specified pretax expense.

(3) Other charges for fiscal year change is net of income tax benefit of \$470, which represents the difference in income tax provision calculated with and without the specified pretax expense.

Following is a reconciliation of net income to Adjusted EBITDA and Adjusted EBITDA before other charges for the four months ended January 31, 2015 and 2014 (in thousands):

| | Four Months Ended January 31, | |
|-------------------------------------|-------------------------------|----------|
| | 2015 | 2014 |
| Net income (loss) | \$ (17,380) | \$ 3,086 |
| Add: income tax (benefit) provision | (10,526) | 1,655 |

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| | | |
|--|--------------|-----------|
| Add: interest expense, net | 242 | 138 |
| Operating income (loss) | (27,664) | 4,879 |
| Add: depreciation and amortization expense | 5,223 | 5,021 |
| Add: loss on impairment of long-lived assets | 4,444 | 40 |
| Add: loss on disposal of assets | 109 | 89 |
| Add: stock-based compensation expense | 1,073 | 1,144 |
| Adjusted EBITDA | (16,815) | 11,173 |
| Add: other charges for relocations (1) | 887 | 103 |
| Add: other charges for management and organizational changes | 2,951 | — |
| Add: other charges for fiscal year change | 1,245 | — |
| Adjusted EBITDA before other charges | \$ (11,732) | \$ 11,276 |

(1) Excludes accelerated depreciation expense of \$271 and \$373 included in depreciation and amortization expense above.

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Year Ended September 30, 2014 Compared to Year Ended September 30, 2013

Results of Operations

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

| | Year Ended September 30, | | | | % Period to Period |
|---|--------------------------|--------------------|----------------|--------------------|-------------------------|
| | 2014 | 2013 | Amount | Amount | |
| | (in thousands) | % of Net Sales (1) | (in thousands) | % of Net Sales (1) | Favorable (Unfavorable) |
| Net sales | \$516,959 | 100.0 % | \$540,259 | 100.0 % | (4.3)% |
| Cost of goods sold (2) | 247,501 | 47.9 | 249,298 | 46.1 | 0.7 |
| Gross profit | 269,458 | 52.1 | 290,961 | 53.9 | (7.4) |
| Selling, general and administrative expenses (3) | 250,253 | 48.4 | 252,026 | 46.6 | 0.7 |
| Store closing, asset impairment and asset disposal expenses | 1,469 | 0.3 | 1,441 | 0.3 | (1.9) |
| Other charges, net | 3,229 | 0.6 | — | — | NM |
| Operating income | 14,507 | 2.8 | 37,494 | 6.9 | (61.3) |
| Interest expense, net | 404 | 0.1 | 532 | 0.1 | 24.1 |
| Loss on extinguishment of debt | — | — | 9 | 0.0 | 100.0 |
| Income before income taxes | 14,103 | 2.7 | 36,953 | 6.8 | (61.8) |
| Income tax provision | 3,606 | 0.7 | 13,010 | 2.4 | 72.3 |
| Net income | \$10,497 | 2.0 % | \$23,943 | 4.4 % | (56.2)% |

NM—Not meaningful

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

(2) Cost of goods sold includes merchandise costs (including customs duty expenses), expenses related to inventory shrinkage, product-related corporate expenses (including expenses related to our payroll, benefit costs and operating expenses of our design and sourcing departments), inventory reserves (including lower of cost or market reserves), inbound freight charges, purchasing and receiving costs, inspection costs, distribution center costs (including occupancy expenses and equipment depreciation), internal transfer costs, and the other costs of our distribution network.

(3) Selling, general and administrative expenses includes advertising and marketing expenses, corporate administrative expenses, corporate headquarters occupancy expenses, store expenses (including store payroll and store occupancy expenses), and store opening expenses.

The following tables set forth certain information regarding the number of our retail locations and international franchised locations, for the fiscal years indicated. Retail locations include stores and leased maternity apparel departments and exclude locations where Kohl's sells our products under an exclusive product and license agreement, and international franchised locations.

Year Ended September 30,

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| Retail Locations (1) | 2014 | | | 2013 | | |
|----------------------|--------|-----------------------|------------------------------|--------|-----------------------|------------------------------|
| | Stores | Leased Departments | Total Retail Locations | Stores | Leased Departments | Total Retail Locations |
| Beginning of period | 596 | 1,311 | 1,907 | 625 | 1,383 | 2,008 |
| Opened | 22 | 43 | 65 | 15 | 74 | 89 |
| Closed | (50) | (28) | (78) | (44) | (146) | (190) |
| End of period | 568 | 1,326 | 1,894 | 596 | 1,311 | 1,907 |

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

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| | Year Ended September 30, 2014 | | | 2013 | | |
|---------------------|---|-------------------------------|---|-------------------------|-------------------------------|---|
| | International Franchised Locations (1) | Shop-in- Shop Locations | Total International Franchised Locations | International Stores | Shop-in- Shop Locations | Total International Franchised Locations |
| Beginning of period | 20 | 123 | 143 | 16 | 103 | 119 |
| Opened | 2 | 56 | 58 | 5 | 30 | 35 |
| Closed | (3) | (120) | (123) | (1) | (10) | (11) |
| End of period | 19 | 59 | 78 | 20 | 123 | 143 |

(1) During March 2014 one store and 116 shop-in-shop locations operated by our former India franchisee were closed. Net Sales. Our net sales for fiscal 2014 decreased by 4.3% or \$23.3 million, to \$517.0 million from \$540.3 million for fiscal 2013. Comparable sales decreased 3.7% during fiscal 2014 versus a comparable sales increase of 2.6% during fiscal 2013. Adjusting for the calendar timing shift, as described in Item 6 in this report, our calendar-adjusted comparable sales decreased 3.7% for fiscal 2014 and increased 3.2% for fiscal 2013. The decrease in total reported sales for fiscal 2014 compared to fiscal 2013 resulted primarily from the decrease in comparable sales and decreased sales related to our continued efforts to close underperforming stores (see our discussion in Item 1. Business regarding closing underperforming stores). We attribute the comparable sales decrease to a number of factors, including a continued difficult overall economic and retail environment, which resulted in decreased store traffic, and weaker consumer reception than expected to the Company's merchandise assortments, resulting in both lower unit sales and higher than planned price promotional and markdown activity.

As of September 30, 2014 we operated a total of 568 stores and 1,894 total retail locations: 454 Motherhood Maternity stores (including 90 Motherhood Maternity Outlet stores), 25 A Pea in the Pod stores, 89 Destination Maternity stores, and 1,326 leased maternity apparel departments, of which 491 were in Sears stores under the Two Hearts Maternity brand and the balance were in other department stores and baby specialty stores. In comparison, as of September 30, 2013 we operated a total of 596 stores and 1,907 total retail locations: 476 Motherhood Maternity stores (including 86 Motherhood Maternity Outlet stores), 31 A Pea in the Pod stores, 89 Destination Maternity stores, and 1,311 leased maternity apparel departments. As of September 30, 2014 our store total included 89 multi-brand Destination Maternity nameplate stores, including 52 Destination Maternity combo stores and 37 Destination Maternity superstores. In comparison, as of September 30, 2013 we operated 89 multi-brand Destination Maternity nameplate stores, including 56 Destination Maternity combo stores and 33 Destination Maternity superstores. During fiscal 2014 we opened 22 stores, including eight Destination Maternity nameplate stores, and closed 50 stores, with nine of these store closings related to Destination Maternity nameplate store openings. In addition, during fiscal 2014 we opened 43 leased department locations and closed 28 leased department locations.

Gross Profit. Our gross profit for fiscal 2014 decreased by 7.4%, or \$21.5 million, to \$269.5 million compared to \$291.0 million for fiscal 2013, and our gross profit as a percentage of net sales (gross margin) for fiscal 2014 was 52.1% compared to 53.9% for fiscal 2013. The decrease in gross profit for fiscal 2014 compared to fiscal 2013 was primarily due to lower sales volume and our lower gross margin, reflecting higher than planned price promotional and markdown activity to spur sales and more aggressively manage inventory, including \$1.3 million of inventory write-downs at September 30, 2014 for the planned disposal of certain out of season merchandise.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses for fiscal 2014 decreased by 0.7%, or approximately \$1.7 million, to \$250.3 million from \$252.0 million for fiscal 2013. As a percentage of net sales, selling, general and administrative expenses increased to 48.4% for fiscal 2014 compared to 46.6% for fiscal 2013. This decrease in expense for fiscal 2014 compared to fiscal 2013 resulted primarily from lower expenses (primarily payroll and occupancy costs) driven by our continued closure of underperforming stores, and

lower variable incentive compensation expense, partially offset by higher expenses for corporate payroll, advertising and marketing to drive increased sales, and depreciation from capital expenditures for store facilities. The increase in expense percentage for fiscal 2014 reflects the unfavorable leverage from our decreased sales due to the relatively fixed nature of most of our expenses.

Store Closing, Asset Impairment and Asset Disposal Expenses. Our store closing, asset impairment and asset disposal expenses for fiscal 2014 increased by approximately \$0.1 million, to \$1.5 million from \$1.4 million for fiscal 2013, reflecting higher impairment charges for write-downs of long-lived assets substantially offset by lower charges related to store closings.

Other Charges, Net. During fiscal 2014 we incurred other charges, net of \$3.2 million related to the relocations of our headquarters and distribution facilities, a proposed business combination, and management and organizational changes initiated during the fourth quarter of fiscal 2014. Other charges related to our previously announced plans to relocate our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey were \$2.0 million, primarily for accelerated depreciation and non-cash pre-opening rent expense for the new headquarters building, offset by a gain of \$4.1 million on the sale of

our current headquarters/distribution facility. Other charges related to our proposed business combination with Mothercare plc, which was withdrawn on July 25, 2014, were \$1.0 million, reflecting legal and other professional fees. Other charges related to management and organizational changes were \$4.3 million, primarily for severance and other benefits in connection with the resignation of our former CEO. We did not incur other charges in fiscal 2013.

Operating Income. Our operating income for fiscal 2014 was \$14.5 million compared to \$37.5 million of operating income for fiscal 2013. Operating income as a percentage of net sales for fiscal 2014 decreased to 2.8% from 6.9% for fiscal 2013. The decrease in operating income and operating income percentage was primarily due to our lower sales and gross profit and to a much lesser extent, the other charges for our relocations, proposed business combination, and management and organizational changes, which were partially offset by lower selling, general and administrative expenses.

Interest Expense, Net. Our net interest expense for fiscal 2014 decreased by 24.1%, or \$0.1 million, to \$0.4 million from \$0.5 million in fiscal 2013. This slight decrease was due to repayment of the remaining \$13.4 million of outstanding under a prior term loan during the first quarter of fiscal 2013 and repayment of our Industrial Revenue Bond during the third quarter of fiscal 2013.

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

Income Tax Provision. For fiscal 2014 our effective tax rate was 25.6% compared to 35.2% for fiscal 2013. Our effective tax rate for fiscal 2014 was lower than the statutory federal tax rate of 35% primarily due to reductions of state income tax expense, net of federal expense, of \$1.8 million, or \$0.13 per diluted share, recorded in fiscal 2014, which were related to settlements of uncertain income tax positions. Our effective tax rate for fiscal 2013 was slightly higher than the statutory federal tax rate of 35% primarily due to the effect of state income taxes, net of federal tax benefit, and to a lesser extent, additional income tax expense (including interest and penalties) recognized as required by the accounting standard for uncertain income tax positions, largely offset by the recognition of the estimated tax benefit of certain state net operating loss carryforwards. Income tax expense for fiscal 2013 included a reduction of state income tax expense, net of federal expense, of \$1.2 million, or \$0.09 per diluted share, for the estimated carryforward tax benefit of certain state net operating losses based upon changes in applicable state income tax regulations, which was recognized in the fourth quarter of fiscal 2013. See Note 15 of the Notes to Consolidated Financial Statements, included elsewhere in this report, for the reconciliation of the statutory federal income tax rate to our effective tax rate.

Net Income. Net income for fiscal 2014 was \$10.5 million, or \$0.77 per share (diluted), compared to net income of \$23.9 million, or \$1.78 per share (diluted) for fiscal 2013. Net income for fiscal 2014 includes total other charges of \$2.0 million, net of tax, or \$0.15 per diluted share, comprised of: 1) \$1.3 million, net of tax, or \$0.09 per diluted share, related to the Company's planned relocations of its headquarters and distribution facilities, 2) \$0.6 million, net of tax, or \$0.05 per diluted share, related to the Company's proposed business combination with Mothercare plc, which was withdrawn on July 25, 2014, 3) \$2.6 million, net of tax, or \$0.20 per diluted share, related to management and organizational changes initiated by the Company during the fourth quarter of fiscal 2014, and 4) a gain of \$2.5 million, net of tax, or \$0.19 per diluted share, from the sale of the Company's current headquarters/distribution facility. Net income for fiscal 2014 also includes reductions of state income tax expense, net of federal expense, of \$1.8 million, or \$0.13 per diluted share, related to settlements of uncertain income tax positions. Net income for fiscal 2013 included a reduction of state income tax expense, net of federal expense, of \$1.2 million, or \$0.09 per diluted share, for the recognition of tax benefits in fiscal 2013 resulting from changes in certain state income tax regulations. Before these charges or credits, our fiscal 2014 adjusted net income was \$10.7 million or \$0.79 per share (diluted) compared to \$22.7 million or \$1.69 per share (diluted) for fiscal 2013.

Our average diluted shares outstanding of 13.6 million for fiscal 2014 was 1.0% higher than the 13.4 million average diluted shares outstanding for fiscal 2013. The increase in average shares outstanding reflects the higher shares outstanding in fiscal 2014 compared to fiscal 2013, primarily as a result of the exercise of stock options and vesting of restricted stock.

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Following is a reconciliation of net income and Diluted EPS to adjusted net income and adjusted Diluted EPS for the years ended September 30, 2014 and 2013 (in thousands, except per share amounts):

| | Year Ended September 30, 2014 | | | 2013 | | |
|--|----------------------------------|-------------------|----------------|---------------|-------------------|----------------|
| | Net Income | Diluted Shares | Diluted EPS | Net Income | Diluted Shares | Diluted EPS |
| As reported | \$ 10,497 | 13,572 | \$ 0.77 | \$ 23,943 | 13,439 | \$ 1.78 |
| Add: other charges for relocations, net of tax (1) | 1,271 | — | | — | — | |
| Add: other charges for proposed business combination, net of tax (2) | 645 | — | | — | — | |
| Add: other charges for management and organizational changes, net of tax (3) | 2,651 | — | | — | — | |
| Less: gain on sale of building, net of tax (4) | (2,540) | — | | — | — | |
| Add: loss on extinguishment of debt, net of tax (5) | — | — | | 6 | — | |
| Less: reductions of state income tax expense, net of federal expense, related to settlements of uncertain income tax positions | (1,824) | — | | — | — | |
| Less: recognition of state income tax benefits resulting from regulation changes | — | — | | (1,216) | — | |
| As adjusted | \$ 10,700 | 13,572 | \$ 0.79 | \$ 22,733 | 13,439 | \$ 1.69 |

- (1) Other charges for relocations is net of income tax benefit of \$767, which represents the difference in income tax provision calculated with and without the specified pretax expense.
- (2) Other charges for proposed business combination is net of income tax benefit of \$400, which represents the difference in income tax provision calculated with and without the specified pretax expense.
- (3) Other charges for management and organizational changes is net of income tax benefit of \$1,605, which represents the difference in income tax provision calculated with and without the specified pretax expense.
- (4) Gain on sale of building is net of income tax expense of \$1,570, which represents the difference in income tax provision calculated with and without the specified pretax income.
- (5) Loss on extinguishment of debt is net of income tax benefit of \$3, which represents the difference in income tax provision calculated with and without the specified pretax expense.

Following is a reconciliation of net income to Adjusted EBITDA and Adjusted EBITDA before other charges for the years ended September 30, 2014 and 2013 (in thousands):

| | Year Ended September 30, | |
|--|-----------------------------|-----------|
| | 2014 | 2013 |
| Net income | \$ 10,497 | \$ 23,943 |
| Add: income tax provision | 3,606 | 13,010 |
| Add: interest expense, net | 404 | 532 |
| Add: loss on extinguishment of debt | — | 9 |
| Operating income | 14,507 | 37,494 |
| Add: depreciation and amortization expense | 15,197 | 12,424 |

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| | | |
|--|----------|----------|
| Add: loss on impairment of long-lived assets | 1,136 | 786 |
| Add: (gain) loss on disposal of assets | (4,031) | 528 |
| Add: stock-based compensation expense | 3,747 | 2,771 |
| Adjusted EBITDA | 30,556 | 54,003 |
| Add: other charges for relocations (1) | 911 | — |
| Add: other charges for management and organizational changes | 4,256 | — |
| Add: other charges for proposed business combination | 1,045 | — |
| Adjusted EBITDA before other charges | \$36,768 | \$54,003 |

(1) For fiscal 2014 other charges excludes accelerated depreciation expense of \$1,127 (included in depreciation and amortization expense above) and gain on sale of building of \$4,110 (included in gain on disposal of assets above).

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Liquidity and Capital Resources

Our cash needs have primarily been for 1) capital expenditures, including (i) leasehold improvements, fixtures and equipment for new stores, store relocations and remodels of our existing stores, (ii) production equipment and leasehold improvements for the relocations of our distribution operations and corporate headquarters, respectively, and (iii) investment in information systems and technology, 2) debt service, including principal repayments, 3) quarterly cash dividends, and 4) working capital, including inventory to support our business. We have historically financed our capital requirements from cash flows from operations, borrowings under our credit facilities or available cash balances.

Cash and cash equivalents increased by \$0.8 million during fiscal 2015 compared to a decrease of \$16.2 million during the twelve months ended January 31, 2015.

Cash provided by operations was \$16.1 million for fiscal 2015, a decrease of \$11.4 million from the \$27.5 million in cash provided by operations for the twelve months ended January 31, 2015. This decrease in cash provided by operations versus the comparable prior year period was primarily the result of net working capital and other asset/liability changes that provided \$0.1 million of cash in fiscal 2015 compared to \$14.5 million cash provided in the twelve months ended January 31, 2015 (excluding the effect of the \$10.9 million inventory write-down in the twelve months ended January 31, 2015), partially offset by the lower net loss in fiscal 2015 compared to the twelve months ended January 31, 2015, net of the change in non-cash adjustments (including the \$10.9 million inventory write-down). The \$14.4 million year-over-year increase in use of cash from net working capital and other asset/liability changes was primarily the result of 1) a decrease in accounts payable and accrued expenses in fiscal 2015 compared to an increase in the twelve months ended January 31, 2015, reflecting timing of vendor and payroll related payments, including severance and other benefits paid in connection with the resignation of our former CEO (\$18.4 million), and 2) a decrease in deferred rent and other non-current liabilities balances in fiscal 2015 compared to an increase in the twelve months ended January 31, 2015 (\$6.3 million), partially offset by 1) a decrease in prepaid expenses and other current assets in fiscal 2015 compared to an increase in the twelve months ended January 31, 2015 (\$7.9 million), primarily reflecting timing of tenant construction allowances from landlords, including \$4.0 million for our new headquarters facility, and 2) a slightly higher year-over-year decrease in inventory (excluding the \$10.9 million inventory write-down in the twelve months ended January 31, 2015) (\$2.1 million). Our working capital changes, quarterly net income (loss) and cash flow adjustments may fluctuate significantly and net cash provided by operating activities for any interim period is not necessarily indicative of the results that may be achieved for a full fiscal year.

During fiscal 2015 we used \$28.4 million from borrowings on our Credit Facility and cash provided by operations to pay for capital expenditures, to pay our quarterly cash dividend, to make monthly payments on our capital equipment loan and to increase available cash. For fiscal 2015 we spent \$29.3 million on capital expenditures, including \$15.2 million for leasehold improvements, fixtures and equipment for new store facilities, as well as improvements to existing stores, \$9.5 million related to the relocations of our corporate headquarters and distribution operations (see below), and \$4.6 million for our information technology systems. In fiscal 2015 we paid \$11.0 million for our quarterly cash dividend. We expect to use borrowings under our Credit Facility to fund a portion of our capital requirements from time to time during fiscal 2016.

Our inventory carrying value of \$72.5 million as of January 30, 2016 has declined 4.0% from January 31, 2015 and has declined 18.0% from September 30, 2014 as a result of our efforts to clear our stores of excess and out-of-season merchandise. Unit inventory is down approximately 11% on a year-over-year basis as we continued the liquidation of aged, reserved inventory. During the second half of fiscal 2015 we continued to adjust our approach to balancing inventory and pricing decisions in a demand-constrained retail environment. This helped us achieve a gross margin rate during the fourth quarter of fiscal 2015 that was 240 basis points higher than the comparable prior year period, excluding the effect of the prior period's \$10.9 million inventory write-down. We continue to evaluate alternative liquidation approaches to optimize our cash return on the disposal of excess and out-of-season merchandise.

During the twelve months ended January 31, 2015 we received \$15.0 million cash proceeds from equipment financing provided by our Credit Facility bank and \$12.5 million cash proceeds from the sale of our prior headquarters/distribution facility. During the twelve months ended January 31, 2015 we used cash provided by operations, the proceeds from the equipment financing, the proceeds from the building sale and a portion of our available cash to pay for capital expenditures and to pay our quarterly cash dividend. For the twelve months ended January 31, 2015, we spent \$55.2 million on capital expenditures, including \$28.4 million related to the relocations of our corporate headquarters and distribution operations (see below), \$21.1 million for leasehold improvements, fixtures and equipment for new store facilities, as well as improvements to existing stores, and \$5.7 million for our information technology systems, and distribution and corporate facilities. In the twelve months ended January 31, 2015, we paid \$10.9 million for our quarterly cash dividend.

On March 25, 2016, we entered into a Term Loan Credit Agreement (the "Term Loan Agreement") for a \$32.0 million term loan due March 21, 2021 (the "Term Loan"), the proceeds of which were received on March 26, 2016 and were used to repay a portion of the outstanding indebtedness under our existing Credit Facility (see below). The interest rate on the Term Loan is equal to a LIBOR rate (with a 1.00% LIBOR floor) plus 7.50%. We are required to make minimum repayments of the principal amount of the Term Loan in quarterly installments of \$0.8 million each, with the remaining outstanding balance payable on the maturity date.

Additionally, the Term Loan can be prepaid at our option subject to certain restrictions, in part or in whole at any time, subject to the payment of a prepayment premium as follows: 1) 3% on or prior to the first anniversary of the closing date, 2) 2% from the first anniversary to the second anniversary of the closing date, and 3) 1% after the second anniversary but on or prior to the third anniversary of the closing date. Under the Term Loan Agreement we are required to maintain Excess Availability (as defined in the related Credit Facility agreement) equal to the greater of 10% of the Loan Cap (as defined in the related Credit Facility agreement) or \$5.0 million. In addition, we are required to maintain quarterly Consolidated EBITDA (as defined in the related Term Loan Agreement) in an amount not less than the levels specified for each period in the Term Loan Agreement, and are prohibited from making capital expenditures (net of tenant allowances) in excess of \$17.0 million in any period of four fiscal quarters (subject to carry-forward of 50% of any underutilization). The Term Loan Agreement also prohibits the payment of dividends or share repurchases by us for three years. The Term Loan is secured by a security interest in substantially all of our assets, including accounts receivable, inventory, equipment, letter of credit rights, cash, intellectual property and other intangibles, and certain other assets. The security interest granted to the Term Lenders is, in certain respects, subordinate to the security interest granted to the Credit Facility Lender.

After completion of our debt refinancing on March 26, 2016 we have a \$70.0 million senior secured revolving credit facility (the "Credit Facility"), which was amended and restated in connection with the issuance of our new \$32.0 million Term Loan. Previously the Credit Facility was \$76.0 million and consisted of two tranches: 1) a senior secured revolving credit and letter of credit facility of up to \$70.0 million ("Tranche A") and 2) a senior secured first-in, last-out revolving credit facility of up to \$6.0 million ("Tranche A-1"). On March 26, 2016 proceeds from the Term Loan were used to repay a portion of the outstanding indebtedness under the Credit Facility, including repayment of the entire balance outstanding under Tranche A-1, which was then terminated. We originally entered into a five-year \$61.0 million Credit Facility on November 1, 2012. In accordance with the terms of the Credit Facility, effective June 3, 2015 our permitted borrowings under Tranche A of the Credit Facility were increased by \$15.0 million at our request. Effective August 25, 2015 the Credit Facility was amended to reflect the increase to Tranche A permitted borrowings and to extend the maturity date to August 25, 2020 from November 1, 2017. In connection with the Term Loan financing the maturity date of the Credit Facility was further extended to March 25, 2021. Proceeds from advances under the Credit Facility, with certain restrictions, may be used to provide financing for working capital, letters of credit, capital expenditures and other general corporate purposes. Under the Credit Facility, we are required to maintain minimum Excess Availability (as defined in the related Credit Facility agreement) equal to the greater of 10% of the Loan Cap (as defined in the Credit Facility agreement) or \$5.0 million. The Credit Facility is secured by a security interest in our trade receivables, inventory, letter of credit rights, cash, intangibles and certain other assets.

After completion of our debt refinancing on March 26, 2016 we had \$10.7 million in outstanding borrowings under the Credit Facility and \$6.3 million in letters of credit, with \$42.2 million of availability under the Credit Facility based on our Borrowing Base formula and minimum Excess Availability requirement. As of January 30, 2016 we had \$28.4 million in outstanding borrowings under the Credit Facility, of which \$22.4 million were Tranche A borrowings and \$6.0 million were Tranche A-1 borrowings, and \$6.3 million in letters of credit, with \$20.3 million of availability under the Credit Facility based on our Borrowing Base formula and minimum Excess Availability requirement. As of January 31, 2015 we had no outstanding borrowings under the Credit Facility and \$6.4 million in letters of credit, with \$49.1 million of availability under the Credit Facility based on the Company's Borrowing Base formula and minimum Excess Availability requirement. For fiscal 2015 Tranche A borrowings had a weighted interest rate of 3.05% per annum and Tranche A-1 borrowings had a weighted interest rate of 4.89%. During fiscal 2015 our average level of direct borrowings was \$26.8 million and our maximum borrowings at any time were \$40.9 million. For the twelve months ended January 31, 2015 our borrowings were all under Tranche A-1 and had a weighted interest rate of 5.25%. During the twelve months ended January 31, 2015 our average level of direct borrowings was \$0.2 million and our maximum borrowings at any time were \$5.8 million.

During the four month transition period ended January 31, 2015 we received \$15.0 million proceeds from a five-year equipment financing arrangement with our Credit Facility bank. The equipment note bears annual interest at 3.38%, with payments of \$0.3 million (including interest) due monthly through December 2019. The equipment note is

collateralized by substantially all of the material handling equipment at our distribution facility in Florence, New Jersey. As of January 30, 2016 there was \$12.2 million outstanding under the equipment note.

During fiscal 2015 and the twelve months ended January 31, 2015 we paid cash dividends of \$11.0 million (or \$0.80 per share) and \$10.9 million (or \$0.80 per share), respectively. In connection with our debt refinancing our Board of Directors agreed to suspend the quarterly dividend.

Our management believes that our current cash and working capital positions, expected operating cash flows and available borrowing capacity will be sufficient to fund our cash requirements for working capital and capital expenditures for at least the next twelve months.

Facilities Relocations

In September 2013 we announced our plans to relocate our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey. We completed the relocation of our corporate headquarters in January 2015 and we completed the relocation of our distribution operations in August 2015. To partially offset the costs of these relocations, the Board

of the NJEDA approved us for an incentive package of up to \$40 million in benefits under Grow NJ in the form of transferrable income tax credits over a ten-year period from the State of New Jersey. The annual benefit amount available to us is expected to significantly exceed our annual income tax liability to New Jersey. In order to maximize the realizable value of our incentive package, in December 2013 we entered into an agreement with a third party to sell 75% or more of the annual income tax credits awarded to us. Based on this agreement, we project we will realize approximately \$36 million from the incentive package, subject to our compliance with the requirements of our incentive package under Grow NJ. In connection with the planned relocations, in September 2014 we sold the building that housed our principal executive offices and distribution facility in a sale and leaseback arrangement. We received \$12.5 million cash proceeds and realized a gain of \$4.1 million from the sale. Under the leaseback agreement we continued to occupy the premises and used them for the wind down of our business operations through October 31, 2015. As of January 30, 2016 we had capital expenditures associated with these relocations of \$40 million, with nearly \$4 million of this amount offset by construction allowance contributions from the landlord for our new headquarters building. We previously received \$15 million of capital equipment financing through our Credit Facility bank to partially fund the material handling equipment in the new distribution facility.

As previously discussed, we experienced some temporary disruption of operations during the third quarter of fiscal 2015 resulting from our distribution center move. We estimate that our comparable sales for fiscal 2015 were negatively impacted by approximately 0.5%, resulting in lower gross profit and negatively impacting our Diluted EPS. We estimate that net relocation related costs, excluding other charges, negatively impacted our full year fiscal 2015 results by approximately \$0.02 per diluted share, as a result of the temporary disruption, partially offset by the expected after-tax earnings benefit from the relocations. Our financial projections of the costs/benefits from our relocations factor the incremental impact of actual or expected costs to be incurred, such as occupancy expenses for our new facilities, and actual or expected benefits to be realized, such as our Grow NJ benefit, net of operating expenses and depreciation of capital costs that we estimate would otherwise have been incurred. For fiscal 2016 we project that we will realize an after-tax earnings benefit of approximately \$0.04 per diluted share and an after-tax cash benefit of approximately \$3 million from the relocations.

Contractual Obligations and Commercial Commitments

We have entered into agreements that create contractual obligations and commercial commitments. These obligations and commitments will have an impact on future liquidity and the availability of capital resources. The tables below set forth a summary of these obligations and commitments as of January 30, 2016 (in thousands):

Contractual Obligations:

| Description | Total Obligations (1) | Payments Due by Period | | | |
|---|-----------------------|------------------------|--------------------|---------------------|------------------|
| | | Less Than One Year | One to Three Years | Three to Five Years | After Five Years |
| Long-term debt (2) | \$ 44,199 | \$4,497 | \$13,559 | \$8,543 | \$17,600 |
| Interest related to long-term debt (2) | 11,544 | 2,458 | 5,283 | 3,440 | 363 |
| Operating leases (3) | 225,979 | 42,407 | 67,221 | 45,616 | 70,735 |
| Purchase obligations (4) | 74,935 | 74,935 | — | — | — |
| Total contractual cash obligations | \$ 356,657 | \$124,297 | \$86,063 | \$57,599 | \$88,698 |

(1) The amounts in this table exclude obligations under employment agreements. For a discussion of the compensation of our executive officers, see the information contained under the caption “Executive Compensation” in our Proxy

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Statement, which will be filed with the SEC in connection with the Annual Meeting of Stockholders expected to be held in May 2016.

- (2) Long-term debt includes \$32,000 due under our Term Loan, which was completed in March 2016 through the bank that provides our Credit Facility. Variable rate interest costs on the term loan were estimated using the interest rate in effect as of January 30, 2016.
- (3) Includes store, office and distribution facility leases, which generally provide for payment of direct operating costs in addition to rent. The amounts reflected include future minimum lease payments and exclude such direct operating costs.
- (4) Our purchase orders with contract manufacturers are cancelable by us at any time prior to our acceptance of the merchandise subject to negotiated payment of certain of vendors' nonrecoverable costs. The amount in this table excludes purchase orders for supplies in the normal course of business.

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Commercial Commitments:

| Description | Total Obligations | Amount of Commitment Per Period | | | |
|---------------------|----------------------|---------------------------------|--------------------------|---------------------------|------------------------|
| | | Less Than One Year | One to Three Years | Three to Five Years | After Five Years |
| Credit facility (1) | \$ 6,348 | \$ 6,348 | \$ — | \$ — | \$ |