Destination Maternity Corp
Form 10-K
April 16, 2019

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 February 2, 2019

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)	13-3045573 (IRS Employer Identification No.)
232 Strawbridge Drive	
Moorestown, New Jersey	08057

(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 every Interactive Data File required to be submitted 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 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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(1) of the Exchange Act

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 $4.39, the price at which the common equity was last sold as of August 4, 2018 (the last trading day of the Registrant’s most recently completed second fiscal quarter), was approximately $55,000,000.

On April 5, 2019 there were 14,340,497 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 our next Annual Meeting of Stockholders (the “Proxy Statement”) are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

We define our fiscal year as the 52- or 53-week period ending on the Saturday closest to January 31. This annual report is for the 52-week fiscal year ended February 2, 2019 (fiscal 2018). The fiscal year ended February 3, 2018 (fiscal 2017) consisted of 53 weeks and the fiscal year ended January 28, 2017 (fiscal 2016) consisted of 52 weeks. In December 2014 we announced a change of our fiscal year end from September 30 to the Saturday closest to January 31. We had a transition period from October 1, 2014 through January 31, 2015 and filed a Transition Report on Form 10-Q for such transition period. 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.

As used in this report, the term “retail locations” includes our stores and leased departments and 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. As used in this report, the term “GAAP” refers to generally accepted accounting principles in the United States.

Item 1. Business

Overview

We are the leading designer and omni-channel retailer of maternity apparel in the United States, with the only nationwide chain of maternity apparel specialty stores, as well as a deep and expansive assortment available through multiple online distribution points, including our three brand-specific websites. As of February 2, 2019, we operate 1,012 retail locations, including 458 stores in the United States, Canada and Puerto Rico, and 554 leased departments located within department stores and baby specialty stores throughout the United States and in Puerto Rico. We also sell our 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, including Macys.com. Our 458 stores operate under three retail nameplates: Motherhood Maternity®, A Pea in the Pod® and Destination Maternity®. We also operate 554 leased departments within leading retailers such as Macy’s®, buybuy BABY® and Boscov’s®. Generally, we are the exclusive maternity apparel provider in our leased department locations.

We maintain our leading position through our two key brands, which enable us to reach a broad range of maternity customers. Through our 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 2018 we opened two stores and closed 31 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.

Currently, we operate 26 stores and five leased departments in Canada, including 17 Motherhood stores, four Destination Maternity combo stores and five Outlet stores, and a Motherhood website under a Canadian URL (MotherhoodCanada.ca). In addition, we have international store and product supply relationships in the Middle East, South Korea, Mexico and Israel. As of February 2, 2019, we have 184 international franchised locations, comprised of 9 stand-alone stores and 175 shop-in-shop locations, in which we have a Company-branded department operated by our franchise partners within other retail stores.

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.

Our Competitive Strengths

We are the leader in maternity apparel. We are the leading designer and omni-channel retailer of maternity apparel in the United States, with the only nationwide chain of maternity apparel specialty stores, as well as a deep and expansive assortment available through multiple online distribution points, including our three brand-specific websites. We believe that our brands are the most recognized in maternity apparel. We have established a broad and diverse distribution network, with stores and leased departments in a wide range of geographic areas and retailing venues (both within and outside of the United States), as well as e-commerce sales through our own brand-specific web-sites, and third party e-commerce sites including Macys.com and Amazon.com. 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 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 for 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, to ensure product quality, to improve product gross margins and to optimize in-stock levels.

We are able to enhance our leadership position by distributing our products through multiple distribution points, including online as well as through our leased department relationships. In addition to our 458 stores, we distribute our product online through our e-commerce websites (Motherhood.com, APeaInThePod.com, DestinationMaternity.com and MotherhoodCanada.ca) and third party websites (such as Amazon.com and Macys.com), as well as through our 554 leased departments located within department stores and baby specialty stores throughout the United States and in Puerto Rico, namely Macy's, buybuy BABY and Boscov's. Generally, we are the exclusive maternity apparel provider in our leased department locations. We believe that we have an opportunity to increase the sales and profit we generate from our current online distribution points and leased department relationships by growing and improving our performance in these channels. In addition, we believe we have the opportunity to increase our sales and profit further through the select addition of new digital and brick and mortar distribution points with new retail partners.

We have an experienced management team. We have an executive management team with significant experience in all aspects of the retail and apparel business, including our Chief Executive Officer ("CEO") Marla A. Ryan, who has over 25 years of experience in branded apparel and specialty retail and our Chief Operating Officer ("COO") and Chief Financial Officer ("CFO"), Dave J. Helkey who has over 20 years of senior financial management and operations experience, most recently as the COO and CFO of an omni-channel specialty retailer. Our executive management team is complemented by experienced specialty retail executives across all disciplines of our Company.

Our Brands

We believe that our brands are the most recognized brands in the maternity apparel business. We sell our merchandise under the following two 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 - $100
A Pea in the Pod	Contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium prices	$20 - $300

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 customers 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.

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 - $100	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	Pea (including, in some cases, Pea Collection)	$20 - $300	2,000

	street locations			
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 5,600
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 - \$200	—
Boscov's	Mid-priced and moderate regional malls	Motherhood	\$10 - \$100	—

The following table sets forth our store count by nameplate as of February 2, 2019.

Store Nameplate	Number of Stores
Motherhood Maternity	362
A Pea in the Pod	26
Destination Maternity:	
Combo stores	38
Superstores	32
Total Destination Maternity stores	70
Total stores (1)	458

(1) Excludes leased departments 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.

Motherhood Maternity Stores. Motherhood Maternity is our largest chain with 362 stores, including 22 stores in Canada as of February 2, 2019. 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 2018 we opened two new Motherhood stores including outlets and closed 25 Motherhood stores including outlets.

A Pea in the Pod Stores. As of February 2, 2019, we had 26 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 customers fashionable maternity pieces. A Pea in the Pod stores average approximately 2,000 square feet and are located in mid-priced and high-end 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 2018 we did not open any Pea stores and closed one Pea store.

Destination Maternity Stores. As of February 2, 2019, we had 70 Destination Maternity nameplate stores averaging approximately 4,100 square feet, including 38 Destination Maternity combo stores and 32 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. Destination Maternity superstores average approximately 5,600 square feet for the 32 stores open as of February 2, 2019. In fiscal 2018 we did not open any Destination Maternity stores and closed five 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 and Boscov’s 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 February 2, 2019.

Retail Partner	Number of Leased Departments
Macy’s	390
buybuy BABY	117
Boscov’s	47
Total leased departments (1)	554

(1) Excludes international franchised locations.

International. Currently, we operate 26 stores and five leased departments in Canada, including 17 Motherhood stores, four Destination Maternity combo stores and five Outlet stores, and a Motherhood website under a Canadian URL MotherhoodCanada.ca.

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 February 2, 2019, our Motherhood and Pea merchandise is offered in 9 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). As of February 3, 2019, our Motherhood and Pea merchandise is offered in 34 shop-in-shops 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 merchandise is 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. As of February 2, 2019, our Motherhood and Pea merchandise is offered in 102 shop-in-shops in Mexico.

We have a franchise agreement with H&O Fashion Ltd., one of Israel's largest and dominant fashion-retail chains. Our Motherhood merchandise is offered through shop-in-shops in select H&O stores. As of February 02, 2019, our Motherhood merchandise is offered in 39 shop-in-shops in Israel.

We continue to evaluate other international sales opportunities. As our franchise relationships to date demonstrate, our initial international strategy has primarily consisted of franchising, licensing or similar arrangements with foreign partners. Our future international strategy may include increased e-commerce distribution, 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, as well as through Amazon.com and Macys.com in the United States. 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 website design, operations and fulfillment into our existing operations. We believe that our Internet operations (both through our existing e-commerce distribution points and, perhaps, new e-commerce distribution points) represent a continued growth opportunity for us to increase sales and profit in all channels.

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 from our marketing partners. 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, online and offline marketing initiatives, which help introduce our customers to various baby, family and women-related products and services offered by leading third party consumer products and service companies.

Operations

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 passionate, skilled and inspirational store team members who are trained to provide the high level of attentive service and reassurance needed by our customers. Our goal is to provide a boutique or personalized level of service that differentiates us from our competitors. Our centralized merchandising, store operations and visual presentation departments also enable our field leadership and store team members to focus primarily on selling and maintaining consistency from store to store on their appearance and operational execution. In addition, our visual presentation department coordinates with the merchandising department to develop floor-sets, design store display windows and place marketing materials to better define and enhance the product presentation.

The field/store leadership reporting structure consists of regional directors, district managers, leased area managers and store managers. Generally, these members of the field/store leadership team are each eligible to receive incentive-based compensation related to store, district and regional performance for both our stores and leased department groups.

Merchandising Operations Teams. Our merchandising operations teams are organized on a brand-specific basis with responsibility for purchase order management, promotional changes, merchandise markdowns and inventory repositioning. Merchandise operations reports to our Vice President of Inventory Management.

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 merchants and designers. The merchandising teams reporting to the Chief Merchandising Officer and the design teams reporting to our Senior Vice President of Design.

Design. The design of our product range begins with a review of global macro-trends which includes innovation in raw materials such as fabrics and trims as well as general innovations in the regular apparel and intimate apparel sectors. The design team visits seasonal trend forecasting services and shops the global retail markets for inspiration and styling ideas. Design also collaborates with our vendor/factory partners to explore the best options to maximize margin and value.

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 were significantly enhanced with the implementation of our new cloud-based allocation tool and related processes in fiscal 2016. The planning and allocation department reports to our Vice President of Inventory Management.

Production and Distribution

Our direct supply chain manufactures over 90% of our apparel, predominantly outside of the United States. In fiscal 2018 we continued to focus on the supply chain reducing the number of factories and balance our global footprint, 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 vendor/factory 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. Substantially all the merchandise produced outside of the United States is paid for in US dollars.

Our production personnel work with our supply chain to ensure, compliance with our design specifications and timely delivery of finished goods from concept through to finished product. We use a third party consulting firm to help monitor working conditions at our contractors' facilities on a global basis ensuring social compliance standards are followed.

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. Freight is routed through small parcel carriers using their various shipping options, 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. Our Tier 3 Status was revalidated in January 2018.

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 continue to move forward with plans for modernization of our technology portfolio. In fiscal 2016 we completed the implementation of a best-in-class tool for inventory allocation. In addition, we have implemented a market leading payment processing solution which greatly improves the security of cardholder data and enables EMV-compliant payment processing in our stores. We also did substantial work in implementing our new web platform and re-launching each of our e-commerce sites, which went live in the first quarter of fiscal 2017.

Given the importance of our information technology systems, we continue to take 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 our 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 serve 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 customer discover our brands and recognize us as the authority in maternity fashion; motivating her to purchase; reaffirming that 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. 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 customer 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.

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. 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 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 February 2, 2019, we had approximately 1,100 full-time and 2,300 part-time employees. None of our employees are covered by a collective bargaining agreement. We consider our employee relations to be good.

Executive Officers of the Company

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

Name	Age	Position
Marla A. Ryan	51	Chief Executive Officer
Dave J. Helkey	46	Chief Operating Officer & Chief Financial Officer
Rodney Schriver	62	Senior Vice President & Chief Accounting Officer

Marla A. Ryan was appointed Chief Executive Officer on May 30, 2018. Ms. Ryan brings more than 25 years of experience in branded apparel and retail, as well as extensive experience consulting to Fortune 500 companies. Ms. Ryan is also the founder and Chief Executive Officer of Lola Advisors LLC, a business consultancy working in the apparel, beauty and wellness sectors. Prior to founding Lola Advisors LLC, Ms. Ryan was employed by Lands' End from 2009 through 2017, most recently serving as Senior Vice President of Retail. In this role, Ms. Ryan managed the Retail business unit, including Lands' End shops at Sears, retail and outlet stores, and served as a member of the Executive Leadership Team. From 2009 to 2012, Ms. Ryan held various senior positions at Lands' End, including Senior Vice President of Global Omni-Merchandising and Vice President of Retail. From 2002 to 2009, Ms. Ryan served in various senior positions at J. Crew, Inc., including Vice President of Crewcuts, J. Crew's children's apparel division. Prior to that, she served in various merchandising and management roles at Brooks Brothers, American Eagle, Abercrombie & Fitch and The Gap, Inc.

Dave J. Helkey was appointed Chief Operating Officer and Chief Financial Officer on January 9, 2019. Mr. Helkey brings more than 20 years of financial and operating expertise to the role, most recently serving as the Chief Financial Officer and Chief Operating Officer of Things Remembered, a privately held omni-channel retail company with 440 stores in the U.S. and Canada. At Things Remembered, he oversaw the finance, real estate, business innovation and fulfillment center/warehouse departments, amongst others. Previously, he was the Chief Financial Officer of two health care companies and worked in the finance department of Limited Brands. Mr. Helkey started his career at E&Y as staff/senior accountant in audit. He holds a BSBA degree from The Ohio State University and is a Certified Public Accountant.

Rodney Shriver was appointed to Senior Vice President & Chief Accounting Officer on April 1, 2018. Prior to joining the Company in December 2017, Mr. Schriver served as Vice President and Corporate Controller at Pep Boys – Manny, Moe & Jack from 2015 to 2016. Prior to joining Pep Boys, Mr. Schriver held roles at A. C. Moore Arts and Crafts Inc. from 2005 to 2015, including Executive Vice President and Chief Financial Officer. From 1999 to 2004, Mr. Schriver held various roles at Charming Shoppes, Inc., including Vice President of Finance. Mr. Schriver has a Master of Business Administration from Rider University and has earned a CPA designation.

Our executive officers are appointed by our Board of Directors and serve at the discretion of the Board of Directors. 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. Under our 4-5-4 retail fiscal calendar ending on the Saturday nearest January 31 of each year, the peak Spring selling season generally occurs during our 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. 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, 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, including all exhibits filed therewith, are available and may be accessed free of charge on our website, investor.destinationmaternity.com, and at www.sec.gov. 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 file or furnish such materials to the SEC. Also available through the Investors section of our website are reports filed by our directors and executive officers on Forms 3, 4 and 5, and amendments to those reports. Our website and included or linked information on the website are not incorporated into this Annual Report on Form 10-K. From time to time, we use our website as an additional means of disclosing public information to investors, the media and others interested in us.

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 business cycles. 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.

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:

- customer traffic and conversion in our retail locations and e-commerce web-sites;
- the timing of the fulfillment of purchase orders under our wholesale arrangements;
- any disruption to our operations that may arise in connection with the implementation of system enhancements;
- the extent of cannibalization of sales volume of some of our existing retail locations by new retail locations in the same geographic markets or by our e-commerce websites;
- 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 and birth rates;
- actions of competitors;
- the level of success and/or actions of anchor tenants where we have stores, leased department or wholesale relationships;
- the impact, timing and success of our efforts to expand our product category offerings through various channels of business;
- the opening of new stores, the closing of existing stores, and the success of our leased department and wholesale relationships;
- the timing of new store openings, and leased department and international franchised business openings;
- fashion trends; and
- weather conditions and seasonality.

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

Our 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 declined a total of approximately 9.2% from calendar 2008 to calendar 2017. 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, at times, when fashion trends favored, 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. 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.

Our business depends on effective marketing and high customer traffic.

We have many initiatives in our marketing programs particularly with regard to our e-commerce websites, and our social media presence. If our competitors increase their spending on marketing, if our marketing expenses increase, if our marketing becomes less effective than that of our competitors, if search engine algorithms change to our detriment, or if we do not adequately leverage technology and data analytics capabilities needed to generate concise competitive insight, we could experience a material adverse effect on our results of operations. A failure to sufficiently innovate or maintain adequate, effective and efficient marketing strategies could inhibit our ability to maintain brand relevance and drive increased sales. In addition, U.S. and foreign laws and regulations that make it more difficult or costly to digitally market may impact our ability to maintain brand relevance and drive increased sales.

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 popularity of malls as shopping destinations. Our sales volume and mall traffic have been and may in the future 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 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 continued 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, when fashion trends favored, 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 failure to successfully manage and expand our e-commerce business and its connectivity with our brick-and-mortar stores experience could have a material adverse impact on our business.

The expansion of our e-commerce business is one of our key strategic initiatives, as is furthering the connectivity between our

e-commerce and brick-and-mortar stores (including, without limitation, through our fulfill from store and buy-online-pickup-in-store initiatives). The successful operation of our e-commerce business depends on our ability to maintain the efficient and uninterrupted operation of our online order-taking and our fulfillment operations, and on our ability to provide a shopping experience that will generate orders and return visits to our sites and stores, including by updating our e-commerce platform to stay abreast of changing consumer shopping habits such as the significantly increased use of mobile devices to shop online. Risks associated with our e-commerce business include:

- risks associated with the failure of the computer systems that operate our website including, among others, inadequate system capacity, security breaches, computer viruses, human error, changes in programming, system upgrades or migration of these services to new systems;
- risks associated with any failure of development processes and procedures to properly handle e-commerce-initiated transactions in our brick-and-mortar stores;
- unforeseen delays in technology implementation or otherwise which cause us to fail to timely implement or enhance our omnichannel initiatives such as fulfill from store and buy-online-pickup-in-store);
- reliance on third parties for computer hardware and software, updates as well as delivery of merchandise to our customers;
- rapid technology changes and changes in consumer shopping habits such as the significantly increased use of mobile devices and apps to shop online;
- the diversion of sales from our retail locations and other distribution points;
- negative reviews on social media;
- liability for online content; and
- consumer privacy and information security concerns and regulation.

Problems in any one or more of these areas could have a material adverse effect on our financial position, results of operations and cash flows, and could damage our reputation and brand.

We may not be successful in maintaining and expanding our business.

Any future growth depends significantly on:

- our ability to successfully establish and operate through new distribution points (which could include additional digital as well as brick-and-mortar locations);
- 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 various e-commerce initiatives);
- our ability to successfully maintain our current, leased department relationships, and to operate such leased department relationships on a profitable basis;
- the success and profitability of our wholesale channels, including our ability to successfully establish new, and to maintain our current, wholesale relationships; and
- the success and profitability of our efforts to expand our product category offerings.

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 distribution points (both digital and brick-and-mortar), the availability of which is outside of our control;
- negotiate favorable terms with third parties for such distribution (whether they be landlords, additional leased department partners, additional wholesale partners or digital distribution partners);
- source sufficient levels of inventory to meet the additional distribution needs;
- successfully address competition, merchandising and distribution challenges; and
- hire, train and retain a sufficient number of qualified personnel to manage and operate such additional distribution opportunities.

The success and profitability of our e-commerce business depends on many factors, including, those identified previously above as well as, our ability to:

- drive traffic to our retail websites through our, digital marketing and search engine optimization initiatives, and convert such traffic to sales efficiently and effectively;
- changes in federal or state regulation that may impose restrictions on e-commerce or make e-commerce costlier, 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. For example, as part of Macy’s previously announced closure of approximately 100 stores, early in fiscal 2017 Macy’s completed closure of 68 stores, which included 59 locations where we had a leased department within the store. Even if we succeed in establishing new stores, further developing our leased department relationships, and further expanding our wholesale 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.

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;
- mergers or other business combinations involving 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;

14

- 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.

Changes in accounting standards could significantly affect our results of operations and the presentation of those results.

Changes in accounting standards, including new interpretations and applications of accounting standards, may have adverse effects on our financial condition, results of operations, and liquidity. The Financial Accounting Standards Board (“FASB”) has issued and/or adopted new pronouncements that proposed numerous significant changes to current accounting standards. These new standards could significantly change the presentation of financial information and our results of operations. Additionally, the new standards may require us to make systems and other changes that increase our operating costs. Specifically, implementing the new accounting standards related to leases has required us to make significant changes to our lease management and accounting systems and related business processes and internal controls.

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 face a highly fragmented competitive landscape that includes locally-based, single-unit retailers, as well as a handful of multi-unit maternity operations. 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, as well as various competitors who sell through marketplace sites. 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, 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 and Boscov's or any of our wholesale relationships. 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 through their distribution points. The success of our business third party retailers is highly dependent on the actions and decisions of such 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 third party retailer 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.

We cannot guarantee the continuation of our 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. Continued positive relations with a retailer depend upon various factors, including price, customer service, consumer demand and competition. Certain of our third party retailer partners 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, product mix, 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, introduction of products competitive to ours, 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.

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 highly dependent on our successful collection of opt-in customer data (which is a direct result of customer traffic to our stores and, to a lesser extent, our websites) 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 or share 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 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;

- limit our ability to invest in infrastructure or adequately promote our e-commerce activity;
- require us to incur significant additional indebtedness; and
- make it more difficult for us to pursue strategic acquisitions, alliances and partnerships.

If we do not comply with the terms of our existing debt agreements, and such debt agreements cannot be amended or replaced with new indebtedness, we may be in default of our obligations under such debt agreements.

Our existing debt agreements (including our credit facility and our term loan agreement) contain a number of affirmative and negative covenants and representations and warranties. We have, in the past, been required to seek waivers of compliance with, or amendments of, certain of the financial covenants in the debt agreements, and we may be required to seek such waivers or amendments in the future. Our ability to meet these financial covenants may be affected by events beyond our control, and there can be no assurance that the lenders will grant any required waivers under, or amendments to, the debt agreements if for any reason we are unable to meet the requirements of such covenants.

If we fail to comply with covenants, representations or warranties under our debt agreements and do not either receive a waiver or amendment from our lenders or refinance the indebtedness subject to such agreements, such failure could trigger a default under our debt agreements. If we default, the lenders under those debt agreements could declare all borrowings owed to them, including accrued interest and other fees, to be due and payable, which declaration could have an adverse impact on our business and results of operations.

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

Our $25.0 million term loan bears interest at a variable rate equal to a LIBOR rate plus 9.00%. Borrowings under our $50.0 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.

Uncertainty regarding the London Interbank Offered Rate ("LIBOR") may adversely impact our indebtedness under our credit and loan facilities.

In July 2017, the U.K. Financial Conduct Authority announced that it would phase out LIBOR as a benchmark by the end of 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. Proposed alternative reference interest rates so far are based on overnight tenors only, while the most frequently used LIBOR rates are for one, three and six month tenors. Our credit facility and our term loan agreement are linked to LIBOR. When LIBOR ceases to exist, we may need to amend such credit facility and such term loan agreement based on a new standard that is established, if any. The basis of calculation of such standard is not yet agreed upon among market participants and as a result the cost of our borrowings may increase. In addition, any resulting differences in interest rate standards among our assets and our financing arrangements may result in interest rate mismatches between our assets and the borrowings used to fund such assets. There is no guarantee that a transition from LIBOR to an alternative reference interest rate will not result in financial market disruptions or significant increases in benchmark rates, or borrowing costs to borrowers, any of which could have an adverse effect on our business, financial condition and results of operations.

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. Moreover, our term loan and credit facility agreements provide the lenders considerable discretion to impose reserves or availability blocks, which could materially impair the amount of borrowings that would otherwise be available to us. There can be no assurance that the lenders under the term loan and credit facility agreements will not impose such actions during the term of the debt facility and further, were they to do so, the resulting impact of this action could materially and adversely impair our liquidity.

We depend on our senior leadership team and may not be able to retain or replace these employees or recruit additional qualified personnel, which would harm our business.

Our business and success are materially dependent on attracting and retaining members of our senior leadership team to formulate and execute the Company's strategic and business plans. During the past year we have replaced a number of our senior leadership team members including our Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer. Leadership changes can be inherently difficult to manage and may cause material disruption to our business or management team. Changes in senior management could lead to an environment that lacks inspiration and/or a lack of commitment by our employees, which could have a material adverse effect on our business.

Our operations in international markets, and our earnings in those markets, may be affected by legal, regulatory, political and economic risks.

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. As a result, our business is subject to risks associated with international operations. These risks include the burdens of complying with foreign laws and regulations, unexpected changes in tariffs, taxes or regulatory requirements, and political unrest and corruption.

Regulatory changes could limit the countries in which we sell, produce or source our products or significantly increase the cost of operating in or obtaining materials originating from certain countries. Restrictions imposed by such changes can have a particular impact on our business when, after we have moved our operations to a particular location, new unfavorable regulations are enacted in that area or favorable regulations currently in effect are changed.

Countries in which our products are manufactured or sold may from time to time impose additional new regulations, or modify existing regulations, including:

- changes in duties, taxes, tariffs and other charges on imports;
- limitations on the quantity of goods which may be imported into the United States from a particular country;
- requirements as to where products and/or inputs are manufactured or sourced;
- creation of export licensing requirements, imposition of restrictions on export quantities or specification of minimum export pricing and/or export prices or duties;
- limitations on foreign owned businesses; or
-

government actions to cancel contracts, re-denominate the official currency, renounce or default on obligations, renegotiate terms unilaterally or expropriate assets.

In addition, political and economic changes or volatility, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, public corruption and other economic or political uncertainties could interrupt and negatively affect our business operations. All of these factors could result in increased costs or decreased revenues and could materially and adversely affect our product sales, financial condition and results of operations.

Recently, political discourse in the United States has increasingly focused on ways to discourage United States corporations from outsourcing manufacturing and production activities to foreign jurisdictions. Tax proposals may include changes, which could, if implemented, have an adverse impact on us, or new import tariffs, which could adversely affect us because we sell products that are principally manufactured outside the United States. It has also been suggested that the United States may materially modify or withdraw from some of its existing trade agreements. Any of these actions, if ultimately enacted, could adversely affect our results of operations or profitability. Further, our image, the reputation of our brands and our stock price may be adversely affected if we are publicly singled out for criticism by government officials as a result of our foreign operations.

We are also subject to the U.S. Foreign Corrupt Practices Act, in addition to the anti-corruption laws of the foreign countries in which we operate. Although we implement policies and procedures designed to promote compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation could result in sanctions or other penalties and have an adverse effect on our business, reputation and operating results.

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, through its Grow New Jersey Assistance Program, approved us for an incentive package of $40 million in benefits, which can be realized at up to $4.0 million per year over a 10-year period. In order to receive the benefits of the incentive package we need to create certain levels of annual jobs in the State of New Jersey 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. Based on our current level of job creation we expect to receive approximately $3.0 million annually under this program. A material reduction or elimination of these benefits in the future could have a material adverse impact on our business and results of operations.

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

Historically, the operation of our vertically-integrated business model relied heavily 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 decided to augment our internal IT Systems with best-in-class third party solutions. These include implementation of a best-in-class tool for inventory allocation, setting up an environment to process transactions with Amazon, Business Intelligence reporting and a re-platform of our historically internally-managed e-commerce website to a leading third party digital commerce solution provider, to be integrated with a new third-party e-commerce order management system planned for implementation in fiscal 2019. The cost of these system upgrades and enhancements will continue to be significant. There can be no assurance that our investment in new systems will be successful or that the transition will not result in disruptions to our business. If system deployment is 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 completed the implementation of a new planning and allocation tool and we re-platformed our retail websites from a customized in-house system to a 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.

A failure to maintain the security of the information relating to our company, customers, members, associates and vendors, whether as a result of cyber attacks on our information systems or otherwise, could damage our reputation, result in litigation, regulatory or other legal actions against us, cause us to incur additional costs and materially adversely affect our business and operating results.

As part of our operations, we receive and store in our digital information systems certain personal information about our customers, our employees and vendors. Some of that information is stored in connection with our digital platforms. We utilize third party service providers for a variety of reasons, including, without limitation, for encryption and authentication technology, content delivery to customers and members, back-office support and other functions. Such providers may have access to information we hold about our customers, employees or vendors. Our e-commerce operations depend upon the secure transmission of confidential information over public networks, including information permitting cashless payments.

We are aware of inherent risks associated with these systems, including accurately capturing data and addressing system disruptions. We continually maintain and update our computer systems, and we believe we are taking appropriate action to mitigate the risks through testing, training and staging implementation, and ensuring appropriate commercial contracts are in place with third party vendors supplying or supporting our IT initiatives.

The retail industry, in particular, has been the target of recent cyber attacks. Although we have not experienced a significant cybersecurity incident, there can be no assurances we will not experience a cybersecurity incident in the future. As cyber threats evolve, change and become more difficult to detect and successfully defend against, one or more cyber attacks might defeat our or a third party service provider’s security measures in the future and obtain the personal information of customers, employees and vendors.

Hardware, software or applications we use may have inherent defects of design, manufacture or operations or could be inadvertently or intentionally implemented or used in a manner that could compromise information security. Data and security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breach by our employees or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. We or our third party service providers may not discover any security breach and loss of information for a significant period of time after the security breach occurs.

Any breach of our security measures or any breach, error or malfeasance of those of our third party service providers and loss of our confidential information or intellectual property, or any failure by us to comply with applicable privacy and information security laws and regulations, could cause us to incur significant costs to protect any customers, employees and vendors whose personal data was compromised and to restore their confidence in us by making changes to our information systems and administrative processes to address security issues and compliance with applicable laws and regulations.

Cybersecurity incidents could materially adversely affect our reputation with our customers, members, associates, vendors and shareholders, which could result in a reduction in our net sales in our e-commerce operations and our stores thereby adversely affecting our operations, net sales, results of operations, financial condition, cash flows and liquidity. Cybersecurity incidents could result in the release to the public of confidential information about our operations and financial condition and performance and could result in litigation or other legal actions against us or the imposition of penalties, fines, fees or liabilities, which may not be covered by our insurance policies.

We accept payments using a variety of methods, including cash, checks, credit and debit cards and gift cards, and we may offer new payment options over time, which may have information security risk implications. As a retailer accepting debit and credit cards for payment, we are subject to various industry data protection standards and protocols, such as payment network security operating guidelines and the Payment Card Industry Data Security Standard. In certain circumstances, payment card association rules and obligations to which we are subject under our contracts with payment card processors make us liable to payment card issuers if information in connection with payment cards and payment card transactions that we hold is compromised, which liabilities could be substantial. To the extent that any cyber attack or incursion in our or one of our third party service provider's information systems results in the loss, damage or misappropriation of information, we may be materially adversely affected by claims from customers, financial institutions, regulatory authorities, payment card networks and others.

The cost of complying with stricter and more complex data privacy, data collection and information security laws and standards could be significant to us. The global regulatory environment surrounding information security, cybersecurity and privacy is increasingly demanding, with new and changing requirements, such as the European Union's General Protection Regulation, and customers have a high expectation that we will adequately protect their personal information from cyber attacks or other security breaches.

Failure to improve and adapt our inventory management practices to evolving business needs 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.

Our current strategic initiatives (which include further expansion of our business, increasing the connectivity between our e-commerce business and our brick-and-mortar stores, and our e-commerce expansion of our wholesale business) further emphasize the importance of increasing the efficiency and responsiveness of our supply chain. These initiatives will challenge our systems and operational approach. If we are unable to adopt our supply chain to meet the demands of these initiatives successfully our operating results could be materially 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 increases 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 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. 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 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 (whether as a result of climate change or otherwise), shifts in the timing of certain holidays and promotions, changes in inventory and production levels and the timing of deliveries of inventory, and changes in our merchandise mix. Our quarterly net sales have historically been highest during the peak Spring selling season. Under our 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.

The Patient Protection and Affordable Care Act (the “ACA”) requires employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. These costs were incurred beginning in fiscal 2016; however, there is no assurance that we will be able to absorb and/or pass through the costs of future heath care legislation in a manner that will not adversely impact our results or operations. Additionally, there are ongoing efforts to modify or eliminate the ACA. It is unknown what form any such modifications or any law proposed to replace the ACA would take, and how or whether it may affect our business in the future.

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.

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 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 significant deficiencies or material weaknesses, we would report them to the Audit Committee and 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

We lease a 74,000 square foot Class A office building located in Moorestown, New Jersey (the "HQ Lease") that serves as our corporate headquarters. The HQ Lease has an expiration date of December 2023 with an option to extend for an additional ten years at the expiration of the initial term.

We lease a 406,000 square foot build-to-suit distribution center located in Florence, New Jersey (the "DC Lease"). The DC Lease has an expiration date of May 2030. 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. 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.

Previously our principal executive offices and distribution facility were located in Philadelphia, Pennsylvania. To help us offset the costs of our relocations, the Board of the New Jersey Economic Development Authority ("NJEDA") approved us for an incentive package of up to $40 million in benefits, over a 10-year period, from the State of New Jersey under the Grow New Jersey Assistance Program ("Grow NJ").

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

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

As of February 2, 2019, 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.

Fiscal Year Leases Expire	Number of Stores
2019	177
2020	73
2021	44
2022	28
2023	36
2024 and later	100
Total	458

In addition to the stores we operate, we have arrangements with department and specialty stores, including Macy's, buybuy BABY and Boscov's 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 Select Market under the symbol "DEST."

As of April 11, 2019, there were 1,051 holders of record and 2,371 estimated beneficial holders of our common stock.

Our Term Loan Agreement, originally entered into in March 2016 and subsequently amended, prohibits the payment of dividends through February 1, 2021.

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, restricted stock units or deferred stock units. Up to 3,550,000 shares of our common stock may be issued in respect of awards under our 2005 Plan. No more than 2,250,000 of those shares are permitted to be issued in respect of restricted stock, restricted stock units or deferred stock units, with a limit of 177,500 shares that may be issued with service requirements of less than one year.

The following table provides information about purchases by us during the quarter ended February 2, 2019 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
November 4, 2018 to December 1, 2018	—	$ —	—	—
December 2, 2018 to January 5, 2019	4,148	3.97	—	—
January 6, 2019 to February 2, 2019	4,146	2.62	—	—
Total	8,294	$ 3.30	—	—

(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.

Stock Price Performance Graph

The graph below compares the cumulative total stockholder return on our common stock for the period from September 30, 2013 to February 2, 2019 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, 2013 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, 2013	September 30, 2014	January 31, 2015	January 30, 2016	January 28, 2017	February 3, 2018	February 2, 2019
Destination Maternity Corporation	$100.00	$ 50.14	$50.35	$23.71	$ 19.99	$ 8.47	$ 10.46
S&P 500 Index	$100.00	$ 119.73	$121.87	$121.06	$ 146.32		