

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 28, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-21196

Destination Maternity Corporation

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

232 Strawbridge Drive
Moorestown, New Jersey
(Address of principal executive offices)

13-3045573
(IRS Employer
Identification No.)

08057
(Zip Code)

(856) 291-9700

(Registrant's telephone number, including area code)

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

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

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

Series B Junior Participating Preferred Stock Purchase Rights

(Title of class)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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 \$5.62, the price at which the common equity was last sold as of July 29, 2016 (the last trading day of the Registrant's most recently completed second fiscal quarter), was approximately \$66,000,000.

On April 6, 2017 there were 13,987,637 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.

PART I

Historically, our fiscal year ended on September 30. On December 4, 2014 we announced that our Board of Directors approved a change in our fiscal year end from September 30 to the Saturday nearest January 31 of each year. The fiscal year end change aligns our reporting cycle with the National Retail Federation fiscal calendar. We had a transition period from October 1, 2014 through January 31, 2015 and filed a Transition Report on Form 10-Q on March 12, 2015 for such transition period. Our fiscal year 2015 covers the period that began February 1, 2015 and ended January 30, 2016. Our fiscal year 2016 covers the period that began January 31, 2016 and ended January 28, 2017. References in this Form 10-K to our fiscal years prior to fiscal 2015 refer to the fiscal years ended on September 30 in those years, unless otherwise indicated. For example, our “fiscal 2014” ended on September 30, 2014.

As used in this report, the term “retail locations” includes our stores and leased departments and excludes locations where Kohl’s® sells our products under an exclusive product and license agreement, and also excludes international franchised locations. As used in this report, “stores” means our stand-alone stores that we operate in the United States, Canada and Puerto Rico. As used in this report, the term “GAAP” refers to generally accepted accounting principles in the United States.

Item 1. Business

Recent Developments

Agreement and Plan of Merger

On December 19, 2016 Destination Maternity Corporation (the “Company”, “we”, “us”, “our”) entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Orchestra-Prémaman S.A., a *société anonyme* organized under the laws of France, and US OP Corporation, a Delaware corporation and a wholly-owned subsidiary of Orchestra-Prémaman (“Merger Sub”), pursuant to which, subject to the satisfaction or waiver of certain conditions, Merger Sub will merge with and into the Company, with the Company surviving as a wholly-owned subsidiary of Orchestra-Prémaman (the “Merger”). The Merger is expected to close during the third fiscal quarter of 2017 or as soon as possible thereafter.

Our Board of Directors unanimously approved and declared advisable the Merger Agreement and the transactions contemplated by the Merger Agreement and resolved, subject to the terms of the Merger Agreement, to recommend that the Company’s stockholders adopt the Merger Agreement.

Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each of the Company’s issued and outstanding shares of common stock, par value \$0.01 per share (other than shares owned directly by Orchestra-Prémaman, Merger Sub or the Company immediately prior to the Effective Time) will be converted into the right to receive 0.515 (the “Exchange Ratio”) American depository shares of Orchestra-Prémaman (“Orchestra ADSs”). Each Orchestra ADS represents one Orchestra-Prémaman ordinary share with a nominal value of €1.20 per ordinary share (“Orchestra Ordinary Share”) and will be evidenced by an American depository receipt. The Orchestra ADSs to be issued in the Merger will be listed on the Nasdaq Stock Market.

The Merger Agreement contains representations, warranties, covenants, agreements and closing conditions customary for a transaction of this nature. We are also subject to restrictions on our ability to solicit alternative acquisition proposals and to provide information to, and engage in discussion with, third parties regarding such proposals, except under limited circumstances to permit the our Board of Directors to comply with its fiduciary duties.

The Merger Agreement contains certain termination rights for both the Company and Orchestra-Prémaman, including, in the case of the Company, in specified circumstances in connection with an alternative acquisition proposal that has been determined by the Company’s Board of Directors to be a superior proposal (as defined in the Merger Agreement). Upon termination of the Merger Agreement, under specified circumstances (including, in the case of the Company, in connection with a superior proposal and, in the case of Orchestra-Prémaman, the failure to obtain the required Orchestra-Prémaman shareholder approval), either the Company or Orchestra-Prémaman may be required to pay the other party a termination fee of \$5.0 million. In addition, and except in certain limited circumstances, if the Merger Agreement is terminated due to the failure to obtain the required vote from the Company’s stockholders to adopt the Merger Agreement, the Company will be obligated to reimburse Orchestra-Prémaman for its reasonable out-of-pocket fees and expenses incurred in connection with the Merger Agreement, subject to a cap of \$2.5 million. Such expense reimbursement may be deducted from any termination fee payable by the Company, if applicable.

The foregoing description of the Merger Agreement and the transactions contemplated thereby is not complete and is qualified in its entirety by reference to the more complete description of the Merger Agreement set forth in our Current Report on Form 8-K dated December 19, 2016, and to the full text of the Merger Agreement, a copy of which is filed as Exhibit 2.1 to such Current Report.

Except to the extent that the context requires otherwise, the information in this Form 10-K has been presented as if the Company were continuing as a stand-alone Company and does not address changes that may take place if the Merger is completed.

Overview

We are the leading designer and retailer of maternity apparel in the United States and are the only nationwide chain of maternity apparel specialty stores. As of January 28, 2017 we operate 1,220 retail locations, including 515 stores in the United States, Canada and Puerto Rico, and 705 leased departments located within department stores and baby specialty stores throughout the United States and in Puerto Rico. We sell merchandise on the Internet, primarily through our Motherhood.com, APeaInThePod.com and DestinationMaternity.com websites. We also sell our merchandise through our Canadian website, MotherhoodCanada.ca, through Amazon.com in the United States, and through websites of certain of our retail partners. We operate our 515 stores under three retail nameplates: Motherhood Maternity®, A Pea in the Pod® and Destination Maternity®. In addition to our 515 stores, we operate 705 maternity apparel departments, which we refer to as 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. As previously announced, in an effort to direct resources to the highest return opportunities and further optimize real estate while reducing costs, in June 2016 we discontinued our Two Hearts® Maternity by Destination Maternity® (“Two Hearts”) line, thus ending our relationship with Sears®, resulting in the closure of 475 leased departments within Sears stores. We were the exclusive provider of maternity apparel to Kohl's, which offered our maternity apparel in a significant number of its stores. After being informed that Kohl's had elected to scale back and ultimately discontinue its exclusive license with us for our Oh Baby by Motherhood® (“Oh Baby”) line, we phased out production of this line during fiscal 2016. Our license agreement with Kohl's ended in February 2017.

We have international store franchise and product supply relationships in the Middle East, South Korea, Mexico, Israel and India. As of January 28, 2017 we have 213 international franchised locations, comprised of 19 stand-alone stores in the Middle East, South Korea, Mexico, Israel and India operated under our retail nameplates, and 194 shop-in-shop locations in South Korea, Mexico, Israel and India, in which we have a Company-branded department operated by our franchise partners within other retail stores.

We maintain our leading position through our two key brands, which enable us to reach a broad range of maternity customers. Through our 515 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 2016 we opened 11 stores and closed 32 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 31 stores and five leased department in Canada, including 27 Motherhood stores, three Destination Maternity combo stores and one Destination Maternity superstore, and a Motherhood website under a Canadian URL (MotherhoodCanada.ca). In addition, we currently have franchise agreements in place in the Middle East, South Korea, Mexico, Israel and India. As of January 28, 2017 our merchandise is offered in 213 international franchised locations, including 19 stand-alone stores operated under one of our retail nameplates and 194 shop-in-shop locations.

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

The Company was founded in 1982 as a mail-order maternity apparel catalog. We began operating retail stores in 1985 and completed our initial public offering in 1993. To address multiple price points in maternity apparel and improve operating productivity, we acquired Motherhood Maternity and A Pea in the Pod in 1995 and acquired other maternity apparel specialty chains from 1994 to 2001. Since the acquisitions of Motherhood Maternity and A Pea in the Pod, we have developed and grown these brands. Also, since the 1990s we have partnered with other retailers to sell our products through maternity apparel departments within their stores.

Industry Overview

We are unaware of any reliable external data on the size of the maternity apparel business. We believe that there is an opportunity to grow our business by selling maternity clothes to those pregnant women who currently purchase loose-fitting or larger-sized non-maternity clothing as a substitute or partial substitute for maternity wear. We also believe that our business can grow by reducing the amount of “hand-me-down” and “borrowing” associated with maternity apparel, particularly in the value-priced segment. Additionally, although we are not wholly unaffected by external factors (such as fluctuations in the birth rate), we believe that the demand for maternity apparel is relatively stable when compared to non-maternity apparel. The current rate of approximately four million United States births per year has remained relatively stable over the last decade and this rate is forecasted to continue through 2018.

Our Competitive Strengths

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

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

We are vertically integrated. We design and contract the manufacture of over 90% of the merchandise we sell. We believe that vertical integration enables us to offer the broadest assortment of maternity apparel, to respond quickly to fashion trends, 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 under select exclusive leased department relationships. As of January 28, 2017 we operate 705 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. As previously announced, in June 2016 we discontinued our Two Hearts line, thus ending our relationship with Sears, resulting in the closure of 475 leased departments within Sears stores. In addition, our leased department relationship with Gordmans ended in March 2016. We also phased out production of our Oh Baby line during fiscal 2016 after being informed that Kohl’s had elected to scale back and ultimately discontinue its exclusive license with us for this line. Our license agreement with Kohl’s ended in February 2017. We believe that we have an opportunity to increase the sales we generate from our ongoing leased department relationships by growing our relationships with our current retail partners, as well as potentially developing leased department or licensed relationships with new retail partners.

We have an experienced management team. We have a management team with significant experience in all aspects of the retail and apparel business, including our Chief Executive Officer (“CEO”), Anthony Romano, who has over 25 years of experience in specialty retail, our Chief Financial Officer (“CFO”), David Stern, who has over 15 years of senior financial management experience, including over nine years of experience with retail organizations, and our Chief Administrative Officer, Ronald Masciantonio, who has over a decade of senior management experience at Destination Maternity. We have complemented our leadership team by adding experienced specialty retail executives with proven track records in Sourcing, Planning & Allocation, Store Operations, Human Resources, Merchandising, e-Commerce and Strategic Partnerships.

Our Brands

We believe that our brands are the most recognized brands in the maternity apparel business. We sell our merchandise under the following 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 - \$50
A Pea in the Pod	Contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium prices	\$25 - \$300

Motherhood Maternity. Our Motherhood Maternity brand serves the moderate priced portion of the maternity apparel business, which has the greatest number of customers. The Motherhood brand is positioned with an expansive on-trend fashion assortment ranging from wardrobe essentials to special occasion, offering quality merchandise at affordable value. We believe that the Motherhood customer shops at moderate-priced department stores, specialty stores and discount stores when she is not expecting.

A Pea in the Pod. Our A Pea in the Pod brand is a contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium pricing, offering the mom2be fashionable maternity pieces that reflect her uncompromising sense of style in both casual and career apparel. In our stores that carry A Pea in the Pod brand merchandise, we also offer exclusive maternity versions of select styles from well-known designer and contemporary brands, where we have assisted in developing these maternity versions. We believe that the typical Pea customer shops at upscale department stores and specialty apparel chains when she is not expecting, with the Pea Collection customer typically shopping at higher-end department stores and designer boutiques when she is not expecting.

Retail Nameplates

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

Store Nameplate	Description of Target Location	Brand(s) Carried	Typical Apparel Price Range	Average Size (Sq. Ft.)
Stores:				
Motherhood Maternity	Mid-priced and moderate regional malls, strip and power centers, and central business districts	Motherhood	\$10 - \$50	1,800
A Pea in the Pod	Mid-priced and high-end regional malls, lifestyle centers, central business districts and some stand-alone stores in affluent street locations	Pea (including, in some cases, Pea Collection)	\$25 - \$300	2,000
Destination Maternity	Combo stores located in mid-priced regional malls and lifestyle centers Superstores located primarily in outdoor and power centers and central business districts	Motherhood; Pea (including, in some cases, Pea Collection)	\$10 - \$300	Combo stores 3,200 Superstores 5,700
Leased Departments:				
Macy's	Mid-priced regional malls	Motherhood; Pea (including, in some cases, Pea Collection)	\$10 - \$300	—
buybuy BABY	Big box power centers	Motherhood; Pea	\$10 - \$115	—
Boscov's	Mid-priced and moderate regional malls	Motherhood	\$10 - \$50	—

The following table sets forth our store count by nameplate as of January 28, 2017.

<u>Store Nameplate</u>	<u>Number of Stores</u>
Motherhood Maternity	408
A Pea in the Pod	26
Destination Maternity:	
Combo stores	48
Superstores	33
Total Destination Maternity stores	81
Total stores (1)	515

(1) Excludes leased departments, international franchised locations and locations where Kohl's sells our products under an exclusive product and license agreement. Our license agreement with Kohl's ended in February 2017.

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 408 stores as of January 28, 2017. 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 97 outlet locations that carry Motherhood-branded merchandise as well as some closeout merchandise. In fiscal 2016 we opened seven new Motherhood stores including outlets and closed 24 Motherhood stores including outlets. As of January 28, 2017 we operated 27 Motherhood stores in Canada and believe that market opportunities may permit us to open additional stores in Canada in the future.

A Pea in the Pod Stores. As of January 28, 2017 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 the mom2be fashionable maternity pieces. A Pea in the Pod stores average approximately 2,000 square feet and are located in mid-priced regional malls, lifestyle centers and central business districts while others are located in upscale venues, including Beverly Hills, Water Tower Place (Chicago), South Coast Plaza (Orange County, California) and Newbury Street (Boston). In fiscal 2016 we opened four Pea stores and closed one Pea store.

Destination Maternity Stores. As of January 28, 2017 we had 81 Destination Maternity nameplate stores averaging approximately 4,200 square feet, including 48 Destination Maternity combo stores and 33 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 3,200 square feet) than our single-brand stores. Our Destination Maternity superstores carry both of our primary brands, plus an expanded line of maternity-related accessories, nursing products, health and fitness products, books, and body and nutritional products. Our Destination Maternity superstores also typically feature a "relax area" for husbands and shoppers alike, and an inside play area for the pregnant mom's toddlers and young children. Destination Maternity superstores range from nearly 3,700 square feet to approximately 8,900 square feet, with an average of approximately 5,700 square feet for the 33 stores open as of January 28, 2017. In fiscal 2016 we did not open any Destination Maternity stores and closed seven 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 January 28, 2017.

<u>Retail Partner</u>	<u>Number of Leased Departments</u>
Macy's (1)	549
buybuy BABY	111
Boscov's	45
Total leased departments (2)	<u>705</u>

- (1) 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.
- (2) Excludes international franchised locations, and locations where Kohl's sells our products under an exclusive product and license agreement. Our license agreement with Kohl's ended in February 2017.

International. Currently, we operate 31 stores and five leased departments in Canada, including 27 Motherhood stores, three Destination Maternity combo stores and one Destination Maternity superstore, 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 January 28, 2017 our Motherhood and Pea merchandise is offered in 16 franchise stores operating in the Middle East.

We have a franchise agreement with Agabang & Company to sell our brands in South Korea. Our Motherhood and Pea merchandise is available for sale in maternity shop-in-shops operated by Agabang in its Agabang Gallery and Nextmom stores (which carry infant and children's apparel and non-apparel merchandise, as well as maternity apparel) and other retail stores, and in franchise stores in South Korea. As of January 28, 2017 our Motherhood and Pea merchandise is offered in 40 shop-in-shops and three franchise stores in South Korea.

We have a franchise agreement with El Puerto de Liverpool, S.A.B. de C.V., the largest department store company in Mexico. Our Motherhood and Pea 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 January 28, 2017 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 and Pea merchandise is offered through shop-in-shops in select H&O stores. As of January 28, 2017 our Motherhood and Pea merchandise is offered in 27 shop-in-shops in Israel.

In October 2015 we entered into a franchise agreement with Rhea Retail Private Limited, a leader in the sale of women's, children's, and infants' clothing and accessories in India. As of January 28, 2017 our Motherhood and Pea merchandise is offered in 25 shop-in-shops in India.

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

Internet Operations

We sell our merchandise on the Internet primarily through our brand-specific websites, Motherhood.com and APeainThePod.com, as well as through our DestinationMaternity.com website. We also sell our merchandise through our Canadian website, MotherhoodCanada.ca, through Amazon.com in the United States, and through websites of certain of our leased department and licensed brand retail partners. We believe that many pregnant women, particularly millennials, use the Internet to find maternity-related information and to purchase maternity clothes. Our websites are therefore important tools for educating existing and potential customers about our brands and driving traffic to our stores. Our marketing and technology capabilities and the replenishment capabilities of our distribution facilities and stores enable us to incorporate Internet design, operations and fulfillment into our existing operations. We believe that our Internet operations represent a continued growth opportunity for us both by increasing Internet sales and by using the Internet to drive store sales. In light of the importance of this channel, in early fiscal 2017 we completed a re-platforming of each of our sites through integration with a best-in-class enterprise cloud commerce solution. The provider is the category-defining leader of enterprise cloud commerce solutions used by a variety of best-in-class Internet retailers, including a

significant number of fashion focused specialty retailers. We believe this integration will help us keep current with the ever changing digital landscape while focusing our efforts on our core merchandising and operational strengths. Our re-designed sites launched in the first quarter of fiscal 2017.

Marketing Partnerships

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

Operations

Merchandising Operations Teams. To obtain maximum efficiencies, we are organized primarily along functional lines, such as merchandising, design, planning and allocation, and production. Our merchandising, design, and planning and allocation teams are organized on a brand-specific basis. Each brand team is led by the head merchant and includes a brand-specific head designer and head planner. These teams are also supported by centralized production, purchasing, marketing and other necessary professionals.

Store Operations. The typical maternity customer, especially the first-time mother, seeks more advice and assistance than the typical non-maternity customer. Therefore, we aim to employ 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, 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 and design teams each report to our Senior Vice President of Merchandising and Design.

Design. Our design department creates and produces samples and patterns for our manufactured products in partnership with our merchandising department. The design of our products begins with a review of global runway trends, current non-maternity retail fashion trends, fashion reporting service information and fabric samples. The designers review our best selling items from prior seasons and integrate current fashion ideas from the non-maternity apparel business.

Planning and Allocation. Our inventory planning and allocation department is responsible for planning future inventory purchases and pricing, as well as targeting overall inventory levels and turnover. We establish target inventories for storefronts within each channel with the goals of optimizing our merchandise assortment and turnover, maintaining adequate depth of merchandise by style and managing closeout and end-of-season merchandise consolidation. Our planning and allocation team continually monitors and responds to consumer demand through utilization of available tools. Our capabilities to perform these tasks 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 Senior Vice President of Planning and Allocation.

Production and Distribution

We design and contract the manufacture of over 90% of the merchandise we sell using factories located throughout the world, predominantly outside of the United States. In fiscal 2016 we continued to focus on reducing our contractor base and the countries in which they operate to improve costs, streamline operations, ensure quality and improve speed to market. We maintain the flexibility to add new contractors, if necessary, to fulfill our sourcing needs. No individual contractor represents a material portion of our

production. A majority of our merchandise is purchased “full package” as finished product made to our specifications, typically utilizing our designs. Fabric, trim and other supplies are obtained from a variety of sources. Substantially all of the merchandise produced outside of the United States is paid for in United States dollars.

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

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

Since 2003 we have been certified to participate in Customs-Trade Partnership Against Terrorism (“C-TPAT”), a United States Department of Homeland Security sponsored program, with United States Customs and Border Protection (“U.S. Customs”), through which we implement and monitor our procedures to manage the security of our supply chain as part of the effort to protect the United States and our imported products against potential acts of terrorism. Since 2005 we have been certified to participate in the Importer Self-Assessment Program (“ISA”), a U.S. Customs program available only to C-TPAT participants with strong internal controls. Through our participation in the ISA program, we assume responsibility for monitoring our own compliance activities with applicable U.S. Customs regulations in exchange for certain benefits, which may help increase efficiency in importing. These benefits include exemption from certain government audits, increased speed of cargo release from U.S. Customs, front of the line access to U.S. Customs cargo exams, enhanced prior disclosure rights from U.S. Customs in the event of alleged trade violations, availability of voluntary additional compliance guidance from U.S. Customs, and less intrusive government oversight of trade compliance. In 2010 we were granted Tier 3 Status within the C-TPAT program, the highest level of recognition currently available. In 2013 we participated in a revalidation of our C-TPAT process in Vietnam with U.S. Customs.

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

Information Technology Systems

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

Although our current systems, including our in-house developed ERP and point of sale systems, are serviceable and adequate to meet our business needs, we 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, 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 serves to strengthen the power of our brands, to drive traffic to our stores, to increase customer loyalty and word-of-mouth referrals, and to support our e-commerce platforms. The key objectives of our marketing strategy are helping every new mom2be discover our brands and recognize us as the authority in maternity fashion; motivating her to purchase; reaffirming 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 and traditional direct-mail advertising. In addition, we advertise on her favorite websites and provide social media content to ensure that our messaging reaches and engages her. On our own e-commerce sites we have additional marketing opportunities through exclusive sales and on-site features that help our 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.

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

Competition

Our business is highly competitive and characterized by low barriers to entry, especially online. The following are several factors important to competing successfully in the retail apparel industry: ability to anticipate fashion trends and customer preferences; product procurement and pricing; breadth of selection in sizes, colors and styles of merchandise; inventory control; quality of merchandise; store design and location; visual presentation and advertising; customer service; and reputation. We face competition in our maternity apparel lines from various sources, including department stores, specialty retail chains, discount stores, independent retail stores and catalog and Internet-based retailers, from both new and existing competitors. Many of our competitors are larger and have substantially greater financial and other resources than us. Our better and premium-priced merchandise faces a highly fragmented competitive landscape that includes locally based, single unit retailers, as well as a handful of multi-unit maternity operations. In the value-priced maternity apparel business, we currently face competition on a nationwide basis from retailers such as Gap®, H&M®, Old Navy®, Target® and Wal-Mart®. Substantially all of these competitors also sell maternity apparel on their websites. We also face increasing competition from Internet-based retailers such as ASOS, Pink Blush, Zulily and Hatch.

Employees

As of January 28, 2017 we had approximately 1,300 full-time and 2,700 part-time employees. None of our employees are covered by a collective bargaining agreement. We consider our employee relations to be good.

Executive Officers of the Company

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Anthony M. Romano	54	Chief Executive Officer & President
David Stern	50	Executive Vice President & Chief Financial Officer
Ronald J. Masciantonio	40	Executive Vice President & Chief Administrative Officer

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

David Stern has served as our Executive Vice President & Chief Financial Officer since August 2016. From 2012 to 2016 Mr. Stern served as Executive Vice President – Chief Financial Officer of Pep Boys – Manny, Moe & Jack. Prior to joining Pep Boys, Mr. Stern served as Executive Vice President, Chief Administrative Officer and Chief Financial Officer of A.C. Moore Arts and Crafts. From 2007 until 2009, Mr. Stern held roles at Coldwater Creek, including Vice President, Financial Planning and Analysis and

Corporate Controller. From 2000 to 2007 Mr. Stern was the Chief Financial Officer of Petro Services. Mr. Stern began his career as an internal auditor and gained experience as a financial analyst, accounting manager and corporate controller at several companies, including Delhaize America, before joining Petro Services. Mr. Stern is a member of the Board of Directors of Beck Supplies, Inc. and is a member of the Board of Directors and Chairman of the Finance Committee of Camp Ockanickon, a not-for-profit organization. Mr. Stern has earned a Master of Business Administration degree from Wake Forest University, and has earned a Certified Public Accountant designation.

Ronald J. Masciantonio has served as our Executive Vice President & Chief Administrative Officer since November 2012. From November 2012 to August 2013 Mr. Masciantonio also served as our General Counsel. From November 2011 until November 2012 Mr. Masciantonio served as our Executive Vice President & General Counsel, having previously served as our Senior Vice President & General Counsel from April 2010 to November 2011 and, prior to that, as our Vice President & General Counsel from August 2006. In August 2006 Mr. Masciantonio rejoined us, after having previously served as our Assistant General Counsel from February 2004 to May 2005. From May 2005 to August 2006 Mr. Masciantonio was Assistant General Counsel, North America for Taylor Nelson Sofres, N.A., a market research company with global headquarters in London, England. Prior to joining us originally in February 2004 Mr. Masciantonio was an Associate at the law firm of Pepper Hamilton LLP in Philadelphia, Pennsylvania from September 2001 to February 2004. Mr. Masciantonio earned a Juris Doctorate legal degree from Temple University School of Law in Philadelphia, Pennsylvania. Mr. Masciantonio is also a member of the Executive Committee of the Board of Directors of the Chamber of Commerce of Southern Jersey.

Our executive officers are appointed annually by our Board of Directors and serve at the discretion of the Board 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 during our third fiscal quarter that previously ended on June 30 of our fiscal years that ended on September 30. 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 are available free of charge on our website, investor.destinationmaternity.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are posted on our website as soon as practicable after we furnish such materials to the SEC.

Item 1A. Risk Factors

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

There can be no assurance that the Merger will be consummated. Failure to complete the Merger could have an adverse effect on our share price, business, financial condition, results of operations or prospects.

The Merger is subject to the satisfaction or waiver of certain closing conditions, as set forth in the Merger Agreement and summarized in our December 20, 2016 Form 8-K filed with the SEC. There can be no assurance that each of the conditions will be satisfied. In addition, in certain circumstances, each party may be entitled to terminate the Merger Agreement. If the conditions are not satisfied or waived in a timely manner and the merger is delayed, we may lose some or all of the intended or perceived benefits of the Merger, which could cause our common stock to decline in price and/or harm our business.

If the Merger is not completed for any reason, including as a result of our stockholders failing to adopt the Merger Agreement, our ongoing business may be adversely affected and we would be subject to a number of risks, including the following:

- we may be required, under certain circumstances, to pay Orchestra-Prémaman a termination fee of \$5.0 million or reimburse Orchestra-Prémaman for certain expenses;
- we are subject to certain restrictions on the conduct of our business prior to completing the Merger, which may adversely affect our ability to execute certain of our business strategies;
- we have incurred and will continue to incur significant costs and fees associated with the proposed Merger;
- we may experience negative reactions from the financial markets, including negative impacts on the market price of our common stock;
- we may experience negative reactions to the termination of the Merger Agreement (if such a termination were to occur) from customers, clients, business partners, lenders and employees;
- the market price of our common stock may decline to the extent that the current market price reflects any market assumption that the Merger will be completed;
- matters relating to the Merger (including integration planning) will require substantial commitments of time and resources by members of our management who are retained after the Merger, which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to us as an independent company;
- we may not be able to continue our operations without significant capital, which may not be available on favorable terms, if at all; and
- we would not realize any of the anticipated benefits of having completed the Merger.

In addition, we could be subject to litigation related to any failure to complete the Merger or related to any enforcement proceeding commenced against us to perform our obligations under the Merger Agreement. If the Merger is not completed, these risks may materialize and may adversely affect our business, financial condition, results of operations, prospects, profits and common stock price.

Because the market price of Orchestra shares will fluctuate, our stockholders will not know until the effective time the value of the consideration they will receive in the Merger.

Under the terms of the Merger Agreement, the exchange ratio, which determines the number of Orchestra ADSs each of our stockholders will receive for each share of our common stock, is set at 0.515.

The value of the Merger consideration to be received by our stockholders has declined since May 31, 2016, the last trading day before we filed our Form 8-K announcing the modification of certain of our executives' payment arrangements, the per share Merger consideration. On that date, the Merger consideration had an implied value to our stockholders of \$7.05 per share of our common stock (based on the Orchestra ordinary share stock price of €13.16 using a U.S. dollar/Euro exchange rate on December 19, 2016, which was the last trading day before the Merger Agreement was publicly announced). On April 11, 2017 the per share Merger consideration had an implied value to our stockholders of \$4.86 per share of our common stock (based on the Orchestra ordinary share stock price of €8.90 using a U.S. dollar/Euro exchange rate on April 11, 2017).

If the market price for each Orchestra ordinary share increases between now and the closing of the Merger, our stockholders will receive Orchestra ADSs that have a market value that is greater than the current market value of the Orchestra ordinary shares underlying those Orchestra ADSs. If the price for each Orchestra ordinary share decreases between now and the effective time of the Merger, our stockholders will receive Orchestra ADSs at closing that have a market value that is less than the current market value of the Orchestra ordinary shares underlying those Orchestra ADSs. Therefore, there can be no assurance of the actual value of the consideration that will be received by our stockholders upon completion of the Merger.

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

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

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

Consumer purchases of discretionary items generally decline during recessionary periods and other periods where disposable income is adversely affected. Any downturn in the economy may affect consumer purchases of our merchandise and have an adverse impact on our sales, results of operations and cash flow. Because apparel generally is a discretionary purchase, declines in consumer spending may have a more negative effect on apparel retailers than on other retailers. A decline in consumer spending may negatively affect our profitability.

Future increases in interest rates or other tightening of the credit markets, or future turmoil in the financial markets, could make it more difficult for us to access funds, to refinance our indebtedness (if necessary), to enter into agreements for new indebtedness, or to obtain funding through the issuance of our securities. Any such adverse changes in the credit or financial markets could also impact the ability of our suppliers to access liquidity, or could result in the insolvency of suppliers, which in turn could lead to their failure to deliver our merchandise. Worsening economic conditions could also result in difficulties for financial institutions (including bank failures) and other parties that we may do business with, which could potentially impair our ability to access financing under existing arrangements or to otherwise recover amounts as they become due under our other contractual arrangements. Additionally, either as a result of, or independent of, any financial difficulties and economic weakness in the United States, material fluctuations in currency exchange rates could have a negative impact on our business.

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

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

- the opening of new stores, the closing of existing stores, and the success of our leased department and international franchise relationships;
- the timing of new store openings, and leased department and international franchised business openings;
- customer traffic in our brick-and-mortar stores;
- the timing of the fulfillment of purchase orders under our product and license arrangements;
- any disruption to our operations that may arise in connection with the implementation of system enhancements (such as our new third-party planning and allocation tool, our new e-commerce platform or our new e-commerce order management systems);
- the extent of cannibalization of sales volume of some of our existing retail locations by our new retail locations the same geographic markets or by our Internet sales;
- changes in our merchandise mix;
- any repositioning of our brands;
- general economic conditions and, in particular, the retail sales environment;
- calendar shifts, including shifts of holiday or seasonal periods, occurring in a given calendar period;
- changes in pregnancy rates and birth rates;
- actions of competitors;
- the level of success and/or actions of anchor tenants where we have stores, or leased department and international franchise relationships;

- fashion trends; and
- weather conditions and seasonality.

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.

We will be subject to business uncertainties and contractual restrictions while the Merger is pending.

Uncertainty about the effect of the Merger on employees, suppliers, customers and other third parties may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the Merger is completed and for a period of time thereafter, and could cause customers, suppliers and others that deal with us to seek to change existing business relationships with us. Our employee retention and recruitment may be particularly challenging prior to the effective time, as employees and prospective employees may experience uncertainty about their future roles with the combined company.

The pursuit of the Merger and the preparation for any integration may place a significant burden on our management and internal resources. Any significant diversion of management attention away from ongoing business and any difficulties encountered in the transaction and integration process could affect our financial results. In addition, the Merger Agreement requires that we operate in the ordinary course of business consistent with past practice and restricts our ability to take certain actions prior to the effective time or termination of the Merger Agreement. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the proposed Merger.

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;
- 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.

The Merger Agreement limits our ability to pursue alternatives to the Merger.

The Merger Agreement contains provisions that make it more difficult for us to sell our business to a party other than Orchestra-Prémaman during the period between signing and the closing of the Merger. These provisions include the general prohibition on our soliciting any alternative acquisition proposal or offer for a competing transaction, the requirement that we pay a termination fee of \$5.0 million if the Merger Agreement is terminated in specified circumstances and the requirement that we submit the Merger Agreement to a vote of the Company’s stockholders even if our Board of Directors changes its recommendation, subject to certain

exceptions. Additionally, in certain circumstances if the Merger is not completed, we may be required to reimburse Orchestra-Prémaman for up to \$2.5 million of Orchestra-Prémaman's reasonable and documented expenses in connection with the Merger Agreement and the transactions contemplated thereby.

We expect to incur significant one-time costs associated with the Merger that could affect the period-to-period operating results of the combined company following the completion of the Merger, or that could affect our period-to-period operating results if the Merger is delayed or is not completed.

We expect to incur one-time charges of approximately \$9 million as a result of costs associated with the Merger. We will not be able to quantify the exact amount of these charges or the period in which they will be incurred until after either the Merger is completed or the Merger Agreement is terminated. Some of the factors affecting the costs associated with the Merger include the timing of the completion of the Merger and the resources required in integrating the Company and Orchestra-Prémaman. The amount and timing of this charge could adversely affect the combined company's period-to-period operating results, which could result in a reduction in the market price of Orchestra-Prémaman Shares and Orchestra-Prémaman ADSs. In addition, if the Merger is delayed or is not completed, the costs we have incurred and will incur associated with the Merger could materially and adversely impact our period-to-period operating results and financial condition.

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

Any future growth depends significantly on:

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

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

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

- identify and obtain suitable store locations, including mall locations, the availability of which is outside of our control;
- retain existing, expand existing and establish new leased department relationships;
- negotiate favorable lease terms for stores, including desired tenant improvement allowances;
- negotiate favorable lease terminations for existing store locations in markets where we intend to open new Destination Maternity combo stores or superstores;
- source sufficient levels of inventory to meet the needs of new stores and our leased department relationships;
- successfully address competition, merchandising and distribution challenges; and
- hire, train and retain a sufficient number of qualified store personnel.

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

- our ability to retain our current international franchisees and our ability to identify and reach agreement with new international franchisees or partners;
- the ability of our international franchisees or partners to identify and obtain suitable store locations, including mall locations, the availability of which is outside of their control;
- the ability of our international franchisees or partners to negotiate favorable lease terms for stores, including desired tenant improvement allowances;
- our ability to source sufficient levels of inventory to meet the needs of our franchisees' or partners' international operations;

- our ability and the ability of our international franchisees or partners to successfully address competition, merchandising and distribution challenges; and
- the ability of our international franchisees or partners to hire, train and retain a sufficient number of qualified store personnel.

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

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

There can be no assurance that we will be able to grow our business and achieve our goals. 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 international relationships, we cannot assure that these initiatives will achieve planned revenue or profitability levels in the time periods estimated by us, or at all. If any of these initiatives fails to achieve or is unable to sustain acceptable revenue and profitability levels, we may incur significant costs. For example, in fiscal 2016 we ended our leased department relationships with both Gordmans and Sears. Further, we phased out production of our Oh Baby line during fiscal 2016 after being informed that Kohl’s had elected to scale back and ultimately discontinue its exclusive license with us for this line. Our license agreement with Kohl’s ended in February 2017. Although we believe that the cessation of these relationships will allow us to place a greater focus on our core brands, Motherhood Maternity and A Pea in the Pod, and thus will ultimately be beneficial to the Company as a whole from a profitability perspective, there is no guarantee of success.

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

We operate in a highly competitive environment characterized by few barriers to entry. We compete against department stores, specialty retail chains, discount stores, independent retail stores and catalog and Internet-based retailers. Many of our competitors are larger and have substantially greater financial and other resources than us. Further, we do not typically advertise using television and radio media and thus do not reach customers through means our competitors may use. Our mid- and premium-priced merchandise faces a highly fragmented competitive landscape that includes locally-based, single-unit retailers, as well as a handful of multi-unit maternity operations. In the value-priced maternity apparel business, we face competition on a nationwide basis from retailers such as Gap, H&M, Old Navy, Target and Wal-Mart. Substantially all of these competitors also sell maternity apparel on their websites. We also face increasing competition from Internet-based retailers such as ASOS, Pink Blush, Zulily and Hatch. Our business, financial condition and results of operations may be materially and adversely affected by this competition, including the potential for increased competition in the future. For example, the maternity apparel business has previously experienced oversupply conditions due to increased competition in the maternity apparel business, which resulted in a greater level of industry-wide markdowns and markdowns recognized by us on sales from our retail locations. There can be no assurance that these conditions will not occur again or worsen.

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

We cannot guarantee successful results from or the continuation of our leased department relationships with third-party retailers such as Macy’s, buybuy BABY and Boscov’s. Under our agreements with our retail partners, those partners do not make any promises or representations as to the potential amount of business we can expect from the sale of our product in their stores. For example, our relationships with Sears and Gordmans ended during fiscal 2016 and our license agreement with Kohl’s ended in February 2017. The success of our leased department business is highly dependent on the actions and decisions of the third-party retailers, which are outside of our control. The retailers could limit the merchandise carried, close stores, go out of business or terminate their agreements with us. Our failure to properly manage our leased department business (including any failure by us in timely delivering goods to any third-party retailer or any failure to respond to the actions of, or changes in, business conditions at third-party retailers) would have a direct impact on the profitability and continuation of these relationships.

Our relationships with third-party retailers may be terminated at any time.

We cannot guarantee the continuation of our leased department relationships with third-party retailers. Such retailers can discontinue our products at any time and offer a competitor's maternity apparel products, or none at all. The contractual commitments of our retailer customers are not long-term in nature. For example, our relationships with Sears and Gordmans ended during fiscal 2016 and our license agreement with Kohl's ended in February 2017. Continued positive relations with a retailer depend upon various factors, including price, customer service, consumer demand and competition. Certain of our retailers have multiple vendor policies and may seek to offer a competitor's products or services at new or existing locations. If any significant retailer materially reduces, terminates or is unwilling to expand its relationship with us, or requires price reductions or other adverse modifications in our selling terms, our sales would suffer.

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

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

Our business depends upon sustained demand for maternity clothing. Our future performance will be subject to a number of factors beyond our control, including demographic changes, fashion trends, economic conditions, consumer spending and general health concerns that may impact the number of pregnant women. If demand for maternity clothing were to decline for any reason, such as a decrease in the number of pregnancies, our operating results could be materially and adversely affected. For example, according to the United States Census Bureau and United States Centers for Disease Control and Prevention, births declined a total of approximately 7.8% from calendar 2007 to calendar 2015. 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.

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

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

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, including a "border adjustment tax" 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 approved us for an incentive package of \$40 million in benefits, over a 10-year period, from the State of New Jersey under the Grow New Jersey Assistance Program. In order to receive the benefits of the incentive package we need to meet certain levels of annual jobs and other requirements. If we do not meet these job levels or other requirements on an annual basis, we will not receive some or all of the benefits. Our inability to receive these benefits could have a material adverse impact on our business and results of operations.

We require a significant amount of cash to fund our operations and future growth.

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

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

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

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 and may adversely impact our ability to consummate the Merger.

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

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

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.

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 inventory planning and allocation systems and e-commerce platform may not be successful.

Historically, the operation of our vertically-integrated business model relied heavily dependent on our internally-developed information technology systems (“IT Systems”). In particular, we have relied on point-of-sale terminals, which provide information to our core merchandise system used to track sales and inventory, and on our Internet websites through which we sell merchandise to our customers. In order to ensure that our systems are adequate to handle our anticipated business growth and are upgraded as necessary to effectively manage our store inventory and our e-commerce operations, we decided to augment our internal IT Systems with best-in-class third party solutions. In fiscal 2016 we completed the implementation of a best-in-class tool for inventory allocation. In the first quarter of fiscal 2017 we re-platformed our historically internally-managed e-commerce website to a leading third-party digital commerce solution provider, to be integrated with a third-party e-commerce order management system. The cost of these system upgrades and enhancements was significant. There can be no assurance that our investment in these new systems will be successful or that the transition to these new systems will not result in disruptions to our business. If these systems are not successful or if we suffer any such disruptions, our business and results of operations could be materially and adversely affected.

We have two data centers supporting our business functions: one in our corporate headquarters location in Moorestown, New Jersey and the second in our distribution center in Florence, New Jersey. Although our software programs and data are backed up and securely stored off-site, our servers and computer systems, and our operations are vulnerable to damage or interruption from:

- fire, flood and other natural disasters;
- power loss, computer systems failures, Internet and telecommunications or data network failures;
- operator negligence, and improper operation by or supervision of employees;
- physical and electronic loss of data or security breaches, misappropriation and similar events; and
- computer viruses.

Any disruption in the operation of our IT Systems, the loss of employees knowledgeable about such systems or our failure to continue to effectively modify such systems could interrupt our operations or interfere with our ability to monitor inventory, which could result in reduced net sales and affect our operations and financial performance. Our business and results of operations could be materially and adversely affected if our servers and systems were inoperable, inaccessible, or inadequate. In addition, any interruption in the operation of our Internet websites could cause us to lose sales due to the inability of customers to purchase merchandise from us through our websites during such interruption.

From time to time, we improve and upgrade our IT Systems and the functionality of our Internet websites. For example, we 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.

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

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

merchandise with accuracy. If sales do not meet expectations, too much inventory may cause excessive markdowns and, therefore, lower than planned margins.

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

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

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

- theft, destruction, loss, misappropriation or release of confidential data or intellectual property;
- operational or business delays resulting from the disruption of IT Systems and subsequent clean-up and mitigation activities;
- negative publicity resulting in reputation or brand damage with our customers, partners or industry peers; and
- loss of sales generated through our Internet websites through which we sell merchandise to customers, to the extent these websites are affected by a cyber attack.

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

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

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

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

- political instability or the threat of terrorism, particularly in countries where our vendors source merchandise;
- enhanced security measures at United States and foreign ports, which could delay delivery of imports;
- imposition of new or supplemental duties, taxes and other charges on imports;
- delayed receipt or non-delivery of goods due to the failure of foreign-source suppliers to comply with applicable import regulations;
- delayed receipt or non-delivery of goods due to organized labor strikes or unexpected or significant port congestion at United States ports; and

- local business practice and political issues, including issues relating to compliance with domestic or international labor standards, which may result in adverse publicity.

The United States may impose new initiatives that adversely affect the trading status of countries where apparel is manufactured. These initiatives may include retaliatory duties or other trade sanctions that, if enacted, would increase the cost of products imported from countries where our vendors acquire merchandise. Any of these factors could have a material adverse effect on our business and results of operations.

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

To support our distribution of product throughout the world, we currently operate a distribution facility in Florence, New Jersey. Finished garments from contractors and other manufacturers are inspected and stored in our distribution facility. We do not have other distribution facilities to support our distribution needs. If our distribution facility were to shut down or otherwise become inoperable or inaccessible for any reason (such as due to natural disasters, like Hurricane Sandy, which affected our region in early fiscal 2013), we could incur significantly higher costs and longer lead times associated with the distribution of our products to our stores and to our third-party retailers during the time it takes to reopen or replace this facility. In light of our strategic emphasis on rapid replenishment as a competitive strength, a distribution disruption might have a disproportionately adverse effect on our operations and profitability relative to other retailers. In addition, the loss or material disruption of service from any of our shippers for any reason, whether due to freight difficulties, strikes, natural disaster or other difficulties at our principal transport providers or otherwise, could have a material adverse impact on our business and results of operations.

We could be materially and adversely affected if we are unable to obtain sufficient raw materials or maintain satisfactory manufacturing arrangements.

We do not own any manufacturing facilities and therefore depend on third parties to manufacture our products. We place our orders for production of merchandise and raw materials by purchase order and do not have any long-term contracts with any manufacturer or supplier. We compete with many other companies, many of which are larger and have substantially greater financial and other resources than us, for production facilities and raw materials. Furthermore, we have received in the past, and may receive in the future, shipments of products from manufacturers that fail to conform to our quality control standards or environmental standards. In such event, unless we are able to obtain replacement products in a timely manner, we may lose sales. We have no ability to control the environmental compliance (including compliance with climate change requirements) of these third-party manufacturers. If we fail to maintain favorable relationships with these third parties, or if we cannot obtain an adequate supply of quality raw materials on commercially reasonable terms, it could have a material adverse impact on our business, financial condition and results of operations.

Fluctuations in commodity prices could result in an increase in component costs, delivery costs and overall product costs.

The results of our business operations could suffer due to significant increases or volatility in the prices of certain commodities, including but not limited to cotton, wool and other ingredients used in the production of fabric and accessories, as well as fuel, oil and natural gas. In addition, increases in the price of food and food commodities may result in increased labor rates related to textile and apparel production. Increases in prices of these commodities or other inflationary pressures may result in significant cost increases for our raw materials, product components and finished products, as well as increases in the cost of distributing merchandise to our retail locations and shipping products to our customers. For example, in the latter part of fiscal 2011 and for most of fiscal 2012, we experienced product cost of sales increases due, in part, to the increased cost of cotton as well as, to a lesser extent, increased labor rates in certain production countries. To the extent we are unable to offset any such increased costs through value engineering and similar initiatives, or through price increases, our profitability, cash flows and financial condition may be materially and adversely impacted. If we choose to increase prices to offset the increased costs, our unit sales volumes could be adversely impacted.

Our stores are heavily dependent on the customer traffic generated by the shopping malls in which many of our stores are located; any decrease in customer traffic in those malls could cause our sales to be less than expected.

We depend heavily on locating our stores in successful shopping malls in order to generate customer traffic. Sales at these stores are derived, in part, from the volume of traffic in those malls. We cannot control the development of new shopping malls, the availability or cost of appropriate locations within existing or new shopping malls or the success of existing or new mall stores.

The success of all of our mall stores will depend, in part, on the ability of each mall's anchor tenants, such as large department stores, other tenants and area attractions to generate consumer traffic in the vicinity of our stores, and the continuing popularity of malls as shopping destinations. Our sales volume and mall traffic generally may be adversely affected by, among other things, economic downturns in a particular area, the closing of anchor tenants, competition from e-commerce retailers, non-mall retailers and other malls where we do not have stores, increases in gasoline prices and the closing or decline in popularity of other stores in the malls in which we are located. Many traditional enclosed malls are experiencing significantly lower levels of customer traffic than in the past, driven by overall poor economic conditions as well as the closure of certain mall anchor tenants. An uncertain economic

outlook could curtail new shopping mall development, decrease shopping mall traffic, reduce the number of hours that shopping mall operators keep their shopping malls open or force them to cease operations entirely. A reduction in mall traffic as a result of these or any other factors could have a material adverse effect on our business, results of operations and financial condition.

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

The apparel industry is subject to rapidly changing fashion trends and shifting consumer demands. Accordingly, our success depends on the priority that our target customers place on fashion and our ability to anticipate, identify and capitalize on emerging fashion trends. Our ability or our failure to anticipate, identify or react appropriately to changes in styles or trends could lead to, among other things, excess inventories and higher markdowns, as well as the decreased appeal of our brands. Particular fashion trends, or an inaccuracy of our forecasts regarding fashion trends, could have a material adverse effect on our business, financial condition and results of operations. For example, at times, 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 quarterly operating results and inventory levels may fluctuate significantly as a result of seasonality in our business.

Our business, like that of other retailers, is seasonal. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other things, increases or decreases in comparable sales, the timing of new retail location openings, the timing of retail location closings, net sales and profitability contributed by new retail locations, the timing of the fulfillment of purchase orders under our product, license brand and international business arrangements, adverse weather conditions, shifts in the timing of certain holidays and promotions, changes in inventory and production levels and the timing of deliveries of inventory, and changes in our merchandise mix. Our quarterly net sales were historically highest in the peak Spring selling season during our third fiscal quarter that previously ended on June 30 of our fiscal years that ended on September 30. Under our new 4-5-4 retail fiscal calendar ending on the Saturday nearest January 31, of each year, the peak Spring selling season will generally occur during our new first and second fiscal quarters. Given the historically higher sales level in that timeframe and the relatively fixed nature of most of our operating expenses, we have typically generated a very significant percentage of our full year operating income and net income during the calendar months of March through May. Thus, any factors which result in a material reduction of our sales during the first and second fiscal quarters could have a material adverse effect on our results of operations for our fiscal year as a whole. Seasonal fluctuations in sales also affect our inventory levels, as we usually order merchandise in advance of peak selling periods and sometimes before new fashion trends are confirmed by customer purchases. We must carry a significant amount of inventory, especially before the peak Spring selling season. If we are not successful in selling our inventory during this period, we may be forced to rely on markdowns or promotional sales to sell the excess inventory or we may not be able to sell the inventory at all, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

In March 2010, The Patient Protection and Affordable Care Act (the "ACA") was enacted requiring employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. These costs were incurred in fiscal 2016; however, there is no assurance that we will be able to absorb and/or pass through the costs of future health care legislation in a manner that will not adversely impact our results or operations. 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 have been and may continue to be the subject of actions taken by so-called "activist" stockholders, which may cause us to incur substantial costs which could harm our business and which could adversely affect our operating results and financial condition.

We have been and may continue to be the subject of actions taken by so-called "activist" stockholders. Future actions may include, but are not limited to, making public demands that we consider certain strategic alternatives for the Company, engaging in public campaigns to attempt to influence our corporate governance and/or our management, and commencing proxy contests to attempt to elect the activists' representatives or others to our Board of Directors. Responding to actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Such actions may materially harm our relationships with current and potential customers, current and potential stockholders, current and potential lenders, and others, may otherwise materially harm our business, and may adversely affect our operating results and financial

condition. In addition, the perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.

The increase in our sales and marketing efforts that target markets outside the United States and Canada expose us to additional risks associated with international operations.

Although an immaterial amount of our sales are currently derived from international sales outside of Canada, we have franchise arrangements in the Middle East, South Korea, Mexico, Israel and India. International operations and sales subject us to risks and challenges that we would otherwise not face if we conducted our business only in the United States. For example, we may depend on third parties to market our products through foreign sales channels, and we may be challenged by laws and business practices favoring local competitors. In addition, our ability to succeed in foreign markets will depend on our ability to protect our intellectual property. We must also adapt our pricing structure to address different pricing environments and may face difficulty in enforcing revenue collection internationally. To the extent emerging markets are a part of our international growth strategy, the developing nature of these markets presents a number of risks. Deterioration of social, political, labor or economic conditions in a specific country or region and difficulties in staffing and managing foreign operations may also materially and adversely affect our operations or financial results or those of our franchisees. Operations outside the United States may be affected by changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments. To the extent we achieve significant sales outside of the United States in the future, we may have significant exposure to fluctuating foreign currency exchange rates.

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

We could have failures in our system of internal controls causing us to inaccurately report our financial results or to fail to prevent fraud.

We maintain a documented system of internal controls which is reviewed and monitored by management, who meet regularly with our Audit Committee of the Board of Directors. We believe we have a well-designed system to maintain adequate internal controls over the business. We cannot assure you that there will not be any control deficiencies in the future. Should we become aware of any 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

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

On December 3, 2013 we entered into a Single-Tenant Industrial Lease (“DC Lease”) with Haines Center – Florence, LLC to lease a new 406,000 square foot build-to-suit building at 1000 John Galt Way, in Florence, New Jersey. After completion of building construction and the installation and testing of our fully-integrated material handling equipment and software system, in August 2015 we completed the move into our distribution center. The DC Lease has a term of 15 years. In addition, we have three option periods, each for five years, to extend the DC Lease for a total of an additional 15 years after the expiration of the initial term. 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 January 28, 2017 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.

<u>Fiscal Year Leases Expire</u>	<u>Number of Stores</u>
2017	123
2018	101
2019	79
2020	30
2021	42
2022 and later	140
Total	<u>515</u>

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.” The following table sets forth for the periods indicated below the reported high and low sales prices of our common stock, as reported on the Nasdaq Global Select Market, and the per share amount of cash dividends paid on our common stock:

	Market Prices		Dividends Declared and Paid
	High	Low	
Fiscal Year Ended January 28, 2017:			
Quarter ended January 28, 2017	\$ 8.42	\$ 4.83	\$ —
Quarter ended October 29, 2016	7.63	4.90	—
Quarter ended July 30, 2016	7.17	5.03	—
Quarter ended April 30, 2016	10.24	6.12	—
Fiscal Year Ended January 30, 2016:			
Quarter ended January 30, 2016	\$ 10.21	\$ 4.99	\$ 0.2000
Quarter ended October 31, 2015	12.43	6.90	0.2000
Quarter ended August 1, 2015	13.38	9.19	0.2000
Quarter ended May 2, 2015	16.74	11.78	0.2000

As of April 3, 2017 there were 1,148 holders of record and 2,090 estimated beneficial holders of our common stock.

During fiscal 2015 we paid cash dividends of approximately \$11.0 million (reflecting a total of \$0.80 per share). Our term loan agreement, effective March 25, 2016, prohibits the payment of dividends for three years and accordingly no cash dividends were paid by the Company during fiscal 2016. The dividends declared and paid by us met all requirements at the time under the terms of our credit facility.

Under our Amended and Restated 2005 Equity Incentive Plan (the “2005 Plan”) awards may be granted in the form of options, stock appreciation rights, restricted stock, restricted stock units or deferred stock units. Up to 2,800,000 shares of our common stock may be issued in respect of awards under our 2005 Plan, with no more than 1,500,000 of those shares permitted to be issued in respect of restricted stock, restricted stock units or deferred stock units granted under the 2005 Plan.

The following table provides information about purchases by us during the quarter ended January 28, 2017 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (2)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (2)
October 30, 2016 to November 26, 2016	2,096	\$ 7.54	—	—
November 27, 2016 to December 31, 2016	2,597	\$ 6.82	—	—
January 1, 2017 to January 28, 2017	—	\$ —	—	—
Total	4,693	\$ 7.14	—	—

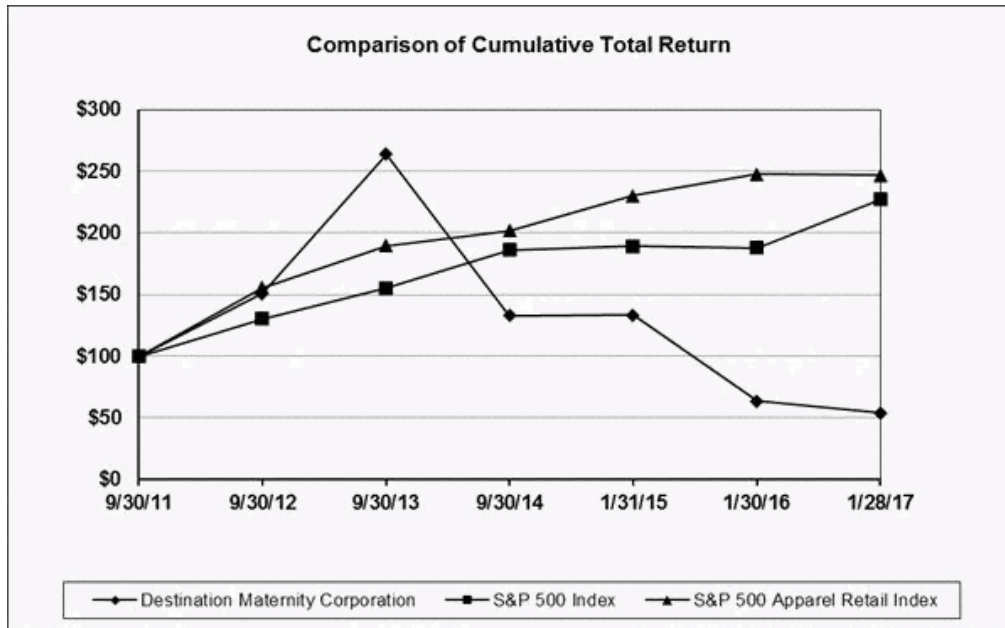
- (1) Represents shares repurchased directly from certain employees to satisfy income tax withholding obligations for such employees in connection with stock options that were exercised and restricted stock awards that vested during the period.
- (2) Our Board of Directors previously approved a program to repurchase up to \$10.0 million of our outstanding common stock that expired as of July 31, 2016. Under the program, we were authorized to repurchase shares from time to time through solicited or unsolicited transactions in the open market or in negotiated or other transactions. No shares were repurchased under this program. Our term loan agreement, effective March 25, 2016, prohibits share repurchases for three years.

Stock Price Performance Graph

The graph below compares the cumulative total stockholder return on our common stock for the period from September 30, 2011 to January 28, 2017 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, 2011 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 January 31, 2015	Year Ended	
	September 30, 2011	September 30, 2012	September 30, 2013	September 30, 2014		January 30, 2016	January 28, 2017
Destination Maternity Corporation	\$ 100.00	\$ 150.80	\$ 263.99	\$ 132.76	\$ 133.29	\$ 63.81	\$ 53.79
S&P 500 Index	\$ 100.00	\$ 130.20	\$ 155.39	\$ 186.05	\$ 189.37	\$ 188.11	\$ 227.36
S&P 500 Apparel Retail Index	\$ 100.00	\$ 155.62	\$ 189.57	\$ 201.81	\$ 230.26	\$ 247.66	\$ 246.79

Item 6. Selected Consolidated Financial and Operating Data

The following tables set forth selected consolidated statement of operations data, operating data, other consolidated financial data, and consolidated balance sheet data as of and for the periods indicated. The selected consolidated statement of operations and balance sheet data for each of the periods presented below are derived from our consolidated financial statements. You should read this information in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included elsewhere in this report.

	Year Ended		Four Months Ended	Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014	September 30, 2013	September 30, 2012
(in thousands, except per share amounts)						
Consolidated Statement of Operations Data:						
Net sales	\$ 433,699	\$ 498,753	\$ 165,644	\$ 516,959	\$ 540,259	\$ 541,476
Cost of goods sold	206,271	252,713	96,667	247,501	249,298	250,765
Gross profit	227,428	246,040	68,977	269,458	290,961	290,711
Selling, general and administrative expenses	223,881	246,914	86,688	250,253	252,026	255,623
Store closing, asset impairment and asset disposal (income) expenses	2,768	(2,084)	4,599	1,469	1,441	1,983
Other charges, net	4,914	6,979	5,354	3,229	—	—
Operating income (loss)	(4,135)	(5,769)	(27,664)	14,507	37,494	33,105
Interest expense, net	3,575	1,520	242	404	532	1,215
Loss on extinguishment of debt	—	—	—	—	9	22
Income (loss) before income taxes	(7,710)	(7,289)	(27,906)	14,103	36,953	31,868
Income tax provision (benefit)	25,050	(2,806)	(10,526)	3,606	13,010	12,496
Net income (loss)	\$ (32,760)	\$ (4,483)	\$ (17,380)	\$ 10,497	\$ 23,943	\$ 19,372
Net income (loss) per share—Basic	\$ (2.39)	\$ (0.33)	\$ (1.28)	\$ 0.78	\$ 1.80	\$ 1.48
Average shares outstanding—Basic	13,702	13,596	13,541	13,451	13,272	13,096
Net income (loss) per share—Diluted	\$ (2.39)	\$ (0.33)	\$ (1.28)	\$ 0.77	\$ 1.78	\$ 1.46
Average shares outstanding—Diluted	13,702	13,596	13,541	13,572	13,439	13,267

	Year Ended		Four Months Ended	Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014	September 30, 2013	September 30, 2012

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

Operating Data:

Comparable sales increase (decrease) – reported basis (1) (2) (3)	(5.3)%	(1.5)%	(2.0)%	(3.7)%	2.6%	(0.3)%
Comparable sales increase (decrease) – adjusted for calendar timing shift (1) (2) (3)	N.A.	N.A.	(2.7)%	(3.7)%	3.2%	(0.8)%
Internet sales increase	9.0%	0.7%	13.8%	2.6%	13.3%	26.2%
Average net sales per gross square foot (4)	\$ 255	\$ 254	\$ 85	\$ 272	\$ 278	\$ 270
Average net sales per store (4)	\$ 559,000	\$ 555,000	\$ 184,000	\$ 579,000	\$ 594,000	\$ 575,000
Gross store square footage at period end (5)	1,131,000	1,164,000	1,226,000	1,233,000	1,285,000	1,330,000
Gross retail location square footage at period end (6)	1,549,000	1,766,000	1,841,000	1,855,000	1,903,000	1,959,000
Number of retail locations at period end:						
Motherhood Maternity stores	408	425	450	454	476	507
A Pea in the Pod stores	26	23	24	25	31	36
Destination Maternity stores	81	88	90	89	89	82
Total stores	515	536	564	568	596	625
Leased departments	705	1,279	1,311	1,326	1,311	1,383
Total retail locations	1,220	1,815	1,875	1,894	1,907	2,008

Other Consolidated Financial Data:

Adjusted EBITDA (7) (8)	\$ 18,358	\$ 16,101	\$ (16,815)	\$ 30,556	\$ 54,003	\$ 49,898
Adjusted EBITDA margin (adjusted EBITDA as a percentage of net sales) (8)	4.2%	3.2%	(10.2)%	5.9%	10.0%	9.2%
Adjusted EBITDA before other charges (7) (8)	23,272	22,847	(11,732)	36,768	54,003	49,898
Adjusted EBITDA margin before other charges (8)	5.4%	4.6%	(7.1)%	7.1%	10.0%	9.2%
Adjusted net income (loss) (8)	(1,946)	(168)	(14,109)	10,700	22,733	19,386
Adjusted net income (loss) per share—Diluted (8)	(0.14)	(0.01)	(1.04)	0.79	1.69	1.46
Cash flows provided by operating activities	10,711	16,094	3,831	25,845	42,153	42,697
Cash flows used in investing activities	(12,785)	(29,400)	(21,866)	(29,544)	(16,022)	(9,521)
Cash flows provided by (used in) financing activities	2,816	14,081	6,805	(8,279)	(23,926)	(26,073)
Capital expenditures	(12,690)	(29,272)	(21,098)	(40,185)	(15,059)	(9,256)

Consolidated Balance Sheet Data (at end of period):

Cash and cash equivalents	\$ 2,859	\$ 2,116	\$ 1,349	\$ 12,580	\$ 24,555	\$ 22,376
Working capital	29,734	15,851	37,433	56,276	75,276	63,316
Total assets	175,987	219,074	220,060	230,533	207,981	199,644
Total debt	43,033	40,599	15,000	—	—	15,257
Net (debt) cash (8) (9)	(40,174)	(38,483)	(13,651)	12,580	24,555	7,119
Stockholders' equity	61,150	92,898	106,002	125,521	122,633	104,972

N.A. Not applicable

- Comparable sales figures represent comparable store sales and Internet sales.
- Comparable store sales figures represent sales at retail locations (which does not include licensed brand or international franchise relationships) that have been in operation by us for at least 13 full months at the beginning of the period for which such data is presented, as well as Internet sales. Our comparable store sales figures generally do not include: 1) retail locations which change location type or format, 2) retail locations which are expanded, contracted or relocated if the square footage of the retail location has changed by 20% or more, or, if in the judgment of management, such expansion, contraction or relocation materially alters the comparability of the retail location (either with respect to the manner of its operation or otherwise), 3) in the case of relocations only, retail locations which are not in the same immediate geographical vicinity (such as, without limitation, the same mall, the same part of a mall, or the same street) after the relocation, 4) retail locations that have temporarily closed for any reason for 30 days or more, or 5) retail locations which, in the judgment of management, have undergone other significant changes which materially alter the comparability of the retail location (either with respect to the manner of its operation or otherwise) (such as, for example only, in the case of closure of retail locations in connection with the cessation of a leased department relationship where the manner of operation of such retail location has been materially altered prior to closure, or in

the case of construction in, on or near a retail location, which significantly interferes with the customer traffic, visibility or operation of a retail location). There may be variations in the way in which other retailers calculate comparable sales. As a result, data in this annual report regarding our comparable sales may not be comparable to similar data made available by other retailers. Beginning with the first quarter of fiscal 2016 we made certain adjustments to our definition of comparable sales including, most notably, (a) extending the period that a retail location is required to be in operation before being included in comparable sales from “at least 12 full months at the beginning of a period” to “at least 13 full months”; and (b) expressly providing that retail locations which are closed temporarily for 30 days or more will generally be excluded from comparable sales. We made these changes because we believe the new formulation is more typical of that used by other specialty retailers. In addition, comparable sales as determined under the revised definition will allow for easier reconciliation of monthly, quarterly and annual reporting. We have not restated prior period comparable sales figures because the changes would not be material in the aggregate considering the relatively minor changes to the definition.

- (3) Prior to the change in our fiscal year end, we reported sales on a calendar period basis, rather than on a “4-5-4 retail fiscal calendar” where each fiscal period starts on a Sunday and ends on a Saturday. Thus, for each calendar-based fiscal year, there is a “days adjustment calendar shift” which may help or hurt reported calendar-based fiscal year sales and comparable sales due to different days of the week typically contributing more sales than other days of the week. In order to quantify and eliminate the effect on reported comparable sales results of the “days adjustment calendar shift”, we also present comparable sales on a calendar-adjusted basis. For example, for the transition period calendar-adjusted comparable sales were measured for the period Wednesday, October 1, 2014 through Saturday, January 31, 2015 compared to the period Tuesday, October 1, 2013 through Friday, January 31, 2014, and for fiscal 2014 calendar-adjusted comparable sales were measured for the period Tuesday, October 1, 2013 through Tuesday, September 30, 2014 compared to the period Tuesday, October 2, 2012 through Tuesday, October 1, 2013.
- (4) Based on stores in operation by us during the entire period (which does not include leased department, licensed brand or international franchise relationships).
- (5) Based on stores in operation by us at the end of the period (which does not include leased department, licensed brand or international franchise relationships).
- (6) Based on all retail locations in operation at the end of the period (which does not include licensed brand or international franchise relationships).
- (7) Adjusted EBITDA represents operating income (loss) before deduction for the following non-cash charges: (i) depreciation and amortization expense; (ii) loss on impairment of tangible and intangible assets; (iii) loss (gain) on disposal of assets; and (iv) stock-based compensation expense. We have presented Adjusted EBITDA to enhance your understanding of our operating results.
- (8) Other consolidated financial and consolidated balance sheet data contain non-GAAP financial measures and ratios within the meaning of the SEC’s Regulation G, including: (i) Adjusted EBITDA, (ii) Adjusted EBITDA margin, (iii) Adjusted EBITDA before other charges, (iv) Adjusted EBITDA margin before other charges, (v) Adjusted net income (loss), (vi) Adjusted net income (loss) per share-Diluted, and (vii) Net (debt) cash. We believe that each of these non-GAAP financial measures and ratios provides useful information about our results of operations and/or financial position to both investors and management. Each non-GAAP financial measure and ratio is provided because we believe it is an important measure of financial performance used in the retail industry to measure operating results, to determine the value of companies within the industry and to define standards for borrowing from institutional lenders. We use each of these non-GAAP financial measures and ratios as a measure of the performance of the Company. In addition, certain of the Company’s cash and equity incentive compensation plans are based on our level of achievement of Adjusted EBITDA before other charges. We provide these non-GAAP financial measures and ratios to investors to assist them in performing their analysis of our historical operating results. The non-GAAP financial measures and ratios included in Other Consolidated Financial Data reflect a measure of our operating results before consideration of certain charges or credits, when applicable, and consequently, none of these measures and ratios should be construed as an alternative to net income or operating income as an indicator of our operating performance, or as an alternative to cash flows from operating activities as a measure of our liquidity, as determined in accordance with generally accepted accounting principles. We may calculate each of these non-GAAP financial measures and ratios differently than other companies. With respect to the non-GAAP financial measures included in Other Consolidated Financial Data, we have presented below a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures.
- (9) Net (debt) cash represents cash and cash equivalents minus total debt.

**Reconciliation of Net Income (Loss) to Adjusted EBITDA
and Adjusted EBITDA Before Other Charges**

(in thousands)
(unaudited)

	Year Ended		Four Months	Year Ended		
	January 28, 2017	January 30, 2016	Ended January 31, 2015	September 30, 2014	September 30, 2013	September 30, 2012
Net income (loss)	\$ (32,760)	\$ (4,483)	\$ (17,380)	\$ 10,497	\$ 23,943	\$ 19,372
Add: income tax provision (benefit)	25,050	(2,806)	(10,526)	3,606	13,010	12,496
Add: interest expense, net	3,575	1,520	242	404	532	1,215
Add: loss on extinguishment of debt	—	—	—	—	9	22
Operating income (loss)	(4,135)	(5,769)	(27,664)	14,507	37,494	33,105
Add: depreciation and amortization expense	18,032	17,231	5,223	15,197	12,424	12,445
Add: loss on impairment of long-lived assets	2,388	1,662	4,444	1,136	786	1,876
Add: loss (gain) on disposal of assets	272	193	109	(4,031)	528	115
Add: stock-based compensation expense	1,801	2,784	1,073	3,747	2,771	2,357
Adjusted EBITDA	18,358	16,101	(16,815)	30,556	54,003	49,898
Add: other charges (1)	4,914	6,746	5,083	6,212	—	—
Adjusted EBITDA before other charges	\$ 23,272	\$ 22,847	\$ (11,732)	\$ 36,768	\$ 54,003	\$ 49,898
Adjusted EBITDA margin	4.2%	3.2%	(10.2)%	5.9%	10.0%	9.2%
Adjusted EBITDA margin before other charges	5.4%	4.6%	(7.1)%	7.1%	10.0%	9.2%

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

**Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss) and
Net Income (Loss) Per Share – Diluted to Adjusted Net Income (Loss) Per Share – Diluted**

(in thousands, except per share amounts)

(unaudited)

	Year Ended		Four Months	Year Ended		
	January 28, 2017	January 30, 2016	Ended January 31, 2015	September 30, 2014	September 30, 2013	September 30, 2012
Net income (loss)	\$ (32,760)	\$ (4,483)	\$ (17,380)	\$ 10,497	\$ 23,943	\$ 19,372
Add: other charges	4,914	6,979	5,354	3,229	—	—
Less: income tax effect of other charges (1)	(1,858)	(2,664)	(2,028)	(1,202)	—	—
Add: loss on extinguishment of debt	—	—	—	—	9	22
Less: income tax effect of loss on extinguishment of debt (2)	—	—	—	—	(3)	(8)
Add: deferred tax valuation allowance related to cumulative losses	27,758	—	—	—	—	—
Less: reductions of state income tax expense, net of federal expense, related to settlements of uncertain income tax positions	—	—	(55)	(1,824)	—	—
Less: recognition of state income tax benefits resulting from regulation changes	—	—	—	—	(1,216)	—
Adjusted net income (loss)	\$ (1,946)	\$ (168)	\$ (14,109)	\$ 10,700	\$ 22,733	\$ 19,386
Net income (loss) per share—Diluted	\$ (2.39)	\$ (0.33)	\$ (1.28)	\$ 0.77	\$ 1.78	\$ 1.46
Average shares outstanding—Diluted	13,702	13,596	13,541	13,572	13,439	13,267
Adjusted net income (loss) per share—Diluted	\$ (0.14)	\$ (0.01)	\$ (1.04)	\$ 0.79	\$ 1.69	\$ 1.46
Average shares outstanding—Diluted	13,702	13,596	13,541	13,572	13,439	13,267

(1) Income tax effect of other charges represents the difference in income tax provision calculated with and without the specified pretax expense.

(2) Income tax effect of loss on extinguishment of debt represents the difference in income tax provision calculated with and without the specified pretax expense.

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

Historically, our fiscal year ended on September 30. On December 4, 2014 we announced that our Board of Directors approved a change in our fiscal year end from September 30 to the Saturday nearest January 31 of each year. The fiscal year end change aligns our reporting cycle with the National Retail Federation fiscal calendar. We had a transition period from October 1, 2014 through January 31, 2015 and filed a Transition Report on Form 10-Q on March 12, 2015 for such transition period. Our fiscal year 2015 covers the period that began February 1, 2015 and ended January 30, 2016. Our fiscal year 2016 covers the period that began January 31, 2016 and ended January 28, 2017. References in this discussion to our fiscal years prior to fiscal 2015 refer to the fiscal years ended on September 30 in those years, unless otherwise indicated. For example, our "fiscal 2014" ended on September 30, 2014.

Overview

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

We are the leading designer and retailer of maternity apparel in the United States with 1,220 retail locations, including 515 stores in the United States, Canada and Puerto Rico, and 705 leased departments located within department stores and baby specialty stores throughout the United States and Puerto Rico. We operate our stores under the Motherhood Maternity, A Pea in the Pod and Destination Maternity retail nameplates. Generally we are the exclusive maternity apparel provider in our leased department locations. We also sell merchandise on the Internet, primarily through our brand-specific websites, Motherhood.com and APeaInThePod.com, as well as through our DestinationMaternity.com website. We have store franchise and product supply relationships in the Middle East, South Korea, Mexico, Israel and India. As of January 28, 2017 we have 213 international franchised locations, comprised of 19 stand-alone stores in the Middle East, South Korea, Mexico, Israel and India operated under one of our retail nameplates, and 194 shop-in-shop locations in South Korea, Mexico, Israel and India, in which we have a Company branded department operated by our franchise partners within other retail stores. We design and contract the manufacture of over 90% of the merchandise we sell using sewing factories located throughout the world, predominantly outside of the United States. Substantially all of the merchandise produced outside of the United States is paid for in United States dollars.

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

Agreement and Plan of Merger

On December 19, 2016 we entered into the Merger Agreement, pursuant to which, subject to the satisfaction or waiver of certain conditions, a subsidiary of Orchestra will merge with and into the Company, with the Company surviving as a wholly-owned subsidiary of Orchestra. The Merger is expected to close during the third quarter of fiscal 2017 or as soon as possible thereafter.

For a more detailed summary of the Merger Agreement, see Item 1. Business – Recent Developments.

Turnaround Plan

Late in fiscal 2014, we commenced a program, which we sometimes refer to as our "turnaround plan" or "turnaround" to improve our business processes, key management personnel and planning resources with a focus on improving inventory management, driving sales productivity, optimizing real estate and controlling costs. The real estate component of our turnaround includes increased focus on our two key maternity apparel brands with strategic phase-out and elimination of certain non-core brands and business relationships.

Although we have made some progress, we have experienced challenges in implementing our turnaround given the overall weakness in the women's specialty apparel retail space, declining mall-based traffic, and other factors. These challenges have led to a slower pace of progress than originally planned, resulting in a decline in net sales from fiscal 2015 and underperformance to 2016 expectations.

During fiscal 2016 and 2015 we incurred \$1.8 million and \$4.2 million, respectively, of charges related to our turnaround plan.

Fiscal 2016 Financial Results

Presented below is a summary of our results for the years ended January 28, 2017 and January 30, 2016 with regard to each of the key measures noted above.

- Net sales for fiscal 2016 decreased 13.0% to \$433.7 million from \$498.8 million for fiscal 2015.
- Net loss for fiscal 2016 was \$32.8 million, or \$2.39 per share (diluted), including a \$27.8 million, or \$2.02 per share (diluted) non-cash income tax charge, compared to net loss of \$4.5 million, or \$0.33 per share (diluted), for fiscal 2015.
- Net loss for fiscal 2016 includes the \$27.8 million non-cash income tax charge related to a valuation allowance against net deferred tax assets, and other charges of 1) \$2.0 million, net of tax, or \$0.14 per share (diluted), related to charges incurred in connection with discussions regarding a proposed business combination with the Company's largest shareholder and 2) \$1.1 million, net of tax, or \$0.08 per share (diluted), related to management and organizational changes. Net loss for fiscal 2015 includes other charges of 1) \$2.6 million, net of tax, or \$0.19 per share (diluted), related to management and organizational changes and 2) \$1.7 million, net of tax, or \$0.13 per share (diluted), related to the relocations of our headquarters and distribution facilities, and the fiscal year change.
- Adjusted net loss for fiscal 2016 was \$1.9 million, or \$0.14 per share (diluted), compared to the comparably adjusted net loss for fiscal 2015 of \$0.2 million, or \$0.01 per share (diluted).
- Adjusted EBITDA was \$18.4 million for fiscal 2016, compared to \$16.1 million of Adjusted EBITDA for fiscal 2015.
- Adjusted EBITDA before other charges was \$23.3 million for fiscal 2016, compared to \$22.8 million of Adjusted EBITDA before other charges for fiscal 2015.
- Comparable sales for fiscal 2016 decreased 5.3% versus a comparable sales decrease of 1.5% for fiscal 2015.

Leased Department and Licensed Relationships

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

Fiscal Year Ended January 28, 2017 Compared to Fiscal Year ended January 30, 2016

Results of Operations

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

	Twelve Months Ended				% Period to Period Favorable (Unfavorable)
	January 28, 2017		January 30, 2016		
	Amount (in thousands)	% of Net Sales (1)	Amount (in thousands)	% of Net Sales (1)	
Net sales	\$ 433,699	100.0%	\$ 498,753	100.0%	(13.0)%
Cost of goods sold (2)	206,271	47.6	252,713	50.7	18.4
Gross profit	227,428	52.4	246,040	49.3	(7.6)
Selling, general and administrative expenses (3)	223,881	51.6	246,914	49.5	9.3
Store closing, asset impairment and asset disposal expenses (income)	2,768	0.6	(2,084)	(0.4)	(232.8)
Other charges, net	4,914	1.1	6,979	1.4	29.6
Operating loss	(4,135)	(1.0)	(5,769)	(1.2)	28.3
Interest expense, net	3,575	0.8	1,520	0.3	(135.2)
Loss before income taxes	(7,710)	(1.8)	(7,289)	(1.5)	(5.8)
Income tax provision (benefit)	25,050	5.8	(2,806)	0.6	(992.7)
Net loss	\$ (32,760)	(7.6)%	\$ (4,483)	(0.9)%	(630.8)%

- (1) Components may not add to total due to rounding.
- (2) Cost of goods sold includes merchandise costs (including customs duty expenses), expenses related to inventory shrinkage, product-related corporate expenses (including expenses related to our payroll, benefit costs and operating expenses of our design and sourcing departments), inventory reserves (including lower of cost or market reserves), inbound freight charges, purchasing and receiving costs, inspection costs, distribution center costs (including occupancy expenses and equipment depreciation), internal transfer costs, and the other costs of our distribution network, partially offset by the allocable amount of our Grow NJ award benefit.
- (3) Selling, general and administrative expenses includes advertising and marketing expenses, corporate administrative expenses, corporate headquarters occupancy expenses, store expenses (including store payroll and store occupancy expenses), and store opening expenses, partially offset by the allocable amount of our Grow NJ award benefit.

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

Retail Locations (1)	Twelve Months Ended					
	January 28, 2017			January 30, 2016		
	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations
Beginning of period	536	1,279	1,815	564	1,311	1,875
Opened	11	10	21	18	19	37
Closed	(32)	(584)	(616)	(46)	(51)	(97)
End of period	<u>515</u>	<u>705</u>	<u>1,220</u>	<u>536</u>	<u>1,279</u>	<u>1,815</u>

- (1) Excludes international franchised locations, and locations where Kohl's sells our products under an exclusive product and license agreement. Our license agreement with Kohl's ended in February 2017.

International Franchised Locations (1)	Twelve Months Ended					
	January 28, 2017			January 30, 2016		
	Stores	Shop-in-Shop Locations	Total International Franchised Locations	Stores	Shop-in-Shop Locations	Total International Franchised Locations
Beginning of period	25	168	193	23	62	85
Opened	2	64	66	4	110	114
Closed	(8)	(38)	(46)	(2)	(4)	(6)
End of period	<u>19</u>	<u>194</u>	<u>213</u>	<u>25</u>	<u>168</u>	<u>193</u>

(1) In June 2015 we commenced our expansion into Israel. As of January 28, 2017 our merchandise is offered in 27 shop-in-shops in Israel. In October 2015 we entered into a new franchise agreement in India and commenced our expansion into India. As of January 28, 2017 our merchandise is offered in 25 shop-in-shops in India.

Net Sales. Our net sales for fiscal 2016 decreased by 13.0%, or \$65.1 million, to \$433.7 million from \$498.8 million for fiscal 2015. Comparable sales for fiscal 2016 decreased 5.3% compared to a comparable sales decrease of 1.5% for fiscal 2015. The decrease in total reported sales for fiscal 2016 compared to fiscal 2015 resulted primarily from the decrease in comparable sales, decreased sales related to the Company's continued efforts to close underperforming stores (see our discussion in Item 1. Business regarding closing underperforming stores), and decreased leased department and licensed sales, reflecting the effect of the wind down of the Kohl's, Sears and Gordmans relationships. The primary drivers of the comparable sales decrease were lower transactions and lower unit sales due to decreased store traffic, partially offset by an increase in our average selling prices.

As of January 28, 2017 we operated a total of 515 stores and 1,220 total retail locations: 408 Motherhood Maternity stores (including 97 Motherhood Maternity Outlet stores), 26 A Pea in the Pod stores, 81 Destination Maternity stores, and 705 leased maternity apparel departments. In comparison, as of January 30, 2016 we operated a total of 536 stores and 1,815 total retail locations: 425 Motherhood Maternity stores (including 93 Motherhood Maternity Outlet stores), 23 A Pea in the Pod stores, 88 Destination Maternity stores, and 1,279 leased maternity apparel departments, of which 475 were in Sears stores under the Two Hearts Maternity brand and the balance were in other department stores and baby specialty stores. As of January 28, 2017 our store total included 81 multi-brand Destination Maternity nameplate stores, including 48 Destination Maternity combo stores and 33 Destination Maternity superstores. In comparison, as of January 30, 2016 we operated 88 multi-brand Destination Maternity nameplate stores, including 53 Destination Maternity combo stores and 35 Destination Maternity superstores. During fiscal 2016 we opened 11 stores, and closed 32 stores. In addition, during fiscal 2016 we opened 10 leased department locations and closed 584 leased department locations.

Gross Profit. Our gross profit for fiscal 2016 decreased by 7.6%, or \$18.6 million, to \$227.4 million from \$246.0 million for fiscal 2015, and our gross margin for fiscal 2016 was 52.4% compared to 49.3% for fiscal 2015. The decrease in gross profit for fiscal 2016 compared to fiscal 2015 was primarily due to lower sales volume as a result of the factors discussed above. The year-over-year increase in gross margin is a result of less price promotion and markdown activity as a result of better managed inventory, and lower levels of excess current season and aged merchandise. During fiscal 2016 and 2015 higher occupancy and depreciation expenses from our relocations were substantially offset by lower employment costs and benefit from our Grow NJ award, which we began to recognize during the second half of fiscal 2015. Due to the timing of the initial benefit recognition in the second half of fiscal 2015, we estimate our full year fiscal 2015 gross margin was approximately 0.2% higher than the annualized benefit expected in the future.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses for fiscal 2016 decreased by 9.3%, or \$23.0 million, to \$223.9 million from \$246.9 million for fiscal 2015. As a percentage of net sales, selling, general and administrative expenses increased to 51.6% for fiscal 2016 from 49.5% for fiscal 2015. This decrease in expense in fiscal 2016 compared to fiscal 2015 reflects cost reductions resulting from our continued closure of underperforming stores and other headcount reductions, lower variable incentive compensation expense, and lower marketing and advertising expense, partially offset by a non-recurring reduction of \$1.2 million from settlement of certain unclaimed property matters during the first quarter of fiscal 2015. The increase in expense percentage for the twelve month period reflects the unfavorable leverage from our decreased sales due to the relatively fixed nature of much of our expenses.

Store Closing, Asset Impairment and Asset Disposal Expenses (Income). For fiscal 2016 we had \$2.8 million of expense from store closings, asset impairments and asset disposals compared to \$2.1 million of income for fiscal 2015. During fiscal 2015 we received \$4.1 million as incentive for early termination of the lease for our superstore located on Madison Avenue in New York City.

Other Charges, Net. In fiscal 2016 we incurred other charges of \$4.9 million related to a proposed business combination and to management and organizational changes. Other charges related to the Merger were approximately \$3.1 million, primarily for legal and advisory fees. Other charges related to management and organizational changes were \$1.8 million, primarily for costs related to severance and other benefits, and to a lesser extent, to terminate certain non-core apparel brand relationships. In fiscal 2015 we incurred other charges of \$7.0 million primarily related to management and organizational changes and the relocations of our

headquarters and distribution facilities. Other charges related to management and organizational changes were \$4.2 million, primarily severance and other benefits in connection with the replacement of certain key management personnel and some reductions in headcount, and to a lesser extent, consulting fees. Other charges related to the relocations were \$2.7 million, primarily for pre-opening rent expense for the new distribution center, moving costs for the new distribution center, shut down costs of the prior facility and accelerated depreciation.

Operating Loss. We had an operating loss of \$4.1 million for fiscal 2016 compared to an operating loss of \$5.8 million for fiscal 2015, which included the \$4.1 million incentive for an early termination of a store lease. Excluding the year-over-year effect of the early lease termination incentive in fiscal 2015 our operating income increased by approximately \$5.7 million, which reflects our 9.3% reduction in selling, general and administrative expenses, increases in our average selling prices and gross margin from better inventory management, and lower other charges. These improvements more than offset our lower gross profit as a result of the decline in sales volume.

Interest Expense, Net. Our net interest expense for fiscal 2016 increased to \$3.6 million from \$1.5 million in fiscal 2015. This increase was due to interest expense on outstanding borrowings on our Term Loan during fiscal 2016, partially offset by lower average borrowings under our Credit Facility and a reduction in the principal balance due under our equipment note during fiscal 2016 compared to fiscal 2015.

Income Tax Provision (Benefit). For fiscal 2016 our income tax provision was \$25.1 million. In the fourth quarter of fiscal 2016 we recorded a non-cash charge of \$27.8 million as a valuation allowance against substantially all of our deferred tax assets. Excluding the effect of the valuation allowance charge in fiscal 2016 our effective tax benefit rate was 35.1%, which was slightly higher than the statutory federal tax rate of 35% primarily due to certain state minimum income taxes substantially offset by state income tax benefits from our pretax loss and reductions related to uncertain income tax positions. For fiscal 2015 our effective tax benefit rate was 38.5%. Our effective tax rate for fiscal 2015 was higher than the statutory federal tax rate of 35% primarily due to state income tax benefits, net of federal expense, including reductions related to uncertain income tax positions. See Note 15 of the Notes to Consolidated Financial Statements, included elsewhere in this report, for the reconciliation of the statutory federal income tax rate to our effective tax rate

Net Loss. Net loss for fiscal 2016 was \$32.8 million, or \$2.39 per share (diluted), compared to net loss of \$4.5 million, or \$0.33 per share (diluted), for fiscal 2015. Net loss for fiscal 2016 was primarily related to a non-cash valuation allowance charge of \$27.8 million against our deferred tax assets, other charges of \$2.0 million, net of tax, related to a proposed business combination and \$1.1 million, net of tax, related to management and organizational changes. Net loss for fiscal 2015 includes other charges of \$1.7 million, net of tax, related to the relocations of our headquarters and distribution facilities and approximately \$2.6 million, net of tax, related to management and organizational changes, and other matters. Before these charges, our adjusted net loss for fiscal 2016 was \$1.9 million, or \$0.14 per share (diluted), compared to net loss of \$0.2 million, or \$0.01 per share (diluted), for fiscal 2015.

Our average diluted shares outstanding of 13.7 million for fiscal 2016 were slightly higher than the 13.6 million average diluted shares outstanding for fiscal 2015. We had higher shares outstanding in fiscal 2016 compared to fiscal 2015 as a result of stock option exercises and restricted stock awards.

Following is a reconciliation of net loss and net loss per share (diluted) ("Diluted EPS") to adjusted net loss and adjusted Diluted EPS for the twelve months ended January 28, 2017 and January 30, 2016 (in thousands, except per share amounts):

	Twelve Months Ended					
	January 28, 2017			January 30, 2016		
	Net Loss	Diluted Shares	Diluted EPS	Net Loss	Diluted Shares	Diluted EPS
As reported	\$ (32,760)	13,702	\$ (2.39)	\$ (4,483)	13,596	\$ (0.33)
Add: other charges for proposed business combination	3,154	—		61	—	
Add: other charges for management and organizational changes	1,760	—		4,196	—	
Add: other charges for relocations	—	—		2,695	—	
Add: other charges for fiscal year change	—	—		27	—	
Less: income tax effect of other charges (1) (2)	(1,858)	—		(2,664)	—	
Add: deferred tax valuation allowance related to cumulative losses	27,758	—		—	—	
As adjusted	\$ (1,946)	13,702	\$ (0.14)	\$ (168)	13,596	\$ (0.01)

(1) For fiscal 2016 income tax effect of other charges includes \$1,193 related to a proposed business combination and \$665 related to management and organizational changes, which represent the differences in income tax provision calculated with and without the specified pretax expense.

- (2) For fiscal 2015 income tax effect of other charges includes \$23 related to a proposed business combination, \$1,603 related to management and organizational changes, \$1,028 related to relocations and \$10 related to the fiscal year change, which represent the differences in income tax provision calculated with and without the specified pretax expense charges.

Following is a reconciliation of net loss to Adjusted EBITDA and Adjusted EBITDA before other charges for the twelve months ended January 28, 2017 and January 30, 2016 (in thousands):

	Twelve Months Ended	
	January 28, 2017	January 30, 2016
Net loss	\$ (32,760)	\$ (4,483)
Add: income tax provision (benefit)	25,050	(2,806)
Add: interest expense, net	3,575	1,520
Operating loss	(4,135)	(5,769)
Add: depreciation and amortization expense	18,032	17,231
Add: loss on impairment of long-lived assets	2,388	1,662
Add: loss on disposal of assets	272	193
Add: stock-based compensation expense	1,801	2,784
Adjusted EBITDA	18,358	16,101
Add: other charges for proposed business combination	3,154	61
Add: other charges for management and organizational changes	1,760	4,196
Add: other charges for relocations (1)	—	2,462
Add: other charges for fiscal year change	—	27
Adjusted EBITDA before other charges	<u>\$ 23,272</u>	<u>\$ 22,847</u>

- (1) For the year ended January 30, 2016 other charges for relocations excludes accelerated depreciation expense of \$233 (included in depreciation and amortization expense above).

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

Results of Operations

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

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

- (1) Components may not add to total due to rounding.
- (2) Cost of goods sold includes merchandise costs (including customs duty expenses), expenses related to inventory shrinkage, product-related corporate expenses (including expenses related to payroll, benefit costs and operating expenses of our design and sourcing departments), inventory reserves (including lower of cost or market reserves), inbound freight charges, purchasing and receiving costs, inspection costs, distribution center costs (including occupancy expenses and equipment depreciation),

internal transfer costs, and the other costs of our distribution network, partially offset by the allocable amount of our Grow NJ award benefit.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income Tax Benefit. For fiscal 2015 our effective tax benefit rate was 38.5%. Our effective tax benefit rate for fiscal 2015 was higher than the statutory federal tax rate of 35% primarily due to state income tax benefits, net of federal expense, including reductions related to uncertain income tax positions. For the twelve months ended January 31, 2015 our effective tax benefit rate was 46.2%. Our effective tax rate for the twelve months ended January 31, 2015 was higher than the statutory federal tax rate of 35%.

primarily due to reductions of state income tax expense, net of federal expense, of \$1.7 million, which were related to settlements of uncertain income tax positions, and to a lesser extent, state income tax benefits, net of federal expense. See Note 15 of the Notes to Consolidated Financial Statements, included elsewhere in this report, for the reconciliation of the statutory federal income tax rate to our effective tax rate.

Net Loss. Net loss for fiscal 2015 was \$4.5 million, or \$0.33 per share (diluted), compared to net loss of \$10.1 million, or \$0.75 per share (diluted), for the twelve months ended January 31, 2015. Net loss for fiscal 2015 includes other charges of \$1.7 million, net of tax, related to the relocations of our headquarters and distribution facilities and approximately \$2.6 million, net of tax, related to management and organizational changes, and other matters. Net loss for the twelve months ended January 31, 2015 includes other charges of \$1.7 million, net of tax, related to the relocations of our headquarters and distribution facilities, \$4.5 million, net of tax, related to management and organizational changes, \$0.8 million, net of tax, related to our fiscal year change, and \$0.6 million, net of tax, related to a proposed business combination, offset by a gain of \$2.5 million, net of tax, on the sale our prior headquarters/distribution facility. Net income for the twelve months ended January 31, 2015 also includes \$1.7 million for reductions of state income tax expense, net of federal expense, related to settlements of uncertain income tax positions. Before these charges and credits, our adjusted net loss for fiscal 2015 was \$0.2 million, or \$0.01 per share (diluted), compared to net loss of \$6.7 million, or \$0.50 per share (diluted), for the twelve months ended January 31, 2015.

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

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

	Twelve Months Ended					
	January 30, 2016			January 31, 2015		
	Net Loss	Diluted Shares	Diluted EPS	Net Loss	Diluted Shares	Diluted EPS
As reported	\$ (4,483)	13,596	\$ (0.33)	\$ (10,090)	13,498	\$ (0.75)
Add: other charges for relocations	2,695	—		2,720	—	
Add: other charges for management and organizational changes	4,196	—		7,207	—	
Add: other charges for fiscal year change	27	—		1,245	—	
Add: other charges for proposed business combinations	61	—		1,045	—	
Less: gain on sale of building	—	—		(4,110)	—	
Less: income tax effect of other charges and gain on sale of building (1) (2)	(2,664)	—		(3,071)	—	
Less: reductions of state income tax expense, net of federal expense, related to settlements of uncertain income tax positions	—	—		(1,654)	—	
As adjusted	\$ (168)	13,596	\$ (0.01)	\$ (6,708)	13,498	\$ (0.50)

- (1) For the twelve months ended January 30, 2016 income tax effect of other charges includes \$1,028 related to relocations, \$1,603 related the management and organizational changes, \$10 for the fiscal year change and \$23 for a proposed business combination, which represent the differences in income tax provision calculated with and without the specified pretax expense.
- (2) For the twelve months ended January 30, 2015 income tax effect of other charges includes \$1,028 related to relocations, \$2,745 related the management and organizational changes, \$470 for the fiscal year change, \$398 for a proposed business combination, and \$(1,570) for the gain on the sale of building, which represent the differences in income tax provision calculated with and without the specified pretax expense or income.

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

	Twelve Months Ended	
	January 30, 2016	January 31, 2015
Net loss	\$ (4,483)	\$ (10,090)
Add: income tax benefit	(2,806)	(8,652)
Add: interest expense, net	1,520	506
Operating loss	(5,769)	(18,236)
Add: depreciation and amortization expense	17,231	15,401
Add: loss on impairment of long-lived assets	1,662	5,541
Add: loss (gain) on disposal of assets	193	(3,858)
Add: stock-based compensation expense	2,784	3,675
Adjusted EBITDA	16,101	2,523
Add: other charges for relocations (1)	2,462	1,696
Add: other charges for management and organizational changes	4,196	7,207
Add: other charges for fiscal year change	27	1,245
Add: other charges for proposed business combination	61	1,045
Adjusted EBITDA before other charges	<u>\$ 22,847</u>	<u>\$ 13,716</u>

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

Liquidity and Capital Resources

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

Cash and cash equivalents increased by \$0.7 million during fiscal 2016 compared to an increase of \$0.8 million during fiscal 2015.

Cash provided by operations was \$10.7 million for fiscal 2016, a decrease of \$5.4 million from the \$16.1 million in cash provided by operations for fiscal 2015. This decrease in cash provided by operations versus the comparable prior year period was primarily the result of the higher net loss in fiscal 2016 compared to fiscal 2015, net working capital and other asset/liability changes that used \$4.3 million of cash in fiscal 2016 compared to \$0.1 million cash provided in fiscal 2015, net of the change in non-cash adjustments. The \$4.4 million year-over-year increase in use of cash from net working capital and other asset/liability changes was primarily the result of 1) a higher year-over-year decrease in accounts payable and accrued expenses, reflecting timing of vendor and payroll related payments (\$7.9 million) and 2) a lower year-over-year decrease in prepaid expenses and other current assets (\$2.9 million), partially offset by a decrease in trade receivables in fiscal 2016 compared to an increase in fiscal 2015 (\$5.4 million). Our working capital changes, quarterly net income (loss) and cash flow adjustments may fluctuate significantly and net cash provided by operating activities for any interim period is not necessarily indicative of the results that may be achieved for a full fiscal year.

Cash provided by operations was \$16.1 million for fiscal 2015, a decrease of \$11.4 million from the \$27.5 million in cash provided by operations for the twelve months ended January 31, 2015. This decrease in cash provided by operations versus the comparable prior year period was primarily the result of net working capital and other asset/liability changes that provided \$0.1 million of cash in fiscal 2015 compared to \$14.5 million cash provided in the twelve months ended January 31, 2015 (excluding the effect of the \$10.9 million inventory write-down in the twelve months ended January 31, 2015), partially offset by the lower net loss in fiscal 2015 compared to the twelve months ended January 31, 2015, net of the change in non-cash adjustments (including the \$10.9 million inventory write-down). The \$14.4 million year-over-year increase in use of cash from net working capital and other asset/liability changes was primarily the result of 1) a decrease in accounts payable and accrued expenses in fiscal 2015 compared to an increase in the twelve months ended January 31, 2015, reflecting timing of vendor and payroll related payments, including severance and other benefits paid in connection with the resignation of our former CEO (\$18.4 million), and 2) a decrease in deferred rent and other non-current liabilities balances in fiscal 2015 compared to an increase in the twelve months ended January 31, 2015 (\$6.3 million), partially offset by 1) a decrease in prepaid expenses and other current assets in fiscal 2015 compared to an increase in the twelve months ended January 31, 2015 (\$7.9 million), primarily reflecting timing of tenant construction allowances from

landlords, including \$4.0 million for our new headquarters facility, and 2) a slightly higher year-over-year decrease in inventory (excluding the \$10.9 million inventory write-down in the twelve months ended January 31, 2015) (\$2.1 million).

During fiscal 2016 we received \$32.0 million from our Term Loan, which we used to repay a portion of the outstanding indebtedness under the Credit Facility and to pay financing costs of the Term Loan. Cash from operations and net incremental borrowings under our Credit Facility and our Term Loan, which were approximately \$6.7 million, were used to provide cash for capital expenditures, periodic payments on our Term Loan and capital equipment loan and to slightly increase available cash. For fiscal 2016 we spent \$12.7 million on capital expenditures, including \$7.5 million for leasehold improvements, fixtures and equipment for new store facilities, as well as improvements to existing stores and \$5.2 million primarily for our information technology systems. We expect to use borrowings under our Credit Facility to fund a portion of our capital requirements from time to time during fiscal 2017.

Our inventory carrying value of \$69.0 million as of January 28, 2017 has declined 4.8% from January 30, 2016 as a result of our efforts to clear our stores of excess and out-of-season merchandise, and reductions in inventory needed to support our leased and licensed businesses. Unit inventory is down approximately 5% on a year-over-year basis as we continued the liquidation of aged, reserved inventory. During fiscal 2016 we continued to adjust our approach to balancing inventory and pricing decisions in a demand-constrained retail environment and remained cautious not to take deep markdowns too early. This helped us achieve a 310 basis point improvement in gross margin rate during fiscal 2016 versus fiscal 2015. However, we did sell less units driven by fewer transactions as a result of decreased store traffic. We continue to evaluate alternative liquidation approaches to optimize our cash return on the disposal of excess and out-of-season merchandise.

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

On March 25, 2016 we entered into a Term Loan Credit Agreement (the "Term Loan Agreement") for a \$32.0 million term loan due March 25, 2021 (the "Term Loan"), the proceeds of which were received on March 25, 2016 and were used to repay a portion of the outstanding indebtedness under our existing Credit Facility (see below). The interest rate on the Term Loan is equal to a LIBOR rate (with a 1.00% LIBOR floor) plus 7.50%. We are required to make minimum repayments of the principal amount of the Term Loan in quarterly installments of \$0.8 million each, with the remaining outstanding balance payable on the maturity date. Additionally, the Term Loan can be prepaid at our option subject to certain restrictions, in part or in whole at any time, subject to the payment of a prepayment premium as follows: 1) 3% on or prior to the first anniversary of the closing date, 2) 2% from the first anniversary to the second anniversary of the closing date, and 3) 1% after the second anniversary but on or prior to the third anniversary of the closing date. Effective December 19, 2016 our Term Loan lenders consented to the Merger and the Term Loan Agreement was amended to change the definition of Consolidated EBITDA (see below) to allow us to add back certain transaction costs relating to the Merger and to modify the financial covenant limiting capital expenditures (see below). Effective April 7, 2017 the Term Loan Agreement was further amended to allow us to enter into certain equipment financing arrangements, on the condition that a portion of the proceeds of such financing be applied as a prepayment of the Term Loan. The April 7, 2017 Term Loan Agreement amendment also provides for an additional reserve of \$5.0 million against availability under our Credit Facility that will be reduced dollar for dollar for prepayments of the Term Loan in accordance with the amendment (see below) and deletes the covenant requiring maintenance of a minimum level of Consolidated EBITDA (see below). Under the Term Loan Agreement, as amended on April 7, 2017, we are required to maintain Excess Availability (as defined in the related Credit Facility agreement) equal to the greater of 10% of the Combined Loan Cap (as defined in the related Credit Facility agreement) or \$10.0 million. Prior to the April 7, 2017 Term Loan Agreement amendment, we were required to maintain quarterly Consolidated EBITDA (as defined in the related Term Loan Agreement) in an amount not less than the levels specified for each period in the Term Loan Agreement up to \$30.0 million for the four fiscal quarters ending on February 1, 2020 and thereafter. For fiscal 2016 our consolidated EBITDA exceeded the Consolidated EBITDA requirement of \$19.0 million.

The April 7, 2017 Term Loan Agreement amendment prohibits us from making capital expenditures (net of tenant allowances) in excess of a specified amount in any period of four fiscal quarters (subject to carryforward of 50% of any underutilization). The limitation on capital expenditures ranges from \$16.0 million for the four fiscal quarters ending on January 28, 2017 to \$10.5 million for the four fiscal quarters ending on February 3, 2018, and increases to \$17.0 million for the four fiscal quarters ending on May 5, 2018 and thereafter. For fiscal 2016 our capital expenditures did not exceed the \$16.0 million limit. The Term Loan Agreement also prohibits the payment of dividends or share repurchases by us for three years. The Term Loan is secured by a security interest in substantially all of our assets, including accounts receivable, inventory, equipment, letter of credit rights, cash, intellectual property and other intangibles, and certain other assets. The security interest granted to the Term Lenders is, in certain respects, subordinate to the security interest granted to the Credit Facility Lender.

After completion of our debt refinancing on March 25, 2016 we have a \$70.0 million senior secured revolving credit facility (the "Credit Facility"), which was amended and restated in connection with the issuance of our \$32.0 million Term Loan. Previously the Credit Facility was \$76.0 million and consisted of two tranches: 1) a senior secured revolving credit and letter of credit facility of up to \$70.0 million ("Tranche A") and 2) a senior secured first-in, last-out revolving credit facility of up to \$6.0 million ("Tranche A-1"). On March 25, 2016 proceeds from the Term Loan were used to repay a portion of the outstanding indebtedness under the Credit Facility, including repayment of the entire balance outstanding under Tranche A-1, which was then terminated. We originally entered into a five-year \$61.0 million Credit Facility on November 1, 2012. In accordance with the terms of the Credit Facility, effective June 3, 2015 our permitted borrowings under Tranche A of the Credit Facility were increased by \$15.0 million at our request. Effective August 25, 2015 the Credit Facility was amended to reflect the increase to Tranche A permitted borrowings and to extend the maturity date to August 25, 2020 from November 1, 2017. In connection with the Term Loan financing the maturity date of the Credit Facility was further extended to March 25, 2021. Proceeds from advances under the Credit Facility, with certain restrictions, may be used to provide financing for working capital, letters of credit, capital expenditures and other general corporate purposes. Effective December 19, 2016 our Credit Facility lender consented to the Merger and the Credit Facility was amended to require a \$10.0 million EBITDA Reserve (as defined in the related Credit Facility agreement) against availability under the Credit Facility. Effective April 7, 2017 the Credit facility was further amended to allow us to enter into certain equipment financing arrangements, on the condition that a portion of the proceeds of such financing be applied as a prepayment of our Term Loan (see above). The amendment also provides for an additional reserve of \$5.0 million against availability under the Credit Facility that will be reduced dollar for dollar for prepayments of the Term Loan in accordance with the amendment. Under the Credit Facility, as amended on April 7, 2017, we are required to maintain minimum Excess Availability (as defined in the related Credit Facility agreement) equal to the greater of 10% of the Combined Loan Cap (as defined in the Credit Facility agreement) or \$10.0 million. The Credit Facility is secured by a security interest in our trade receivables, inventory, letter of credit rights, cash, intangibles and certain other assets.

As of January 28, 2017 we had \$4.6 million in outstanding borrowings under the Credit Facility and \$5.8 million in letters of credit, with \$19.4 million of availability under the Credit Facility based on our Borrowing Base formula and availability reserve requirements. As of January 30, 2016 we had \$28.4 million in outstanding borrowings under the Credit Facility and \$6.3 million in letters of credit, with \$20.3 million of availability under the Credit Facility based on our Borrowing Base formula and minimum Excess Availability requirement. For fiscal 2016 Tranche A borrowings had a weighted interest rate of 2.84% per annum and Tranche A-1 borrowings had a weighted interest rate of 3.43%. During fiscal 2016 our average level of direct borrowings was \$11.2 million and our maximum borrowings at any time were \$42.7 million. For fiscal 2015 Tranche A borrowings had a weighted interest rate of 3.05% per annum and Tranche A-1 borrowings had a weighted interest rate of 4.89%. During fiscal 2015 our average level of direct borrowings was \$26.8 million and our maximum borrowings at any time were \$40.9 million.

As of January 28, 2017 there was \$9.3 million outstanding under a five-year equipment financing arrangement with our Credit Facility bank. The equipment note bears annual interest at 3.38%, with payments of \$0.3 million (including interest) due monthly through December 2019. The equipment note is collateralized by substantially all of the material handling equipment at our distribution facility in Florence, New Jersey.

During fiscal 2015 we paid cash dividends of \$11.0 million (or \$0.80 per share). In March 2016, in connection with our debt refinancing, our Board of Directors agreed to suspend the quarterly dividend.

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

Facilities Relocations

In September 2013 we announced our plans to relocate our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey. We completed the relocation of our corporate headquarters in January 2015 and we completed the relocation of our distribution operations in August 2015. We had cumulative capital expenditures associated with these relocations of \$40 million, with nearly \$4 million of this amount offset by construction allowance contributions from the landlord for our new headquarters building. We previously received \$15 million of capital equipment financing through our Credit Facility bank to partially fund the material handling equipment in the new distribution facility. To partially offset the costs of these relocations, the Board of the NJEDA approved us for an incentive package of up to \$40 million in benefits under Grow NJ in the form of transferable income tax credits over a ten-year period from the State of New Jersey. The annual benefit amount available to us is expected to significantly exceed our annual income tax liability to New Jersey. In order to maximize the realizable value of our incentive package, in December 2013 we entered into an agreement with a third party to sell 75% or more of the annual income tax credits awarded to us. In May 2016 NJEDA delivered our initial \$4.0 million tax credit certificate that was earned in fiscal 2015, of which we realized \$3.6 million cash proceeds, net of costs, from the sale of the full \$4.0 million of tax credits to the third party under our December 2013 agreement. In connection with the planned relocations, in September 2014 we sold the building that housed our principal executive offices and distribution facility in a sale and leaseback arrangement. We received \$12.5 million cash proceeds and

realized a gain of \$4.1 million from the sale. Under the leaseback agreement we continued to occupy the premises and used them for the wind down of our business operations through October 31, 2015.

Contractual Obligations and Commercial Commitments

We have entered into agreements that create contractual obligations and commercial commitments. These obligations and commitments will have an impact on future liquidity and the availability of capital resources. The tables below set forth a summary of these obligations and commitments as of January 28, 2017 (in thousands):

Contractual Obligations:

Description	Total Obligations (1)	Payments Due by Period			
		Less Than One Year	One to Three Years	Three to Five Years	After Five Years
Long-term debt	\$ 39,702	\$ 7,251	\$ 11,651	\$ 20,800	\$ —
Interest related to long-term debt (2)	9,086	2,955	4,121	2,010	—
Operating leases (3)	198,663	40,303	61,208	39,989	57,163
Purchase obligations (4)	56,698	56,698	—	—	—
Total contractual cash obligations	\$ 304,149	\$ 107,207	\$ 76,980	\$ 62,799	\$ 57,163

- (1) The amounts in this table exclude obligations under employment agreements. For a discussion of the compensation of our executive officers refer to Item 11 of this Form 10-K.
- (2) Variable rate interest costs on long-term debt were estimated using the interest rate in effect as of January 28, 2017.
- (3) Includes store, office and distribution facility leases, which generally provide for payment of direct operating costs in addition to rent. The amounts reflected include future minimum lease payments and exclude such direct operating costs.
- (4) Our purchase orders with contract manufacturers are cancelable by us at any time prior to our acceptance of the merchandise subject to negotiated payment of certain of vendors' nonrecoverable costs. The amount in this table excludes purchase orders for supplies in the normal course of business.

Commercial Commitments:

Description	Total Obligations	Amount of Commitment Per Period			
		Less Than One Year	One to Three Years	Three to Five Years	After Five Years
Credit facility (1)	\$ 5,827	\$ 5,827	\$ —	\$ —	\$ —
Other standby letters of credit	—	—	—	—	—
Total commercial commitments	\$ 5,827	\$ 5,827	\$ —	\$ —	\$ —

- (1) Consists of outstanding letter of credit commitments under our Credit Facility as of January 28, 2017.

Off-Balance Sheet Arrangements

Other than operating lease and letter of credit commitments set forth in the tables above, we are not party to any material off-balance sheet financing arrangements.

Critical Accounting Policies and Estimates

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

Our significant accounting policies are described in Note 2 of "Notes to Consolidated Financial Statements" included elsewhere in this report. We believe that the following discussion addresses our critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. If actual

results were to differ significantly from estimates made, future reported results could be materially affected. However, we are not currently aware of any reasonably likely events or circumstances that would result in materially different results.

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

Inventories. We value our inventories, which consist primarily of maternity apparel, at the lower of cost or market. Cost is determined on the first-in, first-out method (FIFO) and includes the cost of merchandise, freight, duty and broker fees, as well as applied product-related overhead. A periodic review of inventory quantities on hand is performed in order to determine if inventory is properly valued at the lower of cost or market. Factors related to current inventories such as future consumer demand and fashion trends, current aging, current analysis of merchandise based on receipt date, current and anticipated retail markdowns or wholesale discounts, and class or type of inventory are analyzed to determine estimated net realizable values. Criteria utilized by us to determine the net realizable value of our inventories and the related level of required inventory reserves include factors such as the amount of merchandise received within the past twelve months, merchandise received more than one year before with quantities on-hand in excess of twelve months of sales, and merchandise currently selling below cost. A provision is recorded to reduce the cost of inventories to its estimated net realizable value, if required. Inventories as of January 28, 2017 and January 30, 2016 totaled \$69.0 million and \$72.5 million, respectively, representing 39.2% and 33.1% of total assets, respectively. Given the significance of inventories to our consolidated financial statements, the determination of net realizable values is considered to be a critical accounting estimate. Any significant unanticipated changes in the factors noted above could have a significant impact on the value of our inventories and our reported operating results.

Long-Lived Assets. Our long-lived assets consist principally of store leasehold improvements, material handling equipment, information technology systems, and other furniture and fixtures (included in "property and equipment, net" in our consolidated balance sheets) and, to a much lesser extent, patent and lease acquisition costs (included in "other intangible assets, net" in our consolidated balance sheets). These long-lived assets are recorded at cost and are amortized using the straight-line method over the shorter of the lease term or their useful life. Net long-lived assets as of January 28, 2017 and January 30, 2016 totaled \$84.1 million and \$93.8 million, respectively, representing 47.8% and 42.8% of total assets, respectively.

In assessing potential impairment of these assets, we periodically evaluate the historical and forecasted operating results and cash flows on a location-by-location basis. Newly opened retail locations may take time to generate positive operating and cash flow results. Factors such as 1) retail location type, that is, Company store or leased department, 2) retail nameplate, that is, Motherhood, Pea or Destination Maternity, 3) geographic location, for example, urban area versus suburb, 4) current marketplace awareness of our brands, 5) local customer demographic data, 6) anchor stores within the mall in which our retail location is premised and 7) current fashion trends are all considered in determining the time frame required for a retail location to achieve positive financial results, which is assumed to be within two years from the date a retail location is opened. If economic conditions are substantially different from our expectations, the carrying value of certain of our long-lived assets may become impaired. As a result of our impairment assessment, we recorded write-downs of long-lived assets of \$2.4 million, \$1.7 million, \$5.5 million and \$4.4 million during fiscal 2016, fiscal 2015, the twelve months ended January 31, 2015, and the four months ended January 31, 2015, respectively.

For the twelve months ended January 31, 2015 asset impairment expenses were comprised of \$3.4 million for impairment of intangible assets related to our Secret Fit Belly technology and \$2.1 million for impairment of retail location assets. For the four months ended January 31, 2015 asset impairment expenses were comprised of \$3.4 million for impairment of intangible assets related to our Secret Fit Belly technology and \$1.0 million for impairment of retail location assets. The Secret Fit impairment was primarily for capitalized legal costs incurred in connection with a lawsuit asserting infringement of patents held by us on our Secret Fit Belly technology. The impairment resulted from decisions of the USPTO in IPR proceedings through which it was decided by the USPTO that certain of the claims of the subject patents are not valid.

Self-Insurance Reserves. We are primarily self-insured for most workers' compensation claims, general liability and automotive liability losses, and for employee-related healthcare claims. We have purchased insurance coverage in order to establish certain limits to our exposure on a per claim basis and on an aggregate basis. Our accrued insurance expense, which was primarily for self-insurance reserves, as of January 28, 2017 and January 30, 2016 totaled \$5.4 million and \$6.3 million, respectively, representing 4.7% and 5.0% of total liabilities, respectively. The estimated reserves for our self-insured liabilities and our reported operating results could be significantly affected if future occurrences and claims differ from the factors noted below.

We determine the estimated reserve required for workers' compensation claims, general liability and automotive liability losses in each accounting period. This requires that we determine estimates of the costs of claims incurred (including claims incurred but not yet reported) and accrue for such expenses in the period in which the claims are incurred (including claims incurred but not yet reported). Actual workers' compensation claims, and general liability and automotive liability losses, are reported to us by third-party administrators. The third-party administrators also report initial estimates of related loss reserves. The open claims and initial loss reserves and estimates of claims incurred but not yet reported are subjected to examination by us utilizing a consistent methodology which involves various assumptions, judgment and other factors. Such factors include, but are not limited to, the probability of

settlement, the amount at which settlement can be achieved, the probable duration of the claim, the cost development pattern of the claim and the applicable cost development factor. The liabilities associated with claims for workers' compensation, general liability and automotive liability are measured through the use of actuarial methods to project an estimate of ultimate cost for claims incurred.

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

Government Incentives. To partially offset the costs of the relocations of our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey, the Board of the NJEDA approved us for an incentive package of up to \$40 million in benefits under Grow NJ in the form of transferrable income tax credits over a ten-year period from the State of New Jersey. The annual benefit amount available to us is expected to significantly exceed our annual income tax liability to New Jersey. In order to maximize the realizable value of our incentive package, in December 2013 we entered into an agreement with a third party to sell 75% or more of the annual income tax credits awarded to us. Based on this agreement, we project we will realize approximately \$36 million from the incentive package, subject to our compliance with the requirements of our incentive package under Grow NJ.

We recognize the estimated benefit from our Grow NJ award as a reduction to distribution center and corporate headquarters costs that result from the relocation of these facilities to New Jersey (primarily occupancy expenses and equipment depreciation). The Grow NJ award benefit is recognized ratably over the ten-year life of the award and provides the Company with transferrable income tax credits of up to \$4.0 million annually, with a net pretax cash realizable value of up to \$3.6 million annually. When recognized, such income tax credits are included in our consolidated balance sheets as deferred income tax assets, net of a valuation allowance, and net of federal and state income tax effect, to reflect the expected after-tax amount to be realized from subsequent sales of the income tax credits. We began to recognize the benefit of our Grow NJ award in fiscal 2015 and deferred income tax assets as of January 28, 2017 and January 30, 2016 related to the award totaled \$3.3 million and \$3.6 million, respectively, representing 1.8% and 1.6% of total assets.

In order to receive the benefits of the incentive package we need to meet certain levels of annual jobs and other requirements. We record an accrual for the estimated realizable amount of our Grow NJ award based on our monthly average pre- and post-relocation employment levels in New Jersey. We continually monitor our compliance with the requirements of our incentive package. If we do not meet these job levels or other requirements on an annual basis, we will not receive some or all of the benefits. Our agreement with the third party to sell 75% of the annual income tax credits provides us with an option to sell them an additional amount up to the remaining 25% of the annual income tax credits. Although we may utilize a minimal amount of the tax credits to offset our own tax liability, we expect to exercise the annual option to sell the additional tax credits to the third party. The estimated deferred income tax asset and our reported operating results could be significantly affected if we are unable to receive the full amount of the award benefits from NJEDA or are unable to sell or otherwise utilize the income tax credits.

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

Federal net operating loss and tax credit carryforwards, certain state net operating loss carryforwards, and temporary differences between the book and tax treatment of income and expenses result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must periodically assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not more likely than not, we must establish a valuation allowance to reduce deferred tax assets to the amount considered realizable. The evaluation of the realizability of deferred tax assets includes consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused. In situations where a three-year cumulative loss condition exists, accounting standards limit the ability to consider projections of future results as positive evidence to assess the realizability of deferred tax assets. In fiscal 2016 our financial results reflected a three-year cumulative loss. The three-year cumulative loss constitutes significant negative evidence, limiting our ability to consider other positive evidence, such as our projections for future growth. Consequently, in fiscal 2016 we recorded a non-cash charge of \$27.8 million as a valuation allowance against substantially all of our deferred tax assets. The establishment of this valuation allowance has no effect on our ability to utilize the deferred tax assets to offset

future taxable income, if generated. As required by GAAP, we will continue to assess the likelihood that our deferred tax assets will be realizable in the future and the valuation allowance will be adjusted accordingly. The tax benefits relating to any reversal of the valuation allowance on the net deferred tax assets in a future period will be recognized as a reduction of future income tax expense in that period. Actual results could differ from our assessments if adequate taxable income is not generated in future periods. Net deferred tax assets (including our Grow NJ award benefit discussed above) as of January 28, 2017 and January 30, 2016 totaled \$3.3 million and \$29.0 million, respectively, representing 1.8% and 13.2% of total assets, respectively.

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

Recent Accounting Pronouncements

Adopted

In April 2015 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. We adopted ASU 2015-03 effective January 31, 2016 and accordingly, the deferred financing costs related to our Term Loan are reflected as a direct deduction from the Term Loan liability. The adoption of ASU No. 2015-03 did not have any impact on our net consolidated financial position, results of operations or cash flows. We continue to classify deferred financing costs related to our Credit Facility within other assets in the consolidated balance sheets in accordance with the optional disclosure provisions in ASU No. 2015-15, *Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*.

In August 2014 the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which defines management’s responsibility to assess an entity’s ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement was effective for annual reporting periods ending after December 15, 2016 with early adoption permitted. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Proposed

In October 2016 the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. ASU No. 2016-16 amends the accounting for income taxes and requires the recognition of the income tax consequences of an intercompany asset transfer, other than transfers of inventory, when the transfer occurs. For intercompany transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. ASU No. 2016-16 is effective for financial statements issued for annual reporting periods beginning after December 15, 2017 and interim periods within those years, using a modified retrospective application method through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Earlier application is permitted. The impact from adoption of the new requirements of ASU No. 2016-16 on our consolidated financial position or results of operations has not yet been determined.

In August 2016 the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 clarifies and provides guidance on eight specific cash flow classification issues and is intended to reduce existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those years. Earlier application is permitted, provided that all of the amendments are adopted in the same period. The adoption of the new requirements of ASU No. 2016-15 will not have any impact on our net consolidated financial position or results of operations.

In March 2016 the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, including recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in

additional paid-in capital. ASU No. 2016-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. Earlier application is permitted. The impact from adoption of the new requirements of ASU No. 2016-09 on our consolidated financial position or results of operations has not yet been determined.

In February 2016 the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 affects any entity that enters into a lease (as that term is defined in the ASU) and its guidance supersedes Topic 840, *Leases*. As it substantively relates to the Company, ASU No. 2016-02 requires lessees to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. For finance leases, lessees are required to recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income and to classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases, lessees are required to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and to classify all cash payments within operating activities in the statement of cash flows. In transition, lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU No. 2016-02 is effective for financial statements issued for annual reporting periods beginning after December 15, 2018 and interim periods within those years. Earlier application is permitted. While the Company is still evaluating this standard, given the significant number of leases the Company is party to, the Company expects this standard will have a material impact on the Company's consolidated balance sheets from the recognition of right-of-use assets and related liabilities but does not expect it to have a material impact on the consolidated results of operations.

In November 2015 the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. To simplify the presentation of deferred income taxes, ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU No. 2015-17 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. Earlier application is permitted. Because this guidance impacts presentation only, the adoption of the new requirements of ASU No. 2015-17 will not have any impact on our net consolidated financial position or results of operations.

In July 2015 the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. ASU No. 2015-11 requires entities to measure inventory at the lower of cost and net realizable value. ASU No. 2015-11 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. Earlier application is permitted. Application of the new requirements of ASU No. 2015-11 is not expected to have a material impact on our consolidated financial position or results of operations.

In May 2014 the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 requires an entity to recognize revenue for the amount of consideration to which it expects to be entitled for the transfer of promised goods or services to customers. Additionally, ASU No. 2014-09 requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU No. 2014-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. In August 2015 the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* which deferred the effective date of ASU No. 2014-09 by one year, making the guidance effective for fiscal years beginning after December 15, 2017. Early adoption will be permitted, but not earlier than the original effective date for annual and interim periods. We will adopt the new guidance beginning with the first quarter of fiscal 2018 and have not yet determined if application of the new standard will be retrospective to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The impact from adoption of the new requirements of ASU No. 2014-09 on our consolidated financial position or results of operations has not yet been determined.

Inflation

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

Forward-Looking Statements

Some of the information in this report, including the information incorporated by reference (as well as information included in oral statements or other written statements made or to be made by us), contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to: the strength or weakness of the retail industry in general and of apparel purchases in particular, our ability to successfully manage our various

business initiatives, the success of our international business and its expansion, our ability to successfully manage, retain and expand our leased department and international franchise relationships and marketing partnerships, future sales trends in our various sales channels, unusual weather patterns, changes in consumer spending patterns, raw material price increases, overall economic conditions and other factors affecting consumer confidence, demographics and other macroeconomic factors that may impact the level of spending for maternity apparel (such as fluctuations in pregnancy rates and birth rates), expense savings initiatives, our ability to anticipate and respond to fashion trends and consumer preferences, unanticipated fluctuations in our operating results, the impact of competition and fluctuations in the price, availability and quality of raw materials and contracted products, availability of suitable store locations, continued availability of capital and financing, our ability to hire, develop and retain senior management and sales associates, our ability to develop and source merchandise, our ability to receive production from foreign sources on a timely basis, our compliance with applicable financial and other covenants under our financing arrangements, potential debt prepayments, the trading liquidity of our common stock, changes in market interest rates, our compliance with certain tax incentive and abatement programs, war or acts of terrorism and other factors referenced in this report, including those set forth under the caption "Item 1A. Risk Factors."

We have made and may in the future make forward-looking statements relating to our planned Merger with Orchestra-Prémaman S.A. Factors that could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements include, but are not limited to, the possibility that the Merger does not close when expected or at all because required regulatory, stockholder or other approvals are not received or other conditions to the closing are not satisfied on a timely basis or at all; or the possibility that the anticipated benefits of the Merger are not realized as a result of such matters as general business and economic conditions in France, the United States and other countries in which we or Orchestra-Prémaman conduct business; the impact of the movement of Euro relative to other currencies, particularly the U.S. dollar and the currencies of other countries in which the combined company will conduct business; the effects of competition in the markets in which we or Orchestra-Prémaman operate; the impact of changes in the laws and regulations regulating the clothing and childcare products industries or affecting domestic and foreign operations; judicial or regulatory judgments and legal proceedings; our ability to successfully integrate the two companies; our success in retaining the services of executives, key personnel and other employees that the combined company needs to realize all of the anticipated benefits of the merger; the risk that expected synergies and benefits of the Merger will not be realized within the expected time frame or at all; reputational risks; and other factors that may affect future results of us or Orchestra-Prémaman, including changes in trade policies, timely development and introduction of new products and services, changes in tax laws, technological and regulatory changes, and adverse developments in general market, business, economic, labor, regulatory and political conditions.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

As of January 28, 2017 we had cash and cash equivalents of \$2.9 million. Our cash equivalents consist of investments in money market funds that bear interest at variable rates. A change in market interest rates earned on our investments impacts the interest income and cash flows, but does not materially impact the fair market value of the financial instruments. Due to the low balance, average maturity and conservative nature of our investment portfolio, we believe a sudden change in interest rates would not have a material effect on the value of our investment portfolio. The impact on our future interest income resulting from changes in investment yields will depend largely on the gross amount of our investment portfolio at that time. However, based upon the conservative nature of our investment portfolio and current experience, we do not believe a decrease in investment yields would have a material negative effect on our interest income.

The components of our debt portfolio as of January 28, 2017 are \$30.4 million due under our Term Loan, \$9.3 million due under our equipment note and the \$70.0 million Credit Facility. Each of the components of our debt portfolio are denominated in United States dollars. The fair value of the debt portfolio is referred to as the "debt value." The equipment note bears interest at a fixed rate of 3.38%. Although a change in market interest rates would not affect the interest incurred or cash flow related to this fixed rate portion of the debt portfolio, the debt value would be affected.

The Term Loan carries a variable interest rate that is tied to market indices with a minimum annual rate of 8.50%. The sensitivity analysis as it relates to this portion of our debt portfolio assumes an instantaneous 100 basis point move in interest rates above and below the minimum threshold, with all other variables held constant. The debt value of the Term Loan is approximately \$30.4 million. A 100 basis point increase in market interest rates above the minimum threshold would result in additional annual interest expense on the Term Loan of approximately \$0.3 million. A 100 basis point decline in market interest rates below the minimum threshold would have no effect on our annual interest expense on the Term Loan.

Our Credit Facility has variable interest rates that are tied to market indices. As of January 28, 2017 we had \$4.6 million of direct borrowings and \$5.8 million of letters of credit outstanding under our Credit Facility. As of January 28, 2017 Tranche A borrowings under the Credit Facility would have resulted in interest at a rate between approximately 2.28% and 4.25% per annum. Interest on any future borrowings under the Credit Facility would, to the extent of outstanding borrowings, be affected by changes in market interest rates. A change in market interest rates on the variable rate portion of our debt portfolio would impact the interest expense incurred and cash flows.

The sensitivity analysis as it relates to the fixed rate portion of our debt portfolio assumes an instantaneous 100 basis point move in interest rates from their levels as of January 28, 2017, with all other variables held constant. A 100 basis point increase in market interest rates would result in a decrease in the value of the debt by approximately \$0.1 million as of January 28, 2017. A 100 basis point decline in market interest rates would cause the debt value to increase by approximately \$0.1 million as of January 28, 2017.

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

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements appear on pages F-1 through F-31, as set forth in Item 15.

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to our management on a timely basis to allow decisions regarding required disclosure. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of January 28, 2017. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of January 28, 2017 these controls and procedures were effective.

Internal Control over Financial Reporting

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

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

Management assessed the Company's internal control over financial reporting as of January 28, 2017, the end of the Company's fiscal year. Management based its assessment on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and the Company's overall control environment.

Based on its assessment, management has concluded that the Company's internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of

financial statements for external reporting purposes in accordance with generally accepted accounting principles. The results of management's assessment were reviewed with the Audit Committee of the Company's Board of Directors.

The effectiveness of the Company's internal control over financial reporting as of January 28, 2017 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included on page F-2 and is incorporated by reference into this Item 9A.

(b) Change in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting identified in connection with management's evaluation that occurred during the fiscal quarter ended January 28, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

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

Item 11. Executive Compensation

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

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of January 28, 2017 regarding the number of shares of common stock that may be issued under our equity compensation plans.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</u>
Equity compensation plans approved by security holders	881,751 (1)	\$ 12.18	272,294 (2)
Equity compensation plans not approved by security holders	73,255 (3)	\$ 5.62	—
Total	<u>955,006</u>	\$ 11.68	<u>272,294</u>

(1) Reflects shares subject to options outstanding under the 2005 Plan.

(2) Reflects shares available under the 2005 Plan (all of which may be issued as shares of restricted stock, restricted stock units or deferred stock units).

(3) Reflects shares subject to an outstanding option agreement awarded as a non-plan based inducement grant.

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

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

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

Item 14. Principal Accounting Fees and Services

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

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

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

(2) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts.

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

(3) Exhibits

See following Index of Exhibits.

INDEX OF EXHIBITS

Exhibit No.	Description
*2.1	Agreement and Plan of Merger, dated as of December 19, 2016, by and among Destination Maternity Corporation, Orchestra-Prémaman S.A. and US OP Corporation (Exhibit 2.1 to the Company's Current Report on Form 8-K dated December 19, 2016)
*3.1	Restated Certificate of Incorporation of the Company (Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 2008)
3.2	Bylaws of the Company, effective December 22, 2016
†*10.1	Form of Non-Qualified Stock Option Agreement under the Company's 2005 Equity Incentive Plan (Exhibit 10.29 to the 2006 Form 10-K)
†*10.2	Employment Agreement, dated July 23, 2008, between the Company and Judd P. Timauer (Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 21, 2008 (the "July 21, 2008 Form 8-K"))
†*10.3	Restrictive Covenant Agreement with Judd P. Timauer dated July 23, 2008 (Exhibit 10.2 to the July 21, 2008 Form 8-K)
†*10.4	Employment Agreement, dated April 11, 2011, between Christopher F. Daniel and the Company (Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 11, 2011 (the "April 11, 2011 Form 8-K"))
†*10.5	Amendment, dated August 10, 2011, to the Employment Agreement dated as of July 23, 2008 between Judd P. Timauer and the Company (Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 10, 2011 (the "August 10, 2011 Form 8-K"))
†*10.6	Amendment, dated November 22, 2011, to the Employment Agreement dated as of July 23, 2008 (as amended) between Judd P. Timauer and the Company (Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended September 30, 2011 (the "2011 Form 10-K"))
†*10.7	Form of Restricted Stock Unit Award Agreement under the Company's 2005 Equity Incentive Plan (Exhibit 10.47 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011)
†*10.8	Third Amended and Restated Employment Agreement dated March 6, 2012 between Edward M. Krell and the Company (Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 6, 2012)
†*10.9	2005 Equity Incentive Plan (as amended and restated) (Exhibit 10.2 to the Company's Current Report on Form 8-K dated January 25, 2013)
†*10.10	Letter Amendment dated December 7, 2013 to the Employment Agreement between the Company and Judd P. Timauer (Exhibit 10.2 to the December 4, 2013 Form 8-K)
†*10.11	Destination Maternity Corporation Stock Ownership Guidelines (Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 24, 2014 (the "January 24, 2014 Form 8-K"))
†*10.12	Non-Employee Director Compensation Policy (Exhibit 10.2 to the January 24, 2014 Form 8-K)
†*10.13	Release and Separation Agreement dated August 10, 2014, between the Company and Edward M. Krell (Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 10, 2014 (the "August 10, 2014 Form 8-K"))
†*10.14	Employment Agreement dated August 10, 2014, between the Company and Anthony M. Romano (Exhibit 10.2 to the August 10, 2014 Form 8-K)
†*10.15	Destination Maternity Corporation 2013 Management Incentive Program, as amended effective December 3, 2014 (Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 1, 2014 (the "December 1, 2014 Form 8-K"))
†*10.16	Letter Agreement between the Company and Judd P. Timauer dated December 3, 2014 (Exhibit 10.4 to the December 1, 2014 Form 8-K)
†*10.17	Letter Agreement between the Company and Anthony M. Romano dated December 3, 2014 (Exhibit 10.5 to the December 1, 2014 Form 8-K)
†*10.18	Form of Restricted Stock Unit Award Agreement under the Company's 2005 Equity Incentive Plan (Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 1, 2015)
†*10.19	Separation and Release Agreement dated December 17, 2015, between the Company and Christopher F. Daniel (Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 17, 2015)

Exhibit No.	Description
*10.20	Non-Disclosure Agreement dated March 15, 2016, between the Company and Orchestra-Prémaman S.A. (Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 15, 2016)
*10.21	Term Loan Credit Agreement dated March 25, 2016, among the Company and Cave Springs, Inc., as Borrowers, Mothers Work Canada, Inc. and DM Urban Renewal, LLC, as Guarantors, each lender from time to time party hereto, Wells Fargo Bank, National Association, as Administrative Agent, Joint Lead Arranger and Sole Bookrunner, and TPG Specialty Lending, Inc., as Joint Lead Arranger and Documentation Agent (Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 25, 2016 (the "March 25, 2016 Form 8-K"))
*10.22	Amended and Restated Credit Agreement, dated March 25, 2016, among the Company and Cave Springs, Inc., as Borrowers, Mothers Work Canada, Inc. and DM Urban Renewal, LLC, as Guarantors, each lender from time to time party hereto and Wells Fargo Bank, National Association, as Administrative Agent and Swing Line Lender and Letter of Credit Issuer (Exhibit 10.2 to the March 25, 2016 Form 8-K)
*10.23	Intercreditor Agreement dated March 25, 2016, among Wells Fargo Bank, National Association, as ABL Agent and Wells Fargo Bank, National Association, as Term Agent, acknowledged by the Company, Cave Springs, Inc., Mothers Work Canada, Inc. and DM Urban Renewal, LLC (Exhibit 10.3 to the March 25, 2016 Form 8-K)
†*10.24	Transaction Bonus Agreement, dated May 31, 2016, by and between the Company and Anthony M. Romano (Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 31, 2016 (the "May 31, 2016 Form 8-K"))
†*10.25	Transaction Bonus and Retention Agreement, dated May 31, 2016, by and between the Company and Ronald J. Masciantonio (Exhibit 10.2 to the May 31, 2016 Form 8-K)
†*10.26	Amended and Restated Executive Employment Agreement, dated May 31, 2016, by and between the Company and Ronald J. Masciantonio (Exhibit 10.3 to the May 31, 2016 Form 8-K)
†*10.27	Executive Employment Agreement dated July 20, 2016 between David Stern and the Company (Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 1, 2016 (the "August 1, 2016 Form 8-K"))
†*10.28	Non-Qualified Stock Option Inducement Award Agreement dated August 1, 2016 between David Stern and the Company (Exhibit 10.2 to the August 1, 2016 Form 8-K)
†*10.29	Restricted Stock Inducement Award Agreement dated August 1, 2016 between David Stern and the Company (Exhibit 10.3 to the August 1, 2016 Form 8-K)
†*10.30	Restricted Stock Unit Inducement Award Agreement dated August 1, 2016 between David Stern and the Company (Exhibit 10.4 to the August 1, 2016 Form 8-K)
*10.31	Governance Agreement, dated as of December 19, 2016, by and among Destination Maternity Corporation, Orchestra-Prémaman S.A. and Yeled Invest S.à.r.l. (Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 19, 2016 (the "December 19, 2016 Form 8-K"))
*10.32	Consent and Amendment No. 1 to Amended and Restated Credit Agreement, dated as of December 18, 2016, by and among Wells Fargo Bank, National Association, Destination Maternity Corporation, Cave Springs, Inc., Mothers Work Canada, Inc. and DM Urban Renewal, LLC (Exhibit 10.2 to the December 19, 2016 Form 8-K)
*10.33	Consent and Amendment No. 1 to Term Loan Credit Agreement, dated as of December 18, 2016, by and among Wells Fargo Bank, National Association, TPG Specialty Lending, Inc., Destination Maternity Corporation, Cave Springs, Inc., Mothers Work Canada, Inc., and DM Urban Renewal, LLC (Exhibit 10.3 to the December 19, 2016 Form 8-K)
*10.34	First Amendment to Intercreditor Agreement, dated December 18, 2016, by and among Wells Fargo Bank, National Association, Destination Maternity Corporation, Cave Springs, Inc., Mothers Work Canada, Inc. and DM Urban Renewal, LLC (Exhibit 10.4 to the December 19, 2016 Form 8-K)
†*10.35	Amendment to Transaction Bonus Agreement, dated January 6, 2017, by and between the Company and Anthony M. Romano (Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 6, 2017 (the "January 6, 2017 Form 8-K"))
†*10.36	Amendment to Transaction Bonus and Retention Agreement, dated January 6, 2017, by and between the Company and Ronald J. Masciantonio (Exhibit 10.2 to the January 6, 2017 Form 8-K)
10.37	Consulting Agreement, dated as of January 27, 2017, by and between Destination Maternity Corporation and Orchestra-Prémaman USA Inc.
10.38	Consulting Agreement for Construction Project Management and Architectural Services, dated as of February 3, 2017, by and between Destination Maternity and Orchestra-Prémaman USA Inc.

Exhibit No.	Description
*10.39	Amendment No. 2 to Amended and Restated Credit Agreement, dated as of April 7, 2017, by and among Wells Fargo Bank, National Association, Destination Maternity Corporation, Cave Springs, Inc., Mothers Work Canada, Inc. and DM Urban Renewal, LLC (Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 7, 2017 (the "April 7, 2017 Form 8-K"))
*10.40	Amendment No. 2 to Term Loan Credit Agreement, dated as of April 7, 2017, by and among Wells Fargo Bank, National Association, TPG Specialty Lending, Inc., Destination Maternity Corporation, Cave Springs, Inc., Mothers Work Canada, Inc., and DM Urban Renewal, LLC (Exhibit 10.2 to the April 7, 2017 Form 8-K)
*10.41	Second Amendment to Intercreditor Agreement, dated as of April 7, 2017, by and among Wells Fargo Bank, National Association, Destination Maternity Corporation, Cave Springs, Inc., Mothers Work Canada, Inc. and DM Urban Renewal, LLC (Exhibit 10.3 to the April 7, 2017 Form 8-K)
*21	Subsidiaries of the Company (Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended September 30, 2014)
23	Consent of KPMG LLP
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Executive Vice President & Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Executive Vice President & Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Incorporated by reference.

† Management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

Optional disclosure, not included in this Form 10-K.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Destination Maternity Corporation:

We have audited Destination Maternity Corporation's internal control over financial reporting as of January 28, 2017, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Destination Maternity Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting presented above. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Destination Maternity Corporation maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Destination Maternity Corporation and subsidiaries as of January 28, 2017 and January 30, 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the two-year period ended January 28, 2017, the four months ended January 31, 2015 and the year ended September 30, 2014 and the related financial statement schedule, and our report dated April 13, 2017 expressed an unqualified opinion on those consolidated financial statements and the related financial statement schedule.

/s/ KPMG LLP

Philadelphia, Pennsylvania
April 13, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Destination Maternity Corporation:

We have audited the accompanying consolidated balance sheets of Destination Maternity Corporation and subsidiaries as of January 28, 2017 and January 30, 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the two-year period ended January 28, 2017, the four months ended January 31, 2015 and the year ended September 30, 2014. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule, Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Destination Maternity Corporation and subsidiaries as of January 28, 2017 and January 30, 2016, and the results of their operations and their cash flows for each of the years in the two-year period ended January 28, 2017, the four months ended January 31, 2015 and the year ended September 30, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Destination Maternity Corporation's internal control over financial reporting as of January 28, 2017, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 13, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania
April 13, 2017

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	<u>January 28,</u> <u>2017</u>	<u>January 30,</u> <u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,859	\$ 2,116
Trade receivables, net	5,683	10,154
Inventories	69,040	72,509
Deferred income taxes	3,251	13,803
Prepaid expenses and other current assets	9,464	9,792
Total current assets	90,297	108,374
Property and equipment, net	83,029	92,673
Other assets:		
Deferred line of credit financing costs, net of accumulated amortization of \$717 and \$611	456	534
Other intangible assets, net of accumulated amortization of \$810 and \$683	1,092	1,148
Deferred income taxes	—	15,195
Other non-current assets	1,113	1,150
Total other assets	2,661	18,027
Total assets	\$ 175,987	\$ 219,074
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit borrowings	\$ 4,600	\$ 28,400
Current portion of long-term debt	6,948	2,897
Accounts payable	17,656	21,738
Accrued expenses and other current liabilities	31,359	39,488
Total current liabilities	60,563	92,523
Long-term debt	31,485	9,302
Deferred rent and other non-current liabilities	22,789	24,351
Total liabilities	114,837	126,176
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, 1,656,381 shares authorized		
Series B junior participating preferred stock, \$.01 par value; 300,000 shares authorized, none outstanding	—	—
Common stock, \$.01 par value; 20,000,000 shares authorized, 14,010,417 and 13,824,535 shares issued and outstanding	140	138
Additional paid-in capital	105,775	104,784
Accumulated deficit	(44,693)	(11,951)
Accumulated other comprehensive loss	(72)	(73)
Total stockholders' equity	61,150	92,898
Total liabilities and stockholders' equity	\$ 175,987	\$ 219,074

The accompanying notes are an integral part of these Consolidated Financial Statements.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended		Four Months Ended	Year Ended
	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014
Net sales	\$ 433,699	\$ 498,753	\$ 165,644	\$ 516,959
Cost of goods sold	206,271	252,713	96,667	247,501
Gross profit	227,428	246,040	68,977	269,458
Selling, general and administrative expenses	223,881	246,914	86,688	250,253
Store closing, asset impairment and asset disposal expenses (income)	2,768	(2,084)	4,599	1,469
Other charges, net	4,914	6,979	5,354	3,229
Operating income (loss)	(4,135)	(5,769)	(27,664)	14,507
Interest expense, net	3,575	1,520	242	404
Income (loss) before income taxes	(7,710)	(7,289)	(27,906)	14,103
Income tax provision (benefit)	25,050	(2,806)	(10,526)	3,606
Net income (loss)	<u>\$ (32,760)</u>	<u>\$ (4,483)</u>	<u>\$ (17,380)</u>	<u>\$ 10,497</u>
Net income (loss) per share—Basic	<u>\$ (2.39)</u>	<u>\$ (0.33)</u>	<u>\$ (1.28)</u>	<u>\$ 0.78</u>
Average shares outstanding—Basic	<u>13,702</u>	<u>13,596</u>	<u>13,541</u>	<u>13,451</u>
Net income (loss) per share—Diluted	<u>\$ (2.39)</u>	<u>\$ (0.33)</u>	<u>\$ (1.28)</u>	<u>\$ 0.77</u>
Average shares outstanding—Diluted	<u>13,702</u>	<u>13,596</u>	<u>13,541</u>	<u>13,572</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Year Ended		Four Months Ended	Year Ended
	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014
Net income (loss)	\$ (32,760)	\$ (4,483)	\$ (17,380)	\$ 10,497
Foreign currency translation adjustments	1	(9)	(1)	4
Comprehensive income (loss)	<u>\$ (32,759)</u>	<u>\$ (4,492)</u>	<u>\$ (17,381)</u>	<u>\$ 10,501</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Amount				
Balance as of September 30, 2013	13,556	\$ 136	\$ 98,634	\$ 23,930	\$ (67)	\$ 122,633
Net income	—	—	—	10,497	—	10,497
Foreign currency translation adjustments	—	—	—	—	4	4
Cash dividends	—	—	—	(10,772)	—	(10,772)
Stock-based compensation	127	1	3,746	—	—	3,747
Exercise of stock options, net	100	1	270	—	—	271
Excess tax benefit from stock option exercises and restricted stock vesting	—	—	1,319	—	—	1,319
Repurchase and retirement of common stock	(76)	(1)	(2,177)	—	—	(2,178)
Balance as of September 30, 2014	13,707	137	101,792	23,655	(63)	125,521
Net loss	—	—	—	(17,380)	—	(17,380)
Foreign currency translation adjustments	—	—	—	—	(1)	(1)
Cash dividends	—	—	—	(2,717)	—	(2,717)
Stock-based compensation	100	1	1,072	—	—	1,073
Exercise of stock options, net	8	—	29	—	—	29
Tax benefit shortfall from stock option exercises and restricted stock vesting	—	—	(400)	—	—	(400)
Repurchase and retirement of common stock	(8)	—	(123)	—	—	(123)
Balance as of January 31, 2015	13,807	138	102,370	3,558	(64)	106,002
Net loss	—	—	—	(4,483)	—	(4,483)
Foreign currency translation adjustments	—	—	—	—	(9)	(9)
Cash dividends	—	—	—	(11,026)	—	(11,026)
Stock-based compensation	22	—	2,784	—	—	2,784
Exercise of stock options, net	11	—	69	—	—	69
Tax benefit shortfall from stock option exercises and restricted stock vesting	—	—	(312)	—	—	(312)
Repurchase and retirement of common stock	(15)	—	(127)	—	—	(127)
Balance as of January 30, 2016	13,825	138	104,784	(11,951)	(73)	92,898
Net loss	—	—	—	(32,760)	—	(32,760)
Foreign currency translation adjustments	—	—	—	—	1	1
Dividends forfeited	—	—	—	18	—	18
Stock-based compensation	191	2	1,799	—	—	1,801
Exercise of stock options, net	2	—	6	—	—	6
Tax benefit shortfall from stock option exercises and restricted stock vesting	—	—	(760)	—	—	(760)
Repurchase and retirement of common stock	(8)	—	(54)	—	—	(54)
Balance as of January 28, 2017	<u>14,010</u>	<u>\$ 140</u>	<u>\$ 105,775</u>	<u>\$ (44,693)</u>	<u>\$ (72)</u>	<u>\$ 61,150</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended		Four Months Ended	Year Ended
	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014
Operating Activities				
Net income (loss)	\$ (32,760)	\$ (4,483)	\$ (17,380)	\$ 10,497
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	18,032	17,231	5,223	15,197
Stock-based compensation expense	1,801	2,784	1,073	3,747
Loss on impairment of long-lived assets	2,388	1,662	4,444	1,136
Loss (gain) on disposal of assets	272	193	109	(4,031)
Grow NJ award benefit	349	(3,600)	—	—
Deferred income tax provision (benefit)	24,614	2,020	(6,636)	(2,975)
Amortization of deferred financing costs	328	166	66	198
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	4,471	(951)	2,406	855
Inventories	3,469	3,250	12,652	(1,865)
Prepaid expenses and other current assets	328	3,194	142	(5,511)
Other non-current assets	37	(178)	(59)	(503)
(Decrease) increase in:				
Accounts payable, accrued expenses and other current liabilities	(11,593)	(3,675)	1,116	5,081
Deferred rent and other non-current liabilities	(1,025)	(1,519)	675	4,019
Net cash provided by operating activities	<u>10,711</u>	<u>16,094</u>	<u>3,831</u>	<u>25,845</u>
Investing Activities				
Capital expenditures	(12,690)	(29,272)	(21,098)	(40,185)
Proceeds from sale of property, plant and equipment	2	35	—	12,591
Additions to intangible assets	(97)	(163)	(768)	(1,950)
Net cash used in investing activities	<u>(12,785)</u>	<u>(29,400)</u>	<u>(21,866)</u>	<u>(29,544)</u>
Financing Activities				
Increase (decrease) in cash overdrafts	681	(277)	(5,384)	3,081
(Decrease) increase in line of credit borrowings	(23,800)	28,400	—	—
Proceeds from long-term debt	32,000	—	15,000	—
Repayment of long-term debt	(4,498)	(2,801)	—	—
Deferred financing costs paid	(1,519)	(157)	—	—
Withholding taxes on stock-based compensation paid in connection with repurchase of common stock	(54)	(127)	(123)	(2,178)
Cash dividends paid	—	(11,026)	(2,717)	(10,772)
Proceeds from exercise of stock options	6	69	29	271
Excess tax benefit from exercise of stock options and restricted stock vesting	—	—	—	1,319
Net cash provided by (used in) financing activities	<u>2,816</u>	<u>14,081</u>	<u>6,805</u>	<u>(8,279)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>1</u>	<u>(8)</u>	<u>(1)</u>	<u>3</u>
Net Increase (Decrease) in Cash and Cash Equivalents	743	767	(11,231)	(11,975)
Cash and Cash Equivalents, Beginning of Period	2,116	1,349	12,580	24,555
Cash and Cash Equivalents, End of Period	\$ 2,859	\$ 2,116	\$ 1,349	\$ 12,580

The accompanying notes are an integral part of these Consolidated Financial Statements.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

Destination Maternity Corporation and subsidiaries (the “Company”) is a specialty designer and retailer of maternity clothing. The Company operated 1,220 retail locations as of January 28, 2017, including 515 stores and 705 leased departments, throughout the United States, Puerto Rico and Canada, and markets its maternity apparel on the Internet through its DestinationMaternity.com and brand-specific websites. The Company also has store franchise and product supply relationships in the Middle East, South Korea, Mexico, Israel and India. The Company was incorporated in Delaware in 1982.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation and Basis of Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of the Company and its direct and indirect wholly-owned subsidiaries: Cave Springs, Inc., Mothers Work Canada, Inc. and Destination Maternity Apparel Private Limited. All significant intercompany transactions and accounts have been eliminated in consolidation.

On December 19, 2016 the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Orchestra-Prémaman S.A. (“Orchestra”), a *société anonyme* organized under the laws of France, and US OP Corporation, a Delaware corporation and a wholly-owned subsidiary of Orchestra (“Merger Sub”), pursuant to which, subject to the satisfaction or waiver of certain conditions, Merger Sub will merge with and into the Company, with the Company surviving as a wholly-owned subsidiary of Orchestra (the “Merger”).

b. Fiscal Year-End

The Company has historically operated on a fiscal year ending September 30 of each year. On December 4, 2014 the Company announced that its Board of Directors approved a change in its fiscal year end from September 30 to the Saturday nearest January 31 of each year. The fiscal year end change aligns the Company’s reporting cycle with the National Retail Federation fiscal calendar. The change was effective with the Company’s fiscal year 2015, which began February 1, 2015 and ended January 30, 2016, and resulted in a four-month transition period that began October 1, 2014 and ended January 31, 2015, referred to as the “transition period”.

The Company operates on a fiscal year ending on the Saturday nearest January 31 of each year. References to the Company’s fiscal 2016 refer to the fiscal year, or periods within such fiscal year, which began January 31, 2016 and ended January 28, 2017. References to the Company’s fiscal 2015 refer to the fiscal year, or periods within such fiscal year, which began February 1, 2015 and ended January 30, 2016. References to the transition period refer to the four-month period from October 1, 2014 to January 31, 2015. References to fiscal years of the Company prior to fiscal 2015 refer to the fiscal years ended on September 30 in those years, unless otherwise indicated. For example, the Company’s “fiscal 2014” ended on September 30, 2014.

c. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in the bank and short-term investments with an original maturity of three months or less when purchased. Book cash overdrafts, which are outstanding checks in excess of funds on deposit, of \$2,831,000 and \$2,150,000 were included in accounts payable as of January 28, 2017 and January 30, 2016, respectively.

The Company maintains cash accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses from maintaining cash accounts in excess of such limits. Management believes that it is not exposed to any significant credit risks on its cash accounts.

e. Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the “first-in, first-out” (FIFO) method. Inventories of goods manufactured by the Company include the cost of materials, freight, direct labor, and design, manufacturing and distribution overhead.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

f. Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed for financial reporting purposes on a straight-line basis, using service lives ranging principally from five to ten years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or their useful life. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in net income. Maintenance and repairs are expensed as incurred, except for the capitalization of major renewals and betterments that extend the life of the asset. Long-lived assets are reviewed for impairment whenever adverse events, or changes in circumstances or business climate, indicate that the carrying value may not be recoverable. Factors used in the evaluation include, but are not limited to, management's plans for future operations, brand initiatives, recent operating results and projected cash flows. If the associated undiscounted cash flows are insufficient to support the recorded asset, an impairment loss is recognized to reduce the carrying value of the asset. The amount of the impairment loss is determined by comparing the fair value of the asset with the carrying value. During fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 the Company recorded impairment write-downs of property and equipment totaling \$2,382,000, \$1,659,000, \$1,136,000 and \$1,090,000, respectively, on a pretax basis.

g. Intangible Assets

Intangible assets with definite useful lives consist primarily of patent and lease acquisition costs. The Company capitalizes legal costs incurred to defend its patents when a successful outcome is deemed probable and to the extent of an evident increase in the value of the patents. Intangible assets are amortized over the shorter of their useful life or, if applicable, the lease term. Management reviews the carrying amount of these intangible assets as impairment indicators arise, to assess the continued recoverability based on future undiscounted cash flows and operating results from the related asset, future asset utilization and changes in market conditions. During fiscal 2016, 2015 and the four months ended January 31, 2015 the Company recorded write-downs of intangible assets totaling \$6,000, \$3,000 and \$3,354,000, respectively, on a pretax basis. The intangible assets impairment charge of \$3,354,000 during the four months ended January 31, 2015 was primarily for capitalized legal costs incurred in connection with a lawsuit asserting infringement of patents held by the Company on its Secret Fit Belly technology. The impairment resulted from decisions of the United States Patent and Trademark Office ("USPTO") in Inter Partes Review proceedings through which it was decided by the USPTO that certain of the claims of the subject patents are not valid. The Company has not identified any indefinite-lived intangible assets. Aggregate amortization expense of intangible assets in fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 was \$142,000, \$122,000, \$240,000 and \$111,000, respectively.

Estimated amortization expense of the Company's intangible assets as of January 28, 2017, during our next five future fiscal years ending on the Saturday nearest January 31 of each year is as follows (in thousands):

<u>Fiscal Year</u>	
2017	\$ 137
2018	123
2019	116
2020	109
2021	94

h. Deferred Financing Costs

Deferred financing costs are amortized to interest expense over the term of the related debt agreements. Amortization expense of deferred financing costs in fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 was \$328,000, \$166,000, \$198,000 and \$66,000, respectively. In connection with its current credit facility entered into on November 1, 2012 and amended effective August 25, 2015 and March 25, 2016, and its term loan, entered into on March 25, 2016, the Company incurred approximately \$2,664,000 in deferred financing costs, of which \$1,519,000 was paid in fiscal 2016 (including \$810,000 paid at the term loan closing), \$157,000 was paid in fiscal 2015 (see Notes 8 and 9).

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Estimated amortization expense of the Company's deferred financing costs during future fiscal years ending on the Saturday nearest January 31 of each year is as follows (in thousands):

<u>Fiscal Year</u>	
2017	\$ 421
2018	413
2019	413
2020	413
2021	64

i. Deferred Rent

Rent expense on operating leases, including rent holidays and scheduled rent increases, is recorded on a straight-line basis over the term of the lease commencing on the date the Company takes possession of the leased property, which for stores is generally four to six weeks prior to a store's opening date and for the Company's new headquarters building was approximately ten months prior to the planned January 2015 relocation. The net excess of rent expense over the actual cash paid has been recorded as a deferred rent liability in the accompanying consolidated balance sheets. Tenant improvement allowances received from landlords are also included in the accompanying consolidated balance sheets as deferred rent liabilities and are amortized as a reduction of rent expense over the term of the lease from the possession date.

j. Treasury (Reacquired) Shares

Shares repurchased are retired and treated as authorized but unissued shares, with the cost in excess of par value of the reacquired shares charged to additional paid-in capital and the par value charged to common stock.

k. Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade receivables and accounts payable approximate fair value due to the short-term nature of those instruments. The majority of the Company's long-term debt bore interest at variable rates, which adjusted based on market conditions, and the carrying value of the long-term debt approximated fair value. The fair value of the Company's debt was determined using a discounted cash flow analysis based on interest rates available to the Company.

l. Revenue Recognition, Sales Returns and Allowances

Revenue is recognized at the point of sale for retail store sales, including leased department sales, or when merchandise is delivered to customers for licensed brand product and Internet sales, and when merchandise is shipped to international franchisees. Leased department revenue is remitted to the Company, less a fixed percentage of the net sales earned by the lease partner (as stipulated in each agreement), which is considered a store expense and included in selling, general and administrative expenses (see Note 2p). A liability is established for the retail value of gift cards sold and merchandise credits issued. The liability is relieved and revenue is recognized when gift cards or merchandise credits are redeemed by customers as tender for merchandise purchased. Allowances for returns are recorded as a reduction of revenue, based on the Company's historical experience. Revenues are recorded net of applicable sales taxes.

m. Other Revenues

Included in net sales are revenues earned by the Company through a variety of marketing partnership programs utilizing the Company's opt-in customer database and various in-store marketing initiatives, focused on baby and parent-related products and services. Revenue from marketing partnership programs is recognized when goods or services are provided. Also included in net sales are fees and royalties related to international franchise agreements. International franchise fees are earned by the Company when all material services or conditions related to the international franchise agreement have been substantially performed or satisfied and royalties are earned based on net sales of the Company's international franchisees and may include minimum guaranteed royalties.

n. Cost of Goods Sold

Cost of goods sold in the accompanying consolidated statements of operations includes merchandise costs (including customs duty expenses), expenses related to inventory shrinkage, product-related corporate expenses (including expenses related to payroll, benefit costs and operating expenses of the Company's design and sourcing departments), inventory reserves (including lower of cost or market reserves), inbound freight charges, purchasing and receiving costs, inspection costs, distribution center costs (including

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

occupancy expenses and equipment depreciation), internal transfer costs, and the other costs of the Company's distribution network, partially offset by the allocable amount of the Company's Grow NJ benefit (see Notes 2q and 14).

o. Shipping and Handling Fees and Costs

The Company includes shipping and handling revenue earned from its Internet activities in net sales. Shipping and handling costs, which are included in cost of goods sold in the accompanying consolidated statements of operations, include shipping supplies, related labor costs and third-party shipping costs.

p. Selling, General and Administrative Expenses

Selling, general and administrative expenses in the accompanying consolidated statements of operations include advertising and marketing expenses, corporate administrative expenses, corporate headquarters occupancy expenses, store expenses (including store payroll and store occupancy expenses), and store opening expenses, partially offset by the allocable amount of the Company's Grow NJ benefit (see Notes 2q and 14).

q. Government Incentives

The Company recognizes the estimated benefit from its Grow NJ award (see Note 14) as a reduction to distribution center and corporate headquarters costs that result from the relocation of these facilities to New Jersey (primarily occupancy expenses and equipment depreciation). The Grow NJ award benefit is recognized ratably over the ten-year life of the award and provides the Company with transferrable income tax credits. When recognized such income tax credits are included in the consolidated balance sheets as deferred income tax assets, net of a valuation allowance, and net of federal and state income tax effect, to reflect the expected amount to be realized from subsequent sales of the income tax credits.

r. Advertising Costs

The Company expenses the costs of advertising when the advertising first occurs. Advertising expenses, including Internet advertising expenses, were \$12,869,000, \$15,877,000, \$18,187,000 and \$7,949,000 in fiscal 2016, 2015, 2014 and the four months ended January 31, 2015, respectively.

s. Stock-based Compensation

The Company recognizes employee stock-based compensation as a cost in the accompanying consolidated statements of operations. Stock-based awards are measured at the grant date fair value and the compensation expense is recorded generally on a straight-line basis over the vesting period, net of estimated forfeitures. Excess tax benefits related to stock option exercises and restricted stock vesting, which are recognized in stockholders' equity, are reflected as financing cash inflows.

t. Store Closing, Asset Impairment and Asset Disposal Expenses (Income)

Store closing expenses include lease termination fees, gains or losses on disposal of closed store assets and recognition of unamortized deferred rent. Asset impairment expenses represent losses recognized to reduce the carrying value of impaired long-lived assets. Asset disposal expenses represent gains or losses on disposal of assets other than in connection with store closings, including assets disposed from remodeling or relocation of stores.

u. Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities as well as from net operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. On a quarterly basis the Company evaluates the realizability of its deferred tax assets. The evaluation includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused. In situations where a three-year cumulative loss condition exists, accounting standards limit the ability to consider projections of future results as positive evidence to assess the realizability of deferred tax assets. A valuation allowance is established when it is estimated that it is more likely than not that the tax benefit of a deferred tax asset will not be realized.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the accounting standard for uncertain income tax positions, recognition of a tax benefit occurs when a tax position is estimated by management to be more likely than not to be sustained upon examination, based solely on its technical merits. Derecognition of a previously recognized tax position would occur if it is subsequently determined that the tax position no longer meets the more-likely-than-not threshold of being sustained. Recognized tax positions are measured at the largest amount that management believes has a greater than 50% likelihood of being finalized. The Company records interest and penalties related to unrecognized tax benefits in income tax provision.

v. Net Income (Loss) per Share and Cash Dividends

Basic net income (loss) (or earnings) per share ("Basic EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding, excluding restricted stock awards for which the restrictions have not lapsed. Diluted net income (loss) (or earnings) per share ("Diluted EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding, after giving effect to the potential dilution, if applicable, from the assumed lapse of restrictions on restricted stock awards and exercise of stock options into shares of common stock as if those stock options were exercised. Common shares issuable in connection with the award of performance-based restricted stock units ("RSUs") are excluded from the calculation of EPS until the RSUs' performance conditions are achieved and the shares in respect of the RSUs become issuable (see Note 12).

The following table summarizes those effects for the Basic EPS and Diluted EPS calculations (in thousands, except per share amounts):

	Year Ended		Four Months Ended	Year Ended
	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014
Net income (loss)	\$ (32,760)	\$ (4,483)	\$ (17,380)	\$ 10,497
Net income (loss) per share—Basic	\$ (2.39)	\$ (0.33)	\$ (1.28)	\$ 0.78
Net income (loss) per share—Diluted	\$ (2.39)	\$ (0.33)	\$ (1.28)	\$ 0.77
Average number of shares outstanding—Basic	13,702	13,596	13,541	13,451
Incremental shares from the assumed exercise of outstanding stock options	—	—	—	73
Incremental shares from the assumed lapse of restrictions on restricted stock awards	—	—	—	48
Average number of shares outstanding—Diluted	13,702	13,596	13,541	13,572

In addition to performance-based RSUs, for fiscal 2014 stock options and unvested restricted stock totaling approximately 201,000 shares were excluded from the calculation of Diluted EPS as their effect would have been antidilutive. Options and unvested restricted stock totaling approximately 1,232,000, 901,000 and 1,068,000 shares of the Company's common stock were outstanding as of January 28, 2017, January 30, 2016 and January 31, 2015, respectively, but were not included in the computation of Diluted EPS for fiscal 2016, 2015 and the four months ended January 31, 2015 due to the Company's net loss. Had the Company reported a profit for fiscal 2016, 2015 and the four months ended January 31, 2015 the weighted average number of dilutive shares outstanding for computation of Diluted EPS would have been approximately 13,720,000, 13,624,000 and 13,596,000 shares, respectively.

During fiscal 2015, 2014 and the four months ended January 31, 2015 the Company paid cash dividends totaling \$11,026,000 (\$0.80 per share), \$10,772,000 (\$0.7875 per share) and \$2,717,000 (\$0.20 per share), respectively. In connection with a debt refinancing in March 2016 the Company suspended its quarterly dividend and accordingly no cash dividends were paid by the Company during fiscal 2016 (see Note 9). During fiscal 2016 \$18,000 of previously declared and undistributed dividends, for which payment was subject to completion of service requirements under restricted stock awards, were forfeited back to the Company in connection with the cancellation of the awards.

w. Statements of Cash Flows

In fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 the Company paid interest of \$3,063,000, \$1,404,000, \$211,000 and \$112,000, respectively, and made income tax payments, net of refunds, of \$(324,000), \$(5,347,000), \$8,460,000 and \$51,000, respectively.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

x. Business and Credit Risk

Financial instruments, primarily cash and cash equivalents and trade receivables, potentially subject the Company to concentrations of credit risk. The Company limits its credit risk associated with cash and cash equivalents by placing such investments in highly liquid funds and instruments. Trade receivables associated with third-party credit cards are processed by financial institutions, which are monitored for financial stability. Trade receivables associated with licensed brand, leased department, international franchise and other relationships are evaluated for collectibility based on a combination of factors, including aging of trade receivables, write-off experience and past payment trends. The Company is dependent on key suppliers to provide sufficient quantities of inventory at competitive prices. No single supplier represented 10% or more of net purchases in fiscal 2016, 2015, 2014 or the four months ended January 31, 2015. A significant majority of the Company's purchases during fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 were imported. Management believes that any event causing a disruption of imports from any specific country could be mitigated by moving production to readily available alternative sources.

y. Insurance

The Company is self-insured for workers' compensation, general liability and automotive liability claims, and employee-related healthcare claims, up to certain stop-loss limits. Such costs are accrued based on known claims and an estimate of incurred but not reported claims. Liabilities associated with these risks are estimated by considering historical claims experience and other actuarial assumptions.

z. Store Preopening Costs

Non-capital expenditures, such as payroll costs incurred prior to the opening of a new store, are charged to expense in the period in which they were incurred.

aa. Newly Adopted Accounting Pronouncement

In April 2015 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted ASU No. 2015-03 effective January 31, 2016 and accordingly, the deferred financing costs related to the Company's Term Loan are reflected as a direct deduction from the Term Loan liability. The adoption of ASU No. 2015-03 did not have any impact on the Company's net consolidated financial position, results of operations or cash flows. The Company continues to classify deferred financing costs related to its Credit Facility within other assets in the consolidated balance sheets in accordance with the optional disclosure provisions in ASU No. 2015-15, *Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*.

In August 2014 the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement was effective for annual reporting periods ending after December 15, 2016 with early adoption permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

bb. Recent Accounting Pronouncements

In October 2016 the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. ASU No. 2016-16 amends the accounting for income taxes and requires the recognition of the income tax consequences of an intercompany asset transfer, other than transfers of inventory, when the transfer occurs. For intercompany transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. ASU No. 2016-16 is effective for financial statements issued for annual reporting periods beginning after December 15, 2017 and interim periods within those years, using a modified retrospective application method through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Earlier application is permitted. The impact from adoption of the new requirements of ASU No. 2016-16 on the Company's consolidated financial position or results of operations has not yet been determined.

In August 2016 the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 clarifies and provides guidance on eight specific cash flow classification issues and is intended to reduce existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

statement of cash flows. ASU No. 2016-15 is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those years. Earlier application is permitted, provided that all of the amendments are adopted in the same period. The adoption of the new requirements of ASU No. 2016-15 will not have any impact on the Company's net consolidated financial position or results of operations.

In March 2016 the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, including recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. ASU No. 2016-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. Earlier application is permitted. The impact from adoption of the new requirements of ASU No. 2016-09 on the Company's consolidated financial position or results of operations has not yet been determined.

In February 2016 the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 affects any entity that enters into a lease (as that term is defined in the ASU) and its guidance supersedes Topic 840, *Leases*. As it substantively relates to the Company, ASU No. 2016-02 requires lessees to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. For finance leases, lessees are required to recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income and to classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases, lessees are required to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and to classify all cash payments within operating activities in the statement of cash flows. In transition, lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU No. 2016-02 is effective for financial statements issued for annual reporting periods beginning after December 15, 2018 and interim periods within those years. Earlier application is permitted. While the Company is still evaluating this standard, given the significant number of leases the Company is party to, the Company expects this standard will have a material impact on the Company's consolidated balance sheets from the recognition of right-of-use assets and related liabilities but does not expect it to have a material impact on the consolidated statements of operations.

In November 2015 the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. To simplify the presentation of deferred income taxes, ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU No. 2015-17 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. Earlier application is permitted. Because this guidance impacts presentation only, the adoption of the new requirements of ASU No. 2015-17 will not have any impact on the Company's net consolidated financial position or results of operations.

In July 2015 the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. ASU No. 2015-11 requires entities to measure inventory at the lower of cost and net realizable value. ASU No. 2015-11 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. Earlier application is permitted. Application of the new requirements of ASU No. 2015-11 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In May 2014 the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 requires an entity to recognize revenue for the amount of consideration to which it expects to be entitled for the transfer of promised goods or services to customers. Additionally, ASU No. 2014-09 requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States ("GAAP") when it becomes effective. ASU No. 2014-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. In August 2015 the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* which deferred the effective date of ASU No. 2014-09 by one year, making the guidance effective for fiscal years beginning after December 15, 2017. Early adoption will be permitted, but not earlier than the original effective date for annual and interim periods. The Company will adopt the new guidance beginning with the first quarter of fiscal 2018 and has not yet determined if application of the new standard will be retrospective to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The impact from adoption of the new requirements of ASU No. 2014-09 on the Company's consolidated financial position or results of operations has not yet been determined.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. TRADE RECEIVABLES

Trade receivables are recorded based on revenue recognized for sales of the Company's merchandise and for other revenue earned by the Company through its marketing partnership programs and international franchise agreements, and are non-interest bearing. The Company evaluates the collectability of trade receivables based on a combination of factors, including aging of trade receivables, write-off experience, analysis of historical trends and expectations of future performance. An allowance for doubtful accounts is recorded for the amount of trade receivables that are considered unlikely to be collected. When the Company's collection efforts are unsuccessful, uncollectible trade receivables are charged against the allowance for doubtful accounts. As of January 28, 2017 and January 30, 2016 the Company's trade receivables were net of allowance for doubtful accounts of \$163,000 and \$170,000, respectively.

4. INVENTORIES

Inventories as of January 28, 2017 and January 30, 2016 were comprised of the following (in thousands):

	<u>January 28, 2017</u>	<u>January 30, 2016</u>
Finished goods	\$ 68,346	\$ 71,229
Work-in-progress	212	420
Raw materials	482	860
	<u>\$ 69,040</u>	<u>\$ 72,509</u>

5. PROPERTY AND EQUIPMENT, NET

Property and equipment as of January 28, 2017 and January 30, 2016 was comprised of the following (in thousands):

	<u>January 28, 2017</u>	<u>January 30, 2016</u>
Furniture and equipment	\$ 73,904	\$ 70,943
Leasehold improvements	103,198	104,358
Construction in progress	<u>3,388</u>	<u>2,170</u>
	180,490	177,471
Less: accumulated depreciation and amortization	<u>(97,461)</u>	<u>(84,798)</u>
	<u>\$ 83,029</u>	<u>\$ 92,673</u>

Aggregate depreciation and amortization expense of property and equipment in fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 was \$17,890,000, \$17,109,000, \$14,957,000 and \$5,112,000, respectively. During fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 the Company recorded pretax charges of \$2,382,000, \$1,659,000, \$1,136,000 and \$1,090,000, respectively, related to the impairment of leasehold improvements and furniture and equipment at certain of its retail locations.

In September 2013 the Company announced its plans to relocate its corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey. The Company completed the relocation of its corporate headquarters to Moorestown, New Jersey in January 2015 and completed the relocation of its distribution operations to Florence, New Jersey in August 2015. In connection with the planned relocations, on September 5, 2014 the Company sold the building that houses its principal executive offices and distribution facility in a sale and leaseback arrangement and received cash proceeds of \$12,522,000, net of transaction costs. Under the agreement the Company continued to occupy the premises for the operation and wind down of its business through October 31, 2015. The Company recognized a gain of \$4,110,000 on the sale transaction.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of January 28, 2017 and January 30, 2016 accrued expenses and other current liabilities were comprised of the following (in thousands):

	<u>January 28, 2017</u>	<u>January 30, 2016</u>
Employee compensation and benefits	\$ 6,754	\$ 10,519
Insurance, primarily self-insurance reserves	5,421	6,326
Gift certificates and store credits	4,305	4,477
Deferred rent	3,507	3,310
Sales and use taxes	2,591	2,654
Product return reserve	1,615	1,736
Accounting and legal	1,276	1,378
Accrued property, plant and equipment additions	316	840
Income taxes payable	12	52
Other	5,562	8,196
	<u>\$ 31,359</u>	<u>\$ 39,488</u>

7. DEFERRED RENT AND OTHER NON-CURRENT LIABILITIES

As of January 28, 2017 and January 30, 2016 deferred rent and other non-current liabilities were comprised of the following (in thousands):

	<u>January 28, 2017</u>	<u>January 30, 2016</u>
Deferred rent	\$ 25,398	\$ 26,545
Less: current portion included in accrued expenses and other current liabilities	(3,507)	(3,310)
Non-current deferred rent	21,891	23,235
Accrued income taxes	752	961
Other	146	155
	<u>\$ 22,789</u>	<u>\$ 24,351</u>

8. LINE OF CREDIT

After completion of a debt refinancing on March 25, 2016 the Company has a \$70,000,000 senior secured revolving credit facility (the "Credit Facility"), which was amended and restated in connection with the issuance of the Company's \$32,000,000 Term Loan (see Note 9). Previously the Credit Facility was \$76,000,000 and consisted of two tranches: 1) a senior secured revolving credit and letter of credit facility of up to \$70,000,000 ("Tranche A") and 2) a senior secured first-in, last-out revolving credit facility of up to \$6,000,000 ("Tranche A-1"). On March 25, 2016 proceeds from the Term Loan were used to repay a portion of the outstanding indebtedness under the Credit Facility, including repayment of the entire balance outstanding under Tranche A-1, which was then terminated. The Company originally entered into a five-year \$61,000,000 Credit Facility on November 1, 2012, which replaced the Company's former \$55,000,000 credit facility. In accordance with the terms of the Credit Facility, effective June 3, 2015 the Company's permitted borrowings under Tranche A of the Credit Facility were increased by \$15,000,000 at the Company's request. Effective August 25, 2015 the Credit Facility was amended to reflect the increase to Tranche A permitted borrowings and to extend the maturity date to August 25, 2020 from November 1, 2017. In connection with the Term Loan financing the maturity date of the Credit Facility was further extended to March 25, 2021. Proceeds from advances under the Credit Facility, with certain restrictions may be used to provide financing for working capital, letters of credit, capital expenditures, and other general corporate purposes. Effective December 19, 2016 the Company's Credit Facility lender consented to the Merger and the Credit Facility was amended to require a \$10,000,000 EBITDA Reserve (as defined in the related Credit Facility agreement) against availability under the Credit Facility. Effective April 7, 2017 the Credit facility was further amended to allow the Company to enter into certain equipment financing arrangements, on the condition that a portion of the proceeds of such financing be applied as a prepayment of the Term Loan (see Note 9). The amendment also provides for an additional reserve of \$5,000,000 against availability under the Credit Facility that will be reduced dollar for dollar for prepayments of the Term Loan in accordance with the amendment.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Credit Facility contains various affirmative and negative covenants and representations and warranties. In the event that the outstanding balance of the Term Loan exceeds the Term Loan Borrowing Base (as defined in the related Term Loan Agreement) then a reserve will be imposed against availability under the Credit Facility. The Credit Facility, as amended on April 7, 2017, also requires the Company to maintain minimum Excess Availability (as defined in the related Credit Facility agreement) equal to the greater of 10% of the Combined Loan Cap (as defined in the Credit Facility agreement) or \$10,000,000. The Credit Facility is secured by a security interest in the Company's trade receivables, inventory, letter of credit rights, cash, intangibles and certain other assets. The interest rate on outstanding borrowings is equal to, at the Company's election, either 1) the lender's base rate plus the applicable margin, or 2) a LIBOR rate plus the applicable margin. The applicable margin for base rate borrowings is 0.50% for Tranche A borrowings and was 2.00% for Tranche A-1 borrowings. The applicable margin for LIBOR rate borrowings is 1.50% for Tranche A borrowings and was 3.00% for Tranche A-1 borrowings. The Company also pays an unused line fee under the Credit Facility of 0.25% per annum.

Any amounts outstanding under the Credit Facility may be accelerated and become due and payable immediately and all loan and letter of credit commitments thereunder may be terminated upon an event of default and expiration of any applicable cure period. Events of default include: 1) nonpayment of obligations due under the subject loan agreement and related loan documents, 2) cross-defaults to other indebtedness and documents, 3) failure to perform any covenant or agreement contained in the subject loan agreement, 4) material misrepresentations, 5) failure to pay, or certain other defaults under, other material indebtedness of the Company, 6) certain bankruptcy or insolvency events, 7) a change of control, 8) indictments of the Company or senior management in a material forfeiture action, 9) default under certain material contracts to the extent such termination or default has or could reasonably be expected to have a material adverse effect, and 9) customary ERISA defaults, among others.

In connection with the original execution and subsequent amendments of the Credit Facility, the Company incurred deferred financing costs of \$1,173,000. These deferred financing costs are being amortized over the term of the Credit Facility agreement and included in "interest expense, net" in the consolidated statements of operations.

As of January 28, 2017 the Company had \$4,600,000 in outstanding borrowings under the Credit Facility and \$5,827,000 in letters of credit, with \$19,374,000 of availability under the Credit Facility based on the Company's Borrowing Base formula and availability reserve requirements. As of January 30, 2016 the Company had \$28,400,000 in outstanding borrowings under the Credit Facility, of which \$22,400,000 were Tranche A borrowings and \$6,000,000 were Tranche A-1 borrowings, and \$6,348,000 in letters of credit, with \$20,347,000 of availability under the Credit Facility based on the Company's Borrowing Base formula and minimum Excess Availability requirement. As of January 31, 2015 and September 30, 2014 the Company had no outstanding borrowings under the Credit Facility and \$6,424,000 in letters of credit, with \$49,076,000 of availability under the Credit Facility based on the Company's Borrowing Base formula and minimum Excess Availability requirement. For fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 Tranche A borrowings had a weighted interest rate of 2.84%, 3.05%, 3.75% and 3.75% per annum, respectively, and Tranche A-1 borrowings had a weighted interest rate of 3.43%, 4.89%, 5.25% and 5.25% per annum, respectively. During fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 the Company's average level of direct borrowings was \$11,191,000, \$26,835,000, \$24,000 and \$630,000, respectively, and the Company's maximum borrowings during fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 were \$42,700,000, \$40,900,000, \$1,400,000 and \$5,800,000, respectively.

9. LONG-TERM DEBT

On March 25, 2016 the Company entered into a Term Loan Credit Agreement (the "Term Loan Agreement") for a \$32,000,000 term loan due March 25, 2021 (the "Term Loan"), the proceeds of which were received on March 25, 2016 and were used to repay a portion of the outstanding indebtedness under the Company's existing Credit Facility (see Note 8). The interest rate on the Term Loan is equal to a LIBOR rate (with a 1.00% LIBOR floor) plus 7.50%. The Company is required to make minimum repayments of the principal amount of the Term Loan in quarterly installments of \$800,000 each, with the remaining outstanding balance payable on the maturity date. Additionally, the Term Loan can be prepaid at the Company's option subject to certain restrictions, in part or in whole at any time, subject to the payment of a prepayment premium as follows: 1) 3% on or prior to the first anniversary of the closing date, 2) 2% from the first anniversary to the second anniversary of the closing date, and 3) 1% after the second anniversary but on or prior to the third anniversary of the closing date. Effective December 19, 2016 the Company's Term Loan lenders consented to the Merger and the Term Loan Agreement was amended to change the definition of Consolidated EBITDA (see below) to allow the Company to add back certain transaction costs relating to the Merger and modified the financial covenant limiting capital expenditures (see below). Effective April 7, 2017 the Term Loan Agreement was further amended to allow the Company to enter into certain equipment financing arrangements, on the condition that a portion of the proceeds of such financing be applied as a prepayment of the Term Loan. The April 7, 2017 Term Loan Agreement amendment also provides for an additional reserve of \$5,000,000 against availability under the Credit Facility that will be reduced dollar for dollar for prepayments of the Term Loan in accordance with the amendment (see Note 8) and deletes the covenant requiring maintenance of a minimum level of Consolidated EBITDA (see below).

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Term Loan is secured by a security interest in substantially all of the assets of the Company, including accounts receivable, inventory, equipment, letter of credit rights, cash, intellectual property and other intangibles, and certain other assets. The security interest granted to the Term Lenders is, in certain respects, subordinate to the security interest granted to the Credit Facility Lender. The Term Loan Agreement prohibits the payment of dividends or share repurchases by the Company for three years and imposes certain restrictions on the Company's ability to, among other things, incur additional indebtedness and enter into other various types of transactions. The Term Loan Agreement, as amended on April 7, 2017, requires the Company to maintain Excess Availability (as defined in the related Credit Facility agreement) equal to the greater of 10% of the Combined Loan Cap (as defined in the related Credit Facility agreement) or \$10,000,000. Prior to the April 7, 2017 Term Loan Agreement amendment, the Company was required to maintain quarterly Consolidated EBITDA (as defined in the related Term Loan Agreement) in an amount not less than the levels specified for each period in the Term Loan Agreement up to \$30,000,000 for the four fiscal quarters ending on February 1, 2010 and thereafter. For fiscal 2016 the Company's Consolidated EBITDA exceeded the Consolidated EBITDA requirement of \$19,000,000. The April 7, 2017 Term Loan Agreement amendment prohibits the Company from making capital expenditures (net of tenant allowances) in excess of a specified amount in any period of four fiscal quarters (subject to carryforward of 50% of any underutilization). The limitation on capital expenditures ranges from \$16,000,000 for the four fiscal quarters ending on January 28, 2017 to \$10,500,000 for the four fiscal quarters ending on February 3, 2018, and increases to \$17,000,000 for the four fiscal quarters ending on May 5, 2018 and thereafter. For fiscal 2016 the Company's net capital expenditures did not exceed the \$16,000,000 limit. Any amounts outstanding under the Term Loan may be accelerated and become due and payable immediately upon an event of default and expiration of any applicable cure period. The specified events of default are substantially the same as those in the Credit Facility agreement (see Note 8).

In connection with the execution of the Term Loan Agreement and subsequent amendments, the Company incurred deferred financing costs of \$1,491,000. These deferred financing costs are reflected as a direct deduction from the Term Loan liability in the consolidated balance sheet and are being amortized over the term of the Term Loan Agreement and included in "interest expense, net" in the consolidated statements of operations.

As of January 28, 2017 and January 30, 2016 there was \$9,302,000 and \$12,199,000, respectively, outstanding under a five-year equipment financing arrangement with the Company's Credit Facility bank. The equipment note bears annual interest at 3.38%, with payments of \$272,000 (including interest) due monthly through December 2019. The equipment note is collateralized by substantially all of the material handling equipment at the Company's distribution facility in Florence, New Jersey (see Note 5). Any amounts outstanding under the equipment note may be accelerated and become due and payable immediately upon an event of default and expiration of any applicable cure period. The specified events of default are substantially the same as those in the Credit Facility agreement (see Note 8).

Future maturities of long-term debt are as follows (in thousands):

<u>Fiscal Year</u>	
2017	\$ 7,251
2018	6,308
2019	5,343
2020	3,200
2021	17,600
	<u>\$ 39,702</u>

10. FAIR VALUE MEASUREMENTS

The accounting standard for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard establishes a framework for measuring fair value focused on exit price and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements as follows:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities
- Level 2 – Observable market-based inputs or inputs that are corroborated by observable market data
- Level 3 – Unobservable inputs that are not corroborated by market data

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At both January 28, 2017 and January 30, 2016 the Company had cash equivalents of \$4,000. The Company's cash equivalents consist of investments in money market funds for which the carrying value approximates fair value (based on Level 1 inputs) due to the short-term nature of those instruments. The carrying values of trade receivables and accounts payable approximate fair value due to the short-term nature of those instruments.

The Company's Credit Facility has variable interest rates that are tied to market indices. As of January 28, 2017 and January 30, 2016 the Company had \$4,600,000 and \$28,400,000, respectively, of direct borrowings outstanding under the Credit Facility. The carrying value of the Company's Credit Facility borrowings approximates fair value as the variable interest rates approximate current market rates, which the Company considers to be Level 2 inputs.

The Company's Term Loan, which represents a significant majority of the Company's long-term debt, bears interest at variable rates, which adjust based on market conditions with a minimum annual rate of 8.50%. The carrying value of the Company's Term Loan approximates fair value as the variable interest rates approximate current market rates for similar instruments available to companies with comparable credit quality, which the Company considers to be Level 2 inputs. The fair value of the Company's fixed-rate equipment note was determined using a discounted cash flow analysis based on interest rates currently available to the Company, which the Company considers to be Level 2 inputs. The difference between the carrying value and fair value of long-term debt held by the Company with a fixed rate of interest is not material.

The fair value accounting standards provide a company with the option to report selected financial assets and liabilities on an instrument-by-instrument basis at fair value and requires such company to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The Company has not elected the fair value option for its financial assets and liabilities that had not been previously measured at fair value.

11. COMMON AND PREFERRED STOCK

The Company's Board of Directors previously approved a program to repurchase up to \$10,000,000 of the Company's outstanding common stock that expired as of July 31, 2016. Under the program, the Company was authorized to repurchase shares from time to time through solicited or unsolicited transactions in the open market or in negotiated or other transactions. No shares were repurchased under this program. The Term Loan Agreement, effective March 25, 2016, prohibits the payment of dividends or share repurchases by the Company for three years.

The Company has authorization to issue up to 1,656,381 shares of preferred stock, par value \$0.01, with 300,000 shares authorized for Series B Junior Participating Preferred Stock. There was no preferred stock issued or outstanding as of January 28, 2017 and January 30, 2016.

12. EQUITY AWARD PLANS

In January 2006 the stockholders of the Company approved the adoption of the Amended and Restated 2005 Equity Incentive Plan (the "2005 Plan") and, subsequently, have approved amendments to increase the number of issuable shares. Under the 2005 Plan, employees, directors, consultants and other individuals who provide services to the Company may be granted awards in the form of stock options, stock appreciation rights, restricted stock, restricted stock units or deferred stock units. Up to 2,800,000 shares of the Company's common stock may be issued in respect of awards under the 2005 Plan, as amended, with no more than 1,500,000 of those shares permitted to be issued in respect of restricted stock, restricted stock units, or deferred stock units granted under the 2005 Plan. Awards of stock options to purchase the Company's common stock will have exercise prices as determined by the Compensation Committee of the Board of Directors (the "Compensation Committee"), but such exercise prices may not be lower than the fair market value of the stock on the date of grant.

No stock options have been granted by the Company with an exercise price less than the fair market value of the Company's common stock on the date of grant for any of the periods presented. The majority of the stock options issued under the 2005 Plan vest ratably over four-year periods and stock options issued under the 2005 Plan generally expire ten years from the date of grant. Restricted stock awards issued under the 2005 Plan have restrictions that lapse ratably over periods ranging from one to four years. The non-executive chairman of the Company's Board of Directors is granted 6,000 shares of restricted stock and each non-employee director, other than the non-executive chairman, of the Company's Board of Directors is granted 4,000 shares of restricted stock on an annual basis that will vest one year from the date of grant. The Company issues new shares of common stock upon exercise of vested stock options. As of January 28, 2017 there were 272,294 shares of the Company's common stock available for grant under the 2005 Plan in the form of stock options, restricted stock, restricted stock units or deferred stock units.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock option activity for all plans was as follows:

	<u>Outstanding Stock Options</u> (in thousands)	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u> (years)	<u>Aggregate Intrinsic Value</u> (in thousands)
Balance—January 30, 2016	720	\$ 16.00		
Granted	451	7.16		
Exercised	(2)	3.52		
Forfeited	(64)	15.62		
Expired	(150)	17.19		
Balance—January 28, 2017	<u>955</u>	\$ 11.68	8.3	<u>\$ 2</u>
Exercisable—January 28, 2017	<u>273</u>	\$ 16.26	7.1	<u>\$ 1</u>

During fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 the total intrinsic value of stock options exercised was \$5,000, \$63,000, \$3,576,000 and \$93,000, respectively. The total cash received from these stock option exercises was \$6,000, \$69,000, \$271,000 and \$29,000, respectively, and the actual tax benefit realized for the tax deductions from these option exercises was \$2,000, \$24,000, \$1,347,000 and \$35,000, respectively. During fiscal 2014 and the four months ended January 31, 2015 options to purchase 176,899 and 10,000 shares of common stock, respectively, with aggregate exercise prices of, \$1,976,000 and \$69,000, respectively, were exercised by the option holders and net-share settled by the Company, such that the Company withheld 68,739 and 4,455 shares of the Company's common stock, respectively, which had a fair market value equal to the aggregate exercise prices of the stock options.

The weighted-average fair value of stock options granted during fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 was estimated to be \$2.96, \$2.58, \$8.21 and \$3.04 per option share, respectively. The weighted-average fair value of each option granted is calculated on the date of grant using the Black-Scholes option pricing model.

Weighted-average assumptions for option grants were as follows:

	<u>Year Ended</u>		<u>Four Months Ended</u>	<u>Year Ended September 30,</u>
	<u>January 28, 2017</u>	<u>January 30, 2016</u>	<u>January 31, 2015</u>	<u>2014</u>
Expected dividend yield	none	5.7%	5.6%	3.2%
Expected price volatility	45.0%	36.1%	38.1%	49.1%
Risk-free interest rate	1.3%	1.4%	1.8%	1.4%
Expected life	5.3 years	5.0 years	5.4 years	4.7 years

Expected dividend yield was determined using a weighted average of the Company's annualized dividend rate compared to the market price of the Company's common stock as of the grant date. Expected volatility was determined using a weighted average of the historic volatility of the Company's common stock as of the option grant date measured over a period equal to the expected life of the grant. Risk-free interest rates were based on the United States Treasury yield curve in effect at the date of the grant. Expected lives were determined using a weighted average of the historic lives of previously issued grants of the Company's stock options.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information about stock options outstanding as of January 28, 2017:

<u>Range of Exercise Prices</u>	<u>Stock Options Outstanding</u>			<u>Stock Options Exercisable</u>	
	<u>Number Outstanding</u> (in thousands)	<u>Weighted Average Remaining Life</u> (years)	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable</u> (in thousands)	<u>Weighted Average Exercise Price</u>
\$ 3.52 to \$ 7.00	83	9.5	\$ 5.68	1	\$ 3.52
7.01 to 8.00	368	9.2	7.49	—	—
8.01 to 14.00	25	5.3	11.64	17	11.80
14.01 to 15.00	370	7.8	14.34	183	14.33
15.01 to 19.00	16	8.0	15.51	5	15.59
19.01 to 23.00	73	6.5	20.17	52	20.38
23.01 to 31.38	20	6.8	31.03	15	31.03
\$ 3.52 to \$31.38	<u>955</u>	8.3	\$ 11.68	<u>273</u>	\$ 16.26

Restricted stock activity for the 2005 Plan was as follows:

	<u>Outstanding Restricted Shares</u> (in thousands)	<u>Weighted Average Grant Date Fair Value</u>
Nonvested—January 30, 2016	181	\$ 17.28
Granted	207	7.12
Vested	(96)	9.85
Forfeited	(16)	16.97
Nonvested—January 28, 2017	<u>276</u>	\$ 9.55

The Compensation Committee established performance goals for the award of performance-based RSUs for the Company's executive officers, under the 2005 Plan, in each of August 2016 and April 2016 (collectively the "Fiscal 2016 Awards") and April 2015 (the "Fiscal 2015 Awards"). The RSUs earned, if any, under the awards will be based on the Company's cumulative operating income, as defined in the applicable award agreement ("RSU Operating Income") for a specified three-year period ("Performance Period"). The grant of any RSUs under these awards will generally be further contingent on the continued employment of the executive officers with the Company through the dates on which the shares in respect of these RSUs, if any, are issued following the end of the applicable Performance Periods, as well as the achievement of certain minimum levels of RSU Operating Income in the final fiscal year of each applicable Performance Period. Any dividends declared on the shares of the Company's common stock underlying the RSUs will be credited as additional RSUs based on the fair market value of the Company's common stock on the dividend record date. The additional RSUs, if any, will be earned on the same terms as the original RSUs.

The following table sets forth the aggregate minimum, target and maximum RSUs, excluding RSUs from dividends declared, that may be earned by the executive officers for each fiscal year award cycle. The minimum RSUs will be earned if the Company's RSU Operating Income during the Performance Period equals the specified threshold RSU Operating Income. Additional RSUs are earned ratably for RSU Operating Income that exceeds the specified threshold, up to the maximum amount for RSU Operating Income that equals or exceeds the specified maximum RSU Operating Income.

<u>Awards</u>	<u>Performance Period</u>	<u>Minimum RSUs</u>	<u>Target RSUs</u>	<u>Maximum RSUs</u>
Fiscal 2016 Awards	January 31, 2016 to February 3, 2018	13,698	54,789	82,185
Fiscal 2015 Awards	February 2, 2015 to January 28, 2017	15,218	30,436	45,655

Fiscal 2015 Awards include the prorated number of RSUs that may be earned by the Company's former President and exclude RSUs forfeited by the Company's former Executive Vice President & Chief Financial Officer. During fiscal 2016 the Company determined that the Fiscal 2016 Awards and Fiscal 2015 Awards were unlikely to be earned, even at the minimum level. No RSUs were earned under the awards for the three-year Performance Periods ending September 30, 2016, 2015 and 2014 because the Company's RSU Operating Income during the Performance Period was less than the threshold RSU Operating Income required to earn the minimum level of award.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During fiscal 2016 three members of the Company's Board of Directors received a cumulative total of 13,867 shares of restricted stock as compensation for their service on a special committee of the Board of Directors. The awards will vest at the earlier of 1) one day prior to the 2017 annual meeting of stockholders, 2) the end of the grantee's Board service other than via resignation, or 3) a change in control of the Company (as defined in the 2005 Plan). During fiscal 2016, 10,974 deferred stock units were awarded to three members of the Company's Board of Directors in lieu of cash retainers totaling \$75,000.

Stock-based compensation expense in fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 was \$1,801,000, \$2,784,000, \$3,747,000 and \$1,073,000, respectively. As of January 28, 2017 \$3,626,000 of total unrecognized compensation cost related to all non-vested equity awards is expected to be recognized over a weighted-average period of 1.5 years.

During fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 certain stock option exercises and vesting restricted stock awards were net-share settled by the Company such that the Company withheld shares of the Company's common stock, which had a fair market value equivalent to the minimum statutory obligation for the applicable income and employment taxes for the awards, and the Company remitted the cash value to the appropriate taxing authorities. The total shares withheld in connection with tax obligations, which were 7,408, 15,024, 76,386 and 8,257, respectively, during fiscal 2016, 2015, 2014 and the four months ended January 31, 2015, are reflected as repurchase of common stock in the accompanying financial statements, and were based on the value of the Company's common stock on the exercise or vesting date. The remaining shares, net of those withheld, were delivered to the award holders. Total payments for tax obligations to the tax authorities were \$54,000, \$127,000, \$2,178,000 and \$123,000 for fiscal 2016, 2015, 2014 and the four months ended January 31, 2015, respectively.

13. OTHER CHARGES, NET

During the fourth quarter of fiscal 2015 the Company announced that it had received an unsolicited, non-binding preliminary merger proposal from the Company's largest shareholder, Orchestra, a France-based retailer of children's wear. On December 19, 2016 the Company entered into the Merger Agreement. The merger is expected to be completed during the third quarter of fiscal 2017. During fiscal 2016 and fiscal 2015 the Company incurred \$3,154,000 and \$61,000 of charges related to the merger proposal and Merger Agreement.

Prior to the completion of the Merger, the Company and Orchestra are evaluating opportunities for shared service arrangements. In connection therewith the Company has entered into two agreements with Orchestra USA Inc. ("Orchestra USA"), a wholly-owned subsidiary of Orchestra, under which the Company will provide real estate and construction project consulting services to commence in fiscal 2017. Orchestra USA will pay the Company \$65,000 for each fully-executed real estate lease and pay up to \$34,000 for each fully-completed construction project. As of January 28, 2017 no services had been performed under the consulting agreements and no payments were due to the Company.

During fiscal 2014 the Company incurred \$1,045,000 of charges related to its proposal for a possible business combination with Mothercare plc, which was announced and subsequently withdrawn in July 2014.

In August 2014 the Company announced the appointment of Anthony M. Romano as the Company's new Chief Executive Officer ("CEO"). Subsequent to the CEO change, the Company commenced a program to evaluate its business processes, key management personnel and planning resources. In connection with this evaluation, the Company changed its fiscal year (see below) and continues to implement changes to certain business processes that have resulted in replacement of certain key management personnel and reductions in headcount, with a focus on improving inventory management, driving sales productivity, optimizing real estate and controlling costs. Key management changes included elimination of the separate function of President in December 2015 in a further effort to streamline the Company's operations and its reporting structure. The Company implemented an improved product life cycle calendar in fiscal 2015, completed the implementation of a new planning and allocation tool in fiscal 2016 and completed a re-platforming of each of its e-commerce sites in early fiscal 2017, as it continues to improve its planning and allocation methodologies and e-commerce platform. The Company's real estate strategy includes increased focus on the Company's two key maternity apparel brands with strategic phase-out and elimination of certain non-core brands and business relationships. During fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 the Company incurred \$1,760,000, \$4,196,000, \$4,256,000 and \$2,951,000, respectively, of charges related to these management and organizational changes.

In September 2013 the Company announced plans to relocate its corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey. In September 2014 the Company recorded pretax income of \$4,110,000 from the gain realized on the sale and leaseback of its then principal headquarters and distribution center building (see Note 5). The Company

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

completed the relocation of its corporate headquarters to Moorestown, New Jersey in January 2015 and completed the relocation of its distribution operations to Florence, New Jersey in August 2015. During fiscal 2015, 2014 and the four months ended January 31, 2015 the Company recorded \$2,695,000, \$(2,072,000) and \$1,158,000, respectively, of charges (income) related the sale and closure of its prior facilities, and the preparation for occupancy of and relocation to its new facilities.

During fiscal 2015 and the four months ended January 31, 2015 the Company incurred \$27,000 and \$1,245,000, respectively, of charges related to its change to a retail calendar-based fiscal year.

A summary of the charges incurred in connection with the proposed business combinations, management and organizational changes, facilities relocations and fiscal year change for fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 follows (in thousands):

	Year Ended		Four Months Ended	Year Ended
	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014
Proposed Business Combinations				
Legal and other professional fees	\$ 3,154	\$ 61	\$ —	\$ 1,045
Management and Organizational Changes				
Severance and related benefits	1,210	1,787	1,687	—
Non-core brand contract terminations	545	—	—	—
Consulting fees	5	1,388	591	—
Executive officer separation benefits	—	922	—	4,107
Contract termination	—	—	654	—
Other	—	99	19	149
Total management and organizational changes	<u>1,760</u>	<u>4,196</u>	<u>2,951</u>	<u>4,256</u>
Facilities Relocations				
Pre-opening rent expense on new corporate headquarters and distribution facility	—	1,699	780	798
Moving and other costs	—	763	107	113
Accelerated depreciation and amortization expense	—	233	271	1,127
Gain on sale of building	—	—	—	(4,110)
Total facilities relocations	<u>—</u>	<u>2,695</u>	<u>1,158</u>	<u>(2,072)</u>
Fiscal Year Change				
Audit and tax professional fees	—	—	1,036	—
Systems modifications	—	27	209	—
Total fiscal year change	<u>—</u>	<u>27</u>	<u>1,245</u>	<u>—</u>
Total other charges, net	<u>\$ 4,914</u>	<u>\$ 6,979</u>	<u>\$ 5,354</u>	<u>\$ 3,229</u>

14. GOVERNMENT INCENTIVES

In September 2013 the Company announced its plans to relocate its corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey (the "Project"). The Company completed the relocation of its corporate headquarters in January 2015 and completed the relocation of its distribution operations in August 2015. To partially offset the costs of these relocations, the Board of the New Jersey Economic Development Authority ("NJEDA") approved the Company for an incentive package of up to \$40,000,000 in benefits under the Grow New Jersey Assistance Program ("Grow NJ") in the form of transferrable income tax credits over a ten-year period from the State of New Jersey. The Company's Grow NJ award required a minimum capital investment of \$20,000,000 with the total potential award being equal to the total eligible capital investment in the Project and subject to an overall award limit of \$40,000,000. The award provides annually over a ten-year period up to \$7,000 per eligible new full-time job, as defined under Grow NJ, with a requirement that at least 100 eligible jobs were created and subject to an annual award limit of \$4,000,000.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In September 2015 the Company confirmed to NJEDA that it had submitted all documentation required to qualify for the Company's Grow NJ award, including certification of over 600 eligible jobs and over \$50,000,000 in capital investment, including building construction costs of the landlord for the Company's newly constructed distribution center in Florence, New Jersey. The Grow NJ award will be earned on an annual basis over the ten-year period, subject to the \$4,000,000 annual award limit, with a full annual award in fiscal 2015, and requires an annual compliance report that includes certification of average annual employment figures after the end of each fiscal year. After the end of the ten-year Grow NJ award earnings period there is a five-year compliance period during which the Company must maintain the average of its annual eligible jobs certified during the preceding ten years or a pro-rata amount up to one-tenth of the previously awarded income tax credits would be subject to recapture and repayment to the State of New Jersey annually during the five-year compliance period. The Company believes the likelihood of any recapture and repayment is remote.

The annual benefit from the Grow NJ award available to the Company is expected to significantly exceed the Company's annual income tax liability to the State of New Jersey. In order to maximize the realizable value of the incentive package, in December 2013 the Company entered into an agreement with a third party to sell 75% or more of the annual income tax credits awarded to the Company. The Company recognizes its Grow NJ award on an annual basis for each fiscal year based on the realizable value of the award earned and expected to be received, primarily from the sale of the income tax credits, net of any associated costs. The Grow NJ award earned is reflected in the Company's consolidated financial statements as a reduction to the costs incurred by the Company in connection with the relocations. The expected realizable amount of the Grow NJ award is included in the consolidated balance sheet in short-term deferred income taxes.

For fiscal 2015 the Company's Grow NJ award of \$3,600,000 (net of valuation allowance) was recognized during the third and fourth quarters of fiscal 2015, which represented the measurement period for the Company's fiscal 2015 required average employment certification. In May 2016 the Company received \$3,600,000 cash proceeds, net of costs, from the receipt and subsequent sale of the \$4,000,000 tax credit certificate earned for fiscal 2015. For fiscal 2016 the Company's Grow NJ award of \$3,251,000 (net of valuation allowance) was recognized ratably during the fiscal year and is expected to be converted to a receivable and collected in fiscal 2017 upon sale of the income tax credits. During fiscal 2016 and fiscal 2015 the Company recognized \$3,251,000 and \$3,600,000, respectively, of cost reduction related to the Grow NJ award, of which \$3,189,000 and \$2,852,000 is included in the consolidated statements of operations, including reductions of cost of goods sold of \$2,287,000 and \$1,846,000, respectively, and reductions of selling, general and administrative expenses of \$902,000 and \$1,006,000, respectively. Additionally \$810,000 and \$748,000 is included in the consolidated balance sheets as of January 28, 2017 and January 30, 2016, respectively, as a reduction to overhead in inventory.

15. INCOME TAXES

Income tax (benefit) provision was comprised of the following (in thousands):

	Year Ended		Four Months Ended	Year Ended
	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014
Current provision (benefit)	\$ 436	\$ (4,826)	\$ (3,890)	\$ 6,581
Deferred provision (benefit)	24,614	2,020	(6,636)	(2,975)
Income tax provision (benefit)	<u>\$ 25,050</u>	<u>\$ (2,806)</u>	<u>\$ (10,526)</u>	<u>\$ 3,606</u>
Federal provision (benefit)	\$ 19,202	\$ (1,962)	\$ (9,296)	\$ 5,109
State provision (benefit)	5,679	(575)	(1,165)	(1,674)
Foreign provision (benefit)	169	(269)	(65)	171
Income tax provision (benefit)	<u>\$ 25,050</u>	<u>\$ (2,806)</u>	<u>\$ (10,526)</u>	<u>\$ 3,606</u>

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the statutory federal tax rate to the Company's effective income tax rates follows:

	Year Ended		Four Months Ended	Year Ended
	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014
Statutory federal tax rate	(35.0)%	(35.0)%	(35.0)%	35.0%
State tax rate, net of federal effect	5.4	(2.3)	(2.3)	3.2
(Benefit) provision for uncertain income tax positions, net of federal effect	(1.8)	(2.8)	(0.4)	2.1
Settlements of uncertain income tax positions, net of federal effect	—	—	—	(13.0)
Other	(3.7)	1.6	—	(1.7)
Valuation allowance	360.0	—	—	—
Effective income tax rate	<u>324.9%</u>	<u>(38.5)%</u>	<u>(37.7)%</u>	<u>25.6%</u>

The deferred tax effects of temporary differences giving rise to the Company's net deferred tax assets were as follows (in thousands):

	January 28, 2017	January 30, 2016
Deferred tax assets:		
Net operating loss carryforwards	\$ 13,201	\$ 11,296
Deferred rent	9,454	10,004
Employee benefit accruals	3,041	3,836
Grow NJ award benefit, net	2,268	2,493
Inventory reserves	2,131	3,320
Federal tax credit carryforwards	1,247	618
Stock-based compensation	855	1,212
Other accruals	1,905	1,896
Other	1,960	2,062
	<u>36,062</u>	<u>36,737</u>
Valuation allowance	(30,402)	(2,666)
	<u>5,660</u>	<u>34,071</u>
Deferred tax liabilities:		
Depreciation and amortization	(1,860)	(4,570)
Prepaid expenses	(549)	(503)
	<u>(2,409)</u>	<u>(5,073)</u>
Net deferred tax assets	<u>\$ 3,251</u>	<u>\$ 28,998</u>

Accounting Standards Codification Topic 740, *Income Taxes*, requires that a valuation allowance be recorded to reduce deferred tax assets when it is more likely than not that the tax benefit of the deferred tax assets will not be realized. The evaluation includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused. In situations where a three-year cumulative loss condition exists, accounting standards limit the ability to consider projections of future results as positive evidence to assess the realizability of deferred tax assets. In fiscal 2016 the Company's financial results reflected a three-year cumulative loss. The three-year cumulative loss constitutes significant negative evidence, limiting the Company's ability to consider other positive evidence, such as the Company's projections for future growth. Consequently, in fiscal 2016 the Company recorded a non-cash charge of \$27,758,000 as a valuation allowance against substantially all of its deferred tax assets. The establishment of this valuation allowance has no effect on the Company's ability to utilize the deferred tax assets to offset future taxable income, if generated. As required by GAAP, the Company will continue to assess the likelihood that the deferred tax assets will be realizable in the future and the valuation allowance will be adjusted accordingly. The tax benefits relating to any reversal of the valuation allowance on the net deferred tax assets in a future period will be recognized as a reduction of future income tax expense in that period.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company assessed that it was unlikely that sufficient future state specific taxable income will be generated to fully use the available state net operating loss carryforwards, and accordingly, a valuation allowance has been recorded to recognize only the portion of the deferred tax asset that is considered more likely than not to be realized. The Company does not record state tax benefits associated with temporary differences for certain other states in which it has net operating losses, given the continued historical uncertainty related to realizing such state tax benefits. Had the state tax benefits been reflected for these states, the deferred tax assets (excluding state net operating loss carryforwards) as of January 28, 2017 would be approximately \$980,000 higher.

The accounting standard for uncertain income tax positions clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements and also contains guidance on the measurement of uncertain tax positions.

A reconciliation of gross unrecognized tax benefits for uncertain tax positions follows (in thousands):

	Year Ended		Four Months	Year Ended
	January 28, 2017	January 30, 2016	Ended January 31, 2015	September 30, 2014
Balance at beginning of period	\$ 961	\$ 1,537	\$ 1,691	\$ 4,218
Additions for current period tax positions	—	—	—	192
Additions for prior period tax positions	13	48	8	231
Reductions of prior period tax positions	(222)	(470)	(162)	(2,700)
Payments	—	(154)	—	(250)
Balance at end of period	<u>\$ 752</u>	<u>\$ 961</u>	<u>\$ 1,537</u>	<u>\$ 1,691</u>

As of January 28, 2017 gross unrecognized tax benefits included accrued interest and penalties of \$323,000. During fiscal 2016, 2015, 2014 and the four months ended January 31, 2015 interest and penalties of \$(28,000), \$(83,000), \$(1,391,000), and \$(29,000), respectively, related to unrecognized tax benefits, were included in income tax provision (benefit). If recognized, the portion of the liability for unrecognized tax benefits that would impact the Company's effective tax rate was \$544,000, net of federal tax benefit.

As of January 28, 2017, January 30, 2016 and January 31, 2015 the Company had income taxes receivable of \$4,875,000, \$5,859,000 and \$6,778,000, respectively, which are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

During the twelve months subsequent to January 28, 2017 it is reasonably possible that the gross unrecognized tax benefits could potentially decrease by approximately \$356,000 (of which approximately \$228,000 would affect the effective tax rate, net of federal expense) for uncertain tax positions, primarily from the effect of expiring statutes of limitations, partially offset by the continued effect of interest on unrecognized tax benefits.

The Company's United States Federal income tax returns for the years ended September 30, 2012 and thereafter remain subject to examination by the United States Internal Revenue Service. The Company also files tax returns in Canada, India, Kuwait and numerous United States state jurisdictions, which have varying statutes of limitations. Generally, Canadian tax returns for tax years ended September 30, 2008 and thereafter, Indian tax returns for tax years ended March 31, 2010 and thereafter, and United States state tax returns for tax years ended September 30, 2012 and thereafter, depending upon the jurisdiction, remain subject to examination. However, the statutes of limitations on certain of the Company's United States state tax returns remain open for tax years prior to fiscal 2012.

16. COMMITMENTS AND CONTINGENCIES

The Company leases its retail facilities and certain equipment under various non-cancelable operating leases. Certain of these leases have renewal options. Total rent expense (including related occupancy costs, such as insurance and maintenance, paid to landlords) under operating leases amounted to \$56,830,000, \$58,120,000, \$58,682,000 and \$19,350,000 in fiscal 2016, 2015, 2014 and the four months ended January 31, 2015, respectively. Such amounts exclude contingent rentals based upon a percentage of sales totaling \$977,000, \$1,359,000, \$1,735,000 and \$454,000 in fiscal 2016, 2015, 2014 and the four months ended January 31, 2015, respectively.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company completed the relocation of its corporate headquarters to Moorestown, New Jersey in January 2015 and completed the relocation of its distribution operations to Florence, New Jersey in August 2015. The lease for the new corporate headquarters building was signed in September 2013 and rent payments commenced in March 2015. The lease for the new Florence distribution center building was signed in December 2013. In December 2014 the Company received notice of substantial completion and lease commencement from the landlord for the distribution center building. Accordingly, the Florence lease commenced effective January 2015, with the first rent payment paid as of March 2015. Future minimum payments for the two leases are included in the table below.

Store, office and distribution facility leases generally provide for payment of direct operating costs in addition to rent.

Future annual minimum lease payments, for facilities leases excluding such direct operating costs, as well as leases for equipment rental, as of January 28, 2017, are as follows (in thousands):

<u>Fiscal Year</u>	
2017	\$ 40,303
2018	33,360
2019	27,848
2020	21,701
2021	18,288
2022 and thereafter	57,163
	<u>\$ 198,663</u>

From time to time, the Company is named as a defendant in legal actions arising from 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, the Company does not believe that the resolution of any pending action will have a material adverse effect on its financial position, results of operations or liquidity.

17. EXECUTIVE OFFICER EMPLOYMENT AGREEMENTS

Effective August 10, 2014 and as amended December 3, 2014, the Company entered into an employment agreement with Anthony M. Romano, in connection with the hiring of Mr. Romano as the Company's CEO. In a further effort to streamline the Company's operations and its reporting structure, the separate President function was eliminated and Mr. Romano assumed the additional title of President effective December 7, 2015. Mr. Romano's employment agreement provided that Mr. Romano's annual base salary would be \$825,000. Base salary earned for Mr. Romano was \$825,000, \$825,000, \$117,000 and \$275,000 for fiscal 2016, 2015, 2014 and the four months ended January 31, 2015, respectively. The agreement also provides for salary continuation and severance payments should employment of the executive be terminated under specified conditions, as defined therein. Additionally, Mr. Romano is eligible for an annual cash bonus based on performance and an annual equity grant with a grant date fair value equal to 100% of Mr. Romano's base salary. For the Company's fiscal year end change transition period October 1, 2014 to January 31, 2015 through its 2015 fiscal year ended January 30, 2016, the equity grant had a grant date fair value equal to 133% of Mr. Romano's base salary and was a mixture of 50% stock options, 25% time-vested restricted stock and 25% performance-based restricted stock units. The agreement continues in effect until terminated by either the Company or the executive in accordance with the termination provisions of the agreement.

During fiscal 2014 the Company had an employment agreement with Edward M. Krell, the Company's former CEO. Base salary earned for Mr. Krell was \$681,000 for fiscal 2014. Effective August 10, 2014 Mr. Krell resigned as CEO. In connection with Mr. Krell's resignation as CEO, the Company entered into a separation agreement with Mr. Krell (the "Krell Separation Agreement"). The Krell Separation Agreement provided a) that Mr. Krell would receive a lump sum payment of \$3,338,000, which was paid in February 2015, b) accelerated vesting of stock option and restricted stock awards and c) continuation of certain insurance and fringe benefits for up to three years. The Krell Separation Agreement also provides for the restrictive covenants set forth in Mr. Krell's employment agreement to continue in effect until three years after Mr. Krell's separation from the Company.

During fiscal 2015, 2014 and the four months ended January 31, 2015 the Company had an employment agreement with Christopher F. Daniel, the Company's former President. Base salary earned for Mr. Daniel was \$453,000, \$533,000 and \$178,000 for fiscal 2015, 2014 and the four months ended January 31, 2015, respectively. Effective December 7, 2015 Mr. Daniel left the Company as a result of the elimination of the separate President function. In connection with Mr. Daniel's departure, the Company entered into a separation agreement with Mr. Daniel (the "Daniel Separation Agreement"). The Daniel Separation Agreement provided a) that Mr.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Daniel would receive one year of base salary, one-half of which was paid as a lump sum in June 2016 and the balance of which was paid monthly thereafter, totaling \$535,000, b) payment to Mr. Daniel of a pro-rata annual bonus for fiscal 2015, c) lump sum payments to Mr. Daniel totaling \$104,000 in January 2016, primarily for consulting services from his date of separation through January 31, 2016 and d) continuation of certain insurance and fringe benefits for up to 14 months. The Daniel Separation Agreement also modifies the restrictive covenants set forth in Mr. Daniel's employment agreement and provides that such covenants will continue in effect until two years after Mr. Daniel's separation.

Effective July 20, 2016 the Company entered into an employment agreement with David Stern, in connection with hiring of Mr. Stern as the Company's Executive Vice President & Chief Financial Officer. Mr. Stern's employment agreement provided that Mr. Stern's annual base salary would be \$405,000. Base salary earned for Mr. Stern was \$195,000 for fiscal 2016. The agreement also provides for salary continuation and severance payments should employment of the executive be terminated under specified conditions, as defined therein. Additionally, Mr. Stern is eligible for an annual cash bonus based on performance. The agreement continues in effect until terminated by either the Company or the executive in accordance with the termination provisions of the agreement.

During fiscal 2016, 2015, 2014 and for the four months ended January 31, 2015 the Company had an employment agreement with Judd P. Timauer, the Company's former Executive Vice President & Chief Financial Officer. Base salary earned for Mr. Timauer was \$128,000, \$405,000, \$402,000 and \$135,000 for fiscal 2016, 2015, 2014 and the four months ended January 31, 2015, respectively. Effective April 22, 2016 Mr. Timauer resigned as Executive Vice President & Chief Financial Officer to take a senior leadership role with a private specialty retailer.

The Company has an employment agreement with Ronald J. Masciantonio, the Company's Executive Vice President & Chief Administrative Officer. Effective November 22, 2011 Mr. Masciantonio was promoted from Senior Vice President & General Counsel to Executive Vice President & General Counsel and, effective November 15, 2012 Mr. Masciantonio was promoted to the additional position of Chief Administrative Officer and continued to serve as the Company's General Counsel until August 16, 2013. On November 15, 2012 the Compensation Committee approved an increase to Mr. Masciantonio's annual base salary from \$320,000 to \$360,000, effective December 1, 2012. On December 4, 2013 the Compensation Committee approved an increase to Mr. Masciantonio's annual base salary from \$360,000 to \$390,000. Base salary earned for Mr. Masciantonio was \$390,000, \$390,000, \$385,000 and \$130,000 for fiscal 2016, 2015, 2014 and the four months ended January 31, 2015, respectively. The agreement also provides for salary continuation and severance payments should employment of the executive be terminated under specified conditions, as defined therein. Additionally, Mr. Masciantonio is eligible for an annual cash bonus based on performance. The agreement continues in effect until terminated by either the Company or the executive in accordance with the termination provisions of the agreement.

18. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) savings plan for all eligible employees who elect to participate. Participating employees can contribute up to 20% of their eligible compensation. Through December 31, 2015 employees who met certain criteria were eligible for a matching contribution from the Company based on a sliding scale. Company matches were made in the first quarter of the succeeding calendar year and vest over a period of approximately six years from each employee's commencement of employment with the Company. Company matching contributions totaling \$123,000, \$144,000 and \$75,000 were made in fiscal 2016, 2015 and 2014, respectively, which were net of \$20,000 and \$63,000 of cumulative plan forfeitures in fiscal 2016 and 2014, respectively. In addition, the Company may make discretionary contributions to the plan, which vest over a period of approximately six years from each employee's commencement of employment with the Company. The Company has not made any discretionary contributions.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial results for the fiscal years ended January 28, 2017 and January 30, 2016 were as follows (in thousands, except per share amounts):

<u>Fiscal 2016</u>	<u>Quarter Ended</u>			
	<u>1/28/17</u>	<u>10/29/16</u>	<u>7/30/16</u>	<u>4/30/16</u>
Net sales	\$ 100,158	\$ 102,582	\$ 106,529	\$ 124,430
Gross profit	51,038	54,288	54,830	67,272
Net income (loss)	(32,786)	(1,506)	(2,509)	4,041
Net income (loss) per share—Basic	(2.39)	(0.11)	(0.18)	0.30
Net income (loss) per share—Diluted	(2.39)	(0.11)	(0.18)	0.30

<u>Fiscal 2015</u>	<u>Quarter Ended</u>			
	<u>1/30/16</u>	<u>10/31/15</u>	<u>8/01/15</u>	<u>5/02/15</u>
Net sales	\$ 118,287	\$ 119,548	\$ 119,306	\$ 141,612
Gross profit	58,928	60,401	55,308	71,403
Net income (loss)	(3,062)	(1,274)	(2,682)	2,535
Net income (loss) per share—Basic	(0.22)	(0.09)	(0.20)	0.19
Net income (loss) per share—Diluted	(0.22)	(0.09)	(0.20)	0.19

The Company's business, like that of other retailers, is seasonal. The Company's quarterly net sales have historically been highest in the peak Spring selling season, which under the Company's 4-5-4 retail fiscal calendar ending on the Saturday nearest January 31 of each year, generally occurs during the Company's first and second fiscal quarters. Given the historically higher sales level in that timeframe and the relatively fixed nature of most of the Company's operating expenses, the Company has typically generated a very significant percentage of its full year operating income and net income during the calendar months of March through May.

20. SEGMENT AND ENTERPRISE WIDE DISCLOSURES

Operating Segment. For purposes of the disclosure requirements for segments of a business enterprise, the Company has determined that its business is comprised of one operating segment: the design, manufacture and sale of maternity apparel and related accessories. While the Company offers a wide range of products for sale, the substantial portion of its products are initially distributed through the same distribution facilities, many of the Company's products are manufactured at common contract manufacturer production facilities, the Company's products are marketed through a common marketing department, and these products are sold to a similar customer base, consisting of expectant mothers.

Geographic Information. Geographic revenue information is allocated based on the country in which the products or services are sold, and in the case of international franchise revenues, on the location of the customer. Information concerning the Company's operations by geographic area is as follows (in thousands):

	<u>Year Ended</u>		<u>Four Months Ended</u>	<u>Year Ended</u>
	<u>January 28, 2017</u>	<u>January 30, 2016</u>	<u>January 31, 2015</u>	<u>September 30, 2014</u>
Net Sales to Unaffiliated Customers				
United States	\$ 405,921	\$ 468,282	\$ 156,683	\$ 489,026
Foreign	27,778	30,471	8,961	27,933
Long-Lived Assets, Net				
United States		\$ 81,811	\$ 90,338	
Foreign		2,310	3,483	

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Major Customers. For the periods presented, the Company did not have any one customer who represented more than 10% of its net sales.

21. INTEREST EXPENSE, NET

Interest expense, net is comprised of the following (in thousands):

	Year Ended		Four Months Ended January 31, 2015	Year Ended September 30, 2014
	January 28, 2017	January 30, 2016		
Interest expense	\$ 3,578	\$ 1,529	\$ 245	\$ 418
Interest income	(3)	(9)	(3)	(14)
Interest expense, net	<u>\$ 3,575</u>	<u>\$ 1,520</u>	<u>\$ 242</u>	<u>\$ 404</u>

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Deductions and reclassifications</u>	<u>Balance at end of period (1)</u>
Year Ended January 28, 2017				
Product return reserve	\$ 1,736	\$ —	\$ (121)	\$ 1,615
Year Ended January 30, 2016				
Product return reserve	\$ 2,084	\$ —	\$ (348)	\$ 1,736
Four Months Ended January 31, 2015				
Product return reserve	\$ 2,708	\$ —	\$ (624)	\$ 2,084
Year Ended September 30, 2014				
Product return reserve	\$ 2,702	\$ 6	\$ —	\$ 2,708

(1) As of January 28, 2017, January 30, 2016, January 31, 2015, and September 30, 2014 the Company's product return reserve reflects the estimated gross sales value of estimated product returns, which had an estimated cost value of \$775, \$887, \$1,085 and \$1,173, respectively.

INDEX OF EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3.2	Bylaws of the Company, effective December 22, 2016
10.37	Consulting Agreement, dated as of January 27, 2017, by and between Destination Maternity Corporation and Orchestra-Prémaman USA Inc.
10.38	Consulting Agreement for Construction Project Management and Architectural Services, dated as of February 3, 2017, by and between Destination Maternity and Orchestra-Prémaman USA Inc.
23	Consent of KPMG LLP
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Executive Vice President & Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Executive Vice President & Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**BYLAWS
OF
DESTINATION MATERNITY CORPORATION**

ARTICLE I. Stockholders Meetings

Section 1. Place of Meetings. The meetings of the stockholders shall be held at such time and at such place within or without the State of Delaware as shall be designated by the Board of Directors.

Section 2. Annual Meeting. The annual meeting of stockholders shall be held on such date as may be fixed by the Board of Directors, or if no such date is fixed, then on the first Monday in June in each year, or if such day is a legal holiday, then on the first day following that is not a legal holiday.

Section 3. Special Meetings. Special meetings of the stockholders may be called at any time by the Chairman, the Chief Executive Officer, the President or the Board of Directors.

Section 4. Notice of Meetings. Written notice stating the place, day and hour of the meeting, and in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be mailed, transmitted electronically in the manner provided in Section 232 of the Delaware General Corporation Law (the "DGCL") or personally delivered not less than ten (10) nor more than sixty (60) days prior to the date of the meeting, by the Secretary, to each stockholder of record entitled to vote at such meeting. Waiver by a stockholder of notice of a stockholders meeting, in writing, signed by him or her, or waiver by electronic transmission by him or her, whether before or after the time of such meeting, or attendance at such meeting, shall be equivalent to the giving of such notice.

Section 5. Voting Rights. Every holder of record, as provided below, of common stock shall be entitled to vote, in person or by proxy executed in writing and delivered to the Secretary, at or before the meeting and shall be entitled to one vote for each share of stock standing in his or her name; provided that no revocable proxy shall be voted if executed more than three years prior to the date of such meeting. Except as may otherwise be provided by the Board of Directors from time to time, only stockholders of record at the close of business on a day twenty (20) days prior to the date of a meeting shall be entitled to vote at such meeting.

Section 6. Quorum. The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote at the meeting shall constitute a quorum for the transaction of business. In the absence of a quorum any meeting may be adjourned from time to time.

Section 7. Notice for Nominations and Proposals.

a. Annual Meetings.

(i) Nominations and Proposal of Business. Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders at an annual meeting of stockholders may be made (A) pursuant to the Corporation's notice of meeting (or any supplement thereto), (B) by or at the direction of the Board of Directors or, with respect to director nominations, any committee of the Board of Directors the responsibilities of which include oversight of director nominations, or (C) by any stockholder of the Corporation who (1) is a stockholder of record at the time of giving of notice provided for in this Section 7(a) and at the time of the annual meeting, (2) is present in person at the meeting, (3) is entitled to vote at the meeting and (4) complies with the notice procedures set forth in this Section 7(a). Clause (C) in the foregoing sentence provides the exclusive means for a stockholder to nominate a person for election to the Board of Directors or submit proposals of other business before an annual meeting of stockholders (except as otherwise set forth in paragraph (e)(iv) of this Section 7). In addition, any business proposed by a stockholder to be considered by the stockholders at an annual meeting of stockholders must be a proper matter for stockholder action under the DGCL and the certificate of incorporation of the Corporation.

(ii) Stockholder Nominations of Directors. For nominations by a stockholder of persons for election to the Board of Directors and proposals by a stockholder for any other business to be properly brought before an annual meeting of stockholders pursuant to clause (C) of paragraph (a)(i) of this Section 7, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice with respect to any annual meeting must be received by the Secretary at the principal executive offices of the Corporation not later than the 60th day nor earlier than the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder must be so received not earlier than the 90th day prior to the annual meeting and

not later than the later of the 60th day prior to the annual meeting or the 15th day following the day on which public announcement of the date of the meeting is first made by the Corporation. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. A stockholder's notice shall set forth:

(A) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (1) all information relating to such person that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (2) a description of all direct and indirect compensation, economic interests and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such stockholder any beneficial owner on whose behalf the nomination is made, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the stockholder making the nomination and any such beneficial owner, or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the proposed nominee were a director or executive officer of such registrant, (3) a description of all relationships between the proposed nominee and the stockholder and any such beneficial owner, and of any agreements, arrangements and understandings between the stockholder and any such beneficial owner, and the proposed nominee regarding the nomination, and (4) a description of all relationships between the stockholder, any such beneficial owner, or the proposed nominee, on the one hand, and any of the Corporation's competitors, customers, suppliers, labor unions (if any) and any other persons with special interests regarding the Corporation, on the other hand;

(B) as to any business other than a proposed nomination of a director or directors that the stockholder proposes to bring before the meeting, set forth (1) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest of such stockholder and any beneficial owner on whose behalf the proposal of such business is made, in such business, (2) a description of all contracts, arrangements, understandings and relationships between such stockholder and any such beneficial owner, on the one hand, and any other person or persons (including their names), on the other hand, in connection with the proposal of such business by such stockholder and (3) the text of the proposal (including the text of any resolutions proposed for consideration); and

(C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposed nomination or proposal is made, (1) the name and address of such stockholder, as they appear on the Corporation's books, the telephone number of such stockholder, and the name, address and telephone number of any such beneficial owner, (2)(a) the class or series and number of shares of the Corporation which are, directly or indirectly, owned of record by such stockholder and beneficially by any such beneficial owner and the time period such shares have been held, (b) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the Corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Corporation or otherwise (a "Derivative Instrument") directly or indirectly owned beneficially by such stockholder or any such beneficial owner, and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Corporation, (c) any proxy, agreement, arrangement, understanding or relationship pursuant to which such stockholder or beneficial owner has a right to vote any shares of any security of the Corporation or has granted any such right to any person or persons, (d) any short interest in any security of the Corporation (for purposes of these bylaws a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any agreement, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in value of the subject security) on the part of such stockholder or beneficial owner, (e) any rights to dividends on the shares of the Corporation owned beneficially by such stockholder or beneficial owner that are separated or separable from the underlying shares of the Corporation, (f) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such stockholder or beneficial owner is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (g) any performance-related fees (other than an asset-based fee) that such stockholder or beneficial owner is entitled to based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such stockholder's or beneficial owner's immediate family sharing the same household (which information shall be supplemented by such stockholder and beneficial owner not later than 10 days after the record date for the meeting to disclose such ownership as of the record date), and (h) any other information relating to such stockholder and beneficial owner that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or the election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, (i) any material pending or threatened legal proceeding in which such stockholder or beneficial owner is a party or material participant involving the Corporation

or any of its officers or directors, or any affiliate of the Corporation, and (j) any direct or indirect material interest in any material contract or agreement of such stockholder or beneficial owner with the Corporation, any affiliate of the Corporation or any principal competitor of the Corporation (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement), (3) a representation that such stockholder intends to be present in person at the meeting, and (4) a representation that such stockholder and such beneficial owner, if any, intend to continue to hold the reported shares, Derivative Instruments or other interests through the date of the Corporation's next annual meeting of stockholders, and (5) a completed and signed questionnaire, representations, agreement and consent required in clauses (A), (B) and (C) of paragraph (a)(iii) of this Section 7, prepared with respect to and signed by such stockholder and beneficial owner. For purposes of satisfying the requirements of clause (2) of this paragraph with respect to a beneficial owner, the beneficial owner shall supply to the Corporation either (a) a statement from the record holder of the shares, Derivative Instruments or other interests verifying the holdings of the beneficial owner and indicating the length of time the shares, Derivative Instruments or other interests have been held by such beneficial owner, or (b) a current Schedule 13D, Schedule 13G, Form 3, Form 4 or Form 5 filed with the Securities and Exchange Commission reflecting the holdings of the beneficial owner, together with a statement of the length of time that the shares, Derivative Instruments or other interests have been held. If a proposed nomination or proposal is submitted by a group of two or more stockholders, the information regarding the stockholders and any corresponding beneficial owners must be submitted with respect to each stockholder in the group and any corresponding beneficial owners.

(iii) Requirements of Recommended Nominee. The notice required pursuant to paragraph (a)(ii) of this Section 7 in connection with a proposed nomination of a person for election or reelection as a director of the Corporation must be accompanied by (A) a written questionnaire with respect to the background and qualification of such recommended nominee and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the Secretary upon written request), (B) the written consent of each recommended nominee to: (1) provide, within such time period specified by the Corporation, such information concerning the recommended nominee as may reasonably be required by the Nominating and Corporate Governance Committee and/or Board of Directors to determine the eligibility of such recommended nominee to serve as an independent director of the Corporation, that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such proposed nominee, and (2) a background check to confirm the qualifications and character of the recommended nominee, to make such determinations as the Nominating and Corporate Governance Committee or the Board of Directors may deem appropriate or necessary, and (C) the written representation and agreement (in the form provided by the Secretary upon written request) of the recommended nominee that he or she (1) is not and will not become a party to (a) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the Corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Corporation or (b) any Voting Commitment that could limit or interfere with such person's ability to comply, if elected as a director of the Corporation, with such person's fiduciary duties under applicable law, (2) is not a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed to the Corporation, and that he or she will promptly disclose to the Secretary any such agreement, arrangement or understanding that arises at any time during the nominee's service on the Board of Directors, and (3) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance if elected as a director of the Corporation, and will comply, with all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Corporation.

(iv) Increase in Directors to be Elected. Notwithstanding anything in paragraph (a)(ii) of this Section 7 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation at the annual meeting is increased pursuant to an act of the Board of Directors of the Corporation and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors on or before the date which is 10 days before the latest date by which a stockholder may timely notify the Corporation of nominations or other business to be brought by a stockholder in accordance with paragraph (a)(ii) of this Section 7, a stockholder's notice required by this Section 7 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the Secretary at the principal executive offices of the Corporation not later than the 10th day following the day on which such public announcement is first made by the Corporation.

b. Special Meetings. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting (or any supplement thereto). Nominations of persons for election to the Board of Directors at a special meeting of stockholders at which the Corporation's notice of meeting (or any supplement thereto) indicates that directors are to be elected may be made (A) pursuant to the Corporation's notice of meeting (or any supplement thereto), (B) by or at the direction of the Board of Directors or any committee of the Board of Directors responsible for the oversight of director nominations, or (C) by any stockholder of the Corporation who (1) is a stockholder of record at the time of giving of notice provided for in this paragraph (b) and at the time of the special meeting, (2) is present in person at the meeting, (3) is entitled to vote at the meeting and (4) complies with the notice procedures set forth in this paragraph (b) as to such nomination, including the submission of

all required information and documents required by this Section 7 and compliance with all applicable procedures regarding updating and supplementing notices (other than with respect to timing requirements, which shall be governed by the next sentence). A stockholder's notice with respect to any proposed nominee (including the completed and signed questionnaire, representations, consent and agreement required by clauses (A), (B) and (C) of paragraph (a)(iii) of this Section 7) shall be received by the Secretary at the principal executive offices of the Corporation not earlier than the 90th day prior to such special meeting and not later than the later of the 60th day prior to such special meeting or the 15th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall any adjournment or postponement of a special meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described above. Clause (C) in the second sentence of this paragraph (b) provides the exclusive means for a stockholder to nominate a person for election to the Board of Directors before a special meeting of stockholders.

c. Requirement to Supplement Notice. A stockholder shall update and supplement its notice to the Corporation of any proposed nomination or of its intent to propose business at a stockholders meeting as needed so that the information provided or required to be provided in such notice shall be true and correct as of the record date for notice of the meeting and again as of the date that is 10 business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement must be received by the Secretary at the principal executive offices of the Corporation not later than: (A) in the case of the update and supplement required to be made as of the record date, 5 business days after the record date for notice of the meeting; and (B) in the case of the update and supplement required to be made as of 10 business days prior to the meeting or any adjournment or postponement thereof, not later than 8 business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned or postponed).

d. General.

(i) Procedural Compliance. Only such persons who are nominated in accordance with the procedures set forth in this Section 7 shall be eligible to stand for election to the Board of Directors at a meeting of stockholders, and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 7. Except as otherwise provided by law, the certificate of incorporation of the Corporation or these bylaws, the Chairman of the Board of Directors shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this bylaw and, if any proposed nomination or business is not in compliance with this Section 7, to declare that such defective proposal or nomination shall be disregarded.

(ii) Definitions. For purposes of this Section 7:

(A) the term "present in person" shall mean that the stockholder proposing that the business be brought before the meeting of the Corporation, or a qualified representative of such proposing shareholder, appear at such meeting,

(B) a "qualified representative" of such proposing shareholder shall be, if such proposing shareholder is (1) a general or limited partnership, any general partner or person who functions as a general partner of the general or limited partnership or who controls the general or limited partnership, (2) a corporation or a limited liability company, any officer or person who functions as an officer of the corporation or limited liability company or any officer, director, general partner or person who functions as an officer, director or general partner of any entity ultimately in control of the corporation or limited liability company, or (3) a trust, any trustee of such trust.

(C) the term "public announcement" shall mean disclosure by means of any method or combination of methods compliant with Regulation FD under the Exchange Act.

(iii) Non-Exclusivity. If the Corporation is required under Rule 14a-8 under the Exchange Act to include a stockholder's proposal in its proxy statement, such stockholder shall be deemed to have given timely notice for purposes of this bylaw with respect to such proposal. Nothing in this Section 7 shall be deemed to affect any rights of the holders of any series of preferred stock or the Corporation to elect directors.

(iv) Rule 14a-8 under the Exchange Act; Preferred Stock. Nothing in this Section 7 shall be deemed to affect any rights of (A) stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act, or (B) the holders of any series of Preferred Stock if and to the extent provided for under law, the certificate of incorporation of the Corporation or these bylaws.

(v) Waiver by Board of Directors. The Board of Directors may, in its sole discretion, waive any condition or requirement of any provision of this Section 7 in one or more instances. Neither the waiver by the Board of Directors of any condition or requirement of any provision of this Section 7, nor the failure by the Board of Directors, in one or more instances, to enforce any of the provisions of this Section 7, shall be construed as a waiver of any such condition or requirement in any other instance.

ARTICLE II. Directors

Section 1. Number of Directors. The business of the Corporation shall be managed by or under the direction of a Board of Directors consisting of nine directors, or such number of directors as the stockholders or the directors may from time to time by resolution direct. Directors need not be stockholders.

Section 2. Term of Office and Election. Each director shall hold office for a term expiring at the next annual meeting of stockholders following his or her election, and until such director's successor shall have been duly elected and qualified or until his or her earlier death, resignation or removal. Directors shall be elected by the vote of the majority of the votes cast with respect to a director nominee's election at any meeting of the stockholders called for the purpose of the election of directors at which a quorum is present, provided that if as of a date that is ten (10) days in advance of the date the Corporation files its definitive proxy statement (regardless of whether or not thereafter revised or supplemented) with the Securities and Exchange Commission, the number of nominees exceeds the number of directors to be elected, the directors shall be elected by a plurality of votes cast by the shares entitled to vote in the election.

For the purposes of these Restated Bylaws, a "majority of the votes cast" means that the number of shares voted "for" a director must exceed the number of votes "against" with respect to that director."

Section 3. Resignations. Any director of the Corporation may resign at any time by giving written notice to the Board of Directors or to the President or to the Secretary of the Corporation. The resignation of any director shall take effect at the time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. In the event that a director fails to receive the number of votes required for reelection to the Board of Directors, the Nominating and Governance Committee of the Board of Directors (or any successor committee of the Board of Directors) will make a recommendation to the Board of Directors as to whether the Board of Directors should accept the director's resignation, reject the director's resignation or take such other action as the Committee may recommend. The Board of Directors will act on the Committee's recommendation and publicly disclose its decision and the rationale behind such decision within ninety (90) days after certification of the election results.

Section 4. Removal of Directors. A director may be removed with or without cause, at any time by the affirmative vote of a majority in voting power of the stockholders; and the vacancy in the Board of Directors caused by any such removal may be filled by the stockholders or by the affirmative vote of a majority of the remaining directors, though less than a quorum, both subject to the provisions of Article II, Section 5 hereof.

Section 5. Vacancies. Any vacancy occurring in the Board of Directors, including vacancies resulting from an increase in the number of directors, may be filled by the affirmative vote of a majority of the remaining directors, though less than a quorum, or by election of stockholders. A director so elected shall hold office for a term expiring at the next annual meeting of stockholders following his or her election, and until such director's successor shall have been duly elected and qualified or until his or her earlier death, resignation or removal.

Section 6. Chairman of the Board. The Board of Directors may elect a Chairman of the Board from among its members. The Chairman of the Board, if one is elected, shall preside at and serve as chairman of meetings of the stockholders and of the Board of Directors. The Chairman of the Board shall perform other duties and have other authority as may from time to time be delegated by the Board of Directors.

Section 7. Meetings of the Board; Notice. Meetings of the Board of Directors may be held upon the call of the Chairman of the Board of Directors, the Chief Executive Officer, the President or a majority of the directors then in office by mailing a written notice of the same to each director at his or her last known post office address at least two (2) days before the meeting or by causing the same to be delivered personally or to be transmitted by telegraph, cable, electronic transmission, telephone or verbally at least twenty-four (24) hours before the meeting to each director. Notice may be waived in writing or by electronic transmission before or after the time of such meeting, and attendance of a director at a meeting shall constitute a waiver of notice thereof. Neither the business to be transacted at, nor the purpose of, any meeting need be specified in the notice of such meeting.

Section 8. Quorum and Manner of Action. A majority of the entire Board of Directors shall be required to constitute a quorum for the transaction of business at any meeting, and, except as otherwise provided by statute or by these bylaws, the act of a majority of the directors present and voting at any meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a

quorum, a majority of the directors present may adjourn any meeting from time to time until a quorum be had. Notice of any adjourned meeting need not be given.

Section 9. Written Consent in Lieu of a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting, if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or such committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

ARTICLE III. Committees

Section 1. Committees of Directors. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation of the Corporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution or amending the bylaws of the Corporation; and, unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required. The Board of Directors shall establish and maintain a Compensation Committee, an Audit Committee, and a Nominating and Corporate Governance Committee, the duties and powers of which are described herein.

Section 2. Compensation Committee. Except to the extent otherwise provided in the charter of the Compensation Committee or as may otherwise be determined by the Board of Directors from time to time, the Compensation Committee will discharge the Board of Director's responsibilities relating to compensation of the Corporation's directors and executive officers, oversee the administration of the Company's incentive and equity-based compensation plans and review costs and structure of key employee benefit and fringe benefit plans and programs, and review and discuss with management any disclosure concerning director or executive compensation to be included in the Corporation's filings with the Securities Exchange Commission.

Section 3. Audit Committee. Except to the extent otherwise provided in the charter of the Audit Committee or as may otherwise be determined by the Board of Directors from time to time, the Audit Committee will oversee the Corporation's accounting and financial reporting processes, including through (i) review and oversight of the Corporation's systems of internal controls established for finance, accounting, legal compliance and ethics, and overseeing changes to correct internal control weaknesses, if necessary, (ii) oversight of the Corporation's relationship with its independent public accountants and monitoring their independence and performance, (iii) oversight and review of the audits of the Corporation's financial statements, and (iv) provision of effective communication between the Board, senior and financial management and the Corporation's independent public accountants.

Section 4. Nominating and Corporate Governance Committee. Except to the extent otherwise provided in the charter of the Nominating and Corporate Governance Committee or as may otherwise be determined by the Board of Directors from time to time, the Nominating and Corporate Governance Committee will (i) determine the nomination of directors to be selected by the Board of Directors for election by the stockholders, (ii) in the case of vacancies on the Board of Directors, recommend nominees to be elected by the Board of Directors, (iii) assist the Board of Directors in determining the composition of the Board and its committees, and (iv) recommend to the Board of Directors a set of corporate governance principles and play a leadership role in shaping the Corporation's corporate governance.

Section 5. Meetings of Committees. Each committee of the Board shall fix its own rules of procedure consistent with the provisions of the Board of Directors governing such committee, and shall meet as provided by such rules or by resolution of the Board of Directors, and it shall also meet at the call of its chairperson or any two members of such committee. Unless otherwise provided by such rules or by such resolution, the provisions of Article II of these bylaws relating to the place of holding, the giving of notice, and the quorum required for meetings of the Board of Directors shall govern the committees thereof. A majority of each committee shall constitute a quorum thereof. The vote of a majority of such quorum at a duly constituted meeting shall be sufficient to authorize any action within the scope of responsibilities of each committee, unless otherwise provided by the rules of such committee or by

resolution of the Board of Directors. Each committee shall keep minutes of its meetings and all actions taken by such committee shall be reported to the Board of Directors at its next meeting.

ARTICLE IV. Officers

Section 1. Number of Officers. The Board may elect a Chief Executive Officer, a President, a Chief Operating Officer, one or more Vice Presidents, a Secretary, a Chief Accounting Officer, a Treasurer and such other officers and assistant officers and agents as may be chosen by the Board from time to time. Any two offices may be held by one person. One of the officers shall have the duty to record the proceedings of the meetings of the stockholders and directors in a book to be kept for that purpose.

Section 2. Tenure. Officers shall serve at the pleasure of the Board of Directors.

Section 3. Chief Executive Officer. The Chief Executive Officer shall have general supervision of the affairs of the Corporation, subject to the policies and direction of the Board of Directors, and shall supervise and direct all of the officers and employees of the Corporation but may delegate in his or her discretion any of his or her powers to any officer or such other executives as he or she may designate. He or she shall have the authority to execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. In the absence of the Chairman of the Board of Directors or during any disability on the part of the Chairman to act, the Chief Executive Officer shall preside at all meetings of stockholders and directors, and shall perform such other duties as the Board of Directors may bestow upon him or her.

Section 4. President. The President shall see that all orders and resolutions of the Board of Directors are carried into effect and shall have general and active management of the business of the Corporation. He or she shall have the authority to execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed or except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. If, for any reason, the Corporation does not have a Chief Executive Officer, the President shall assume the duties of that officer as well.

Section 5. Chief Operating Officer. The Chief Operating Officer shall have supervision of the operation of the Corporation, subject to the policies and directions of the Board of Directors. He or she shall provide for the proper operation of the Corporation and oversee the internal interrelationship amongst any and all departments of the Corporation. He or she shall submit to the Chief Executive Officer, President and the Board of Directors timely reports on the operations of the Corporation.

Section 6. Vice President. Each Vice President shall in the absence or disability of the President, perform the duties and exercise the powers of the President and shall perform such other duties as may be prescribed from time to time by these bylaws or by the Board of Directors.

Section 7. Secretary. Unless otherwise provided by the Board of Directors, the Secretary shall attend all meetings of the stockholders and Board of Directors and shall record all the proceedings of such meetings in the minute book of the Corporation. He or she shall give proper notice of meetings of stockholders and the Board of Directors and other notices required by law or by these bylaws. He or she shall perform such other duties as these bylaws or the Board of Directors may from time to time prescribe.

Section 8. Chief Accounting Officer. The Chief Accounting Officer shall be the chief accounting officer of the Corporation and shall arrange for the keeping of adequate records of all assets, liabilities and transactions of the Corporation. He or she shall provide for the establishment of internal controls and see that adequate audits are currently and regularly made. He or she shall submit to the Chief Executive Officer, President and the Board of Directors timely statements of the accounts of the Corporation and the financial results of the operations thereof.

Section 9. Treasurer. Unless otherwise provided by the Board of Directors, the Treasurer shall keep correct and complete financial records of the Corporation and shall have custody of the corporate funds, securities, and other valuable effects of the Corporation. He or she shall deposit all monies and other valuable effects, in the name of the Corporation, in such depositories as may be designated by the Board of Directors. He or she shall furnish at meetings of the Board of Directors, or whenever requested, a statement of the financial condition of the Corporation, and shall perform all such other duties as these bylaws or the Board of Directors may from time to time prescribe.

ARTICLE V. Indemnification

Section 1. Indemnification by Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 2. Suit by or in the Right of the Corporation. The Corporation shall indemnify any person who was or is a party, or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Success on the Merits. To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 or 2 of this Article, or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

Section 4. Determination that Indemnification is Proper. Any indemnification under Sections 1 or 2 of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he or she has met the applicable standard of conduct set forth in such section. Such determination shall be made:

1. By the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or
2. If such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or
3. By the stockholders.

Section 5. Expenses. Expenses (including attorneys' fees) incurred by an officer or director in defending a civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation as authorized in this Article V. The financial ability of an officer or director to repay an advance shall not be a prerequisite to the making of such advance. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

Section 6. Personal Liability of Director or Officer. No director or officer of the Corporation shall be personally liable to the Corporation or to any stockholder of the Corporation for monetary damages for breach of fiduciary duty as a director or officer, provided that this provision shall not limit the liability of a director or officer (i) for any breach of the director's or the officer's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of Delaware, or (iv) for any transaction from which the director or officer derived an improper personal benefit.

Section 7. Non-Exclusivity of Indemnification Rights. The indemnification and advancement of expenses provided by or granted pursuant to the other sections of this Article V shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

Section 8. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another company, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the other company, partnership, joint venture, trust or other enterprise would have the power to indemnify him or her against such liability under the provisions of this Article V.

Section 9. Continuance of Indemnification. The indemnification and advancement of expenses provided by or granted pursuant to, this Article V shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person. The rights to indemnification and advancement of expenses provided by or granted pursuant to this Article V shall constitute a contract between the Corporation and each director, officer, employee or agent of the Corporation in each circumstance, and each such person shall have all rights available in law or equity to enforce such contract rights against the Corporation. Any repeal or modification of any provision of this Article V shall not adversely affect or deprive any director, officer, employee or agent of any right or protection offered by such provision prior to such repeal or modification.

Section 10. Definition of "the Corporation". For purposes of this Article V, references to "the Corporation" shall include, in addition to the resulting Corporation, any constituent Corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent Corporation, or is or was serving at the request of such constituent Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Article V with respect to the resulting or surviving Corporation as he or she would have with respect to such constituent Corporation if its separate existence had continued.

Section 11. Definition of "Other Enterprises". For purposes of this Article V, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he or she reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article V.

ARTICLE VI. Capital Stock

Section 1. Issuance of Shares. The capital stock, including both authorized but previously unissued shares, as well as treasury shares, may be issued for such consideration, not less than the par value thereof in the case of shares having par value, as shall be fixed from time to time by the Board of Directors.

Section 2. Transfer of Shares. The shares of the Corporation shall be transferable on the books of the Corporation (a) with respect to certificated shares of stock only upon the surrender of each certificate representing the same, properly endorsed by the registered holder or by his or her duly authorized attorney, or with separate written assignment accompanying the certificates or (b) with respect to uncertificated shares of stock, upon duly executed instructions provided to the Corporation through its duly authorized transfer agent or otherwise.

Section 3. Certificate of Stock. Unless the Board of Directors shall by resolution provide that some or all of any class or series of stock shall be uncertificated shares, the shares of the Corporation shall be represented by certificates meeting the requirements of the DGCL and shall be in such form as shall be approved by the Board of Directors. Any resolution by the Board of Directors providing for uncertificated shares shall not apply to shares represented by a certificate until the certificate is surrendered to the Corporation.

Section 4. Uncertificated Shares of Stock. With regard any uncertificated shares of stock, the Corporation shall provide any written notices required under the DGCL, including a written notice required by Section 151(f) of DGCL which shall be sent to the registered owner of the uncertificated shares within a reasonable time after the issuance or transfer of any uncertificated shares.

Section 5. Lost, Destroyed and Mutilated Certificates. The holder of any stock issued by the Corporation that is represented by a certificate issued by the Corporation shall immediately notify the Corporation of any loss, destruction or mutilation of the certificate therefore, or failure to receive such certificate, and the Board of Directors or the Secretary of the Corporation, may, in its or his or her discretion, cause to be issued to him or her a new certificate or certificates of stock, upon compliance with such rules and regulations and/or procedures as may be prescribed or have been prescribed by the Board of Directors with respect to the issuance of new certificates in lieu of such lost, destroyed or mutilated certificate or certificates of stock issued by the Corporation which are not received.

ARTICLE VII. Forum for Adjudication of Disputes

Unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of the Corporation; (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer, employee or agent of the Corporation to the Corporation or the Corporation's stockholders; (iii) any action asserting a claim against the Corporation or any director, officer, employee or agent of the Corporation arising pursuant to any provision of the Delaware General Corporation Law, the Certificate of Incorporation or these Bylaws of the Corporation (in each case, as they may be amended from time to time); or (iv) any action asserting a claim against the Corporation or any director, officer, employee or agent of the Corporation governed by the internal affairs doctrine, shall be the Court of Chancery of the State of Delaware (or if the Court of Chancery does not have jurisdiction, another state or federal court located within the State of Delaware).

ARTICLE VIII. Miscellaneous

Section 1. Seal. The corporate seal shall be circular in form and have inscribed thereon the name of the Corporation and the words and figures "Corporate Seal, 1980, Delaware."

Section 2. Fiscal Year. The fiscal year of the Corporation shall be fixed by the Board of Directors.

ARTICLE IX. Amendments

These may be amended, altered, repealed or supplemented at any regular meeting of the stockholders or of the Board of Directors or at any special meeting called for any such purpose by the affirmative vote of (i) the holders of capital stock entitled to cast a majority of the votes entitled to be cast by all issued and outstanding capital stock with respect to the election of directors, or (ii) a majority of the entire Board of Directors, as the case may be.

As Amended 12/22/2016

CONSULTING AGREEMENT

This Agreement by and between Orchestra Premaman USA Inc. (“Orchestra”) and Destination Maternity Corporation (“Destination”), dated as of January 27, 2017.

1. **ENGAGEMENT.**

- a. Orchestra hereby engages Destination to represent Orchestra in the analysis, determination, and procurement of retail locations for the conduct of Orchestra’s retail business (each space, a “Facility” and collectively the “Facilities”) on a non-exclusive basis in the United States. The number, location, size and layout of the Facilities shall be subject to approval in Orchestra’s sole discretion. Orchestra intends to lease, sublease, license, acquire or otherwise enter into an occupancy agreement permitting the lawful use and occupancy of each Facility (each such agreement being collectively referred to as a “Lease”).
- b. In connection with the engagement, Destination shall provide the services set forth on **Exhibit A** attached hereto and made a part hereof (the “Services”).
- c. Destination shall promptly disclose to Orchestra all instances where (i) Destination represents the interest of any person or entity which is the leasing agent or has an ownership interest in any building which is also identified as being the potential site for a Facility and (ii) Destination represents a competing user or tenant (including Destination) for any space for which Destination has submitted a request for proposal on Orchestra’s behalf and which is also identified as a potential site for a Facility.
- d. This Agreement applies only to Orchestra’s requirements for the Facilities described above. Should Orchestra decide to utilize Destination to assist it with requirements other than the Facilities, that decision will be made the subject of a separate written agreement or a written addendum to this Agreement.
- e. All negotiated arrangements relating to a real estate transaction with Orchestra as principal are at all times subject to Orchestra’s approval in its sole discretion. Destination shall not have the authority to bind Orchestra in any manner.

2. **ENGAGEMENT TEAM.** Destination will utilize its existing team of professionals who perform similar services for Destination who shall manage and largely perform the services under this Agreement. Other individuals may be called upon to provide additional expertise as deemed necessary by Destination.

3. **COMPENSATION.** Orchestra agrees that Destination shall be compensated for its efforts hereunder in accordance with the provisions of **Exhibit B** attached hereto and made a part hereof.

4. **INDEMNIFICATION AND EXCULPATION**

- a. **Indemnification.** Orchestra hereby agrees, subject to paragraph (c) below, to indemnify, defend and hold harmless Destination from and against any and all losses, liabilities, damages, costs and expenses (including, without limitation, reasonable out-of-pocket attorneys' fees and costs, and expert-related out-of-pocket fees and costs (collectively, "Attorneys' and Experts' Fees")), fines and penalties (collectively "Losses") which Destination or any of its affiliates, or any of their respective directors, officers or employees (each, an "Indemnified Person") may sustain, suffer or incur in connection with the performance of the Services pursuant to this Agreement; provided, however, in no event shall Orchestra be required to indemnify an Indemnified Person for Losses pursuant to this paragraph if such Indemnified Person is found by a court of competent jurisdiction to have acted in bad faith or with gross negligence or willful misconduct and such action was the proximate cause of the incurrence of such Losses,
- b. **Exculpation.** Destination shall not be liable to Orchestra for a breach of this Agreement unless it is determined that such breach resulted from the gross negligence, bad faith or willful misconduct on the part of an Indemnified Party.
- c. **Limitation on Recovery.** No party will be entitled to punitive, special and/or consequential damages, and we each waive all rights to and claims for relief other than for compensatory damages.

5. **MISCELLANEOUS**

- a. **Term.** This Agreement shall commence upon its execution by both parties and shall expire on December 31, 2017, unless prior to that date this Agreement is (i) terminated by either Orchestra or Destination in writing, or (ii) extended by written agreement of Orchestra and Destination.
- b. **Termination with Cause.** Either Destination or Orchestra has the right to terminate this Agreement for cause by providing ten (10) days' prior written notice to the other detailing a material failure to perform, on a reasonably timely basis, responsibilities under this Agreement. The defaulting party shall have the opportunity to cure a default by promptly commencing such cure within such ten (10) day notice and cure period and thereafter diligently carrying out such cure to completion, within a reasonable time, and upon such cure, such event shall not be deemed to be a default. If the defaulting party does not cure the default, the non-defaulting party may terminate this Agreement and may exercise any other rights and remedies available to it at law, in equity or under this Agreement.
- c. **Termination without Cause.** Either party shall also have the right to terminate this Agreement without cause at any time upon at least thirty (30) days' prior written notice to the other party.

- d. **Lease after Termination without Cause or Expiration.** Notwithstanding anything in this Agreement to the contrary, Destination shall be entitled to a consulting fee as provided in **Exhibit B** with respect to any Lease for a Facility executed after the termination without cause or expiration of the Agreement if, within one hundred eighty (180) days after the expiration of the term of this Agreement, or after this Agreement otherwise terminates other than due to Destination's default (the "Post-Term"), Orchestra enters into a Lease (a) with a third party with whom Destination engaged in substantive negotiations on Orchestra's behalf (either directly or through another broker or agent) or (b) for a Facility which was submitted to Orchestra during the term of this Agreement (each a "Existing Prospect"). Destination will submit to Orchestra a list of such Existing Prospects with respect to each anticipated market no later than fifteen (15) business days following the expiration or termination of the Term; provided, however, that if a written offer has been submitted prior to said expiration or termination date, then it shall not be necessary to include the offeror's name on the list.
- e. **No Right to Commit Orchestra.** Destination has no right, power or authority to commit, bind or otherwise obligate Orchestra in any manner. All Leases or contracts for services involving Orchestra with the Landlord or any third party may be executed only by an authorized representative of Orchestra. Destination and its partners, subcontractors, employees and cooperating Destinations shall at all times be deemed independent contractors of Orchestra and no employment, joint venture, partnership or other relationship shall exist between Destination and Orchestra.
- f. **Binding Agreement.** This Agreement is binding upon the parties hereto and their respective successors and assigns, provided, however, that neither party may assign, subcontract or delegate its obligations under this Agreement without the prior written consent of the other party. This Agreement may be executed in counterparts, each of which shall be deemed an original. Delivery of a copy of an executed counterpart by PDF or other mutually acceptable electronic format shall constitute sufficient delivery of an executed original counterpart.
- g. **Involvement of Another Broker or Agent.** If Destination, intentionally or unintentionally, involves another broker or agent other than the listing broker or agent of the Landlord, Destination shall be responsible for the payment of all commissions payable to such other brokers or agents and agrees to indemnify, defend and hold Orchestra harmless against all claims (including reasonable attorneys fees incurred in investigating or defending such claims) or any such commissions or fees resulting from Orchestra's intentional or unintentional acts. If Orchestra, intentionally or unintentionally, involves another broker or agent, Orchestra shall be responsible for the payment of all commissions to such other brokers or agents and agrees to indemnify and hold Destination harmless against all claims (including reasonable attorneys fees incurred in investigating or defending such claims) for such commissions or fees resulting from Orchestra's intentional or unintentional acts.

- h. **Governing Law.** This Agreement has been entered into in the State of Delaware and shall be governed by the laws of the State of Delaware without regard to its conflict of laws principles.
- i. **Confidentiality.** It is agreed by both parties that all aspects of this Agreement shall be treated confidentially by both parties.
- j. **Prevailing Parties; Waiver of Jury Trial.** If there is a dispute between the parties, the parties agree to resolve it subject to the following:
 - i. If either party institutes a legal proceeding against the other party relating to this Agreement, the prevailing party shall recover from the non-prevailing party all of its (a) Attorneys' and Experts' Fees, and (b) other out-of-pocket expenses. All past due amounts shall bear interest at eight percent (8%) per annum or the maximum rate permitted in the state in which the property is located.
 - ii. **WHERE PERMITTED BY LAW, EACH PARTY KNOWINGLY AGREES TO WAIVE ANY AND ALL RIGHTS TO HAVE A DISPUTE ON ANY MATTER RELATING TO, OR ARISING FROM THIS AGREEMENT DETERMINED BY A JURY.**
- k. **Miscellaneous.** This Agreement is the entire agreement between the parties and supersedes all prior understandings between the parties regarding this engagement. This Agreement may not be altered or terminated except in a writing signed by both Orchestra and Destination. Neither party's failure to exercise any of its rights under this Agreement will relieve the other party of its obligations hereunder. Nothing herein is or may be deemed a waiver or full statement of any of the rights or remedies, whether at law or in equity, of either party all of which are expressly reserved. If any provision of this Agreement is unenforceable or void under applicable law, the remaining provisions will continue to be binding.

In witness whereof, the parties have entered into this Agreement, effective as of the date set forth above.

DESTINATION MATERNITY CORPORATION

By: /s/ Ronald J. Masciantonio

Name: Ronald J. Masciantonio

Title: EVP & Chief Administrative Officer

Executed On: January 31, 2017

ORCHESTRA PREMAMAN USA INC.

By: /s/ Agathe Boidin

Name: Agathe Boidin

Title: CEO

Executed On: January 31, 2017

EXHIBIT A

SERVICES

- A. **DEFINITION OF REQUIREMENTS** - With assistance from Orchestra and any other professionals engaged by Orchestra including, but not limited to, architects (such other professionals' fees to be paid directly by Orchestra or through the Landlord of a Facility).
- Develop an understanding of the goals, objectives and business of Orchestra and incorporate that knowledge into structuring the anticipated real estate transactions with respect to the Facilities.
 - Define location requirements.
 - Develop a strategic plan which will include the identification of reasonably feasible alternatives.
 - Conduct management presentations as necessary.
 - Develop timetable outlining deadlines and responsibilities.
- B. **MARKET RESEARCH AND ANALYSIS**
- Provide market research tailored to Orchestra's requirements.
 - Provide analysis of space availability and vacancy rates, both current and projected.
 - Identify costs, overall rental rates, and concession packages, calculated on a basis and in a format to be approved by Orchestra, for accurate comparison.
- C. **EVALUATION OF PROPOSALS**
- Project Evaluation - Technical
 - "Work Letter" evaluation to ensure appropriate construction process and to determine actual value of proposals versus regular budget.
 - Provide concise executive summaries of data for presentations to include recommendation.
 - Project Evaluation - Financial
 - Compare all proposed financial transaction structures.
 - Compare Net Present Values of alternatives.
 - "Normalize" proposals for comparison.

- Develop comprehensive spreadsheet analysis format in a format approved by Orchestra.
- Provide concise executive summaries of data for presentations, including recommendations.

D. **NEGOTIATIONS**

- Develop and implement a transaction plan and negotiation strategy.
- Establish and maintain a competitive environment to obtain the most advantageous transaction structure and quality.
- Coordinate site tour of final options under consideration.
- Assist in business, financial and legal negotiation of “letter of intent” and Lease documentation.
- Provide both economic and non-economic analysis of tradeoffs and alternate positions.

E. **OTHER SERVICES**

- Report information expeditiously so that Orchestra may make decisions and selections on a timely basis.

EXHIBIT B
COMPENSATION

1. **Fees:** In exchange for all advisory services provided hereunder, Orchestra shall pay to Destination \$65,000 for each fully executed Lease, (in immediately available US dollars) which such amount shall be paid on the date that is no later than ten days following the full execution of each Lease. Notwithstanding the foregoing, with respect to the current negotiation of the King of Prussia, PA Facility, Orchestra shall pay to Destination a fee of \$10,000 upon full execution of the Lease.
2. **Expenses:** Reimbursement for reasonable out-of-pocket marketing and travel related expenses per anticipated Facility which shall be due and payable within thirty (30) days following written invoice.

**CONSULTING AGREEMENT FOR
CONSTRUCTION PROJECT MANAGEMENT AND
ARCHITECTURAL SERVICES**

This Agreement by and between Orchestra Premaman USA Inc. (“Orchestra”) and Destination Maternity Corporation (“Destination”), dated as of February 3, 2017.

1. ENGAGEMENT.

- a. Orchestra hereby engages Destination to provide Orchestra construction project management and architectural services related to Orchestra’s retail locations (each space, a “Facility” and collectively the “Facilities”) on a non-exclusive basis in the United States.
- b. In connection with the engagement, Destination shall provide the services set forth on **Exhibit A** attached hereto and made a part hereof (the “**Services**”).
- c. This Agreement applies only to Orchestra’s requirements for the Facilities described above. Should Orchestra decide to utilize Destination to assist it with requirements other than the Facilities, that decision will be made the subject of a separate written agreement or a written addendum to this Agreement.
- d. All negotiated arrangements relating to a real estate transaction with Orchestra as principal are at all times subject to Orchestra’s approval in its sole discretion. Destination shall not have the authority to bind Orchestra in any manner.

2. **ENGAGEMENT TEAM.** Destination will utilize its existing team of professionals who perform similar services for Destination who shall manage and largely perform the services under this Agreement. Other individuals may be called upon to provide additional expertise as deemed necessary by Destination.

3. **COMPENSATION.** Orchestra agrees that Destination shall be compensated for its efforts hereunder in accordance with the provisions of **Exhibit B** attached hereto and made a part hereof.

4. INDEMNIFICATION AND EXCULPATION

- a. **Indemnification.** Orchestra hereby agrees, subject to paragraph (c) below, to indemnify, defend and hold harmless Destination from and against any and all losses, liabilities, damages, costs and expenses (including, without limitation, reasonable out-of-pocket attorneys’ fees and costs, and expert-related out-of-pocket fees and costs (collectively, “Attorneys’ and Experts’ Fees”)), fines and penalties (collectively “Losses”) which Destination or any of its affiliates, or any of their respective directors, officers or employees (each, an “Indemnified Person”) may sustain, suffer or incur in connection with the performance of the
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Services pursuant to this Agreement; provided, however, in no event shall Orchestra be required to indemnify an Indemnified Person for Losses pursuant to this paragraph if such Indemnified Person is found by a court of competent jurisdiction to have acted in bad faith or with gross negligence or willful misconduct and such action was the proximate cause of the incurrence of such Losses.

- b. **Exculpation.** Destination shall not be liable to Orchestra for a breach of this Agreement unless it is determined that such breach resulted from the gross negligence, bad faith or willful misconduct on the part of an Indemnified Party.
- c. **Limitation on Recovery.** No party will be entitled to punitive, special and/or consequential damages, and we each waive all rights to and claims for relief other than for compensatory damages.

5. **MISCELLANEOUS**

- a. **Term.** This Agreement shall commence upon its execution by both parties and shall expire on December 31, 2017, unless prior to that date this Agreement is (i) terminated by either Orchestra or Destination in writing, or (ii) extended by written agreement of Orchestra and Destination.
- b. **Termination with Cause.** Either Destination or Orchestra has the right to terminate this Agreement for cause by providing ten (10) days' prior written notice to the other detailing a material failure to perform, on a reasonably timely basis, responsibilities under this Agreement. The defaulting party shall have the opportunity to cure a default by promptly commencing such cure within such ten (10) day notice and cure period and thereafter diligently carrying out such cure to completion, within a reasonable time, and upon such cure, such event shall not be deemed to be a default. If the defaulting party does not cure the default, the non-defaulting party may terminate this Agreement and may exercise any other rights and remedies available to it at law, in equity or under this Agreement.
- c. **Termination without Cause.** Either party shall also have the right to terminate this Agreement without cause at any time upon at least thirty (30) days' prior written notice to the other party.
- d. **No Right to Commit Orchestra.** Destination has no right, power or authority to commit, bind or otherwise obligate Orchestra in any manner. All contracts for services involving Orchestra with any third party may be executed only by an authorized representative of Orchestra. Destination and its partners, subcontractors, and employees shall at all times be deemed independent contractors of Orchestra and no employment, joint venture, partnership or other relationship shall exist between Destination and Orchestra.
- e. **Binding Agreement.** This Agreement is binding upon the parties hereto and their respective successors and assigns, provided, however, that neither party may assign, subcontract or delegate its obligations under this Agreement without the

prior written consent of the other party. This Agreement may be executed in counterparts, each of which shall be deemed an original. Delivery of a copy of an executed counterpart by PDF or other mutually acceptable electronic format shall constitute sufficient delivery of an executed original counterpart.

- f. **Governing Law.** This Agreement has been entered into in the State of Delaware and shall be governed by the laws of the State of Delaware without regard to its conflict of laws principles.
- g. **Confidentiality.** It is agreed by both parties that all aspects of this Agreement shall be treated confidentially by both parties.
- h. **Prevailing Parties; Waiver of Jury Trial.** If there is a dispute between the parties, the parties agree to resolve it subject to the following:
 - i. If either party institutes a legal proceeding against the other party relating to this Agreement, the prevailing party shall recover from the non-prevailing party all of its (a) Attorneys' and Experts' Fees, and (b) other out-of-pocket expenses. All past due amounts shall bear interest at eight percent (8%) per annum or the maximum rate permitted in the state in which the property is located.
 - ii. **WHERE PERMITTED BY LAW, EACH PARTY KNOWINGLY AGREES TO WAIVE ANY AND ALL RIGHTS TO HAVE A DISPUTE ON ANY MATTER RELATING TO, OR ARISING FROM THIS AGREEMENT DETERMINED BY A JURY.**
- i. **Miscellaneous.** This Agreement is the entire agreement between the parties and supersedes all prior understandings between the parties regarding this engagement. This Agreement may not be altered or terminated except in a writing signed by both Orchestra and Destination. Neither party's failure to exercise any of its rights under this Agreement will relieve the other party of its obligations hereunder. Nothing herein is or may be deemed a waiver or full statement of any of the rights or remedies, whether at law or in equity, of either party all of which are expressly reserved. If any provision of this Agreement is unenforceable or void under applicable law, the remaining provisions will continue to be binding.

In witness whereof, the parties have entered into this Agreement, effective as of the date set forth above.

DESTINATION MATERNITY CORPORATION

By: /s/ Ronald J. Masciantonio

Name: Ronald J. Masciantonio

Title: EVP & Chief Administrative Officer

Executed On: February 3, 2017

ORCHESTRA PREMAMAN USA INC.

By: /s/ Agathe Boidin

Name: Agathe Boidin

Title: CEO

Executed On: February 3, 2017

EXHIBIT A

SERVICES TO BE PROVIDED PER FACILITY (EACH, A “PROJECT”)

1.0 PRE-DESIGN PHASE

- 1.1 Discuss Project design and scope with Orchestra or their designated representative. Topics to include information received from Orchestra (including Project intent, budget, schedule and overall Project objective) and reach an understanding with Orchestra of the Project requirements and provide a summary of requirements.
- 1.2 Review the documents received from Orchestra or other parties related to the Project. The package from Orchestra will include as-built drawings of the Project, Lease Outline Drawing (“LOD”), Construction Exhibit of the Lease, contact information and scope of work.
- 1.3 Provide a code and design criteria (if any) review. This review will cover physical space, code restrictions and/or Landlord design criteria (if any).

2.0 SCHEMATIC DESIGN PHASE

- 2.1 Receive schematic fixture plan from Orchestra and review for building code compliance. Prepare and provide one (1) set of Schematic Design drawings (interior elevations, lighting plan, storefront elevations and finish plan) with one (1) revision to the selected Schematic Design layout to Orchestra for approval.
- 2.2 Utilize brand standard finish schedules provided by Orchestra.
- 2.3 Utilize brand standard fixture schedules provided by Orchestra.
- 2.4 Utilize brand standard lighting and ceiling type provided by Orchestra.
- 2.5 Obtain Orchestra approval of schematic design.

3.0 DESIGN DEVELOPMENT PHASE

- 3.1 Develop plans and details as required to incorporate into final construction documents.
- 3.2 Coordinate the schedule for construction documents with Orchestra, engineer and expediter.
- 3.3 Deliverables - design details to be incorporated into construction documents.

4.0 CONSTRUCTION DOCUMENT PHASE

- 4.1 Based upon Orchestra’s approved final layout design report, prepare the construction documents and specifications, coordinate with the Engineering consultants (MEP and Structural) to prepare one set of Construction Documents.
- 4.2 Complete any necessary revisions from the Landlord or Building Department based on local interpretations of established codes and as long as the design does not conflict with these agencies’ criteria. Should the design conflict with agency criteria, ask for further direction.
- 4.3 Obtain and incorporate all necessary vendor information into Construction Documents.
- 4.4 Provide the required number of sets of Construction Documents for permitting.
- 4.5 Coordinate one distribution of drawings for contractors, vendors and expeditors based on a distribution list provide by Orchestra.

5.0 BIDDING PHASE

- 5.1 Assist with Request For Information (RFIs) from the bidders and coordinate with Orchestra.

6.0 PERMITTING/APPROVAL PHASE

- 6.1 Assist in obtaining required business licensing.
- 6.2 Assist Expediter with preparing applications and submitting Construction Documents to Building Department.
- 6.3 Assist with obtaining Orchestra and Landlord approval.
- 6.4 Revise drawings as described in Construction Document Phase, Section 4.2.
- 6.5 Notify the Team when approvals are secured.

7.0 CONSTRUCTION PHASE SERVICES

- 7.1 Review any discrepancies with Lease area based on General Contractor comments.
- 7.2 Assist with RFIs from the General Contractor and coordinate with Orchestra.
- 7.3 Assist with submittal review and clarifications during construction.

8.0 Post construction phase

- 8.1 Phase to be invoiced on a time and material basis, if applicable.

9.0 CONSTRUCTION MANAGEMENT SERVICES

- 9.1 Submit to General Contractor for bidding.
- 9.2 Review and qualify all bids.
- 9.3 Negotiate with all bidders.
- 9.4 Attend any preconstruction meeting.
- 9.5 Execute standard contract to awarded General Contractor.
- 9.6 Project start up.
- 9.7 Coordinate job site OFI (“Owner Furnished Items”) materials and/or purchase orders and deliveries.
- 9.8 Monitor weekly progress and respond to RFIs; adjust field conditions accordingly, if necessary.
- 9.9 Mid site visit, punch site visit, turnover visit.
- 9.10 Punch list follow up.
- 9.11 Payment authorization at each interval as agreed to in writing.

EXCLUSIONS FROM SERVICES

These services WILL NOT be provided by Destination under this Agreement (unless explicitly agreed to by the parties):

1. Feasibility study.
2. Design and engineering of communications technology or sound systems.
3. Value engineering.
4. Negotiations and procurement of Orchestra supplied material and finishes.
5. Material quantity calculations (Take offs) or fixture quantity inventory.
6. Services associated with any quasi-governmental agencies such as, but not limited to, Landmarks, Department Of Transportation, Planning Boards, Health Department, Historic review agencies or Zoning hearings for approvals of design.
7. Civil, environmental, structural, mechanical, electrical, plumbing and vertical engineering services.
8. Services, fees and expenses associated with assessment, review and handling of hazardous materials or mold.
9. Filing/permit fees or expeditor services.
10. Civil engineering survey, property surveys, metes and bounds type surveys.
11. Fire protection or sprinkler drawings or security system drawings and permits associated with these trades. (Typically provided by fire protection contractor).
12. Additional design revisions to documents i.e. preliminary drawings, construction documents.
13. Building department special approvals: obtain Certificate of Occupancy, address existing violations or obtain change of occupancy use.
14. Construction Phase including, but not limited to: controlled inspections, project closeout or Certificates.
15. Verify the accuracy of the information received from Orchestra.
16. Fixture design shop drawing.
17. Signage design shop drawings.
18. Procurement of insurance.
19. Setting up and contracting for utility, data and systems services.
20. Store maintenance services.
21. Management of warranties and related claims.

EXHIBIT B

COMPENSATION

1. **Fees:** In exchange for all advisory services provided hereunder, Orchestra shall pay to Destination \$34,000, (in immediately available US dollars) which such amount shall be paid on the date that is no later than ten days following the full completion of each Project. However, in the event Destination is unable to utilize its in-house architectural team for a Project, the per Facility fee shall be reduced by \$20,000 and a third-party architect shall be engaged per Section 2 below. In addition, in the event a third party engineer is required to be engaged by Orchestra for a Facility per Section 2 below, the fee payable to Destination shall be reduced (with a maximum reduction of up to \$8,000). To the extent Destination provides advisory services to Orchestra for incomplete Projects or for retail locations that do not become Facilities, the parties agree to discuss appropriate fees to be paid to Destination for such services.
2. **Third Party Fees and Pass Through Expenses:** Third parties (such as general contractors and subcontractors) will be required to be engaged in connection with each Project. Although Destination will make recommendations to Orchestra regarding such engagements, Orchestra will solely be responsible for selecting, hiring, and compensating such third parties. Any such fees shall be paid directly from Orchestra to such third parties. Such third-party fees shall be in addition to the fees payable to Destination. In addition, each Project will require some level of governmental and other fees payable to third parties (such as, without limitation, filing fees, permitting fees, expediting fees...etc.) as well as payment for fixtures, construction materials...etc. Orchestra shall be directly responsible for the payment of any such fees and payments. In the unforeseen event Destination advances any such fees or payments on behalf of Orchestra in order to ensure the Project proceeds in a timely manner, Orchestra is responsible to immediately reimburse Destination.
3. **Expenses:** Reimbursement for reasonable out-of-pocket marketing and travel related expenses per anticipated Facility which shall be due and payable within thirty (30) days following written invoice.
4. **Exclusions from Services:** In the event Orchestra requests that Destination perform any consulting or other work for the "Exclusions from Services" on Exhibit A, fees for such services shall be agreed upon by the parties pursuant to a separate agreement or work order.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Destination Maternity Corporation:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-212818, 333-186937, 333-174059, and 333-137136) of Destination Maternity Corporation (formerly Mothers Work, Inc.) of our reports dated April 13, 2017, with respect to the consolidated balance sheets of Destination Maternity Corporation and subsidiaries as of January 28, 2017 and January 30, 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the two-year period ended January 28, 2017, the four months ended January 31, 2015 and the year ended September 30, 2014, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of January 28, 2017, which reports appear in the January 28, 2017 annual report on Form 10-K of Destination Maternity Corporation.

/s/ KPMG LLP

Philadelphia, Pennsylvania
April 13, 2017

**SARBANES-OXLEY
SECTION 302 CERTIFICATION**

I, Anthony M. Romano, certify that:

1. I have reviewed this Annual Report on Form 10-K of Destination Maternity Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2017

/s/ ANTHONY M. ROMANO

Anthony M. Romano

Chief Executive Officer & President

**SARBANES-OXLEY
SECTION 302 CERTIFICATION**

I, David Stern, certify that:

1. I have reviewed this Annual Report on Form 10-K of Destination Maternity Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2017

/s/ DAVID STERN

David Stern

Executive Vice President & Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Destination Maternity Corporation (the "Company") on Form 10-K for the year ended January 28, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony M. Romano, Chief Executive Officer & President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ANTHONY M. ROMANO
Anthony M. Romano
Chief Executive Officer & President
April 13, 2017

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Destination Maternity Corporation (the "Company") on Form 10-K for the year ended January 28, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Stern, Executive Vice President & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID STERN

David Stern

Executive Vice President & Chief Financial Officer

April 13, 2017

