

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

FORM 10-K

(Mark One)

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

For the fiscal year ended February 2, 2019

or

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

For the transition period from _____ to _____

Commission file number 0-21196

Destination Maternity Corporation

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed using \$4.39, the price at which the common equity was last sold as of August 4, 2018 (the last trading day of the Registrant's most recently completed second fiscal quarter), was approximately \$55,000,000.

On April 5, 2019 there were 14,340,497 shares of the Registrant's common stock, \$.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with our next Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

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PART I

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

As used in this report, the term “retail locations” includes our stores and leased departments and excludes international franchised locations. As used in this report, “stores” means our stand-alone stores that we operate in the United States, Canada and Puerto Rico. As used in this report, the term “GAAP” refers to generally accepted accounting principles in the United States.

Item 1. Business

Overview

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

We maintain our leading position through our two key brands, which enable us to reach a broad range of maternity customers. Through our stores and certain of our leased departments, we offer maternity apparel under one or both of our two primary brands, Motherhood Maternity (“Motherhood” or “Motherhood Maternity”) at value prices and A Pea in the Pod (“Pea” or “A Pea in the Pod”) at both contemporary and premium prices. Our A Pea in the Pod Collection® (“Pea Collection”) is the distinctive premier maternity apparel line within the A Pea in the Pod brand, featuring exclusive designer label product at premium prices.

We believe that one of our key competitive advantages is our ability to fulfill, in a high-service store environment, all of an expectant or nursing mother’s clothing needs, including casual and career wear, formal attire, lingerie, sportswear and outerwear, in sizes that cover all trimesters of the maternity cycle. We believe that our vertically-integrated business model enables us to offer the broadest assortment of fashionable maternity apparel. We design and contract the manufacture of over 90% of the merchandise we sell using factories located throughout the world, predominantly outside of the United States.

In fiscal 2018 we opened two stores and closed 31 stores, primarily consisting of closings of underperforming stores. In recent years we have evaluated our retail store base to identify and, in many cases, close underperforming stores where we can do so without disproportionate exit cost.

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

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

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

Industry Overview

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

Our Competitive Strengths

We are the leader in maternity apparel. We are the leading designer and omni-channel retailer of maternity apparel in the United States, with the only nationwide chain of maternity apparel specialty stores, as well as a deep and expansive assortment available through multiple online distribution points, including our three brand-specific websites. We believe that our brands are the most recognized in maternity apparel. We have established a broad and diverse distribution network, with stores and leased departments in a wide range of geographic areas and retailing venues (both within and outside of the United States), as well as e-commerce sales through our own brand-specific web-sites, and third party e-commerce sites including Macys.com and Amazon.com. In addition, we have a leading position across all major price points of maternity apparel through our retail store nameplates and our brands. Our exclusive focus on maternity apparel and our leadership position enable us to gain a comprehensive understanding of the needs of our maternity customers and keep abreast of fashion and product developments that meet her style.

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

We are vertically integrated. We design and contract for the manufacture of over 90% of the merchandise we sell. We believe that vertical integration enables us to offer the broadest assortment of maternity apparel, to respond quickly to fashion trends, to ensure product quality, to improve product gross margins and to optimize in-stock levels.

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

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

Our Brands

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

Brand	Brand Positioning	Typical Apparel Price Range
Motherhood Maternity	Expansive on-trend fashion assortment ranging from wardrobe essentials to special occasion; offering quality merchandise at affordable value prices	\$10 - \$100
A Pea in the Pod	Contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium prices	\$20 - \$300

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

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

Retail Nameplates

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

Store Nameplate	Description of Target Location	Brand(s) Carried	Typical Apparel Price Range	Average Size (Sq. Ft.)
Stores:				
Motherhood Maternity	Mid-priced and moderate regional malls, strip and power centers, and central business districts	Motherhood	\$10 - \$100	1,800
A Pea in the Pod	Mid-priced and high-end regional malls, lifestyle centers, central business districts and some stand-alone stores in affluent street locations	Pea (including, in some cases, Pea Collection)	\$20 - \$300	2,000
Destination Maternity	Combo stores located in mid-priced regional malls and lifestyle centers	Motherhood; Pea (including, in some cases, Pea Collection)	\$10 - \$300	Combo stores 2,900
	Superstores located primarily in outdoor and power centers and central business districts			Superstores 5,600
Leased Departments:				
Macy's	Mid-priced regional malls	Motherhood; Pea (including, in some cases, Pea Collection)	\$10 - \$300	—
buybuy BABY	Big box power centers	Motherhood; Pea	\$10 - \$200	—
Boscov's	Mid-priced and moderate regional malls	Motherhood	\$10 - \$100	—

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

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

(1) Excludes leased departments and international franchised locations.

We believe our ability to lease attractive real estate locations is enhanced due to the brand awareness of our concepts, our multiple price point approach, our highly sought-after maternity customer and our real estate management and procurement capabilities. We are the only maternity apparel retailer to provide mall operators with differently priced retail concepts, depending on the mall's target demographics. We are also able to provide varied store formats for malls whose maternity customers seek a wide range of price alternatives. In addition, in the case of multi-mall operators, we have the flexibility to provide several stores across multiple malls.

Motherhood Maternity Stores. Motherhood Maternity is our largest chain with 362 stores, including 22 stores in Canada as of February 2, 2019. Our Motherhood Maternity brand serves the moderate priced portion of the maternity apparel business, which has the greatest number of customers. The Motherhood brand is positioned with an expansive on-trend fashion assortment ranging from wardrobe essentials to special occasion, offering quality merchandise at affordable value. Motherhood stores average approximately 1,800 square feet and are located primarily in mid-priced and moderate regional malls, strip and power centers, and central business districts. Motherhood stores include 93 outlet locations that carry Motherhood-branded merchandise as well as some closeout merchandise. In fiscal 2018 we opened two new Motherhood stores including outlets and closed 25 Motherhood stores including outlets.

A Pea in the Pod Stores. As of February 2, 2019, we had 26 A Pea in the Pod stores. Our A Pea in the Pod brand is a contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium pricing, offering customers fashionable maternity pieces. A Pea in the Pod stores average approximately 2,000 square feet and are located in mid-priced and high-end regional malls, lifestyle centers and central business districts while others are located in upscale venues, including Beverly Hills, Water Tower Place (Chicago), South Coast Plaza (Orange County, California) and Newbury Street (Boston). In fiscal 2018 we did not open any Pea stores and closed one Pea store.

Destination Maternity Stores. As of February 2, 2019, we had 70 Destination Maternity nameplate stores averaging approximately 4,100 square feet, including 38 Destination Maternity combo stores and 32 Destination Maternity superstores. Our Destination Maternity stores carry both of our primary brands (Motherhood and Pea). Our Destination Maternity combo stores are larger (average of approximately 2,900 square feet) than our single-brand stores. Our Destination Maternity superstores carry both of our primary brands, plus an expanded line of maternity-related accessories, nursing products, health and fitness products, books, and body and nutritional products. Destination Maternity superstores average approximately 5,600 square feet for the 32 stores open as of February 2, 2019. In fiscal 2018 we did not open any Destination Maternity stores and closed five Destination Maternity stores.

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

The following table sets forth our leased department count by retail partner as of February 2, 2019.

<u>Retail Partner</u>	<u>Number of Leased Departments</u>
Macy's	390
buybuy BABY	117
Boscov's	47
Total leased departments (1)	554

(1) Excludes international franchised locations.

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

We have a franchise agreement with Multi Trend, a member of the Al-Homaizi Group, covering six key markets in the Middle East. As of February 2, 2019, our Motherhood and Pea merchandise is offered in 9 franchise stores operating in the Middle East.

We have a franchise agreement with Agabang & Company to sell our brands in South Korea. Our Motherhood and Pea merchandise is available for sale in maternity shop-in-shops operated by Agabang in its Agabang Gallery and Nextmom stores (which carry infant and children's apparel and non-apparel merchandise, as well as maternity apparel). As of February 3, 2019, our Motherhood and Pea merchandise is offered in 34 shop-in-shops in South Korea.

We have a franchise agreement with El Puerto de Liverpool, S.A.B. de C.V., the largest department store company in Mexico. Our Motherhood merchandise is available for sale primarily in maternity shop-in-shops located in Liverpool's department stores (which carry a wide range of products, including infant and children's apparel and non-apparel merchandise, as well as maternity apparel) throughout Mexico. As of February 2, 2019, our Motherhood and Pea merchandise is offered in 102 shop-in-shops in Mexico.

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

We continue to evaluate other international sales opportunities. As our franchise relationships to date demonstrate, our initial international strategy has primarily consisted of franchising, licensing or similar arrangements with foreign partners. Our future international strategy may include increased e-commerce distribution, franchising or licensing arrangements with foreign partners, as well as potentially entering into wholesale business arrangements, entering into joint ventures or developing our own operations in certain countries.

Internet Operations

We sell our merchandise on the Internet primarily through our brand-specific websites, Motherhood.com and APeaInThePod.com, as well as through our DestinationMaternity.com website. We also sell our merchandise through our Canadian website, MotherhoodCanada.ca, as well as through Amazon.com and Macys.com in the United States. We believe that many pregnant women, particularly millennials, use the Internet to find maternity-related information and to purchase maternity clothes. Our websites are therefore important tools for educating existing and potential customers about our brands and driving traffic to our stores. Our marketing and technology capabilities and the replenishment capabilities of our distribution facilities and stores enable us to incorporate website design, operations and fulfillment into our existing operations. We believe that our Internet operations (both through our existing e-commerce distribution points and, perhaps, new e-commerce distribution points) represent a continued growth opportunity for us to increase sales and profit in all channels.

Marketing Partnerships

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

Operations

Store Operations. The typical maternity customer, especially the first-time mother, seeks more advice and assistance than the typical non-maternity customer. Therefore, we aim to employ passionate, skilled and inspirational store team members who are trained to provide the high level of attentive service and reassurance needed by our customers. Our goal is to provide a boutique or personalized level of service that differentiates us from our competitors. Our centralized merchandising, store operations and visual presentation departments also enable our field leadership and store team members to focus primarily on selling and maintaining consistency from store to store on their appearance and operational execution. In addition, our visual presentation department coordinates with the merchandising department to develop floor-sets, design store display windows and place marketing materials to better define and enhance the product presentation.

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

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

Merchandising, Design and Inventory Planning and Allocation

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

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

Planning and Allocation. Our inventory planning and allocation department is responsible for planning future inventory purchases and pricing, as well as targeting overall inventory levels and turnover. We establish target inventories for storefronts within each channel with the goals of optimizing our merchandise assortment and turnover, maintaining adequate depth of merchandise by style and managing closeout and end-of-season merchandise consolidation. Our planning and allocation team continually monitors and responds to consumer demand through utilization of available tools. Our capabilities to perform these tasks were significantly enhanced with the implementation of our new cloud-based allocation tool and related processes in fiscal 2016. The planning and allocation department reports to our Vice President of Inventory Management.

Production and Distribution

Our direct supply chain manufactures over 90% of our apparel, predominantly outside of the United States. In fiscal 2018 we continued to focus on the supply chain reducing the number of factories and balance our global footprint, to improve costs, streamline operations, ensure quality and improve speed to market. We maintain the flexibility to add new contractors, if necessary, to fulfill our sourcing needs. No individual vendor/factory represents a material portion of our production. A majority of our merchandise is purchased "full package" as finished product made to our specifications, typically utilizing our designs. Substantially all the merchandise produced outside of the United States is paid for in US dollars.

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

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

Since 2003 we have been certified to participate in Customs-Trade Partnership Against Terrorism ("C-TPAT"), a United States Department of Homeland Security sponsored program, with United States Customs and Border Protection ("U.S. Customs"), through which we implement and monitor our procedures to manage the security of our supply chain as part of the effort to protect the United States and our imported products against potential acts of terrorism. Since 2005 we have been certified to participate in the Importer Self-Assessment Program ("ISA"), a U.S. Customs program available only to C-TPAT participants with strong internal controls. Through our participation in the ISA program, we assume responsibility for monitoring our own compliance activities with applicable U.S. Customs regulations in exchange for certain benefits, which may help increase efficiency in importing. These benefits include exemption from certain government audits, increased speed of cargo release from U.S. Customs, front of the line access to U.S. Customs cargo exams, enhanced prior disclosure rights from U.S. Customs in the event of alleged trade violations, availability of voluntary additional compliance guidance from U.S. Customs, and less intrusive government oversight of trade compliance. In 2010 we were granted Tier 3 Status within the C-TPAT program, the highest level of recognition currently available. Our Tier 3 Status was revalidated in January 2018.

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

Information Technology Systems

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

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

Given the importance of our information technology systems, we continue to take extensive measures to ensure their responsiveness and security. Our hardware and communications systems are based on a redundant and multiprocessing architecture, which allows their continued operation on a parallel system in the event that there is a disruption within the primary system. We have two data centers supporting our business functions: one in our corporate headquarters location in Moorestown, New Jersey and the second in our distribution center in Florence, New Jersey. The data centers communicate via diverse broadband connections using multiple service providers. In addition, our software programs and data are backed up and securely stored off-site.

Advertising and Marketing

Our advertising and marketing program serve to strengthen the power of our brands, to drive traffic to our stores, to increase customer loyalty and word-of-mouth referrals, and to support our e-commerce platforms. The key objectives of our marketing strategy are helping every new customer discover our brands and recognize us as the authority in maternity fashion; motivating her to purchase; reaffirming that her decision to shop with us was the right one; and creating a memorable experience that she will share.

We understand that our customers have a limited window of need, so we target our messaging through a robust customer relationship management (CRM) program that utilizes focused email messaging. In addition, we advertise on her favorite websites and provide social media content to ensure that our messaging reaches and engages her. On our own e-commerce sites, we have additional marketing opportunities through exclusive sales and on-site features that help our customer discover the right fashion to fit her style based on her pregnancy stage.

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

Competition

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

Employees

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

Executive Officers of the Company

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

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

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

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

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

including Vice President of Finance. Mr. Schriver has a Master of Business Administration from Rider University and has earned a CPA designation.

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

Intellectual Property

We own trademark and service mark rights that we believe are sufficient to conduct our business as currently operated. We own several trademarks, including Destination Maternity Corporation[®], A Pea in the Pod[®], A Pea in the Pod Collection[®], Motherhood[®], Motherhood Maternity[®], Destination Maternity[®], Motherhood Maternity Outlet[®] and Secret Fit Belly[®].

Seasonality

Our business, like that of many other retailers, is seasonal. Our quarterly net sales were historically highest in the peak Spring selling season. Under our 4-5-4 retail fiscal calendar ending on the Saturday nearest January 31 of each year, the peak Spring selling season generally occurs during our first and second fiscal quarters. Given the historically higher sales level in that timeframe and the relatively fixed nature of most of our operating expenses, we have typically generated a very significant percentage of our full year operating income and net income during the calendar months of March through May. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other things, increases or decreases in comparable sales, the timing of new store openings and closings, new leased department openings and closings, net sales and profitability contributed by new stores and leased departments, the timing of the fulfillment of purchase orders under our product and license arrangements, adverse weather conditions, shifts in the timing of certain holidays and promotions, changes in inventory and production levels and the timing of deliveries of inventory, and changes in our merchandise mix.

Securities and Exchange Commission Filings

Our Securities and Exchange Commission (“SEC”) filings, including all exhibits filed therewith, are available and may be accessed free of charge on our website, investor.destinationmaternity.com, and at www.sec.gov. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are posted on our website as soon as practicable after we file or furnish such materials to the SEC. Also available through the Investors section of our website are reports filed by our directors and executive officers on Forms 3, 4 and 5, and amendments to those reports. Our website and included or linked information on the website are not incorporated into this Annual Report on Form 10-K. From time to time, we use our website as an additional means of disclosing public information to investors, the media and others interested in us.

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

Our business depends upon sustained demand for maternity clothing. Our future performance will be subject to a number of factors beyond our control, including demographic changes, fashion trends, economic conditions, consumer spending and general health concerns that may impact the number of pregnant women. If demand for maternity clothing were to decline for any reason, such as a decrease in the number of pregnancies, our operating results could be materially and adversely affected. For example, according to the United States Census Bureau and United States Centers for Disease Control and Prevention, births declined a total of approximately 9.2% from calendar 2008 to calendar 2017. Although recent statistics suggest that this trend has slowed or reversed, if this trend had continued it could negatively affect our business and results of operations. Additionally, our operating results could be materially and adversely affected if certain non-maternity women's apparel fashions have a more pregnancy-friendly fit. For example, at times, when fashion trends favored, we have been negatively impacted by the popularity of many looser-fitting fashion trends in the non-maternity women's apparel market, such as maxi dresses, baby doll dresses, active bottoms with elastic waists, other soft knit elastic-waist bottoms and shorts, and oversized peasant-style woven tops, all of which can more readily fit a pregnant woman than typical non-maternity fashions, and could thus be purchased in numerous non-maternity retail stores. Downturns, or the expectation of a downturn, in general economic conditions could materially and adversely affect consumer spending patterns, our business, financial condition and results of operations. In addition, the specialty apparel retail business historically has been subject to cyclical variations. Consumer purchases of specialty apparel products, including maternity wear, may decline during recessionary periods and at other times when disposable income is lower. Declines in consumer spending patterns may have a more negative effect on apparel retailers than some other retailers. Therefore, we may not be able to maintain our historical sales and earnings, or remain as profitable, if there is a decline in consumer spending patterns. A prolonged economic downturn could have a material adverse impact on our business and results of operations.

Our business depends on effective marketing and high customer traffic.

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

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

The success of all of our mall stores will depend, in part, on the ability of each mall's anchor tenants, such as large department stores, other tenants and area attractions to generate consumer traffic in the vicinity of our stores, and the popularity of malls as shopping destinations. Our sales volume and mall traffic have been and may in the future be adversely affected by, among other things, economic downturns in a particular area, the closing of anchor tenants, competition from e-commerce retailers, non-mall retailers and other malls where we do not have stores, increases in gasoline prices and the closing or decline in popularity of other stores in the malls in which we are located. Many malls are experiencing significantly lower levels of customer traffic than in the past, driven by overall poor economic conditions as well as the closure of certain mall anchor tenants. An uncertain economic outlook could curtail new shopping mall development, decrease shopping mall traffic, reduce the number of hours that shopping mall operators keep their shopping malls open or force them to cease operations entirely. A continued reduction in mall traffic as a result of these or any other factors could have a material adverse effect on our business, results of operations and financial condition.

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

The apparel industry is subject to rapidly changing fashion trends and shifting consumer demands. Accordingly, our success depends on the priority that our target customers place on fashion and our ability to anticipate, identify and capitalize on emerging fashion trends. Our ability or our failure to anticipate, identify or react appropriately to changes in styles or trends could lead to, among other things, excess inventories and higher markdowns, as well as the decreased appeal of our brands. Particular fashion trends, or an inaccuracy of our forecasts regarding fashion trends, could have a material adverse effect on our business, financial condition and results of operations. For example, at times, when fashion trends favored, we have been negatively impacted by the popularity of many looser-fitting fashion trends in the non-maternity women's apparel market, such as maxi dresses, baby doll dresses, active bottoms with elastic waists, other soft knit elastic-waist bottoms and shorts, and oversized peasant-style woven tops, all of which can more readily fit a pregnant woman than typical non-maternity fashions, and could thus be purchased in numerous non-maternity retail stores.

Our failure to successfully manage and expand our e-commerce business and its connectivity with our brick-and-mortar stores experience could have a material adverse impact on our business.

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

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

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

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

Any future growth depends significantly on:

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

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

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

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

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

- drive traffic to our retail websites through our, digital marketing and search engine optimization initiatives, and convert such traffic to sales efficiently and effectively;
- changes in federal or state regulation that may impose restrictions on e-commerce or make e-commerce costlier, including privacy or other consumer protection laws;
- breaches of Internet security; and
- failure to keep up with changes in technology.

There can be no assurance that we will be able to grow our business and achieve our goals. For example, as part of Macy's previously announced closure of approximately 100 stores, early in fiscal 2017 Macy's completed closure of 68 stores, which included 59 locations where we had a leased department within the store. Even if we succeed in establishing new stores, further developing our leased department relationships, and further expanding our wholesale relationships, we cannot assure that these initiatives will achieve planned revenue or profitability levels in the time periods estimated by us, or at all. If any of these initiatives fails to achieve or is unable to sustain acceptable revenue and profitability levels, we may incur significant costs.

Our share price may be volatile and could decline substantially.

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

- actual or anticipated variations in the financial results and prospects of our business or other companies in the retail business;
- changes in financial estimates by Wall Street research analysts;
- actual or anticipated changes in the United States economy or the retailing environment;
- changes in the market valuations of other specialty apparel or retail companies;
- announcements by our competitors or us;
- mergers or other business combinations involving us;
- additions and departures of key personnel;
- changes in accounting principles;
- the passage of legislation or other developments affecting us or our industry;
- the trading volume of our common stock in the public market;
- changes in economic conditions;

- financial market conditions;
- natural disasters, terrorist acts, acts of war or periods of civil unrest; and
- the realization of some or all of the risks described in this section entitled “Risk Factors.”

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

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

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

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

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

Our relationships with third party retailers may not be successful.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our \$25.0 million term loan bears interest at a variable rate equal to a LIBOR rate plus 9.00%. Borrowings under our \$50.0 million revolving credit facility bear interest at a variable rate equal to, at our election, either the lender's base rate plus 0.50%, or a LIBOR rate plus 1.50%. Additional borrowings under our revolving credit facility, which could significantly increase in the future, would bear interest at a variable rate. We have exposure for the variable interest rate indebtedness under these debt instruments and, as a result, an increase in interest rates could result in a substantial increase in interest expense, especially if borrowings under our revolving credit facility increase.

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

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

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

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

- incur additional indebtedness;
- pay dividends or make other distributions in respect of our equity securities, or purchase or redeem capital stock, or make certain investments;
- have our subsidiaries pay dividends, make loans or transfer assets to us;
- sell assets, including the capital stock of our subsidiaries;
- enter into any transactions with our affiliates;
- transfer any capital stock of any subsidiary or permit any subsidiary to issue capital stock;
- create liens;

- enter into certain sale/leaseback transactions;
- effect a consolidation or merger or transfer of all or substantially all of our assets; and
- engage in other lines of business unless substantially related or incidental to our existing business.

These limitations and restrictions may materially and adversely affect our ability to finance our future operations or capital needs or engage in other business activities that may be in our best interests. In addition, our ability to borrow under the credit facility is subject to the borrowing base requirements of both our term loan and our credit facility agreements. If we breach any of the covenants under our term loan and credit facility agreements, we may be in default under either or both of these agreements. If we default, the lenders under our term loan agreement and the lender under our credit facility agreement could declare all borrowings owed to them, including accrued interest and other fees, to be due and payable. Moreover, our term loan and credit facility agreements provide the lenders considerable discretion to impose reserves or availability blocks, which could materially impair the amount of borrowings that would otherwise be available to us. There can be no assurance that the lenders under the term loan and credit facility agreements will not impose such actions during the term of the debt facility and further, were they to do so, the resulting impact of this action could materially and adversely impair our liquidity.

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

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

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

We design and contract the manufacture of over 90% of the merchandise we sell using factories located throughout the world, predominantly outside of the United States. As a result, our business is subject to risks associated with international operations. These risks include the burdens of complying with foreign laws and regulations, unexpected changes in tariffs, taxes or regulatory requirements, and political unrest and corruption.

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

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

- changes in duties, taxes, tariffs and other charges on imports;
- limitations on the quantity of goods which may be imported into the United States from a particular country;
- requirements as to where products and/or inputs are manufactured or sourced;
- creation of export licensing requirements, imposition of restrictions on export quantities or specification of minimum export pricing and/or export prices or duties;
- limitations on foreign owned businesses; or
- government actions to cancel contracts, re-denominate the official currency, renounce or default on obligations, renegotiate terms unilaterally or expropriate assets.

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

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

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

We may not actually collect the incentive package benefits offered to us in connection with the relocations of our headquarters and distribution facility.

In fiscal 2015 we completed the relocation of our corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey. To help us offset the costs of these relocations, the Board of the New Jersey Economic Development Authority, through its Grow New Jersey Assistance Program, approved us for an incentive package of \$40 million in benefits, which can be realized at up to \$4.0 million per year over a 10-year period. In order to receive the benefits of the incentive package we need to create certain levels of annual jobs in the State of New Jersey and other requirements. If we do not meet these job levels or other requirements on an annual basis, we will not receive some or all of the benefits. Based on our current level of job creation we expect to receive approximately \$3.0 million annually under this program. A material reduction or elimination of these benefits in the future could have a material adverse impact on our business and results of operations.

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

Historically, the operation of our vertically-integrated business model relied heavily on our internally-developed information technology systems (“IT Systems”). In particular, we have relied on point-of-sale terminals, which provide information to our core merchandise system used to track sales and inventory, and on our Internet websites through which we sell merchandise to our customers. In order to ensure that our systems are adequate to handle our anticipated business growth and are upgraded as necessary to effectively manage our store inventory and our e-commerce operations, we decided to augment our internal IT Systems with best-in-class third party solutions. These include implementation of a best-in-class tool for inventory allocation, setting up an environment to process transactions with Amazon, Business Intelligence reporting and a re-platform of our historically internally-managed e-commerce website to a leading third party digital commerce solution provider, to be integrated with a new third-party e-commerce order management system planned for implementation in fiscal 2019. The cost of these system upgrades and enhancements will continue to be significant. There can be no assurance that our investment in new systems will be successful or that the transition will not result in disruptions to our business. If system deployment is not successful or if we suffer any such disruptions, our business and results of operations could be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our current strategic initiatives (which include further expansion of our business, increasing the connectivity between our e-commerce business and our brick-and-mortar stores, and our e-commerce expansion of our wholesale business) further emphasize the importance of increasing the efficiency and responsiveness of our supply chain. These initiatives will challenge our systems and operational approach. If we are unable to adopt our supply chain to meet the demands of these initiatives successfully our operating results could be materially adversely affected.

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

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

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

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

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

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

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

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

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

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

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

Our quarterly operating results and inventory levels may fluctuate significantly as a result of seasonality in our business.

Our business, like that of other retailers, is seasonal. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other things, increases or decreases in comparable sales, the timing of new retail location openings, the timing of retail location closings, net sales and profitability contributed by new retail locations, the timing of the fulfillment of purchase orders under our product, license brand and international

business arrangements, adverse weather conditions (whether as a result of climate change or otherwise), shifts in the timing of certain holidays and promotions, changes in inventory and production levels and the timing of deliveries of inventory, and changes in our merchandise mix. Our quarterly net sales have historically been highest during the peak Spring selling season. Under our 4-5-4 retail fiscal calendar ending on the Saturday nearest January 31, of each year, the peak Spring selling season will generally occur during our new first and second fiscal quarters. Given the historically higher sales level in that timeframe and the relatively fixed nature of most of our operating expenses, we have typically generated a very significant percentage of our full year operating income and net income during the calendar months of March through May. Thus, any factors which result in a material reduction of our sales during the first and second fiscal quarters could have a material adverse effect on our results of operations for our fiscal year as a whole. Seasonal fluctuations in sales also affect our inventory levels, as we usually order merchandise in advance of peak selling periods and sometimes before new fashion trends are confirmed by customer purchases. We must carry a significant amount of inventory, especially before the peak Spring selling season. If we are not successful in selling our inventory during this period, we may be forced to rely on markdowns or promotional sales to sell the excess inventory or we may not be able to sell the inventory at all, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

The Patient Protection and Affordable Care Act (the “ACA”) requires employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. These costs were incurred beginning in fiscal 2016; however, there is no assurance that we will be able to absorb and/or pass through the costs of future 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 could have failures in our system of internal controls causing us to inaccurately report our financial results or to fail to prevent fraud.

We maintain a documented system of internal controls which is reviewed and monitored by management, who meet regularly with our Audit Committee of the Board of Directors. We believe we have a well-designed system to maintain adequate internal controls over the business. We cannot assure you that there will not be any control deficiencies in the future. Should we become aware of any significant deficiencies or material weaknesses, we would report them to the Audit Committee and recommend prompt remediation. We devote significant resources to document, test, monitor and improve our internal controls and will continue to do so; however, we cannot be certain that these measures will ensure that our controls are adequate in the future or that adequate controls will be effective in preventing fraud. If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. Any failures in the effectiveness of our internal controls could have a material adverse effect on our financial condition or operating results or cause us to fail to meet reporting obligations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

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

We lease a 406,000 square foot build-to-suit distribution center located in Florence, New Jersey (the “DC Lease”). The DC Lease has an expiration date of May 2030. In addition, we have three option periods, each for five years, to extend the DC Lease for a total of an additional 15 years after the expiration of the initial term. We believe that our facilities will be adequate to support our anticipated distribution needs. In the event we need additional space to meet our future distribution needs, we believe that such space would be readily available.

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

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

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

As of February 2, 2019, the following numbers of store leases are set to expire during our future fiscal years ending on the Saturday nearest January 31 of each year, as listed in the table below. We do not expect the expiration of any leases to have a material adverse impact on our business or operations.

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

In addition to the stores we operate, we have arrangements with department and specialty stores, including Macy’s, buybuy BABY and Boscov’s to operate maternity apparel departments in their stores. These leased departments typically involve the retail partner collecting all of the revenue from the leased department. The revenue is remitted to us, less a fixed percentage of the net sales earned by the retail partner as stipulated in the agreement. We provide at least some amount of staffing for each of the leased departments, with the amount varying depending on the specific arrangement. Generally, under each of our leased department agreements, our retail partner has the right to terminate any or all of our rights to operate our leased departments in their stores subject to varying notice requirements.

Item 3. Legal Proceedings

From time to time, we are named as a defendant in legal actions arising from our normal business activities. Litigation is inherently unpredictable and although the amount of any liability that could arise with respect to currently pending actions cannot be accurately predicted, we do not believe that the resolution of any pending action will have a material adverse effect on our financial position, results of operations or liquidity.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Global Select Market under the symbol “DEST.”

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

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

Under our Amended and Restated 2005 Equity Incentive Plan (the “2005 Plan”) awards may be granted in the form of options, stock appreciation rights, restricted stock, restricted stock units or deferred stock units. Up to 3,550,000 shares of our common stock may be issued in respect of awards under our 2005 Plan. No more than 2,250,000 of those shares are permitted to be issued in respect of restricted stock, restricted stock units or deferred stock units, with a limit of 177,500 shares that may be issued with service requirements of less than one year.

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

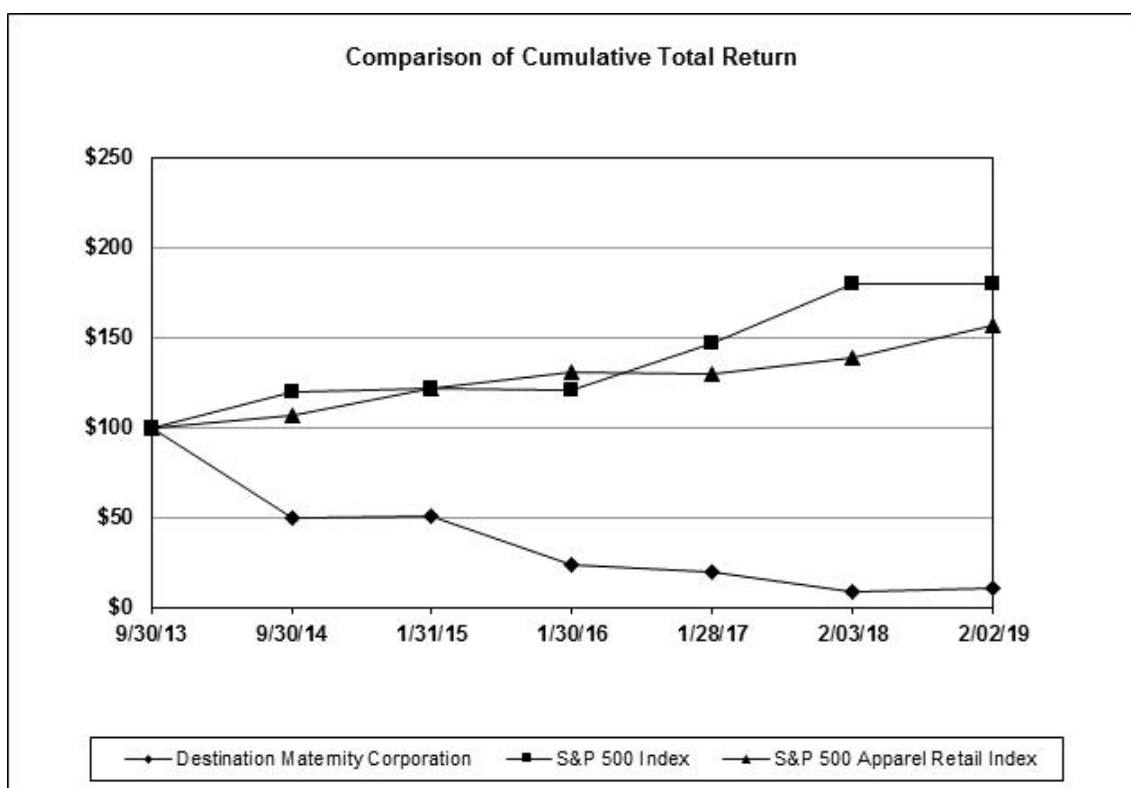
<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Program</u>	<u>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</u>
November 4, 2018 to December 1, 2018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

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

Stock Price Performance Graph

The graph below compares the cumulative total stockholder return on our common stock for the period from September 30, 2013 to February 2, 2019 with the cumulative total return of the Standard & Poor's 500 Index and the Standard & Poor's 500 Apparel Retail Index. The comparison assumes \$100 was invested on September 30, 2013 in our common stock and in each of the foregoing indices and assumes reinvestment of dividends. The stock performance shown in the graph is not intended to forecast or be indicative of future performance.

COMPARISON OF CUMULATIVE TOTAL RETURN Among Destination Maternity Corporation, the S&P 500 Index and the S&P 500 Apparel Retail Index



Fiscal periods ended as follows:

	Year Ended		Four Months Ended	Year Ended			
	September 30, 2013	September 30, 2014	January 31, 2015	January 30, 2016	January 28, 2017	February 3, 2018	February 2, 2019
Destination Maternity Corporation	\$ 100.00	\$ 50.14	\$ 50.35	\$ 23.71	\$ 19.99	\$ 8.47	\$ 10.46
S&P 500 Index	\$ 100.00	\$ 119.73	\$ 121.87	\$ 121.06	\$ 146.32	\$ 179.73	\$ 179.63
S&P 500 Apparel Retail Index	\$ 100.00	\$ 106.46	\$ 121.47	\$ 130.65	\$ 130.19	\$ 138.83	\$ 156.97

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	Year Ended
	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016	Months Ended January 31, 2015	September 30, 2014
(in thousands, except per share amounts)						
Consolidated Statement of Operations Data:						
Net sales	\$ 383,750	\$ 406,207	\$ 433,699	\$ 498,753	\$ 165,644	\$ 516,959
Cost of goods sold	185,603	192,355	206,271	252,713	96,667	247,501
Gross profit	198,147	213,852	227,428	246,040	68,977	269,458
Selling, general and administrative expenses	198,331	218,656	223,881	246,914	86,688	250,253
Store closing, asset impairment and asset disposal (income) expenses	3,838	6,292	2,768	(2,084)	4,599	1,469
Other charges, net	5,580	4,912	4,914	6,979	5,354	3,229
Operating income (loss)	(9,602)	(16,008)	(4,135)	(5,769)	(27,664)	14,507
Interest expense, net	4,828	4,045	3,575	1,520	242	404
Loss on extinguishment of debt	—	1,542	—	—	—	—
Income (loss) before income taxes	(14,430)	(21,595)	(7,710)	(7,289)	(27,906)	14,103
Income tax provision (benefit)	(103)	2	25,050	(2,806)	(10,526)	3,606
Net income (loss)	\$ (14,327)	\$ (21,597)	\$ (32,760)	\$ (4,483)	\$ (17,380)	\$ 10,497
Net income (loss) per share—Basic	\$ (1.03)	\$ (1.57)	\$ (2.39)	\$ (0.33)	\$ (1.28)	\$ 0.78
Average shares outstanding—Basic	13,889	13,788	13,702	13,596	13,541	13,451
Net income (loss) per share—Diluted	\$ (1.03)	\$ (1.57)	\$ (2.39)	\$ (0.33)	\$ (1.28)	\$ 0.77
Average shares outstanding—Diluted	13,889	13,788	13,702	13,596	13,541	13,572

	Year Ended				Four	Year Ended
	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016	Months Ended January 31, 2015	September 30, 2014
(unaudited; in thousands, except operating data, ratios and per share amounts)						
Operating Data:						
Comparable sales decrease – reported basis (1) (2) (3)	(1.8) %	(1.5) %	(5.3) %	(1.5) %	(2.0) %	(3.7) %
Comparable sales decrease – adjusted for calendar timing shift (1) (2) (3)	N.A.	N.A.	N.A.	N.A.	(2.7) %	(3.7) %
Internet sales increase	13.6 %	40.7 %	9.0 %	0.7 %	13.8 %	2.6 %
Average net sales per gross square foot (4)	\$ 220	\$ 232	\$ 255	\$ 254	\$ 85	\$ 272
Average net sales per store (4)	\$ 483,000	\$ 512,000	\$ 559,000	\$ 555,000	\$ 184,000	\$ 579,000
Gross store square footage at period end (5)	995,000	1,053,000	1,131,000	1,164,000	1,226,000	1,233,000
Gross retail location square footage at period end (6)	1,326,000	1,431,000	1,549,000	1,766,000	1,841,000	1,855,000
Number of retail locations at period end:						
Motherhood Maternity stores	362	385	408	425	450	454
A Pea in the Pod stores	26	27	26	23	24	25
Destination Maternity stores	70	75	81	88	90	89
Total stores	458	487	515	536	564	568
Leased departments	554	637	705	1,279	1,311	1,326
Total retail locations	1,012	1,124	1,220	1,815	1,875	1,894

Other Consolidated Financial Data:

Adjusted EBITDA (7) (8)	\$ 10,446	\$ 8,862	\$ 18,358	\$ 16,101	\$ (16,815)	\$ 30,556
Adjusted EBITDA margin (adjusted EBITDA as a percentage of net sales) (8)	2.7 %	2.2 %	4.2 %	3.2 %	(10.2) %	5.9 %
Adjusted EBITDA before other charges (7) (8)	16,026	13,010	23,272	22,847	(11,732)	36,768
Adjusted EBITDA margin before other charges (8)	4.2 %	3.2 %	5.4 %	4.6 %	(7.1) %	7.1 %
Adjusted net income (loss) (8)	(6,711)	(10,193)	(1,946)	(168)	(14,109)	10,700
Adjusted net income (loss) per share - Diluted (8)	\$ (0.48)	(0.74)	(0.14)	(0.01)	(1.04)	0.79
Cash flows (used in) provided by operating activities	(1,811)	8,869	10,711	16,094	3,831	25,845
Cash flows used in investing activities	(4,612)	(6,667)	(12,785)	(29,400)	(21,866)	(29,544)
Cash flows provided by (used in) financing activities	5,946	(3,428)	2,816	14,081	6,805	(8,279)
Capital expenditures	(4,612)	(6,649)	(12,690)	(29,272)	(21,098)	(40,185)

Consolidated Balance Sheet Data (at end of period):

Cash and cash equivalents	\$ 1,154	\$ 1,635	\$ 2,859	\$ 2,116	\$ 1,349	\$ 12,580
Working capital	11,696	15,715	26,483	15,851	37,433	56,276
Total assets	146,174	162,582	175,987	219,074	220,060	230,533
Total debt	46,556	36,589	43,033	40,599	15,000	—
Net (debt) cash (8) (9)	(45,402)	(34,954)	(40,174)	(38,483)	(13,651)	12,580
Stockholders' equity	27,151	40,668	61,150	92,898	106,002	125,521

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 Ended	Year Ended
	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014
Net income (loss)	\$ (14,327)	\$ (21,597)	\$ (32,760)	\$ (4,483)	\$ (17,380)	\$ 10,497
Income tax provision (benefit)	(103)	2	25,050	(2,806)	(10,526)	3,606
Interest expense, net	4,828	4,045	3,575	1,520	242	404
Loss on extinguishment of debt	—	1,542	—	—	—	—
Operating income (loss)	(9,602)	(16,008)	(4,135)	(5,769)	(27,664)	14,507
Depreciation and amortization expense	15,505	17,592	18,032	17,231	5,223	15,197
Loss on impairment of long-lived assets	3,137	5,775	2,388	1,662	4,444	1,136
Loss (gain) on disposal of assets	435	349	272	193	109	(4,031)
Stock-based compensation expense	971	1,154	1,801	2,784	1,073	3,747
Adjusted EBITDA	10,446	8,862	18,358	16,101	(16,815)	30,556
Other charges (1)	5,580	4,912	4,914	6,746	5,083	6,212
Change in accounting principle	—	(764)	—	—	—	—
Adjusted EBITDA before other charges	<u>\$ 16,026</u>	<u>\$ 13,010</u>	<u>\$ 23,272</u>	<u>\$ 22,847</u>	<u>\$ (11,732)</u>	<u>\$ 36,768</u>
Adjusted EBITDA margin	2.7 %	2.2 %	4.2 %	3.2 %	(10.2) %	5.9 %
Adjusted EBITDA margin before other charges	4.2 %	3.2 %	5.4 %	4.6 %	(7.1) %	7.1 %

(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 exclude 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 Ended	Year Ended
	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015	September 30, 2014
Net income (loss)	\$ (14,327)	\$ (21,597)	\$ (32,760)	\$ (4,483)	\$ (17,380)	\$ 10,497
Adjustments to net income (loss)						
Other charges	5,580	4,912	4,914	6,979	5,354	3,229
Loss on extinguishment of debt	—	1,542	—	—	—	—
Effect of change in accounting principle	—	(764)	—	—	—	—
Tax effect of adjustments to net income (loss) (1)	(1,298)	(2,044)	(1,858)	(2,664)	(2,028)	(1,202)
Deferred tax valuation allowance	3,334	7,758	27,758	—	—	—
Reduction of income tax expense related to settlement of uncertain tax positions	—	—	—	—	(55)	(1,824)
Adjusted net income (loss)	<u>\$ (6,711)</u>	<u>\$ (10,193)</u>	<u>\$ (1,946)</u>	<u>\$ (168)</u>	<u>\$ (14,109)</u>	<u>\$ 10,700</u>
Net income (loss) per share—Diluted	<u>\$ (1.03)</u>	<u>\$ (1.57)</u>	<u>\$ (2.39)</u>	<u>\$ (0.33)</u>	<u>\$ (1.28)</u>	<u>\$ 0.77</u>
Average shares outstanding—Diluted	<u>13,889</u>	<u>13,788</u>	<u>13,702</u>	<u>13,596</u>	<u>13,541</u>	<u>13,572</u>
Adjusted net income (loss) per share—Diluted	<u>\$ (0.48)</u>	<u>\$ (0.74)</u>	<u>\$ (0.14)</u>	<u>\$ (0.01)</u>	<u>\$ (1.04)</u>	<u>\$ 0.79</u>
Average shares outstanding—Diluted	<u>13,889</u>	<u>13,788</u>	<u>13,702</u>	<u>13,596</u>	<u>13,541</u>	<u>13,572</u>

(1) Income tax effect 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

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

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

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

Comparable 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, as well as Internet sales. Our comparable 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). Comparable sales exclude the 53rd week of sales for 53-week fiscal years. In the 52-week fiscal year subsequent to a 53-week fiscal year, we exclude the sales in the non-comparable week from the comparable sales calculation. There may be variations in the way in which other retailers calculate comparable sales. As a result, data in this quarterly report regarding our comparable sales may not be comparable to similar data made available by other retailers.

Financing Commitment Letter

On September 26, 2018, the Company entered into a commitment letter with Bank of America, pursuant to which, and subject to the terms and conditions set forth therein, Bank of America committed to provide to the Company certain five-year asset-based senior secured facilities consisting of an ABL with an aggregate commitment of \$52 million and a FILO Term Loan with an aggregate principal amount of \$24 million. The commitment letter had an original expiration date of December 26, 2018. On December 14, 2018 an amendment to the commitment letter was executed, extending the expiration date to April 30, 2019 and increasing the commitment in respect of the FILO term loan from \$24 million to \$25 million. On April 9, 2019 the Company and Bank of America mutually agreed to terminate the commitment letter.

Proxy Solicitation

In the first quarter of fiscal 2018 we received notification from a stockholder group (“the Stockholder Group”), of the nomination of a slate of alternative nominees for election to our Board of Directors at the Annual Meeting of Stockholders that was held on May 23, 2018 (the “Proxy Solicitation”). At our 2018 Annual Meeting of Stockholders held on May 23, 2018, the Company’s stockholders replaced the incumbent board in its entirety and elected Holly N. Alden, Christopher B. Morgan, Marla A. Ryan and Anne-Charlotte Windal as our new Board of Directors. During fiscal 2018 we incurred \$2.2 million of charges related to the Proxy Solicitation.

Proposed Merger

On December 19, 2016 we entered into the Merger Agreement with Orchestra. Despite substantial and sustained efforts by both parties, and in light of the challenges of satisfying applicable securities regulations in France and in the United States, particularly in connection with the completion of the registration and listing of Orchestra securities in the United States, the parties determined that it was in the best interests of their respective stockholders to terminate the Merger Agreement. Accordingly, on July 27, 2017 we, Orchestra, and certain other affiliates of Orchestra entered into a Termination Agreement pursuant to which the parties agreed to terminate the Merger Agreement. We and Orchestra agreed to reimburse each other for certain costs incurred in connection with their effort to implement the Merger Agreement, with a net amount of \$1.0 million paid to us on July 31, 2017. In fiscal 2017 and fiscal 2016 we recognized \$1.2 million and \$3.2 million, respectively, of charges related to the Proposed Merger.

Management and Organizational Changes

We have engaged in a series of management and organizational changes over the last several years. Through these actions, we are attempting to identify further opportunities to become more profitable in the near future, by increasing both revenue and gross margins while reducing expenses.

During fiscal 2018, 2017 and 2016 we recognized \$3.4 million, \$3.7 million and \$1.8 million, respectively, of charges related to management and organizational changes.

Fiscal 2018 Financial Results

Presented below is a summary of our results for the years ended February 2, 2019 and February 3, 2018 with regard to each of the key measures noted above.

- Net sales for fiscal 2018 decreased 5.5% to \$383.8 million from \$406.2 million for fiscal 2017.

Comparable sales for fiscal 2018 decreased 1.8% versus a comparable sales decrease of 1.5% for fiscal 2017.

- Net loss for fiscal 2018 was \$14.3 million, or \$1.03 per share (diluted), compared to net loss of \$21.6 million, or \$1.57 per share (diluted), for fiscal 2017.

Adjusted net loss for fiscal 2018 includes other charges of \$4.3 million, net of tax and a \$3.3 million tax valuation allowance.

Adjusted net loss for fiscal 2018 was \$6.7 million, or \$0.48 per share (diluted), compared to the comparably adjusted net loss for fiscal 2017 of \$10.2 million, or \$0.74 per share (diluted).

- Adjusted EBITDA was \$10.4 million for fiscal 2018, compared to \$8.9 million of Adjusted EBITDA for fiscal 2017.

Adjusted EBITDA before other charges was \$16.0 million for fiscal 2018, compared to \$13.0 million of Adjusted EBITDA before other charges for fiscal 2017.

Fiscal Year Ended February 2, 2019 Compared to Fiscal Year Ended February 3, 2018

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					
	February 2, 2019			February 3, 2018		
	Amount (in thousands)	% of Net Sales (1)		Amount (in thousands)	% of Net Sales (1)	Period to Period % Favorable (Unfavorable)
Net sales	\$ 383,750	100.0 %		\$ 406,207	100.0 %	(5.5) %
Cost of goods sold (2)	185,603	48.4		192,355	47.4	3.5
Gross profit	198,147	51.6		213,852	52.6	(7.3)
Selling, general and administrative expenses (3)	198,331	51.7		218,656	53.8	9.3
Store closing, asset impairment and asset disposal expenses	3,838	1.0		6,292	1.5	39.0
Other charges, net	5,580	1.5		4,912	1.2	13.6
Operating loss	(9,602)	(2.5)		(16,008)	(3.9)	40.0
Interest expense, net	4,828	1.3		4,045	1.0	(19.4)
Loss on extinguishment of debt	—	—		1,542	0.4	100.0
Loss before income taxes	(14,430)	(3.8)		(21,595)	(5.3)	33.2
Income tax (benefit) provision	(103)	(0.0)		2	0.0	5,250.0
Net loss	\$ (14,327)	(3.8) %		\$ (21,597)	(5.3) %	33.7 %

(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 net realizable value 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 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 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 (1)	Twelve Months Ended					
	February 2, 2019			February 3, 2018		
	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations
Beginning of period	487	637	1,124	515	705	1,220
Opened	2	2	4	7	7	14
Closed	(31)	(85)	(116)	(35)	(75)	(110)
End of period	458	554	1,012	487	637	1,124

	Twelve Months Ended					
	February 2, 2019			February 3, 2018		
	Stores	Shop-in-Shop Locations	Total International Franchised Locations	Stores	Shop-in-Shop Locations	Total International Franchised Locations
International Franchised Locations						
Beginning of period	15	173	188	19	194	213
Opened	—	7	7	—	8	8
Closed	(6)	(5)	(11)	(4)	(29)	(33)
End of period	9	175	184	15	173	188

Net Sales. Our net sales for fiscal 2018 decreased by 5.5%, or \$22.4 million, to \$383.8 million from \$406.2 million for fiscal 2017. Comparable sales for fiscal 2018 decreased 1.8% compared to a comparable sales decrease of 1.5% for fiscal 2017. The decrease in total sales for fiscal 2018 compared to fiscal 2017 resulted primarily from the net closure of 29 stores, 83 leased departments and the 1.8 % decline in comparable store sales, which reflects the net result of a decrease in brick and mortar comparable sales of 6.2% and an increase in e-commerce sales of 13.6%, the additional sales in fiscal 2017 for the 53rd week in the retail calendar and the recognition of \$0.8 million of revenue in fiscal 2017 related to a change in our method of accounting for gift card breakage.

As of February 2, 2019, we operated a total of 458 stores and 1,012 total retail locations: 362 Motherhood Maternity stores (including 93 Motherhood Maternity Outlet stores), 26 A Pea in the Pod stores, 70 Destination Maternity stores, and 554 leased maternity apparel departments. In comparison, as of February 3, 2018 we operated a total of 487 stores and 1,124 total retail locations: 385 Motherhood Maternity stores (including 96 Motherhood Maternity Outlet stores), 27 A Pea in the Pod stores, 75 Destination Maternity stores, and 637 leased maternity apparel departments. As of February 2, 2019, our store total included 70 multi-brand Destination Maternity nameplate stores, including 38 Destination Maternity combo stores and 32 Destination Maternity superstores. In comparison, as of February 3, 2018 we operated 75 multi-brand Destination Maternity nameplate stores, including 43 Destination Maternity combo stores and 32 Destination Maternity superstores. During fiscal 2018 we opened 2 stores and closed 31 stores. In addition, during fiscal 2018 we opened two leased department locations and closed 85 leased department locations.

Gross Profit. Our gross profit for fiscal 2018 decreased by 7.3%, or \$15.8 million, to \$198.1 million from \$213.9 million for fiscal 2017, and our gross margin for fiscal 2018 was 51.6% compared to 52.6% for fiscal 2017. The decrease in gross profit for fiscal 2018 compared to fiscal 2017 was primarily due to our lower sales volume as a result of the factors discussed above and the decrease in gross margin. The year over year decrease in gross margin is primarily the result of increased markdown and promotional activity to more aggressively manage inventory in addition to the increase in e-commerce sales as a percent of total retail sales, as e-commerce sales have historically generated lower gross margins than sales through our retail outlets.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses for fiscal 2018 decreased by 9.3%, or \$20.4 million, to \$198.3 million from \$218.7 million for fiscal 2017. As a percentage of net sales, selling, general and administrative expenses decreased to 51.7% for fiscal 2018 from 53.8% for fiscal 2017. This decrease in expense in fiscal 2018 compared to fiscal 2017 reflects cost reductions in employee costs and occupancy expenses resulting from the closure of underperforming stores, ongoing expense reduction initiatives and expenses related to the additional 53rd week of operations in fiscal 2017.

Store Closing, Asset Impairment and Asset Disposal Expenses. For fiscal 2018 we had \$3.8 million of expense from store closings, asset impairments and asset disposals compared to \$6.3 million of expense for fiscal 2017. This reduction is primarily the result of a decrease in retail store asset impairment expenses as many of our poorly performing location have previously been impaired.

Other Charges, Net. In fiscal 2018 we incurred other charges of \$5.6 million, comprised of \$3.4 million of personnel costs and consulting fees related to our ongoing management and organizational change initiatives and \$2.2 million of expenses related to the proxy solicitation activities that occurred primarily in the first and second quarters of the year. In fiscal 2017 we incurred other charges of \$4.9 million related to a proposed business combination and other corporate activities, and to management and organizational changes. Other net charges related to the proposed business combination and other corporate activities were approximately \$1.2 million, primarily for legal and advisory fees. Other charges related to management and organizational changes were \$3.7 million, primarily for costs related to severance and other benefits related to our former Chief Executive Officer and other reductions in headcount, consulting fees, and retention bonuses for certain key management.

Operating Loss. We had an operating loss of \$9.6 million for fiscal 2018 compared to an operating loss of \$16.0 million for fiscal 2017. The \$6.4 million decrease in operating loss reflects the reduction in selling, general and administrative expenses, partially offset by lower gross profit as a result of the decline in sales volume and gross margin.

Interest Expense, Net. Our net interest expense for fiscal 2018 increased to \$4.8 million from \$4.0 million in fiscal 2017. This increase was due to an increase in the variable interest component of our Term Loan and Credit Facility and an increase in the average outstanding balance of our Credit Facility partially offset by reductions in the principle balance of our Term Note and equipment financings.

Income Tax (Benefit) Provision. For fiscal 2018 our income tax benefit was \$0.1 million compared to income tax provision of \$0.0 million for fiscal 2017. The fiscal 2018 tax benefit is the result a reversal of an uncertain tax position liability partially offset by minimum state and foreign withholding taxes. The Company is not able to record a tax benefit against its net losses due to a three-year cumulative loss position. Accounting Standards Codification Topic 740, *Income Taxes*, requires that a valuation allowance be recorded against deferred tax assets when it is more likely than not that the tax benefit of the deferred tax assets will not be realized, and three years of cumulative losses is one of the indicators that require a valuation to be recorded.

Net Loss. Net loss for fiscal 2018 was \$14.3 million, or \$1.03 per share (diluted), compared to net loss of \$21.6 million, or \$1.57 per share (diluted), for fiscal 2017. Adjusted net loss for fiscal 2018 includes other charges of \$4.3 million, net of tax, related to the proxy solicitation and management and organizational changes and a \$3.3 million, non-cash charge related to a change in the valuation allowance against net deferred tax assets. After these adjustments, our adjusted net loss for fiscal 2018 was \$6.7 million, or \$0.48 per share (diluted). Adjusted net loss for fiscal 2017 includes a \$7.8 million, non-cash charge related to a change in the valuation allowance against net deferred tax assets, other charges of \$3.2 million, net of tax related to management and organizational changes, and the proposed merger, and a non-cash charge from the loss on extinguishment of debt, net of tax, of \$1.0 million and revenue of \$0.5 million, net of tax, related to a cumulative adjustments for change in accounting principle. After these adjustments, our adjusted net loss for fiscal 2017 was \$10.2 million, or \$0.74 per share (diluted).

Our average diluted shares outstanding of 13.9 million for fiscal 2018 were slightly higher than the 13.8 million average diluted shares outstanding for fiscal 2017. We had higher shares outstanding in fiscal 2018 compared to fiscal 2017 as a result of the vesting of 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 February 2, 2019 and February 3, 2018 (in thousands, except per share amounts):

	Twelve Months Ended					
	February 2, 2019			February 3, 2018		
	Net Loss	Diluted Shares	Diluted EPS	Net Loss	Diluted Shares	Diluted EPS
Net loss as reported	\$ (14,327)	13,889	\$ (1.03)	\$ (21,597)	13,788	\$ (1.57)
Adjustments to net loss						
Other charges	5,580	—		4,912	—	
Loss on extinguishment of debt	—	—		1,542	—	
Effect of change in accounting principle	—	—		(764)	—	
Income tax effect of adjustments to net loss (1)	(1,298)	—		(2,044)	—	
Deferred tax valuation allowance	3,334	—		7,758	—	
Net loss as adjusted	<u>\$ (6,711)</u>	<u>13,889</u>	<u>\$ (0.48)</u>	<u>\$ (10,193)</u>	<u>13,788</u>	<u>\$ (0.74)</u>

(1) Income tax effect of adjustments to net loss represents the differences in income tax provision calculated with and without the specified pretax expense.

Following is a reconciliation of net loss to Adjusted EBITDA and Adjusted EBITDA before other charges for the twelve months ended February 2, 2019 and February 3, 2018 (in thousands):

	Twelve Months Ended	
	February 2, 2019	February 3, 2018
Net loss	\$ (14,327)	\$ (21,597)
Income tax (benefit) provision	(103)	2
Interest expense, net	4,828	4,045
Loss on extinguishment of debt	-	1,542
Operating loss	<u>(9,602)</u>	<u>(16,008)</u>
Depreciation and amortization expense	15,505	17,592
Loss on impairment of long-lived assets	3,137	5,775
Loss on disposal of assets	435	349
Stock-based compensation expense	971	1,154
Adjusted EBITDA	10,446	8,862
Other charges	5,580	4,912
Effect of change in accounting principle	-	(764)
Adjusted EBITDA before other charges and effect of change in accounting principle	<u>\$ 16,026</u>	<u>\$ 13,010</u>

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)
	February 3, 2018		January 28, 2017		
	Amount (in thousands)	% of Net Sales (1)	Amount (in thousands)	% of Net Sales (1)	
Net sales	\$ 406,207	100.0 %	\$ 433,699	100.0 %	(6.3) %
Cost of goods sold (2)	192,355	47.4	206,271	47.6	6.7
Gross profit	213,852	52.6	227,428	52.4	(6.0)
Selling, general and administrative expenses (3)	218,656	53.8	223,881	51.6	2.3
Store closing, asset impairment and asset disposal expenses	6,292	1.5	2,768	0.6	(127.3)
Other charges, net	4,912	1.2	4,914	1.1	0.0
Operating loss	(16,008)	(3.9)	(4,135)	(1.0)	(287.1)
Interest expense, net	4,045	1.0	3,575	0.8	(13.1)
Loss on extinguishment of debt	1,542	0.4	—	—	—
Loss before income taxes	(21,595)	(5.3)	(7,710)	(1.8)	(180.1)
Income tax provision	2	0.0	25,050	5.8	(100.0)
Net loss	\$ (21,597)	(5.3) %	\$ (32,760)	(7.6) %	(34.1) %

(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 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 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 (1)	Twelve Months Ended					
	February 3, 2018			January 28, 2017		
	Stores	Leased Departments	Total Retail Locations	Stores	Leased Departments	Total Retail Locations
Beginning of period	515	705	1,220	536	1,279	1,815
Opened	7	7	14	11	10	21
Closed	(35)	(75)	(110)	(32)	(584)	(616)
End of period	487	637	1,124	515	705	1,220

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

	Twelve Months Ended					
	February 3, 2018			January 28, 2017		
	Stores	Shop-in-Shop Locations	Total International Franchised Locations	Stores	Shop-in-Shop Locations	Total International Franchised Locations
International Franchised Locations						
Beginning of period	19	194	213	25	168	193
Opened	—	8	8	2	64	66
Closed	(4)	(29)	(33)	(8)	(38)	(46)
End of period	15	173	188	19	194	213

Net Sales. Our net sales for fiscal 2017 decreased by 6.3%, or \$27.5 million, to \$406.2 million from \$433.7 million for fiscal 2016. Comparable sales for fiscal 2017 decreased 1.5% compared to a comparable sales decrease of 5.3% for fiscal 2016. The decrease in total sales for fiscal 2017 compared to fiscal 2016 resulted primarily from the wind down of the Kohl's, Sears and Gordmans relationships, the net closure of locations, the decline in comparable store sales of 1.5%, which reflects the net result of a decrease in brick and mortar comparable sales of 9.2% and an increase in e-commerce sales of 40.7%. These decreases were partially offset by increases in fiscal 2017 related to sales during the 53rd week of the retail calendar and the recognition of \$0.8 million of revenue related to a change in our method of accounting for gift card breakage.

As of February 3, 2018, we operated a total of 487 stores and 1,124 total retail locations: 385 Motherhood Maternity stores (including 96 Motherhood Maternity Outlet stores), 27 A Pea in the Pod stores, 75 Destination Maternity stores, and 637 leased maternity apparel departments. In comparison, 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. As of February 3, 2018, our store total included 75 multi-brand Destination Maternity nameplate stores, including 43 Destination Maternity combo stores and 32 Destination Maternity superstores. In comparison, as of January 28, 2017 we operated 81 multi-brand Destination Maternity nameplate stores, including 48 Destination Maternity combo stores and 33 Destination Maternity superstores. During fiscal 2017 we opened 7 stores and closed 35 stores. In addition, during fiscal 2017 we opened 7 leased department locations and closed 75 leased department locations.

Gross Profit. Our gross profit for fiscal 2017 decreased by 6.0%, or \$13.5 million, to \$213.9 million from \$227.4 million for fiscal 2016, and our gross margin for fiscal 2017 was 52.6% compared to 52.4% for fiscal 2016. The decrease in gross profit for fiscal 2017 compared to fiscal 2016 was primarily due to our lower sales volume as a result of the factors discussed above, partially offset by the increased gross margin. The year over year increase in gross margin primarily reflects reduced product costs and our exit from former leased department and licensed relationships, which historically generated lower than average gross margins.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses for fiscal 2017 decreased by 2.3%, or \$5.2 million, to \$218.7 million from \$223.9 million for fiscal 2016. As a percentage of net sales, selling, general and administrative expenses increased to 53.8% for fiscal 2017 from 51.6% for fiscal 2016. This decrease in expense in fiscal 2017 compared to fiscal 2016 reflects cost reductions resulting from our continued closure of underperforming stores, the wind down of the Kohl's, Sears and Gordmans relationships and other employee cost reductions, partially offset by increased marketing and advertising costs related to the increase in e-commerce sales, and expenses related to the additional 53rd week of operations in fiscal 2017. The increase in expense as a percent of sales 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 2017 we had \$6.3 million of expense from store closings, asset impairments and asset disposals compared to \$2.8 million of expense for fiscal 2016.

Other Charges, Net. In fiscal 2017 we incurred other charges of \$4.9 million related to a proposed business combination and other corporate activities, and to management and organizational changes. Other net charges related to the proposed business combination and other corporate activities were approximately \$1.2 million, primarily for legal and advisory fees. Other charges related to management and organizational changes were \$3.7 million, primarily for costs related to severance and other benefits related to our former Chief Executive Officer and other reductions in headcount, consulting fees, and retention bonuses for certain key management. In fiscal 2016 we incurred other charges of \$4.9 million related to a proposed business combination, 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.

Operating Loss. We had an operating loss of \$16.0 million for fiscal 2017 compared to an operating loss of \$4.1 million for fiscal 2016. The \$11.9 million increase in operating loss reflects our lower gross profit as a result of the decline in sales volume, as well as higher asset impairment charges, partially offset by reduced selling, general and administrative expenses.

Interest Expense, Net. Our net interest expense for fiscal 2017 increased to \$4.0 million from \$3.6 million in fiscal 2016. This increase was due to our higher effective borrowing rate and timing related to our first quarter of fiscal 2016 debt refinancing and interest expense for our new equipment financing arrangement. This increase was partially offset by lower average borrowings under our Credit Facility and reductions in the principal balance under our term loan and prior equipment note.

Loss on Extinguishment of Debt. During fiscal 2017 we recorded a loss on extinguishment of debt of \$1.5 million as a result of the repayment of our outstanding term loan. Refer to Note 9, "Long-term Debt," in our Notes to Consolidated Financial Statements for further details on our debt transactions.

Income Tax Provision (Benefit). The 2017 U.S. Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. The TCJA includes a number of changes to the U.S. corporate income tax, including a reduction of the corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017, enhancing and extending through 2026 the option to claim accelerated depreciation on qualified property, eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be utilized, a new limitation on deductible interest expense and limitations on the use of net operating loss carryforwards created in tax years beginning after December 31, 2017. For fiscal 2017 the Company used a blended effective tax rate of 33.7% which represents the pro-rata percentage from the TCJA's January 1, 2018 effective date and our February 3, 2018 fiscal year-end. The Company recorded an \$10.2 million reduction in our net deferred tax asset to reflect the remeasurement of the asset value from a tax rate of 35% to 21%. The Company had previously recorded a valuation allowance against its deferred tax assets therefore the revaluation did not have an impact on our 2017 tax provision.

For fiscal 2017 our income tax provision was \$0.0 million compared to income tax provision of \$25.1 million for fiscal 2016. 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. In fiscal 2017 we continued to record a valuation allowance against our deferred tax assets. Our effective tax rate for fiscal 2017, excluding the effect of the valuation allowance and impact on the value of our deferred tax assets from the rate change enacted under the TCJA, was a benefit of 33.2% compared to a benefit of 35.1% for fiscal 2016. This benefit reduction was primarily the result of the reduction in the federal effective tax rate from 35% in fiscal 2016 to 33.7% in fiscal 2017.

Net Loss. Net loss for fiscal 2017 was \$21.6 million, or \$1.57 per share (diluted), compared to net loss of \$32.8 million, or \$2.39 per share (diluted), for fiscal 2016. Adjusted net loss for fiscal 2017 includes a \$7.8 million, non-cash charge related to a change in the valuation allowance against net deferred tax assets, other charges of \$3.2 million, net of tax, related to management and organizational changes, and the now terminated merger, a non-cash charge from the loss on extinguishment of debt, net of tax, of \$1.0 million and revenue of \$0.5 million net of tax, related to a cumulative adjustment for change in accounting principle. After these adjustments, our adjusted net loss for fiscal 2017 was \$10.2 million, or \$0.74 per share (diluted). Adjusted 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. Before these charges, our adjusted net loss for fiscal 2016 was \$1.9 million, or \$0.14 per share (diluted).

Our average diluted shares outstanding of 13.8 million for fiscal 2017 were slightly higher than the 13.7 million average diluted shares outstanding for fiscal 2016. We had higher shares outstanding in fiscal 2017 compared to fiscal 2016 as a result of the vesting of 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 February 3, 2018 and January 28, 2017 (in thousands, except per share amounts):

	Twelve Months Ended					
	February 3, 2018			January 28, 2017		
	Net Loss	Diluted Shares	Diluted EPS	Net Loss	Diluted Shares	Diluted EPS
Net loss as reported	\$ (21,597)	13,788	\$ (1.57)	\$ (32,760)	13,702	\$ (2.39)
Adjustments to net loss						
Other charges	4,912	—		4,914	—	
Loss on extinguishment of debt	1,542	—		—	—	
Effect of change in accounting principle	(764)	—		—	—	
Income tax effect of adjustments to net loss (1)	(2,044)	—		(1,858)	—	
Deferred tax valuation allowance	7,758	—		27,758	—	
Net loss as adjusted	<u>\$ (10,193)</u>	<u>13,788</u>	\$ (0.74)	<u>\$ (1,946)</u>	<u>13,702</u>	\$ (0.14)

(1) Income tax effect of adjustments to net loss represents the differences in income tax provision calculated with and without the specified pretax expense.

Following is a reconciliation of net loss to Adjusted EBITDA and Adjusted EBITDA before other charges for the twelve months ended February 3, 2018 and January 28, 2017 (in thousands):

	Twelve Months Ended	
	February 3, 2018	January 28, 2017
Net loss	\$ (21,597)	\$ (32,760)
Income tax provision	2	25,050
Interest expense, net	4,045	3,575
Loss on extinguishment of debt	1,542	-
Operating loss	(16,008)	(4,135)
Depreciation and amortization expense	17,592	18,032
Loss on impairment of long-lived assets	5,775	2,388
Loss on disposal of assets	349	272
Stock-based compensation expense	1,154	1,801
Adjusted EBITDA	8,862	18,358
Other charges	4,912	4,914
Effect of change in accounting principle	(764)	-
Adjusted EBITDA before other charges and effect of change in accounting principle	<u>\$ 13,010</u>	<u>\$ 23,272</u>

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) investment in information systems and technology, 2) debt service, including principal repayments, and 3) 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 decreased by \$0.5 million during fiscal 2018 compared to a decrease of \$1.2 million during fiscal 2017.

Cash used in operations was \$1.8 million for fiscal 2018, a decrease of \$10.7 million from the \$8.9 million in cash provided by operations for fiscal 2017. This decrease in cash provided by operations versus the comparable prior year period was primarily the result of an \$12.4 million increase in our net investment in inventory, (change in inventory less change in accounts payable), and a \$4.7 million reduction in depreciation, amortization and impairment of long-lived assets, partially offset by a \$7.3 million reduction in our net loss.

On February 1, 2018 (the “Closing Date”) the Company entered into a Term Loan Credit Agreement (the “Term Loan Agreement”) which provides for a term loan of up to \$25.0M (the “Term Loan”). On the Closing Date we borrowed \$22.5M against

The Term Loan and used the proceeds, in addition to \$3.6M borrowed under our Credit Facility to pay off the balance of our then existing term loan (the “Prior Term Loan”) and fees relating to the financing.

The Term Loan, which matures on January 31, 2023 (the “Maturity Date”), provided for an additional loan of \$2.5M which can be borrowed at the Company’s discretion within a period of 45 days after delivery to the lender of our first quarter fiscal 2018 financial statement and the satisfaction of certain other requirements. The Company met these requirements and borrowed the additional \$2.5 million on July 16, 2018. There is a minimum excess availability requirement of the greater of 10% of the combined loan cap, as defined in the Term Loan Agreement, or \$7.0M. The interest rate on the Term Loan is equal to a LIBOR rate plus 9.0%. We are required to make minimum payments of \$312,500 each quarter commencing on July 31, 2018, with the remaining outstanding balance payable on the Maturity Date. The Term Loan can be prepaid at our option, subject to certain restrictions and subject to a prepayment premium as follows: 1) if prepayment occurs on or prior to the second anniversary of the Closing Date, the greater of a) interest on the prepayment that would otherwise have been paid with the 24 month period following the Closing Date minus actual interest payments made through the prepayment date and b) 2% of the prepayment, and 2) 2% of the prepayment amount if paid between the second and third anniversary of the Closing Date.

In conjunction with entering into the Term Loan Agreement, on February 1, 2018 we also amended and restated our credit facility (the “Credit Facility”). This amendment, among other things, reduced the amount of the Credit Facility from \$70.0M to \$50.0M, extended the Termination Date to January 31, 2023 and reduced or eliminated certain availability reserves.

Cash provided by operations was \$8.9 million for fiscal 2017, a decrease of \$1.8 million from the \$10.7 million in cash provided by operations for fiscal 2016. This decrease in cash provided by operations versus the comparable prior year period was primarily the result of the lower loss offset by the reduction in deferred income taxes in fiscal 2017 compared to fiscal 2016, and an increase in trade receivables of \$1.0 million in fiscal 2017 compared a reduction of \$4.5 million in fiscal 2016. These were partially offset by a \$14.4 million increase in the net investment in inventory (inventory less accounts payable) and an increase of \$3.4 million in the non-cash adjustment relating to the loss on impairment of long-lived assets.

As of February 2, 2019, we had \$20.4 million in outstanding borrowings and \$6.9 million in letters of credit outstanding under the Credit Facility with \$15.3 million of availability. As of February 3, 2018 we had \$8.0 million in outstanding borrowings and \$7.3 million in letters of credit with \$26.8 million of availability. For fiscal 2018 our borrowings had a weighted interest rate of 4.14% per annum, our average level of borrowing was \$19.2 million and our maximum borrowing at any time was \$32.5 million. For fiscal 2017 borrowings had a weighted interest rate of 3.65% per annum. During fiscal 2017 our average level of direct borrowings was \$9.5 million and our maximum borrowings at any time were \$17.0 million.

As of February 2, 2019, and February 3, 2018, there was \$2.9 million and \$6.1 million, respectively, 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.

On June 6, 2017 the Company received \$3.4 million in proceeds from a three-year financing arrangement in the form of a sale and leaseback for certain furniture, fixtures and software. Monthly payments under the leaseback arrangement are \$123,000 for the first 24 months and \$48,000 for months 25 to 36. At the end of the leaseback term, the Company has the option to extend the financing for an additional year or repurchase the property for a price to be agreed upon. All proceeds from the transaction were used to prepay a portion of the Company’s Term Loan. As of February 2, 2019, and February 3, 2018, there was \$1.4 million and \$2.7 million of principal outstanding under the arrangement.

Based on our current operating plan, management believes that our 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 12 months. We have based this belief on assumptions that we believe are reasonable but may not be realized due to a variety of factors including lower than anticipated net sales or gross margins, higher than expected expenses, a failure to actualize these assumptions, continued or declining levels of economic or retail industry conditions, or other events, including those factors discussed in Part I, Item 1A “Risk Factors” of this Form 10-K. As a result, we could use our available capital resources sooner than we currently expect. Furthermore, our operating plan may change, and we may need additional funds sooner than planned. If we are unable to obtain needed funds from the aforementioned sources, we will likely need to seek other sources of financing as well as defer, reduce or eliminate planned expenditures, which would impair our growth prospects and could otherwise negatively impact our business.

Facilities Relocations

In 2015 we completed the relocation of our corporate headquarters and distribution operations. 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. To partially offset the costs of these relocations, the Board of the

NJEDA approved us for an incentive package of up to \$40 million in benefits under Grow NJ in the form of transferrable New Jersey State income tax credits of up to \$4.0 million per year over a ten-year period. 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, 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 tax credit certificate which was earned in fiscal 2016. In fiscal 2018, 2017 and 2016 the Company's Grow NJ award (net of valuation allowance) was \$2.7 million, \$2.8 million and \$3.3 million, respectively. Refer to Note 15, "Government Incentives," in the Notes to Consolidated Financial Statements for further information on the Grow NJ program.

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 February 2, 2019 (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	\$ 28,366	\$ 4,953	\$ 3,100	\$ 20,313	\$ —
Interest related to long-term debt (2)	10,499	2,970	5,174	2,355	—
Operating leases (3)	173,396	36,417	50,824	37,693	48,462
Purchase obligations (4)	44,804	44,804	—	—	—
Total contractual cash obligations	\$ 257,065	\$ 89,144	\$ 59,098	\$ 60,361	\$ 48,462

- (1) The amounts in this table exclude obligations under employment agreements that we have with certain of our employees.
- (2) Variable rate interest costs on long-term debt were estimated using the interest rate in effect as of February 2, 2019.
- (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)	\$ 6,909	\$ 6,909	\$ —	\$ —	\$ —
Other standby letters of credit	—	—	—	—	—
Total commercial commitments	\$ 6,909	\$ 6,909	\$ —	\$ —	\$ —

- (1) Consists of outstanding letter of credit commitments under our Credit Facility as of February 2, 2019.

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 net realizable value. 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 net realizable value. 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 February 2, 2019 and February 3, 2018 totaled \$70.9 million and \$71.3 million, respectively, representing 48.0% and 43.8% 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 February 2, 2019 and February 3, 2018 totaled \$51.5 million and \$66.1 million, respectively, representing 34.9% and 40.7% 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 \$3.1 million, \$5.8 million and \$2.4 million during fiscal 2018, fiscal 2017 and fiscal 2016 respectively.

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 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. 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 we have entered into an agreement with a third party that allows us to sell up to 100% of the annual income tax credits.

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). 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 2016 and deferred income tax assets as of February 2, 2019 and February 3, 2018 related to the award totaled \$2.7 million and \$2.8 million, respectively, representing 1.8% and 1.7% 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. 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. The Company estimates that in fiscal 2019 it will receive approximately \$2.9 million of transferrable tax credits with a net pretax realizable value of approximately \$2.6 million.

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. In fiscal 2018 and fiscal 2017 we continued to record a valuation allowance against substantially all of our deferred tax assets. 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 February 2, 2019 and February 3, 2018 totaled \$2.7 million and \$2.8 million, respectively, representing 1.8% and 1.7% of total assets, respectively.

On December 22, 2017, the Tax Cuts and Jobs Act (the “TCJA”) was enacted. The TCJA includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction in the U.S. Corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. As a result of the TCJA, the Company’s effective U.S. Corporate income tax rate for fiscal 2018 was 21% compared to a rate of 33.7% for fiscal 2017. The rate for fiscal 2017 reflects the pro rata impact of the TCJA’s rate reduction from the December 31, 2017 effective date through the February 3, 2018 end of our fiscal year.

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 May 2017 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU No. 2017-09 was effective for financial statements issued for annual reporting periods beginning after December 15, 2017 and

interim periods within those years. Earlier application was permitted. The Company adopted ASU No. 2017-09 effective February 4, 2018 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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 was 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 was permitted. The Company adopted ASU No. 2016-16 effective February 4, 2018 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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 was effective for annual reporting periods beginning after December 15, 2017 and interim periods within those years. Earlier application was permitted, provided that all of the amendments are adopted in the same period. The Company adopted ASU No. 2016-15 effective February 4, 2018 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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 replaced existing revenue recognition guidance in GAAP when it became effective. ASU No. 2014-09 was 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.

Management adopted this guidance on February 4, 2018 using the modified retrospective approach. This ASU required that sales return reserves be presented on a gross basis as a refund liability and an asset for recovery and that the asset be reported separate from inventory on the Company's consolidated balance sheet. Prior to the adoption of this ASU the Company had recorded its sales return reserve on a gross basis with the asset for recovery recorded as a component of inventory. The impact of adoption on the Company's consolidated balance sheet as of February 2, 2019 is as follows:

<u>(in thousands)</u>	<u>As Reported</u>	<u>ASU 2014-09 Effect</u>	<u>Excluding ASU 2014-09 Effect</u>
Inventories	\$ 70,872	\$ (1,026)	\$ 69,846
Prepaid expenses and other current assets	9,407	1,026	10,433

There was no impact from adoption on the Company's consolidated statements of operations or consolidated statements of cash flow.

Not Yet Adopted

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, Topic 842 requires lessees to recognize a right-of-use ("ROU") 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 ROU 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. Topic 842 is effective for the Company on February 3, 2019. In transition, lessees are required to recognize and measure leases using a modified retrospective approach and the Company has

chosen to use its effective date as its date of initial application. Consequently, financial information and the disclosures required under Topic 842 will not be provided for periods prior to February 3, 2019. The new standard provides a number of optional practical expedients in transition. We expect to elect the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The standard will have no impact on our debt-covenant compliance under our current agreements.

While the Company is still in the process of completing its assessment of the impact Topic 842 will have on its consolidated financial statements, we have performed various procedures to determine the impact on our accounting systems, processes and internal controls over financial reporting to support implementation of this new accounting standard. The Company has identified a population of approximately 450 leases which have been abstracted into our lease accounting software solution. This software will be used to assist in the calculation of initial balance sheet values as well as the ongoing accounting entries and disclosures related to the implementation of Topic 842. The Company expects this standard will have a material impact on the Company's consolidated financial statements with the most significant effects relating to the recognition of new ROU assets and lease liabilities on our balance sheet for our retail store, distribution center and corporate office leases. At adoption, we currently expect to record new lease liabilities within a range of \$150 million to \$170 million based on the present value of the remaining minimum lease payments using discounts rates as of the effective date. We expect to record corresponding ROU assets within a range of \$125 million to \$145 million based on the operating lease liabilities adjusted for deferred rent, unamortized initial direct costs, unamortized lease incentives received, and impairment of ROU assets. The ROU asset impairment will be recognized as an adjustment to retained earnings as of the effective date because the impairments existed at the time of adoption.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred over the non-cancellable term of the cloud computing arrangements plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. The effective date of this pronouncement is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and early adoption is permitted. The standard can be adopted either using the prospective or retrospective transition approach. The Company is currently evaluating the impact of this pronouncement on the Company's consolidated financial statements and disclosures.

Change in Accounting Principle

The Company sells gift cards to its customers in its retail stores, through its websites and through select third parties. The portion of gift cards sold to customers which are never redeemed is commonly referred to as gift card breakage. Prior to fiscal 2017 the Company recognized revenue from gift card breakage after it determined that any legal obligation to report and remit the value associated with abandoned property had been satisfied. The Company accumulated a significant amount of historical data from its past gift card transactions, allowing it to reasonably and objectively determine the pattern of gift card redemptions and a related estimated gift card breakage rate. In the first quarter of fiscal 2017 the Company elected to record revenue from gift card breakage over the period of, and in proportion to, the actual redemptions of gift cards based on the Company's historical breakage. The Company believes this method is preferable as it better reflects the gift card earnings process resulting in the recognition of gift card breakage income over the period of gift card redemptions (i.e., over the performance period).

The Company determined that this accounting change represented a change in accounting estimate effected by a change in accounting principle. In accordance with the requirements of ASC Topic 250 related to such accounting changes, during the first quarter of fiscal 2017 the Company recognized \$0.8 million of revenue as a cumulative adjustment for the accounting change.

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), unanticipated cybersecurity attacks or other IT failures, 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.”

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 February 2, 2019, we had cash and cash equivalents of \$1.2 million. 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 February 2, 2019 are \$24.1 million due under our Term Loan, \$2.9 million due under our equipment note, \$1.4 million due under a sale and leaseback transaction and the \$50.0 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 9.0%. 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 \$22.5 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 \$0.2 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 February 2, 2019, we had \$20.4 million of direct borrowings and \$6.9 million of letters of credit outstanding under our Credit Facility. As of February 2, 2019, borrowings under the Credit Facility would have resulted in interest at a rate between approximately 4.10% and 5.75% 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 February 2, 2019, 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 less than \$0.1 million as of February 2, 2019. A 100-basis point decline in market interest rates would cause the debt value to increase by less than \$0.1 million as of February 2, 2019.

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 provide reasonable assurance 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 February 2, 2019. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of February 2, 2019 these disclosure 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 U. S. 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 U. S. 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, under the oversight of our principle executive officer, principle financial officer and board of directors, assessed the effectiveness of the Company's internal control over financial reporting as of February 2, 2019, 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 February 2, 2019 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.

Pursuant to Regulation S-K 308(b), this Annual Report on Form 10-K does not include an attestation report of our Company's registered public accounting firm regarding internal control over financial reporting.

(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 February 2, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 February 2, 2019 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	594,873(1)	\$ 5.68(2)	797,159(3)
Equity compensation plans not approved by security holders	—	\$ —	—
Total	<u>594,873</u>	<u>\$ 5.68</u>	<u>797,159</u>

- (1) Reflects shares subject to options, restricted stock units and deferred stock units outstanding under the 2005 Plan. Restricted stock units subject to performance-based vesting requirements are reported assuming that the target level of performance is achieved. If the maximum level of performance is assumed to be achieved, the number of securities reported in this column would increase to 708,199.
- (2) Reflects the weighted-average exercise price of stock options outstanding under the 2005 Plan. Restricted stock units and deferred stock units, for which no exercise price is payable by a recipient upon vesting or settlement, are not taken into account for purposes of this calculation.
- (3) Reflects shares available for issuance of awards under the 2005 Plan.

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.

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

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

(2) Financial Statement Schedules Schedule II—Valuation and Qualifying Accounts.

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

(3) Exhibits

See following Index of Exhibits.

INDEX OF EXHIBITS

Exhibit No.	Description
*3.1	Restated Certificate of Incorporation of the Company (Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 2008)
*3.2	Bylaws of the Company, effective December 22, 2016 (Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2018, filed on April 19, 2018).
*4.1	Certificate of Elimination of Series B Junior Participating Preferred Stock, dated July 25, 2018. (Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 25, 2018)
†*10.1	Form of Non-Qualified Stock Option Agreement under the Company's 2005 Equity Incentive Plan (Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended September 30, 2006)
†*10.2	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)
†*10.3	Amended and Restated 2005 Equity Incentive Plan (Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 19, 2017)
†*10.4	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"))
†*10.5	Non-Employee Director Compensation Policy (Exhibit 10.2 to the January 24, 2014 Form 8-K),1
*10.6	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)
†*10.7	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)
†*10.8	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)
*10.9	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"))
*10.10	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)
*10.11	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)
†*10.12	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)
†*10.13	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)
†*10.14	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")
†*10.15	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)
†*10.16	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)

Exhibit No.	Description
†*10.17	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)
*10.18	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"))
*10.19	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)
*10.20	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)
*10.21	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)
†*10.22	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)
*10.23	Consulting Agreement, dated as of January 27, 2017, by and between Destination Maternity Corporation and Orchestra-Prémaman USA Inc. (Exhibit 10.37 to Company's Annual Report on Form 10-K for the year ended January 28, 2017 (the "2017 Form 10-K"))
*10.24	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 10.38 to the 2017 Form 10-K)
*10.25	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"))
*10.26	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)
*10.27	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)
*10.28	Product Purchase Agreement, dated as of May 1, 2017, by and between Orchestra Prémaman USA Inc. and Destination Maternity Corporation (Exhibit 10.42 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended January 28, 2017 (the "2016 Form 10-K/A"))
†*10.29	Executive Employment Agreement, dated as of February 21, 2017, by and among Ronald J. Masciantonio, Orchestra Prémaman S.A. and US OP Corporation (Exhibit 10.43 to the 2016 Form 10-K/A)
*10.30	Master Lease Agreement, dated as of May 25, 2017, by and between TFG-New Jersey, L.P. and Destination Maternity Corporation (Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 29, 2017 (the "April 29, 2017 Form 10-Q"))
*10.31	Lease Schedule, dated as of May 25, 2017, by and between TFG-New Jersey, L.P. and Destination Maternity Corporation (Exhibit 10.8 to the April 29, 2017 Form 10-Q)
*10.32	Bill of Sale, dated as of May 25, 2017, by and between TFG-New Jersey, L.P. and Destination Maternity Corporation (Exhibit 10.9 to the April 29, 2017 Form 10-Q)
*10.33	Sale Leaseback Agreement, dated as of May 25, 2017, by and between TFG-New Jersey, L.P. and Destination Maternity Corporation (Exhibit 10.10 to the April 29, 2017 Form 10-Q)
*10.34	Termination Agreement dated July 27, 2017, by and among Orchestra Prémaman, S.A., US OP Corporation, the Company, Yeled Invest S. à. r. l., and Orchestra Prémaman USA Inc. (Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 27, 2017)

Exhibit No.	Description
†*10.35	Retention Agreement dated October 19, 2017, between the Company and Ronald J. Masciantonio (Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 28, 2017 (the "October 28, 2017 Form 10-Q"))
†*10.36	Retention Agreement dated October 19, 2017, between the Company and David Stern (Exhibit 10.5 to the October 28, 2017 Form 10-Q)
†*10.37	Letter Agreement dated January 3, 2018, between the Company and Melissa Payner-Gregor (Exhibit 10.2 to the January 2, 2018 Form 8-K)
*10.38	Term Loan Credit Agreement, dated February 1, 2018, by and among Destination Maternity Corporation and Cave Springs, Inc., as borrowers, Mothers Work Canada, Inc. and DM Urban Renewal, LLC as guarantors, the lenders from time to time party thereto and Pathlight Capital LLC, as administrative agent and lender (Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 1, 2018 (the "February 1, 2018 Form 8-K"))
*10.39	Amendment No. 3 to Amended and Restated Credit Agreement, dated February 1, 2018, by and among Destination Maternity Corporation and Cave Springs, Inc., as borrowers, Mothers Work Canada, Inc. and DM Urban Renewal, LLC as guarantors, the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent and lender (Exhibit 10.2 to the February 1, 2018 Form 8-K)
*10.40	Intercreditor Agreement, dated February 1, 2018, by and between Wells Fargo Bank, National Association, as ABL agent and Pathlight Capital LLC, as term agent, acknowledged by Destination Maternity Corporation, Cave Springs, Inc., Mothers Work Canada, Inc. and DM Urban Renewal, LLC (Exhibit 10.3 to the February 1, 2018 Form 8-K)
*10.41	Support Agreement, dated as of April 2, 2018, by and between Destination Maternity Corporation, Orchestra-Prémaman S.A. and Yeled Invest S.A. (Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 2, 2018)
†*10.42	Indemnification Agreement, dated April 2, 2018 between Destination Maternity Corporation and Melissa Payner-Gregor. Pursuant to Instruction 2 to Item 601 of Regulation S-K, an Indemnification Agreement that is substantially identical in all material respects, except as to the parties thereto, between the Company and each of the Company's other directors, was not filed. (Exhibit 10.2 to the April 2, 2018 Form 8-K)
†*10.43	Release Agreement, dated June 4, 2018, between the Company and Melissa Payner-Gregor (Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 29, 2018 (the "May 29, 2018 Form 8-K"))
†*10.44	Letter Agreement, dated May 30, 2018, between the Company and Marla A. Ryan (Exhibit 10.2 to the May 29, 2018 Form 8-K)
†*10.45	Separation and Release Agreement, dated June 5, 2018, between the Company and Ronald J. Masciantonio (Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 4, 2018)
†*10.46	Amendment, dated July 30, 2018, to the Letter Agreement between the Company and Marla A. Ryan, dated May 30, 2018 (Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 30, 2018)
*10.47	Separation and Release Agreement, dated August 13, 2018, between the Company and David Stern (Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 10, 2018)
*10.48	Commitment Letter, dated September 26, 2018, between the Company and Bank of America, N.A. (Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 28, 2018)
†*10.49	Executive Employment Agreement, dated as of November 1, 2018, between the Company and Marla A. Ryan (Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 1, 2018 (the "November 1, 2018 Form 8-K"))
†*10.50	Form of Restricted Stock Unit Award Agreement (Time-Based) Under the Company's 2005 Equity Incentive Plan for grants to Marla A. Ryan (Exhibit 10.2 to the November 1, 2018 Form 8-K)
†*10.51	Form of Restricted Stock Unit Award Agreement (Performance-Based) Under the Company's 2005 Equity Incentive Plan for grants to Marla A. Ryan (Exhibit 10.3 to the November 1, 2018 Form 8-K)
†*10.52	Form of Non-Qualified Stock Option Agreement Under the Company's 2005 Equity Incentive Plan for grants to Marla A. Ryan (Exhibit 10.4 to the November 1, 2018 Form 8-K)
*10.53	Commitment Extension Letter, dated as of December 17, 2018 between Destination Maternity Corporation and Bank of America, N.A. (Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 17, 2018)
†*10.54	Executive Employment Agreement, dated as of January 9, 2019, between the Company and David Helkey (Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 9, 2019 (the "January 9, 2019 Form 8-K"))

Exhibit No.	Description
†*10.55	Form of Restricted Stock Unit Award Agreement (Time-Based) Under the Company's 2005 Equity Incentive Plan for grants to David Helkey (Exhibit 10.2 to the January 9, 2019 Form 8-K).
†*10.56	Form of Restricted Stock Unit Award Agreement (Performance-Based) Under the Company's 2005 Equity Incentive Plan for grants to David Helkey (Exhibit 10.3 to the January 9, 2019 Form 8-K).
†*10.57	Form of Non-Qualified Stock Option Agreement Under the Company's 2005 Equity Incentive Plan for grants to David Helkey (Exhibit 10.4 to the January 9, 2019 Form 8-K).
†*10.58	Amendment to Employment Agreement, dated as of April 23, 2018, between the Company and Ronald J. Masciantonio (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 5, 2018).
†*10.59	Amendment to Employment Agreement, dated as of April 23, 2018, between the Company and David R. Stern (Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 5, 2018).
† 10.60	Executive Employment Agreement, dated as of December 4, 2017, between the Company and Rodney Schriver
*18.1	Preferability Letter Regarding Change in Accounting Principle dated June 8, 2017 from KPMG LLP (Exhibit 18.1 to the April 29, 2017 Form 10-Q).
21	Subsidiaries of the Company.
23	Consent of KPMG LLP
31.1	Certification of the Interim 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 Interim 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

To the Stockholders and Board of Directors
Destination Maternity Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying *consolidated* balance sheets of Destination Maternity Corporation and subsidiaries (the “Company”) as of February 2, 2019 and February 3, 2018, the related consolidated statements of operations, comprehensive loss, stockholders’ equity, and cash flows for each of the fiscal years in the three-year period ended February 2, 2019, and the related notes and financial statement schedule valuation and qualifying accounts (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended February 2, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company’s auditor since 2002.

Philadelphia, Pennsylvania
April 16, 2019

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	<u>February 2, 2019</u>	<u>February 3, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,154	\$ 1,635
Trade receivables, net	7,945	6,692
Inventories	70,872	71,256
Prepaid expenses and other current assets	9,407	11,522
Total current assets	<u>89,378</u>	<u>91,105</u>
Property and equipment, net	<u>51,483</u>	<u>66,146</u>
Other assets:		
Deferred line of credit financing costs, net of accumulated amortization of \$920 and \$829	785	450
Other intangible assets, net of accumulated amortization of \$1,043 and \$907	813	953
Deferred income taxes	2,671	2,829
Other non-current assets	1,044	1,099
Total other assets	<u>5,313</u>	<u>5,331</u>
Total assets	<u>\$ 146,174</u>	<u>\$ 162,582</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit borrowings	\$ 20,400	\$ 8,000
Current portion of long-term debt	4,372	4,780
Accounts payable	21,854	30,949
Accrued expenses and other current liabilities	31,056	31,661
Total current liabilities	<u>77,682</u>	<u>75,390</u>
Long-term debt	21,784	23,809
Deferred rent and other non-current liabilities	19,557	22,715
Total liabilities	<u>119,023</u>	<u>121,914</u>
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, 1,656,381 shares authorized, none outstanding	—	—
Common stock, \$.01 par value; 20,000,000 shares authorized, 14,416,500 and 14,684,117 shares issued and outstanding	144	147
Additional paid-in capital	107,675	106,865
Accumulated deficit	(80,594)	(66,274)
Accumulated other comprehensive loss	(74)	(70)
Total stockholders' equity	<u>27,151</u>	<u>40,668</u>
Total liabilities and stockholders' equity	<u>\$ 146,174</u>	<u>\$ 162,582</u>

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		
	February 2, 2019	February 3, 2018	January 28, 2017
Net sales	\$ 383,750	\$ 406,207	\$ 433,699
Cost of goods sold	185,603	192,355	206,271
Gross profit	198,147	213,852	227,428
Selling, general and administrative expenses	198,331	218,656	223,881
Store closing, asset impairment and asset disposal expenses	3,838	6,292	2,768
Other charges, net	5,580	4,912	4,914
Operating loss	(9,602)	(16,008)	(4,135)
Interest expense, net	4,828	4,045	3,575
Loss on extinguishment of debt	—	1,542	—
Loss before income taxes	(14,430)	(21,595)	(7,710)
Income (benefit) tax provision	(103)	2	25,050
Net loss	\$ (14,327)	\$ (21,597)	\$ (32,760)
Net loss per share— Basic	\$ (1.03)	\$ (1.57)	\$ (2.39)
Average shares outstanding— Basic	13,889	13,788	13,702
Net loss per share— Diluted	\$ (1.03)	\$ (1.57)	\$ (2.39)
Average shares outstanding— Diluted	13,889	13,788	13,702

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

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Year Ended		
	<u>February 2, 2019</u>	<u>February 3, 2018</u>	<u>January 28, 2017</u>
Net loss	\$ (14,327)	\$ (21,597)	\$ (32,760)
Foreign currency translation adjustments	(4)	2	1
Comprehensive loss	<u>\$ (14,331)</u>	<u>\$ (21,595)</u>	<u>\$ (32,759)</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	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Amount				
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 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	14,010	140	105,775	(44,693)	(72)	61,150
Net loss	—	—	—	(21,597)	—	(21,597)
Foreign currency translation adjustments	—	—	—	—	2	2
Dividends forfeited	—	—	—	16	—	16
Stock-based compensation	693	7	1,147	—	—	1,154
Repurchase and retirement of common stock	(19)	—	(57)	—	—	(57)
Balance as of February 3, 2018	14,684	147	106,865	(66,274)	(70)	40,668
Net loss	—	—	—	(14,327)	—	(14,327)
Foreign currency translation adjustments	—	—	—	—	(4)	(4)
Dividends forfeited	—	—	—	7	—	7
Exercise of stock options, net	—	—	1	—	—	1
Stock-based compensation	416	4	967	—	—	971
Repurchase and retirement of common stock	(684)	(7)	(158)	—	—	(165)
Balance as of February 2, 2019	14,416	\$ 144	\$ 107,675	\$ (80,594)	\$ (74)	\$ 27,151

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		
	February 2, 2019	February 3, 2018	January 28, 2017
Operating Activities			
Net loss	\$ (14,327)	\$ (21,597)	\$ (32,760)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	15,505	17,592	18,032
Stock-based compensation expense	971	1,154	1,801
Loss on impairment of long-lived assets	3,137	5,775	2,388
Loss on disposal of assets	435	349	272
Loss on extinguishment of debt	—	1,542	—
Grow NJ award benefit	158	422	349
Deferred income tax provision	—	—	24,614
Amortization of deferred financing costs	690	487	328
Changes in assets and liabilities:			
Decrease (increase) in:			
Trade receivables	(1,253)	(1,009)	4,471
Inventories	384	(2,216)	3,469
Prepaid expenses and other current assets	2,114	(1,990)	328
Other non-current assets	55	14	37
(Decrease) increase in:			
Accounts payable, accrued expenses and other current liabilities	(6,412)	8,565	(11,593)
Deferred rent and other non-current liabilities	(3,268)	(219)	(1,025)
Net cash provided by (used in) operating activities	<u>(1,811)</u>	<u>8,869</u>	<u>10,711</u>
Investing Activities			
Capital expenditures	(4,612)	(6,649)	(12,690)
Proceeds from sale of property, plant and equipment	—	—	2
Additions to intangible assets	—	(18)	(97)
Net cash used in investing activities	<u>(4,612)</u>	<u>(6,667)</u>	<u>(12,785)</u>
Financing Activities			
(Decrease) increase in cash overdraft	(2,832)	5,116	681
Increase (decrease) in line of credit borrowings	12,400	3,400	(23,800)
Proceeds from long-term debt	2,500	25,901	32,000
Repayment of long-term debt	(5,353)	(34,382)	(4,498)
Deferred financing costs paid	(605)	(3,406)	(1,519)
Withholding taxes on stock-based compensation paid in connection with repurchase of common stock	(165)	(57)	(54)
Proceeds from exercise of stock options	1	—	6
Net cash provided by (used in) financing activities	<u>5,946</u>	<u>(3,428)</u>	<u>2,816</u>
Effect of exchange rate changes on cash and cash equivalents	(4)	2	1
Net (Decrease) Increase in Cash and Cash Equivalents	(481)	(1,224)	743
Cash and Cash Equivalents, Beginning of Period	1,635	2,859	2,116
Cash and Cash Equivalents, End of Period	<u>\$ 1,154</u>	<u>\$ 1,635</u>	<u>\$ 2,859</u>

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

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

1. NATURE OF BUSINESS

Destination Maternity Corporation and subsidiaries (the “Company”) is a specialty designer and retailer of maternity clothing. The Company operated 1,012 retail locations as of February 2, 2019, including 458 stores and 554 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 and Israel. 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: Mothers Work Canada, Inc. and Destination Maternity Apparel Private Limited. All significant intercompany transactions and accounts have been eliminated in consolidation.

b. Fiscal Year-End

The Company operates on a 52- or 53-week fiscal year ending on the Saturday nearest January 31 of each year. References to the Company’s fiscal 2018 refer to the 52-week fiscal year, or periods within such fiscal year, which began February 4, 2018 and ended February 2, 2019. References to the Company’s fiscal 2017 refer to the 53-week fiscal year, or periods within such fiscal year, which began January 29, 2017 and ended February 3, 2018. References to the Company’s fiscal 2016 refer to the 52-week fiscal year, or periods within such fiscal year, which began January 31, 2016 and ended January 28, 2017.

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 \$5,115,000 and \$7,947,000 were included in accounts payable as of February 2, 2019 and February 3, 2018, 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 net realizable value. 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.

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

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

the asset. The amount of the impairment loss is determined by comparing the fair value of the asset with the carrying value. During fiscal 2018, 2017 and 2016 the Company recorded impairment write-downs of property and equipment totaling \$3,117,000, \$5,743,000 and \$2,382,000, 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 2018, 2017 and 2016 the Company recorded write-downs of intangible assets totaling \$20,000, \$32,000 and \$6,000, respectively, on a pretax basis. The Company has not identified any indefinite-lived intangible assets. Aggregate amortization expense of intangible assets in fiscal 2018, 2017 and 2016 was \$115,000, \$126,000 and \$142,000, respectively.

Estimated amortization expense of the Company's intangible assets as of February 2, 2019, 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>	
2019	\$ 107
2020	99
2021	88
2022	80
2023	75

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 2018, 2017 and 2016 was \$690,000, \$487,000 and \$328,000, respectively. In connection with its credit facility amended effective February 1, 2018, and term loan entered into on February 1, 2018 the Company incurred \$605,000 and \$3,406,000 in costs that were paid in fiscal 2018 and fiscal 2017, respectively, which were deferred and will be amortized in future periods. In fiscal 2017, \$1,542,000 of previously deferred financing costs were written off and recorded as loss on extinguishment of debt in the Company's consolidated statements of operations (see Notes 8 and 9).

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>	
2019	\$ 713
2020	619
2021	619
2022	619
2023	—

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. 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.

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

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

The Company's performance obligations consist primarily of transferring control of merchandise to customers. Retail and e-commerce sales are recognized upon transfer of control, which occurs when merchandise is taken at point-of-sale for a retail transaction or upon receipt of shipment for an e-commerce transaction. Sales are reported net of returns and sales taxes. Shipping and handling fees billed to customers are recognized in net sales when control of the underlying merchandise is transferred to the customer.

The Company earns revenue 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 these activities is recognized when the goods or services are provided.

Sales of product to the Company's wholesale customers and international franchisees are recognized upon transfer of control which is primarily when product is shipped. Franchise fees are recorded by the Company when all material services have been performed or in the case of royalties earned on sales of product, in the period when the franchisee sells product to their retail customer.

m. 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 and net realizable value), 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 the Company's distribution network, partially offset by the allocable amount of the Company's Grow NJ benefit (see Notes 2p and 15).

n. 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.

o. 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 2p and 15).

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

p. Government Incentives

The Company recognizes the estimated benefit from its Grow NJ award (see Note 15) 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.

q. Advertising Costs

The Company expenses the costs of advertising when the advertising first occurs. Advertising expenses, including Internet advertising expenses, were \$16,267,000, \$15,563,000 and \$12,869,000 in fiscal 2018, 2017 and 2016, respectively.

r. 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 actual forfeitures. Excess tax benefits related to stock option exercises and restricted stock vesting are recognized as income tax expense or benefit in the consolidated statements of operations.

s. 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.

t. 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.

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.

u. Net 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 are excluded from the calculation of EPS until the applicable performance conditions are achieved and the shares in respect of such restricted stock units become issuable (see Note 12).

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

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

	Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Net loss	\$ (14,327)	\$ (21,597)	\$ (32,760)
Net loss per share—Basic	\$ (1.03)	\$ (1.57)	\$ (2.39)
Net loss per share—Diluted	\$ (1.03)	\$ (1.57)	\$ (2.39)
Average number of shares outstanding—Basic	13,889	13,788	13,702
Incremental shares from the assumed exercise of outstanding stock options	—	—	—
Incremental shares from the assumed lapse of restrictions on restricted stock awards	—	—	—
Average number of shares outstanding—Diluted	13,889	13,788	13,702

Options and unvested restricted stock and restricted stock units totaling approximately 1,045,000, 1,398,000 and 1,232,000 shares of the Company's common stock were outstanding as February 2, 2019, February 3, 2018 and January 28, 2017 respectively, but were not included in the computation of Diluted EPS for fiscal 2018, 2017 or 2016 due to the Company's net loss. Had the Company reported a profit for fiscal 2018, 2017 and 2016 the weighted average number of dilutive shares outstanding for computation of Diluted EPS would have been approximately 14,150,000, 13,806,000 and 13,720,000 shares, respectively.

No cash dividends were paid by the Company during fiscal 2018, 2017 or 2016 (see Note 9). During fiscal 2018, 2017 and 2016, \$7,000, \$16,000 and \$18,000, respectively, 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.

v. Statements of Cash Flows

In fiscal 2018, 2017 and 2016 the Company paid interest of \$4,108,000, \$3,734,000, \$3,063,000, respectively, and received income tax refunds, net of income tax payments, of \$263,000, \$4,141,000, \$324,000, respectively.

w. 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 collectability 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 20% or more of net purchases in fiscal 2018, 2017 or 2016. A significant majority of the Company's purchases during fiscal 2018, 2017 and 2016 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.

x. 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.

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

y. **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.

z. **Newly Adopted Accounting Pronouncements**

In May 2017 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU No. 2017-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2017 and interim periods within those years. Earlier application is permitted. The Company adopted ASU No. 2017-09 effective February 4, 2018 and the adoption did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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 Company adopted ASU No. 2016-16 effective February 4, 2018 and the adoption did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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 Company adopted ASU No. 2016-15 effective February 4, 2018 and the adoption did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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 replaced most existing revenue recognition guidance in GAAP when it became 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.

Management adopted this guidance on February 3, 2018 using the modified retrospective approach. This ASU required that sales return reserves be presented on a gross basis as a refund liability and an asset for recovery and that the asset be reported separate from inventory on the Company’s consolidated balance sheet. Prior to the adoption of this ASU the Company had recorded its sales return reserve on a gross basis with the asset for recovery recorded as a component of inventory. The impact of adoption on the Company’s consolidated balance sheet as of February 2, 2019 is as follows:

<u>(in thousands)</u>	<u>As Reported</u>	<u>ASU 2014-09 Effect</u>	<u>Excluding ASU 2014-09 Effect</u>
Inventories	\$ 70,872	\$ (1,026)	\$ 69,846
Prepaid expenses and other current assets	9,407	1,026	10,433

There was no impact from adoption on the Company’s consolidated statements of operations or consolidated statements of cash flow.

aa. Recent Accounting Pronouncements – Not Yet Adopted

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 relates to the Company, Topic 842 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. Topic 842 is effective for the Company on February 3, 2019. In transition, lessees are required to recognize and measure leases using a modified retrospective approach and the Company has chosen to use its effective date as its date of initial application. Consequently, financial information and the disclosures required under Topic 842 will not be provided for periods prior to February 3, 2019. The new standard provides a number of optional practical expedients in transition. We expect to elect the ‘package of practical expedients’, which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The standard will have no impact on our debt-covenant compliance under our current agreements.

While the Company is still in the process of completing its assessment of the impact Topic 842 will have on its consolidated financial statements, we have performed various procedures to determine the impact on our accounting systems, processes and internal controls over financial reporting to support implementation of this new accounting standard. The Company has identified a population of approximately 450 leases which have been abstracted into our lease accounting software solution. This software will be used to assist in the calculation of initial balance sheet values as well as the ongoing accounting entries and disclosures related to the implementation of Topic 842. The Company expects this standard will have a material impact on the Company's consolidated financial statements with the most significant effects relating to the recognition of new ROU assets and lease liabilities on our balance sheet for our retail store, distribution center and corporate office leases. At adoption, we currently expect to record new lease liabilities within a range of \$150 million to \$170 million based on the present value of the remaining minimum lease payments using discount rates as of the effective date. We expect to record corresponding ROU assets within a range of \$125 million to \$145 million based on the lease liabilities adjusted for deferred rent, unamortized initial direct costs, unamortized lease incentives received, and impairment of ROU assets. The ROU asset impairment will be recognized as an adjustment to retained earnings as of the effective date because the impairments existed at the time of adoption.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred over the non-cancellable term of the cloud computing arrangements plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. The effective date of this pronouncement is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and early adoption is permitted. The standard can be adopted either using the prospective or retrospective transition approach. The Company is currently evaluating the impact of this pronouncement on the Company's consolidated financial statements and disclosures.

bb. Change in Accounting Principle

The Company sells gift cards to its customers in its retail stores, through its websites and through select third parties. The portion of gift cards sold to customers which are never redeemed is commonly referred to as gift card breakage. Prior to fiscal 2017 the Company recognized revenue from gift card breakage after it determined that any legal obligation to report and remit the value associated with abandoned property had been satisfied. The Company has accumulated a significant amount of historical data from its past gift card transactions, allowing it to reasonably and objectively determine the pattern of gift card redemptions and a related estimated gift card breakage rate. In the first quarter of fiscal 2017 the Company elected to record revenue from gift card breakage over the period of, and in proportion to, the actual redemptions of gift cards based on the Company's historical breakage. The Company believes this method is preferable as it better reflects the gift card earnings process resulting in the recognition of gift card breakage income over the period of gift card redemptions (i.e., over the performance period).

The Company determined that this accounting change represented a change in accounting estimate effected by a change in accounting principle. In accordance with the requirements of ASC Topic 250 related to such accounting changes, during the first quarter of fiscal 2017 the Company recognized \$0.8 million of revenue as a cumulative adjustment for the accounting change.

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 February 2, 2019, and February 3, 2018 the Company's trade receivables were net of allowance for doubtful accounts of \$166,000 and \$166,000, respectively.

4. INVENTORIES

Inventories as of February 2, 2019 and February 3, 2018 were comprised of the following (in thousands):

	<u>February 2, 2019</u>	<u>February 3, 2018</u>
Finished goods	\$ 70,660	\$ 70,687
Work-in-progress	148	182
Raw materials	64	387
	<u>\$ 70,872</u>	<u>\$ 71,256</u>

5. PROPERTY AND EQUIPMENT, NET

Property and equipment as of February 2, 2019 and February 3, 2018 was comprised of the following (in thousands):

	<u>February 2, 2019</u>	<u>February 3, 2018</u>
Furniture and equipment	\$ 75,546	\$ 75,140
Leasehold improvements	82,416	89,030
Construction in progress	—	—
	<u>157,962</u>	<u>164,170</u>
Less: accumulated depreciation and amortization	<u>(106,479)</u>	<u>(98,024)</u>
	<u>\$ 51,483</u>	<u>\$ 66,146</u>

Aggregate depreciation and amortization expense of property and equipment in fiscal 2018, 2017 and 2016 was \$15,404,000, \$17,466,000, \$17,890,000, respectively. During fiscal 2018, 2017 and 2016 the Company recorded pretax charges of \$3,117,000, \$5,743,000, \$2,382,000, respectively, related to the impairment of leasehold improvements and furniture and equipment at certain of its retail locations.

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

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of February 2, 2019, and February 3, 2018 accrued expenses and other current liabilities were comprised of the following (in thousands):

	<u>February 2, 2019</u>	<u>February 3, 2018</u>
Employee compensation and benefits	\$ 6,741	\$ 7,133
Accrued expenses	4,561	3,417
Gift certificates and store credits	3,464	3,385
Deferred rent	3,101	3,211
Insurance, primarily self-insurance reserves	3,049	5,048
Sales and use taxes	2,737	2,638
Deferred revenue	2,435	1,001
Product return reserve	2,078	2,799
Audit and legal	1,341	714
Other	1,549	2,315
	<u>\$ 31,056</u>	<u>\$ 31,661</u>

7. DEFERRED RENT AND OTHER NON-CURRENT LIABILITIES

As of February 2, 2019, and February 3, 2018 deferred rent and other non-current liabilities were comprised of the following (in thousands):

	<u>February 2, 2019</u>	<u>February 3, 2018</u>
Deferred rent	\$ 22,358	\$ 25,407
Less: current portion included in accrued expenses and other current liabilities	(3,101)	(3,211)
Non-current deferred rent	19,257	22,196
Accrued income taxes	168	380
Other	132	139
	<u>\$ 19,557</u>	<u>\$ 22,715</u>

8. LINE OF CREDIT

After completion of a debt refinancing on February 1, 2018 the Company has a \$50,000,000 senior secured revolving credit facility (the "Credit Facility"), which was amended and restated in connection with the issuance of the Company's \$25,000,000 Term Loan (see Note 9). The previous \$70,000,000 Credit Facility had been in place since March 25, 2016. In connection with the Term Loan financing the maturity date of the Credit Facility was extended to January 31, 2023 and certain availability reserves were reduced or eliminated. 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.

The Credit Facility contains various affirmative and negative covenants and representations and warranties including the requirement that the Company maintain Excess Availability (as defined in the related Credit Agreement) of more than the greater of 10% of the Combined Loan Caps (as defined in the related Credit Agreement) and \$7,000,000. 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 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 0.50% or 2) a LIBOR rate plus 1.0%. 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

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

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, 10) receipt of other than an unqualified opinion from the audit of the Company's consolidated financial statements and 11) customary ERISA defaults, among others.

In connection with the original execution and subsequent amendments of the Credit Facility and Proposed Credit Facility, the Company incurred deferred financing costs of \$425,000 and \$107,000 in fiscal 2018 and 2017, respectively. 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 February 2, 2019, the Company had \$20,400,000 in outstanding borrowings under the Credit Facility, \$6,909,000 in letters of credit and \$15,285,000 of availability based on the Company's Borrowing Base formula and availability reserve requirements. As of February 3, 2018, the Company had \$8,000,000 in outstanding borrowings under the Credit Facility, \$7,327,000 in letters of credit and \$26,848,000 of availability. For fiscal 2018, 2017 and 2016 borrowings had a weighted interest rate of 4.14%, 3.65%, 2.84% per annum, respectively. During fiscal 2018, 2017 and 2016 the Company's average level of direct borrowings was \$19,250,000, \$9,454,000 and \$11,191,000, respectively, and the Company's maximum borrowings during fiscal 2018, 2017 and 2016 were \$32,500,000, \$17,100,000, \$42,700,000, respectively.

On September 26, 2018, the Company entered into a commitment letter with Bank of America, pursuant to which, and subject to the terms and conditions set forth therein, Bank of America committed to provide to the Company certain five-year asset-based senior secured facilities consisting of an ABL with an aggregate commitment of \$52 million and a FILO Term Loan with an aggregate principal amount of \$24 million. The commitment letter had an original expiration date of December 26, 2018. On December 14, 2018 an amendment to the commitment letter was executed, extending the expiration date to April 30, 2019 and increasing the commitment in respect of the FILO term loan from \$24 million to \$25 million and increasing the aggregate amount of the credit facility from \$76 million to \$77 million. On April 9, 2019 the Company and Bank of America agreed to terminate the commitment letter.

9. LONG-TERM DEBT

On February 1, 2018 (the "Closing Date") the Company entered into a Term Loan Credit Agreement (the "Term Loan Agreement") which provides for a term loan of up to \$25,000,000 which matures on January 31, 2023 (the "Term Loan"). On the Closing Date the Company borrowed \$22,500,000 net of fees against the Term Loan and used the proceeds, in addition to \$3,600,000 borrowed under our Credit Facility (see Note 8) to pay off the \$22,999,000 balance of our then existing term loan (the "Prior Term Loan") and \$3,226,000 of fees and interest associated with the transaction. The Term Loan provided for an additional loan of \$2,500,000 which could be borrowed at the Company's discretion within a period of 45 days after delivery to the lender of our first quarter fiscal 2018 financial statements and satisfaction of certain other requirements. The Company met those requirements and borrowed the additional \$2,500,000 on July 26, 2018. There is a minimum excess availability requirement of the greater of 10% of the combined loan cap, as defined in the Term Loan Agreement, or \$7,000,000. As of February 2, 2019, and February 3, 2018 there was \$24,063,000 and \$22,500,000, respectively, of principal outstanding under the Term Loan.

The interest rate on the Term Loan is equal to a LIBOR rate plus 9.0%. The Company is required to make minimum repayments of the principal amount of the Term Loan in quarterly installments of \$312,500 each quarter commencing on July 31, 2018, 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 and subject to a prepayment premium as follows: 1) if the prepayment occurs on or prior to the second anniversary of the Closing Date, the greater of a) interest on the prepayment that would otherwise have been paid with the 24 month period following the Closing Date minus actual interest payments made through the prepayment date and b) 2% of the prepayment and 2) 2% of the prepayment amount if paid between the second and third anniversary of the Closing Date.

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.

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

As previously described in Note 8, on April 9, 2019 the Company and Bank of America mutually agreed to terminate the Commitment Extension Letter.

On March 25, 2016 the Company entered into a Term Loan Agreement Credit Agreement (the “Prior Term Loan Agreement”) for the \$32,000,000 Prior Term Loan that had a maturity date of March 25, 2021. The proceeds were used to repay a portion of the indebtedness that was outstanding under our credit facility at that time. The interest rate on the Prior Term Loan was equal to a LIBOR rate (with a 1.0% LIBOR floor) plus 7.5%. We were required to make minimum repayments of the principal amount in quarterly installments of \$800,000 with the remaining outstanding balance payable on the maturity date. As amended on December 19, 2016 and April 7, 2017, the Prior Term Loan Agreement contained various minimum excess availability requirements including \$5,000,000 against availability under our Credit Facility that was reduced dollar for dollar for prepayments of the Prior Term Loan, and an amount equal to the greater of 10% of the Combined Loan Cap (as defined in the Credit Facility Agreement) or \$10,000,000.

In connection with the execution of the Term Loan Agreement, the Prior Term Loan Agreement and subsequent amendments, the Company incurred deferred financing costs of \$4,557,000. Of this amount, the unamortized balance of \$1,542,000 in deferred financing costs incurred in connection with the Prior Term Loan were written off upon entering into the Term Loan and charged to loss on extinguishment of debt in our consolidated statements of operations. There were \$2,460,000 of deferred financing costs incurred in connection with the Term Loan. These deferred financing costs are reflected as a direct deduction from the Term Loan liability in the consolidated balance sheets and are being amortized over the term of the Term Loan Agreement. The amortization is included in “interest expense, net” in the consolidated statements of operations.

As of February 2, 2019, and February 3, 2018 there was \$2,943,000 and \$6,051,000, 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).

On June 6, 2017 the Company received \$3,401,000 in proceeds from a three-year financing arrangement in the form of a sale and leaseback for certain furniture, fixtures and software. Monthly payments are \$123,000 for the first 24 months and \$48,000 for months 25 to 36. At the end of the leaseback term, the Company has the option to extend the financing arrangement for an additional year or to repurchase the financed property for a price to be agreed upon. All of the proceeds from the transaction were used to prepay a portion of the Company’s Prior Term Loan. As of February 2, 2019, and February 3, 2018, there was \$1,361,000 and \$2,670,000 of principal outstanding under this financing arrangement.

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

<u>Fiscal Year</u>	
2019	\$ 4,953
2020	1,850
2021	1,250
2022	20,314
2023	—
	<u>\$ 28,367</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 February 2, 2019 and February 3, 2018, 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 February 2, 2019, and February 3, 2018 the Company had \$20,400,000 and \$8,000,000, 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 9.0%. 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 has authorization to issue up to 20,000,000 shares of common stock, par value \$0.01. The Term Loan Agreement prohibits the payment of dividends or share repurchases by the Company prior to February 1, 2021.

The Company has authorization to issue up to 1,656,381 shares of preferred stock, par value \$0.01. There was no preferred stock issued or outstanding as of February 2, 2019 and February 3, 2018.

12. EQUITY AWARD PLANS

In January 2006 the stockholders of the Company approved the adoption of the 2005 Equity Incentive Plan (as amended and restated, 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 3,550,000 shares of the Company's common stock may be issued in respect of awards under the 2005 Plan, as amended, with no more than 2,250,000 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.

The majority of stock options granted under the 2005 Plan vest ratably over four-year periods and expire ten years from the date of grant, and restricted stock awards and restricted stock units granted generally have restrictions that lapse ratably over four years. However, awards with respect to up to 177,500 shares of common stock may be granted under the 2005 Plan with a vesting period of less than one year. The non-executive chairman of the Company's Board of Directors is granted 6,000 shares of restricted stock and each non-employee director of the Company's Board of Directors, other than the non-executive chairman and Christopher B. Morgan, is granted 4,000 shares of restricted stock on an annual basis that will vest within one year from the date of grant. The Company issues new shares of common stock upon exercise of vested stock options. As of February 3, 2019, there were 797,159 shares of the Company's common stock available for grants of awards under the 2005 Plan.

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

Stock option activity for all plans was as follows:

	Outstanding Stock Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Balance as of February 3, 2018	544	\$ 11.26		
Granted	484	3.07		
Exercised	—	—		
Forfeited	(589)	8.42		
Expired	—	—		
Balance as of February 2, 2019	439	\$ 6.06	8.4	\$ 71
Exercisable as of February 2, 2019	105	\$ 12.90	6.0	\$ —

During fiscal 2018, 2017 and 2016 the total intrinsic value of stock options exercised was \$1,000, \$0 and \$6,000, respectively, and the total cash received was \$500, \$0 and \$6,000, respectively.

The weighted-average fair value of stock options granted during fiscal 2018 and 2016 was estimated to be \$1.78 and \$2.96 per option share, respectively. There were no stock options granted in fiscal 2017. 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:

	Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Expected dividend yield	N/A	N/A	N/A
Expected price volatility	65.2%	N/A	45.0%
Risk-free interest rate	2.8%	N/A	1.3%
Expected life	5.2 years	N/A	5.3 years

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.

The following table summarizes information about stock options outstanding as of February 2, 2019:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Number Outstanding (in thousands)	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable (in thousands)	Weighted Average Exercise Price
\$ 2.65 to \$ 5.00	222	9.3	\$ 2.70	—	\$ —
5.01 to 10.00	143	8.5	6.38	36	7.49
10.01 to 31.38	74	5.5	15.51	69	15.70
\$ 2.65 to \$31.38	439	8.4	6.06	105	\$ 12.90

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

The following table summarizes information about restricted stock and restricted stock unit activity for the 2005 Plan and includes grants of 113,326 performance-based restricted stock units, which is the number of shares of common stock that would be delivered upon vesting assuming that the target level of performance is achieved. If performance was achieved at the maximum level, 226,652 shares of common stock would be delivered in respect of such performance-based restricted stock units.

	<u>Outstanding Restricted Shares and Restricted Stock Units (in thousands)</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested as of February 3, 2018	853	\$ 3.16
Granted	596	3.36
Vested	(171)	7.38
Forfeited	(672)	2.93
Unvested as of February 2, 2019	<u>606</u>	<u>\$ 3.34</u>

During fiscal 2018, 2017 and 2016, the Company's Board of Directors received a cumulative total of 14,000, 22,000 and 13,867 shares of restricted stock, respectively, as compensation for their services. The awards will vest at the earlier of 1) one year from the grant date, 2) one day prior to the next annual meeting of stockholders, 3) the end of the grantee's Board service other than via resignation, or 4) a change in control of the Company (as defined in the 2005 Plan). During fiscal 2016, 10,974 deferred stock units were awarded to members of the Company's Board of Directors in lieu of cash retainers totaling \$75,000.

Stock-based compensation expense in fiscal 2018, 2017 and 2016 was \$971,000, \$1,154,000, and \$1,801,000 respectively. As of February 2, 2019, \$2,247,000 of total unrecognized compensation cost related to all non-vested equity awards is expected to be recognized over a weighted-average period of 1.6 years.

During fiscal 2018, 2017 and 2016, 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 43,053, 19,149 and 7,408 respectively, during fiscal 2018, 2017 and 2016, are reflected as repurchases 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 \$165,000, \$57,000 and, \$54,000 for fiscal 2018, 2017 and 2016, respectively.

13. NET SALES

The following disaggregates the Company's net sales by major source (in thousands):

	<u>Year Ended</u>		
	<u>February 2, 2019</u>	<u>February 3, 2018</u>	<u>January 28, 2017</u>
Retail stores	\$ 231,175	\$ 254,790	\$ 279,484
Leased departments	37,844	43,573	68,395
Total retail locations	269,019	298,363	347,879
E-commerce	93,494	83,814	59,426
Marketing partnerships	16,567	17,484	16,897
Wholesale and franchise	4,670	6,546	9,497
Total net sales	<u>\$ 383,750</u>	<u>\$ 406,207</u>	<u>\$ 433,699</u>

14. OTHER CHARGES, NET

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

In the first quarter of fiscal 2018 the Company received notification from a stockholder group (the “Stockholder Group”), of the nomination of a slate of alternative nominees for election to the Company’s Board of Directors at the Annual Meeting of Stockholders that was held on May 23, 2018 (the “Proxy Solicitation”). At the Company’s 2018 Annual Meeting of Stockholders held on May 23, 2018, the Company’s stockholders replaced the incumbent board in its entirety and elected Holly N. Alden, Christopher B. Morgan, Marla A Ryan and Anne-Charlotte Windal as the Company’s new Board of Directors. During fiscal 2018 the Company incurred \$2,224,000 of charges related to the Proxy Solicitation.

During the fourth quarter of fiscal 2015 the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with the Company’s largest shareholder, Orchestra, a France-based retailer of children’s wear, to complete a proposed business combination (“the Proposed Merger”). During the second quarter of fiscal 2017 the parties determined that it was in the best interest of their respective stockholders to terminate the Merger and on July 27, 2017, the Company, Orchestra, and certain other affiliates of Orchestra entered into a Termination Agreement (the “Termination Agreement”). In connection with the Termination Agreement, Orchestra and the Company agreed to reimburse each other for certain costs incurred in connection with their effort to implement the Merger Agreement. During fiscal 2018, 2017 and 2016 the Company incurred \$0, \$1,198,000 and \$3,154,000, respectively, of net charges related to the proposed merger.

Over the last several years the Company has engaged in a series of management and organizational changes and, in connection therewith, retained consulting firms to review its costs and business strategy associated with such management and organizational changes. The Company’s Board of Directors authorized changes to the Company’s chief executive function including the September 17, 2017 resignation of Anthony M. Romano as the Company’s Chief Executive Officer and President and appointment of B. Allen Weinstein, an independent member of the Company’s Board since 2010, as Interim Chief Executive Officer replacing Mr. Romano, the January 2, 2018 appointment of Melissa Payner-Gregor, an independent member of the Company’s Board since 2009, as Interim Chief Executive Officer replacing Mr. Weinstein and the May 23, 2018 appointment of Marla Ryan as Chief Executive Officer replacing Ms. Payner-Gregor. Ronald Masciantonio, the Company’s former Chief Administrative Officer, resigned from his position on June 4, 2018. David Stern, the Company’s former Chief Financial Officer departed the Company effective at the close of business on August 10, 2018. On January 9, 2019 Dave J. Helkey was appointed Chief Operating Officer and Chief Accounting Officer of the Company. The Company also paid one-time retention bonuses with service conditions to certain key management personnel which are being recorded over the service period, while reducing its overall headcount to create a more efficient and effective operating structure. During fiscal 2018, 2017 and 2016 the Company incurred \$3,356,000, \$3,714,000 and \$1,760,000, respectively, of net charges related to these management and organizational changes.

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 2018, 2017, and 2016 follows (in thousands):

	Year Ended		
	February 2, 2019	February 2, 2018	January 28, 2017
<u>Proxy Solicitation and Proposed Merger</u>			
Proxy solicitation	\$ 2,224	\$ —	\$ —
Proposed merger	—	1,198	3,154
Total proxy solicitation and proposed merger	<u>2,224</u>	<u>1,198</u>	<u>3,154</u>
<u>Management and Organizational Changes</u>			
Retention bonuses, severance and related benefits	2,517	2,481	1,210
Consulting fees	839	1,233	5
Non-core brand contract terminations	—	—	545
Total management and organizational changes	<u>3,356</u>	<u>3,714</u>	<u>1,760</u>
Total other charges, net	<u>\$ 5,580</u>	<u>\$ 4,912</u>	<u>\$ 4,914</u>

15. GOVERNMENT INCENTIVES

In 2015 the Company completed the relocation of its corporate headquarters and distribution operations from Philadelphia, Pennsylvania to southern New Jersey (the “Project”). 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

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

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.

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, 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 deferred income taxes.

In fiscal 2018, 2017 and 2016, the Company's Grow NJ award (net of valuation allowance) of \$2,671,000, \$2,829,000 and \$3,251,000, respectively, was recognized ratably during the fiscal year and included in the Company's consolidated statements of operations as reductions of cost of goods sold and selling, general and administrative expenses. In fiscal 2018, 2017 and 2016 the Company received cash proceeds of \$2,829,000, \$3,251,000 and \$3,600,000, from the sale of the 2017, 2016 and 2015 awards. As of February 2, 2019, the fiscal 2018 award was recorded as a deferred tax asset on the Company's consolidated balance sheet and is expected to be converted to a receivable and collected in fiscal 2019 upon the sale of the income tax credits.

16. INCOME TAXES

The 2017 U.S. Tax Cuts and Jobs Act (the "TCJA") was signed into law on December 22, 2017. The TCJA included a number of changes to the U.S. corporate income tax including a reduction of the corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017, enhancing and extending through 2026 the option to claim accelerated depreciation on qualified property, eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be utilized, a new limitation on deductible interest expense and limitations on the use of net operating loss carryforwards created in tax years beginning after December 31, 2017. To calculate its effective tax for fiscal 2018 the Company used a federal tax rate of 21%, for fiscal 2017 the Company used a blended federal tax rate of 33.7% which represents the prorated percentage from the TCJA's January 1, 2018 effective date and our February 2, 2019 fiscal year-end. In fiscal 2017 the Company recorded a \$10.2 million reduction in our net deferred tax asset to reflect the remeasurement of the asset value from a tax rate of 35% to 21%. The Company had previously recorded a valuation allowance against its deferred tax assets, therefore the revaluation did not affect our fiscal 2017 tax expense.

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

	Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Current provision (benefit)	\$ (103)	\$ 2	\$ 436
Deferred provision (benefit)	—	—	24,614
Income tax provision (benefit)	<u>\$ (103)</u>	<u>\$ 2</u>	<u>\$ 25,050</u>
Federal provision (benefit)	\$ —	\$ (20)	\$ 19,202
State provision (benefit)	(146)	(70)	5,679
Foreign provision (benefit)	43	92	169
Income tax provision (benefit)	<u>\$ (103)</u>	<u>\$ 2</u>	<u>\$ 25,050</u>

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

	Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Statutory federal tax rate	(21.0)%	(33.7)%	(35.0)%
State tax rate, net of federal effect	0.2	0.5	5.4
(Benefit) provision for uncertain income tax positions, net of federal effect	(1.2)	(1.3)	(1.8)
Change in federal tax rate	—	52.2	—
Other	(0.3)	(2.6)	(3.7)
Valuation allowance	21.6	(15.1)	360.0
Effective income tax rate	<u>(0.7)%</u>	<u>0.0%</u>	<u>324.9%</u>

The Company's effective tax rate in fiscal 2018 and fiscal 2017 were comparable. The decrease in the effective tax rate in fiscal 2017 compared to fiscal 2016 was primarily the result of a valuation allowance recorded by the Company in fiscal 2016. 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. 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. Consequently, in fiscal 2016 the Company recorded a non-cash charge of \$27.8 million as a valuation allowance against substantially all of its deferred tax assets. In fiscal 2018 and 2017 the Company's financial results continued to reflect a cumulative three-year loss and as such we continue to record a valuation allowance against substantially all of our 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. 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.

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

	February 2, 2019	February 3, 2018
Deferred tax assets:		
Net operating loss carryforwards	\$ 14,901	\$ 13,840
Deferred rent	5,299	5,568
Depreciation and amortization	3,736	1,507
Grow NJ award benefit, net	2,038	2,158
Federal tax credit carryforwards	1,677	1,494
Employee benefits	1,349	1,211
Inventory reserves	1,213	1,873
Other accruals	1,026	1,037
Disallowed interest carryforward	1,020	—
Stock-based compensation	202	565
Other	1,332	1,367
	<u>33,793</u>	<u>30,620</u>
Valuation allowance	(30,639)	(27,425)
	<u>3,154</u>	<u>3,195</u>
Deferred tax liabilities:		
Prepaid expenses	(483)	(366)
	<u>(483)</u>	<u>(366)</u>
Net deferred tax assets	<u>\$ 2,671</u>	<u>\$ 2,829</u>

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

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

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 February 2, 2019 would be approximately \$1.5 million 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		
	February 2, 2019	February 3, 2018	January 28, 2017
Balance at beginning of period	\$ 380	\$ 752	\$ 961
Additions for current period tax positions	—	—	—
Additions for prior period tax positions	—	—	13
Reductions of prior period tax positions	(212)	(372)	(222)
Payments	—	—	—
Balance at end of period	<u>\$ 168</u>	<u>\$ 380</u>	<u>\$ 752</u>

As of February 2, 2019, gross unrecognized tax benefits included accrued interest and penalties of \$67,000. During fiscal 2018, 2017 and 2016 interest and penalties of \$(125,000), \$(131,000) and \$(28,000), 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 \$154,000, net of federal tax benefit.

As of February 2, 2019, February 3, 2018 and January 28, 2017 the Company had income taxes receivable of \$330,000, \$700,000 and \$4,875,000, respectively, which are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

During the twelve months subsequent to February 2, 2019 it is reasonably possible that the gross unrecognized tax benefits could potentially decrease by approximately \$168,000 (of which approximately \$154,000 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, 2014 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, 2009 and thereafter, Indian tax returns for tax years ended March 31, 2011 and thereafter, and United States state tax returns for tax years ended September 30, 2013 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 2013.

17. 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 \$50,388,000, \$53,657,000 and \$56,830,000 in fiscal 2018, 2017 and 2016, respectively. Such amounts exclude contingent rentals based upon a percentage of sales totaling \$1,025,000, \$942,000, \$977,000 in fiscal 2018, 2017 and 2016, respectively.

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 February 2, 2019, are as follows (in thousands):

<u>Fiscal Year</u>	
2019	\$ 36,417
2020	29,682
2021	21,142

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2022	21,698
2023	15,995
2024 and thereafter	48,462
	\$ 173,396

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.

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 \$0, \$0 and \$123,000 were made in fiscal 2018, 2017 and 2016, respectively, which were net of \$20,000 of cumulative plan forfeitures in fiscal 2016. 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.

19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial results for the fiscal years ended February 2, 2019 and February 3, 2018 were as follows (in thousands, except per share amounts):

Fiscal 2018	Quarter Ended			
	2/2/19	11/03/18	8/4/18	5/5/18
Net sales	\$ 91,291	\$ 92,837	\$ 96,395	\$ 103,227
Gross profit	44,223	48,656	49,865	55,403
Net income (loss)	(6,402)	(4,114)	(4,025)	214
Net income (loss) per share—Basic	(0.46)	(0.30)	(0.29)	0.02
Net income (loss) per share—Diluted	(0.46)	(0.30)	(0.29)	0.02

Fiscal 2017	Quarter Ended			
	2/3/18	10/28/17	7/29/17	4/29/17
Net sales	\$ 105,147	\$ 96,354	\$ 98,280	\$ 106,426
Gross profit	52,959	50,901	52,053	57,939
Net loss	(10,158)	(7,523)	(2,774)	(1,142)
Net loss per share—Basic	(0.73)	(0.55)	(0.20)	(0.08)
Net loss per share—Diluted	(0.73)	(0.55)	(0.20)	(0.08)

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

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

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):

	Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Net Sales			
United States	\$ 365,673	\$ 383,183	\$ 405,921
Foreign	18,077	23,024	27,778
Long-Lived Assets			
United States	\$ 51,068	\$ 65,456	
Foreign	1,228	1,643	

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		
	February 2, 2019	February 3, 2018	January 28, 2017
Interest expense	\$ 4,831	\$ 4,048	\$ 3,578
Interest income	(3)	(3)	(3)
Interest expense, net	<u>\$ 4,828</u>	<u>\$ 4,045</u>	<u>\$ 3,575</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 February 2, 2019				
Product return liability	\$ 2,799	\$ —	\$ (721)	\$ 2,078
Year Ended February 3, 2018				
Product return liability	\$ 1,615	\$ 1,184	\$ —	\$ 2,799
Year Ended January 28, 2017				
Product return liability	\$ 1,736	\$ —	\$ (121)	\$ 1,615

(1) As of February 2, 2019, February 3, 2018, and January 28, 2017 the Company's product return reserve reflects the estimated gross sales value of estimated product returns, which had an estimated cost value of \$962, \$1,154, and \$775, respectively.

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") is made by and between DESTINATION MATERNITY CORPORATION (the "Company") and RODNEY SCHRIVER ("Executive") and is effective on December 4, 2017 (the "Effective Date").

WHEREAS, the parties wish to enter into this Agreement to memorialize the terms of Executive's employment by the Company.

NOW, THEREFORE, in consideration of the foregoing and intending to be bound hereby, the parties agree as follows:

1. Duration of Agreement. This Agreement is effective on the date specified above and has no specific expiration date. Unless terminated by agreement of the parties, this Agreement will govern Executive's continued employment by the Company until that employment ceases. Executive's employment is at will and may be terminated at any time by Executive or by the Company with or without Cause (as defined below). Except in the event of termination of Executive by Company for Cause, either party shall provide the other with two weeks' advance notice prior to termination of employment. Company may elect to pay Executive two weeks' pay in lieu of such notice period.

2. Title; Duties. Executive will be employed as the Company's Senior Vice President, Chief Accounting Officer, reporting directly to the Company's Executive Vice President, Chief Financial Officer, or as otherwise directed by the Company's Chief Executive Officer (the "CEO"). Executive will devote his or her best efforts and substantially all of his or her business time and services to the Company and its affiliates to perform such duties as may be customarily incident to his or her position and as may reasonably be assigned to him or her from time to time. Executive will not, in any capacity, engage in other business activities or perform services for any other individual, firm or corporation without the prior written consent of the Company; *provided, however*, that without such consent, Executive may engage in charitable, public service and personal investment activities, so long as such activities do not in any respect interfere with Executive's performance of his or her duties and obligations hereunder.

3. Place of Performance. Executive will perform his or her services hereunder at the principal executive offices of the Company; *provided, however*; that Executive may be required to travel from time to time for business purposes.

4. Compensation and Indemnification.

4.1. Base Salary. Executive's annual salary is currently \$265,000 (the "Base Salary"), paid in accordance with the Company's payroll practices as in effect from time to time. The Base Salary will be reviewed annually by the CEO.

4.2. Annual Bonuses.

4.2.1. For each fiscal year ending during his or her employment, Executive will be eligible to earn an annual bonus. The target amount of that bonus is currently 40% of Executive's Base Salary for the applicable fiscal year and will be pro-rated for the fiscal year already in progress at the time of Executive's commencement of employment. The target amount will be reviewed annually by the CEO. The actual bonus payable with respect to a particular year will be determined by the CEO, based on the achievement of corporate performance objectives and individual performance, as determined by the CEO.

Any bonus payable under this paragraph will be paid within 90 days following the end of the applicable fiscal year and, except as otherwise provided in Section 5.1.2, will only be paid if Executive remains continuously employed by the Company through the actual bonus payment date.

4.2.2. For purposes of determining any bonus payable to Executive, the measurement of corporate and individual performance will be performed by the CEO in the CEO's sole discretion (provided however, if Executive is subject to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), such determination will be made by the Compensation Committee of the Company's Board of Directors). From time to time, to the extent permitted by Section 162(m) of the Code, if applicable, the CEO may, in the CEO's sole discretion, make adjustments to corporate performance objectives, so that required departures from the Company's operating budget, changes in accounting principles, acquisitions, dispositions, mergers, consolidations and other corporate transactions, and other factors influencing the achievement or calculation of such objectives do not affect the operation of this Section 4.2 in a manner inconsistent with its intended purposes.

4.2.3. The CEO may choose to provide Executive's annual bonus opportunity through the Company's Management Incentive Program, in which case such bonus opportunity will be subject to the additional terms and conditions therein contained.

4.3. Paid Time Off. Executive will be entitled to paid time off each year in accordance with the policies of the Company, as in effect from time to time, or as may be otherwise agreed to by the Company in writing.

4.4. Additional Benefits. To the extent relocation benefits are to be provided to Executive by Company, such relocation benefits are incorporated herein and attached hereto as Exhibit A.

4.5. Indemnification. Executive will be indemnified for acts performed as an employee of the Company to the extent provided in the Company's Bylaws, as in effect from time to time.

5. Termination. Upon any cessation of his or her employment with the Company, Executive will be entitled only to such compensation and benefits as described in this Section 5. Upon any cessation of his or her employment for any reason, unless otherwise requested by the Company, Executive agrees to resign immediately from all officer and director positions Executive then holds with the Company and its affiliates.

5.1. Termination without Cause or for Good Reason. If Executive's employment by the Company ceases due to a termination by the Company without Cause (as defined below) or a resignation by Executive for Good Reason (as defined below), Executive will be entitled to:

5.1.1. payment of all accrued and unpaid Base Salary through the date of such cessation;

5.1.2. payment of any annual bonus otherwise payable (but for the cessation of Executive's employment), to the extent unpaid, with respect to a year ended prior to the cessation of Executive's employment;

5.1.3. Base Salary continuation payments for a period equal to twenty-six (26) weeks paid in accordance with the Company's normal payroll practices; and

5.1.4. waiver of the applicable premium otherwise payable for COBRA continuation coverage for Executive (and, to the extent covered immediately prior to the date of such cessation, his or her eligible dependents) for a period equal to twenty-six (26) weeks.

Except as otherwise provided in this Section 5.1, all compensation and benefits will cease at the time of such cessation and the Company will have no further liability or obligation by reason of such cessation. The payments and benefits described in this Section 5.1 are in lieu of, and not in addition to, any other severance arrangement maintained by the Company. Notwithstanding any provision of this Agreement, the payments and benefits described in Section 5.1 are conditioned on Executive's execution (and non-revocation) and delivery to the Company, within 60 days following his or her cessation of employment, of an effective general release of claims against the Company and its affiliates in such form as the Company may reasonably require in a manner consistent with the requirements of the Older Workers Benefit Protection Act (the "Release"). Subject to Section 5.4, below, the severance benefits described in this Section 5.1 will begin to be paid or provided as soon as the Release becomes irrevocable.

5.2. Termination Following a Change in Control. For cessations of employment described in Section 5.1 that occur during the twenty-four (24) month period following a Change in Control:

5.2.1. the references in Sections 5.1.3 and 5.1.4 to "twenty-six (26) weeks" will each be replaced with a reference to "fifty-two (52) weeks;"

5.2.2. Executive will be entitled to payment of a pro-rata annual bonus for the year of termination, determined and paid in the same manner and at the same time as Executive's annual bonus would otherwise have been determined and paid for the applicable year, but for the termination. Such annual bonus will be pro-rated based on the number of full and partial months of the year transpired prior to the date of termination; and

5.2.3. Executive will be entitled to an additional severance benefit equal to 40% of his or her Base Salary, which amount will be divided into substantially equal installments and paid over the salary continuation period described above in Section 5.2.1.

For avoidance of doubt, the payment of these enhanced severance benefits is subject to the release requirements described at the end of Section 5.1.

5.3. Other Terminations. If Executive's employment with the Company ceases for any reason other than as described in Section 5.1, above (including but not limited to termination (a) by the Company for Cause, (b) as a result of Executive's death, (c) as a result of Executive's disability or (d) by Executive without Good Reason), then the Company's obligation to Executive will be limited solely to the payment of accrued and unpaid Base Salary through the date of such cessation. All compensation and benefits will cease at the time of such cessation and, except as otherwise provided by COBRA, the Company will have no further liability or obligation by reason of such termination. The foregoing will not be construed to limit Executive's right to payment or reimbursement for claims incurred prior to the date of such termination under any insurance contract funding an employee benefit plan, policy or arrangement of the Company in accordance with the terms of such insurance contract.

5.4. Compliance with Section 409A. If the termination giving rise to the payments described in Section 5.1 is not a "Separation from Service" within the meaning of Treas. Reg. § 1.409A-1(h)(1) (or any successor provision), then the amounts otherwise payable pursuant to that section will instead be deferred without interest and will not be paid until Executive experiences a Separation from Service. In addition, to the extent compliance with the requirements of Treas. Reg. § 1.409A-3(i)(2) (or any successor provision) is necessary to avoid the application of an additional tax under Section 409A of Code to payments due to Executive upon or following his or her Separation from Service, then notwithstanding any other provision of this Agreement (or any otherwise applicable plan, policy, agreement or arrangement), any such payments that are otherwise due within six months following Executive's Separation from Service (taking into account the preceding sentence of this paragraph) will be deferred without interest and paid to Executive in a lump sum immediately following that six month period. This

paragraph should not be construed to prevent the application of Treas. Reg. § 1.409A-1(b)(9)(iii)(or any successor provision) to amounts payable hereunder. For purposes of the application of Treas. Reg. § 1.409A-1(b)(4)(or any successor provision), each payment in a series of payments will be deemed a separate payment.

5.5. Compliance with Section 280G. If any payment or benefit due to Executive from the Company or its subsidiaries or affiliates, whether under this Agreement or otherwise, would (if paid or provided) constitute an Excess Parachute Payment (as defined below), then notwithstanding any other provision of this Agreement or any other commitment of the Company, that payment or benefit will be limited to the minimum extent necessary to ensure that no portion thereof will fail to be tax-deductible to the Company by reason of Section 280G of the Code. The determination of whether any payment or benefit would (if paid or provided) constitute an Excess Parachute Payment will be made by the Company, in good faith and in its sole discretion. If multiple payments or benefits are subject to reduction under this paragraph, such payments or benefits will be reduced in the order that maximizes Executive's economic position (as determined by the Company in good faith). If, notwithstanding the initial application of this Section 5.5, the Internal Revenue Service determines that any payment or benefit provided to Executive constituted an Excess Parachute Payment, this Section 5.5 will be reapplied based on the Internal Revenue Service's determination and Executive will be required to promptly repay to the Company any amount in excess of the payment limit of this Section 5.5, plus interest on such amount as determined at the applicable federal rate specified in Section 7872(f)(2) of the Code.

5.6. Definitions. For purposes of this Agreement:

5.6.1. "Cause" means (a) conviction of, or the entry of a plea of guilty or no contest to, a crime, other than a minor traffic offense; (b) alcohol abuse or use of controlled drugs (other than in accordance with a physician's prescription); (c) willful misconduct or gross negligence in the course of employment; (d) material breach of any published Company policy, including (without limitation) the Company's ethics guidelines, insider trading policies or policies regarding employment practices; (e) material breach of any agreement with or duty owed to the Company or any of its affiliates; or (f) refusal to perform the lawful and reasonable directives of a supervisor. For avoidance of doubt, a separation from service that occurs as a result of a condition entitling Executive to benefits under any Company sponsored or funded long term disability arrangement will not constitute a termination "without Cause."

5.6.2. "Change in Control" means the first to occur of any of the events described in Section 1(f) of the Company's 2005 Equity Incentive Plan (or any successor provision). Notwithstanding the foregoing, a Change in Control will not be deemed to have occurred unless such event would also be a Change in Control under Code Section 409A or would otherwise be a permitted distribution event under Code Section 409A.

5.6.3. "Excess Parachute Payment" has the same meaning as used in Section 280G(b)(1) of the Code.

5.6.4. "Good Reason" means any of the following, without Executive's prior consent: (a) a material, adverse change in title, authority or duties (including the assignment of duties materially inconsistent with the Executive's position); (b) a reduction in Base Salary or bonus opportunity (described in paragraph 4.2.1); or (c) a relocation of Executive's principal worksite more than 50 miles. However, none of the foregoing events or conditions will constitute Good Reason unless Executive provides the Company with written objection to the event or condition within 30 days following the occurrence thereof, the Company does not reverse or otherwise cure the event or condition within 30 days of receiving that written objection, and Executive resigns his or her employment within 30 days following the expiration of that cure period.

5.6.5. “Restricted Period” means the greater of: (a) six (6) months; or (b) the period of time during which Executive is receiving Base Salary continuation payments, after termination of employment with the Company by Executive or by Company, for any reason, with or without cause.

6. Confidential Information. Confidential Information means information which the Company regards as confidential or proprietary and which Executive learns or develops during or related to his or her employment, including, but not limited to, information:

- a. relating to the Company’s products, suppliers, pricing, costs, sourcing, design, fabric and distribution processes;
- b. relating to the Company’s marketing plans and projections;
- c. consisting of lists of names and addresses of the Company’s employees, agents, factories and suppliers;
- d. relating to the methods of importing and exporting used by the Company;
- e. relating to manuals and procedures created and/or used by the Company;
- f. consisting of trade secrets or other information that is used in the Company’s business, and which give the Company an opportunity to obtain an advantage over competitors who do not know such trade secrets or how to use the same;
- g. consisting of software in various stages of development (source code, object code, documentation, flow charts), specifications, models, data and customer information;
- h. consisting of financial information and financial analysis prepared by the Company or used by the Company;
- i. consisting of legal information; and
- j. relating to contracts.

Executive assigns to Company any rights he or she may have in any Confidential Information. Executive shall not disclose any Confidential Information to any third-party or use any Confidential Information for any purposes other than as authorized by the Company.

Executive agrees not to disclose to Company or use for its benefit any confidential information that he or she may possess from any prior employers or other sources.

7. Surrender of Materials. Executive hereby agrees to deliver to the Company promptly upon request or on the date of termination of Executive’s employment, all documents, copies thereof and other materials in Executive’s possession pertaining to the business of the Company and its customers, including, but not limited to, Confidential Information (and each and every copy, disk, abstract, summary or reproduction of the same made by or for Executive or acquired by Executive). Executive will be responsible for the value of all Company or customer property that is not timely returned. Executive authorizes the Company to deduct the fair market value of such property from any monies owed to him or her.

8. Non-Competition and Non-Solicitation. Executive acknowledges that the Company has developed and maintains at great expense, a valuable supplier network, supplier contacts, many of which are of longstanding, product designs, and other information of the type described in Section 6 of this Agreement, and that in the course of his or her employment (or continued employment) by the Company, Executive will be given Confidential Information concerning such suppliers and products, including information concerning such suppliers’ purchasing personnel, policies, requirements, and preferences, and such product’s design, manufacture and marketing.

- a. Accordingly, Executive agrees that during the period of Executive’s employment and for the Restricted Period, Executive will not:

- (i) Provide services for a business or enterprise that, in its previous fiscal year, generated 20% or more of its gross revenue from the design, manufacture and/or sale of Maternity Product. This subparagraph only applies in the following geographic areas: (x) states and commonwealths of the United States; (y) the District of Columbia; and (z) any foreign country. Furthermore, this subparagraph only applies in the foregoing geographic areas to the extent that the Company has designed, sold or manufactured Maternity Product or has undertaken preparations to engage in any such business within the year prior to the termination of Executive's employment;
- (ii) Provide services for the following entities (including any of their respective divisions, subsidiaries, or affiliates): (a) Gap Inc., (b) J.C. Penney Corporation, Inc., (c) Target Corporation, (d) Macy's, Inc., (e) Sears Holding Corporation, (f) Bed Bath and Beyond, Inc., (g) Gordmans Stores, Inc., (h) Boscov's (i) Century 21 Department Store, or (j) Kohl's Corporation. Such list of entities may be modified from time to time in the sole reasonable discretion of the Company. Executive is not permitted to provide services to such businesses regardless of the amount of Maternity Product sales generated by such businesses.

The term "Maternity Product" is defined as maternity and nursing apparel and related maternity and nursing accessories.

- b. During the period of Executive's service with the Company and its affiliates, and for the Restricted Period, Executive will not induce, attempt to induce (or in any way assist any other person in inducing or attempting to induce) any employee, consultant, supplier, licensor, licensee, contractor, agent, strategic partner, distributor or other person to terminate or modify any agreement, arrangement, relationship or course of dealing with the Company. Further, during such period Executive will not directly or indirectly, on Executive's own behalf or on behalf of any other person or entity, employ or solicit for employment: (i) any current Company employee or agent; or (ii) any former Company employee or agent who provided services to the Company within the prior twelve (12) month period.
- c. Executive acknowledges that any breach by him or her of the provisions of this Section 8 (the "Restrictive Covenants"), whether or not willful, will cause continuing and irreparable injury to the Company for which monetary damages alone would not be an adequate remedy. Executive shall not, in any action or proceeding to enforce the Restrictive Covenants, assert the claim or defense that such an adequate remedy at law exists. If there is a breach or threatened breach of any of the Restrictive Covenants, or any other obligation contained in this Agreement, the Company shall be entitled to an injunction restraining Executive from any such breach without the necessity of proving actual damages, and Executive waives the requirement of posting a bond. Nothing herein, however, shall be construed as prohibiting the Company from pursuing other remedies for such breach or threatened breach.
- d. Executive agrees to disclose the existence and terms of the Restrictive Covenants to any person for whom Executive performs services for during the Restricted Period following any cessation of his or her service with the Company and its affiliates.
- e. Executive acknowledges that the Restrictive Covenants are reasonable and necessary to protect the legitimate interests of the Company and its affiliates, that the duration

and scope of the Restrictive Covenants are reasonable given Executive's position within the Company, and that the Company would not have entered into this Agreement or otherwise agreed to provide the increased severance protection described herein in the absence of Executive's execution of this Agreement.

9. Other Conditions of Employment. Executive shall be subject to other terms and conditions of employment as set forth in: a) the prevailing Company Team Member Handbook, b) the prevailing Company insider trading policies, and c) any other Company policies, all of which shall be subject to interpretation and change from time to time at the sole discretion of the Company, so long as such terms and conditions are not materially inconsistent with the terms hereof.

10. Miscellaneous.

10.1. No Liability of Officers and Directors Upon Insolvency. Notwithstanding any other provision of the Agreement, Executive hereby (a) waives any right to claim payment of amounts owed to him or her, now or in the future, pursuant to this Agreement from directors or officers of the Company if the Company becomes insolvent, and (b) fully and forever releases and discharges the Company's officers and directors from any and all claims, demands, liens, actions, suits, causes of action or judgments arising out of any present or future claim for such amounts.

10.2. Other Agreements. Executive represents and warrants to the Company that there are no restrictions, agreements or understandings whatsoever to which Executive is a party that would prevent or make unlawful his or her execution of this Agreement, that would be inconsistent or in conflict with this Agreement or Executive's obligations hereunder, or that would otherwise prevent, limit or impair the performance by Executive of his or her duties under this Agreement.

10.3. Successors and Assigns. The Company may assign this Agreement to any successor to its assets and business by means of liquidation, dissolution, sale of assets or otherwise. For avoidance of doubt, a termination of Executive's employment by the Company in connection with a permitted assignment of the Company's rights and obligations under this Agreement is not a termination "without Cause" so long as the assignee offers employment to Executive on the terms herein specified (without regard to whether Executive accepts employment with the assignee). The duties of Executive hereunder are personal to Executive and may not be assigned by him or her.

10.4. Governing Law and Enforcement. This Agreement will be governed by and construed in accordance with the laws of the State of New Jersey, without regard to the principles of conflicts of laws. Any legal proceeding arising out of or relating to this Agreement will be instituted in a state or federal court in the State of New Jersey, and Executive and the Company hereby consent to the personal and exclusive jurisdiction of such court(s) and hereby waive any objection(s) that they may have to personal jurisdiction, the laying of venue of any such proceeding and any claim or defense of inconvenient forum.

10.5. Waivers. The waiver by either party of any right hereunder or of any breach by the other party will not be deemed a waiver of any other right hereunder or of any other breach by the other party. No waiver will be deemed to have occurred unless set forth in a writing. No waiver will constitute a continuing waiver unless specifically stated, and any waiver will operate only as to the specific term or condition waived.

10.6. Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law. However, if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or

unenforceability will not affect any other provision, and this Agreement will be reformed, construed and enforced as though the invalid, illegal or unenforceable provision had never been herein contained.

10.7. Survival. This Agreement will survive the cessation of Executive's employment to the extent necessary to fulfill the purposes and intent of the Agreement.

10.8. Notices. Any notice or communication required or permitted under this Agreement will be made in writing and (a) sent by overnight courier, (b) mailed by overnight U.S. express mail, return receipt requested or (c) sent by telecopier. Any notice or communication to Executive will be sent to the address contained in his or her personnel file. Any notice or communication to the Company will be sent to the Company's principal executive offices, to the attention of its CEO. Notwithstanding the foregoing, either party may change the address for notices or communications hereunder by providing written notice to the other in the manner specified in this paragraph.

10.9. Entire Agreement; Amendments. This Agreement contains the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and merges and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature relating to that subject matter. This Agreement may not be changed or modified, except by an agreement in writing signed by each of the parties hereto.

10.10. Withholding. All payments (or transfers of property) to Executive will be subject to tax withholding to the extent required by applicable law.

10.11. Section Headings. The headings of sections and paragraphs of this Agreement are inserted for convenience only and will not in any way affect the meaning or construction of any provision of this Agreement.

10.12. Counterparts; Facsimile. This Agreement may be executed in multiple counterparts (including by facsimile signature), each of which will be deemed to be an original, but all of which together will constitute but one and the same instrument.

[signature page follows]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and Executive has executed this Agreement, in each case effective on the Effective Date.

DESTINATION MATERNITY CORPORATION

By:

Name: _____

Title: _____

EXECUTIVE

RODNEY SCHRIVER

Exhibit A

Not applicable.

SUBSIDIARIES OF THE COMPANY

NAME OF SUBSIDIARY	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION	OTHER NAMES UNDER WHICH SUBSIDIARY DOES BUSINESS
Destination Maternity Apparel Private Limited	India	N/A
DM Urban Renewal, L.L.C.	New Jersey	N/A
Mothers Work Canada, Inc.	Delaware	N/A

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 (No. 333-226335, 333-221015, 333-212818, 333-186937, 333-174059, and 333-137136) on Forms S-3 and S-8 of Destination Maternity Corporation (formerly Mothers Work, Inc.) of our report dated April 16, 2019, with respect to the consolidated balance sheets of Destination Maternity Corporation as of February 2, 2019 and February 3, 2018, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended February 2, 2019, and the related notes and financial statement schedule valuation and qualifying accounts (collectively, the "consolidated financial statements"), which report appears in the February 2, 2019 annual report on Form 10-K of Destination Maternity Corporation.

/s/ KPMG LLP

Philadelphia, Pennsylvania
April 16, 2019

**SARBANES-OXLEY
SECTION 302 CERTIFICATION**

I, Marla A. Ryan, 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 16, 2019

/s/ MARLA A. RYAN

Marla A. Ryan

Chief Executive Officer

**SARBANES-OXLEY
SECTION 302 CERTIFICATION**

I, Dave J. Helkey, 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 16, 2019

/s/ DAVE J. HELKEY

Dave J. Helkey

Chief Operating Officer & 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 February 2, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marla A. Ryan, Chief Executive 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/ MARLA A. RYAN

Marla A. Ryan

Chief Executive Officer

April 16, 2019

**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 February 2, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dave J. Helkey, Chief Operating Officer & 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/ DAVE J. HELKEY

Dave J. Helkey

Chief Operating Officer & Chief Financial Officer

April 16, 2019