

Destination Maternity Corp  
Form 10-Q  
February 07, 2012  
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**United States**  
**Securities and Exchange Commission**  
Washington, D.C. 20549

**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended December 31, 2011

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-3045573**  
(IRS Employer  
Identification No.)

**456 North 5th Street, Philadelphia, Pennsylvania**  
(Address of principal executive offices)

**19123**  
(Zip code)

**Registrant's telephone number, including area code (215) 873-2200**

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.01 par value 13,300,576 shares outstanding as of February 2, 2012

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**DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

(unaudited)

|   | December 31, 2011 | September 30, 2011 |
|---|-------------------|--------------------|
| <b>ASSETS</b>   |                   |                    |
| Current assets:   |                   |                    |
| Cash and cash equivalents   | \$ 29,308         | \$ 15,285          |
| Trade receivables, net  | 8,637             | 11,015             |
| Inventories   | 79,194            | 90,366             |
| Deferred income taxes   | 7,769             | 7,572              |
| Prepaid expenses and other current assets                                       | 4,809             | 6,797              |
| Total current assets  | 129,717           | 131,035            |
| Property, plant and equipment, net  | 53,483            | 55,854             |
| Other assets:   |                   |                    |
| Deferred financing costs, net of accumulated amortization of \$754 and \$760    | 119               | 158                |
| Other intangible assets, net of accumulated amortization of \$2,110 and \$2,082 | 1,233             | 1,248              |
| Deferred income taxes   | 9,917             | 10,133             |
| Other non-current assets  | 351               | 344                |
| Total other assets  | 11,620            | 11,883             |
| Total assets  | \$ 194,820        | \$ 198,772         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                      |                   |                    |
| Current liabilities:  |                   |                    |
| Line of credit borrowings   | \$                | \$                 |
| Current portion of long-term debt   | 2,915             | 2,915              |
| Accounts payable  | 15,282            | 18,456             |
| Accrued expenses and other current liabilities                                  | 37,971            | 33,680             |
| Total current liabilities   | 56,168            | 55,051             |
| Long-term debt  | 23,202            | 28,427             |
| Deferred rent and other non-current liabilities                                 | 22,237            | 22,599             |
| Total liabilities   | 101,607           | 106,077            |
| Commitments and contingencies (Note 12)   |                   |                    |
| Stockholders equity:  |                   |                    |

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|  |                   |                   |
|--|-------------------|-------------------|
| Preferred stock, 1,656,381 shares authorized:<br>Series B junior participating preferred stock, \$.01 par value; 300,000 shares authorized, none outstanding |                   |                   |
| Common stock, \$.01 par value; 20,000,000 shares authorized, 13,277,453 and 13,225,928 shares issued and outstanding, respectively                           | 133               | 132               |
| Additional paid-in capital   | 93,474            | 92,932            |
| Accumulated deficit  | (318)             | (261)             |
| Accumulated other comprehensive loss   | (76)              | (108)             |
| <b>Total stockholders' equity</b>  | <b>93,213</b>     | <b>92,695</b>     |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 194,820</b> | <b>\$ 198,772</b> |

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

**Table of Contents****DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

(unaudited)

|   | <b>Three Months Ended<br/>December 31,</b> |             |
|---|--|-------------|
|   | <b>2011</b>                                | <b>2010</b> |
| Net sales   | \$ 136,350                                 | \$ 135,435  |
| Cost of goods sold  | 66,744                                     | 62,502      |
| Gross profit  | 69,606                                     | 72,933      |
| Selling, general and administrative expenses                | 65,079                                     | 63,504      |
| Store closing, asset impairment and asset disposal expenses | 437  | 243         |
| Operating income  | 4,090                                      | 9,186       |
| Interest expense, net                                       | 400  | 644         |
| Loss on extinguishment of debt                              | 10   | 9           |
| Income before income taxes                                  | 3,680                                      | 8,533       |
| Income tax provision  | 1,417                                      | 3,285       |
| Net income  | \$ 2,263                                   | \$ 5,248    |
| Net income per share Basic                                  | \$ 0.17                                    | \$ 0.42     |
| Average shares outstanding Basic                            | 13,024                                     | 12,508      |
| Net income per share Diluted                                | \$ 0.17                                    | \$ 0.40     |
| Average shares outstanding Diluted                          | 13,195                                     | 12,993      |

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

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**DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**AND COMPREHENSIVE INCOME**

(in thousands)

(unaudited)

|   | Common Stock           |        | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Total     | Comprehensive<br>Income |
|---|------------------------|--------|----------------------------------|------------------------|---|-----------|-------------------------|
|   | Number<br>of<br>Shares | Amount |                                  |                        |   |           |                         |
| Balance as of September 30, 2011  | 13,226                 | \$ 132 | \$ 92,932                        | \$ (261)               | \$ (108)                                      | \$ 92,695 |                         |
| Net income  |                        |        |                                  | 2,263                  |   | 2,263     | \$ 2,263                |
| Change in fair value of interest rate swap,<br>net of tax                         |                        |        |                                  |                        | 48  | 48        | 48                      |
| Foreign currency translation adjustment   |                        |        |                                  |                        | (16)  | (16)      | (16)                    |
| Comprehensive income  |                        |        |                                  |                        |   |           | \$ 2,295                |
| Cash dividends  |                        |        |                                  | (2,320)                |   | (2,320)   |                         |
| Stock-based compensation  | 52                     | 1      | 569                              |                        |   | 570       |                         |
| Tax benefit shortfall from stock option<br>exercises and restricted stock vesting |                        |        | (21)                             |                        |   | (21)      |                         |
| Repurchase and retirement of common<br>shares                                     | (1)                    |        | (6)                              |                        |   | (6)       |                         |
| Balance as of December 31, 2011   | 13,277                 | \$ 133 | \$ 93,474                        | \$ (318)               | \$ (76)                                       | \$ 93,213 |                         |
| Balance as of September 30, 2010  | 12,691                 | \$ 127 | \$ 88,399                        | \$ (16,348)            | \$ (580)                                      | \$ 71,598 |                         |
| Net income  |                        |        |                                  | 5,248                  |   | 5,248     | \$ 5,248                |
| Change in fair value of interest rate swap,<br>net of tax                         |                        |        |                                  |                        | 154   | 154       | 154                     |
| Comprehensive income  |                        |        |                                  |                        |   |           | \$ 5,402                |
| Stock-based compensation  | (5)                    |        | 745                              |                        |   | 745       |                         |
| Exercise of stock options, net  | 11                     |        | 63                               |                        |   | 63        |                         |
| Excess tax benefit from stock option<br>exercises and restricted stock vesting    |                        |        | 64                               |                        |   | 64        |                         |
| Repurchase and retirement of common<br>shares                                     | (9)                    |        | (155)                            |                        |   | (155)     |                         |
| Balance as of December 31, 2010   | 12,688                 | \$ 127 | \$ 89,116                        | \$ (11,100)            | \$ (426)                                      | \$ 77,717 |                         |

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

**Table of Contents****DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

|  | <b>Three Months Ended<br/>December 31,</b> |               |
|--|--|---------------|
|  | <b>2011</b>                                | <b>2010</b>   |
| <b>Operating Activities</b>  |  |               |
| Net income   | \$ 2,263                                   | \$ 5,248      |
| Adjustments to reconcile net income to net cash provided by operating activities:                |  |               |
| Depreciation and amortization  | 3,210                                      | 3,144         |
| Stock-based compensation expense   | 570  | 745           |
| Loss on impairment of long-lived assets  | 456  | 129           |
| Loss on disposal of assets   | 9  | 70            |
| Loss on extinguishment of debt   | 10   | 9             |
| Deferred income tax (benefit) provision  | (144)                                      | 1,653         |
| Amortization of deferred financing costs   | 29   | 47            |
| Changes in assets and liabilities:   |  |               |
| Decrease (increase) in:  |  |               |
| Trade receivables  | 2,371                                      | 2,179         |
| Inventories  | 11,171                                     | 8,448         |
| Prepaid expenses and other current assets  | 1,988                                      | 47            |
| Other non-current assets   | (7)  | 1             |
| Increase (decrease) in:  |  |               |
| Accounts payable, accrued expenses and other current liabilities                                 | 1,844                                      | (3,439)       |
| Deferred rent and other non-current liabilities  | (66)                                       | (193)         |
| Net cash provided by operating activities  | 23,704                                     | 18,088        |
| <b>Investing Activities</b>  |  |               |
| Withdrawal from grantor trust  |  | 1,504         |
| Capital expenditures   | (1,277)                                    | (3,580)       |
| Purchase of intangible assets  | (19)                                       | (78)          |
| Net cash used in investing activities  | (1,296)                                    | (2,154)       |
| <b>Financing Activities</b>  |  |               |
| Decrease in cash overdraft   | (822)                                      | (1,668)       |
| Repayment of long-term debt  | (5,225)                                    | (2,895)       |
| Withholding taxes on stock-based compensation paid in connection with repurchase of common stock | (6)  | (155)         |
| Cash dividends paid  | (2,320)                                    |               |
| Proceeds from exercise of stock options  |  | 63            |
| Excess tax benefit from exercise of stock options and restricted stock vesting                   |  | 64            |
| Net cash used in financing activities  | (8,373)                                    | (4,591)       |
| Effect of exchange rate changes on cash and cash equivalents                                     |  | (12)          |
| <b>Net Increase in Cash and Cash Equivalents</b>   | <b>14,023</b>                              | <b>11,343</b> |
| <b>Cash and Cash Equivalents, Beginning of Period</b>  | <b>15,285</b>                              | <b>24,633</b> |



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|  |           |           |
|--|-----------|-----------|
| <b>Cash and Cash Equivalents, End of Period</b>    | \$ 29,308 | \$ 35,976 |
| Supplemental Disclosures of Cash Flow Information: |           |           |
| Cash paid for interest                             | \$ 462    | \$ 717    |
| Cash paid for income taxes                         | \$ 259    | \$ 1,511  |

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

**Table of Contents****DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**1. BASIS OF FINANCIAL STATEMENT PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the requirements for Form 10-Q and Article 10 of Regulation S-X and, accordingly, certain information and footnote disclosures have been condensed or omitted. Reference is made to the Annual Report on Form 10-K as of and for the year ended September 30, 2011 for Destination Maternity Corporation and subsidiaries (the Company or Destination Maternity), as filed with the Securities and Exchange Commission (SEC), for additional disclosures including a summary of the Company's accounting policies.

In the opinion of management, the consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows of the Company for the periods presented. Since the Company's operations are seasonal, the interim operating results of the Company may not be indicative of operating results for the full year.

The Company operates on a fiscal year ending September 30 of each year. All references to fiscal years of the Company refer to fiscal years, or periods within such fiscal years, ended on September 30 in those years. For example, the Company's fiscal 2012 will end on September 30, 2012.

**2. STOCK SPLIT, EARNINGS PER SHARE (EPS) AND CASH DIVIDENDS**

On January 26, 2011, the Company announced that its Board of Directors approved a two-for-one split of the Company's common stock in the form of a stock dividend. On March 1, 2011, stockholders of record at the close of business on February 16, 2011 received one additional common share for every share held. In accordance with the provisions of the Company's equity award plans and as determined by the Company's Board of Directors, the number of shares available for issuance, the number of shares subject to outstanding equity awards and the exercise prices of outstanding stock option awards were also adjusted to equitably reflect the effect of the two-for-one stock split. All share and per share amounts give effect to the stock split and have been adjusted retroactively for all periods presented.

Basic net income (or earnings) per share (Basic EPS) is computed by dividing net income by the weighted average number of common shares outstanding, excluding restricted stock awards for which the restrictions have not lapsed. Diluted net income (or earnings) per share (Diluted EPS) is computed by dividing net income 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 from the assumed exercise of outstanding stock options.

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

|   | Three Months Ended<br>December 31, 2011 |        |         | Three Months Ended<br>December 31, 2010 |        |         |
|---|---|--------|---------|---|--------|---------|
|   | Net<br>Income                           | Shares | EPS     | Net<br>Income                           | Shares | EPS     |
| Basic EPS   | \$ 2,263                                | 13,024 | \$ 0.17 | \$ 5,248                                | 12,508 | \$ 0.42 |
| Incremental shares from the assumed lapse of restrictions on restricted stock |   | 56     |         |   | 80     |         |
| Incremental shares from the assumed exercise of outstanding stock options     |   | 115    |         |   | 405    |         |
| Diluted EPS   | \$ 2,263                                | 13,195 | \$ 0.17 | \$ 5,248                                | 12,993 | \$ 0.40 |



**Table of Contents****2. STOCK SPLIT, EARNINGS PER SHARE ( EPS ) AND CASH DIVIDENDS (Continued)**

For the three months ended December 31, 2011 and 2010, options and unvested restricted stock totaling 436,074 and 19,300 shares, respectively, were excluded from the calculation of Diluted EPS as their effect would have been antidilutive.

On January 26, 2011, the Company announced the initiation of a regular quarterly cash dividend. During the first quarter of fiscal 2012 the Company paid cash dividends totaling \$2,320,000 (or \$0.175 per share). On January 20, 2012 the Company declared a quarterly cash dividend of \$0.175 per share payable on March 28, 2012, which will total approximately \$2.3 million.

**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 December 31, 2011 and September 30, 2011, the Company's trade receivables were net of allowance for doubtful accounts of \$158,000 and \$156,000, respectively.

**4. INVENTORIES**

Inventories were comprised of the following (in thousands):

|                  | December 31, 2011 | September 30, 2011 |
|------------------|-------------------|--------------------|
| Finished goods   | \$ 72,640         | \$ 83,726          |
| Work-in-progress | 2,425             | 2,381              |
| Raw materials    | 4,129             | 4,259              |
|                  | \$ 79,194         | \$ 90,366          |

**5. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities were comprised of the following (in thousands):

|   | December 31, 2011 | September 30, 2011 |
|---|-------------------|--------------------|
| Employee compensation and benefits              | \$ 7,884          | \$ 6,526           |
| Deferred rent                                   | 3,654             | 3,567              |
| Sales taxes                                     | 3,263             | 3,065              |
| Insurance, primarily self-insurance reserves    | 4,672             | 4,558              |
| Accounting and legal                            | 2,062             | 1,495              |
| Gift certificates and store credits             | 6,288             | 4,423              |
| Supplemental executive retirement plan benefits | 600               | 600                |
| Other   | 9,548             | 9,446              |
|   | \$ 37,971         | \$ 33,680          |

**6. LONG-TERM DEBT AND LINE OF CREDIT**

The Company has a Term Loan and Security Agreement (the "Term Loan Agreement") for a senior secured Term Loan B due March 13, 2013 (the "Term Loan"), the \$90,000,000 proceeds of which were received on April 18, 2007. The interest rate on the Term Loan is equal to, at the Company's election, either (i) the prime rate plus 1.00%, or (ii) a LIBOR rate plus an applicable margin. The applicable margin was initially fixed at 2.50% through and including the fiscal quarter ended September 30, 2007. Thereafter, the applicable margin for LIBOR rate borrowings is either 2.25% or 2.50%, depending on the Company's Consolidated Leverage Ratio (as defined in the Term Loan Agreement). Based upon the Company's applicable quarterly Consolidated Leverage Ratios, the applicable margin for LIBOR rate borrowings was 2.50% prior to December 30, 2009 and has been reduced to 2.25% effective from December 30, 2009. The Company is required to make minimum repayments of the principal amount of the Term Loan in quarterly installments of \$225,000 each. The Company is also required to make an annual principal repayment equal to 25% or 50% of Excess Cash Flow (as defined in the Term Loan Agreement) in excess of \$5,000,000 for each fiscal year, with the 25% or 50% factor depending on the Company's

**Table of Contents****6. LONG-TERM DEBT AND LINE OF CREDIT (Continued)**

Consolidated Leverage Ratio. The required principal repayment related to fiscal 2010 results, which was calculated based on the 25% factor, was \$2,623,000 and was paid in December 2010. There was no required principal repayment related to fiscal 2011 results. The Term Loan can be prepaid at the Company's option, in part or in whole, at any time without any prepayment premium or penalty. During the first quarter of fiscal 2012 the Company made an optional prepayment of \$5,000,000 on the outstanding Term Loan. At December 31, 2011, the Company's indebtedness under the Term Loan Agreement was \$24,102,000.

The Term Loan is secured by a security interest in the Company's trade receivables, inventory, real estate interests, letter of credit rights, cash, intangibles and certain other assets. The security interest granted to the Term Loan lenders is, in certain respects, subordinate to the security interest granted to the lender under the Credit Facility (defined below). The Term Loan Agreement imposes certain restrictions on the Company's ability to, among other things, incur additional indebtedness, pay dividends, repurchase stock, and enter into other various types of transactions. The Term Loan Agreement also contains quarterly financial covenants that require the Company to maintain a specified maximum permitted

Consolidated Leverage Ratio and a specified minimum permitted Consolidated Interest Coverage Ratio (as defined in the Term Loan Agreement). Since the inception of the Term Loan, the Company has been in compliance with all covenants of the Term Loan Agreement.

In order to mitigate the Company's floating rate interest risk on the variable rate Term Loan, the Company entered into an interest rate swap agreement with the agent bank for the Term Loan that commenced on April 18, 2007, the date the \$90,000,000 Term Loan proceeds were received, and expires on April 18, 2012. The interest rate swap agreement enables the Company to effectively convert an amount of the Term Loan (equal to the notional amount of the interest rate swap) from a floating interest rate (LIBOR plus 2.50% prior to December 30, 2009, reduced to LIBOR plus 2.25% effective from December 30, 2009, based on the Company's specified leverage ratios), to a fixed interest rate (7.50% prior to December 30, 2009, reduced to 7.25% effective from December 30, 2009, based on the Company's specified leverage ratios). The notional amount of the interest rate swap was \$75,000,000 at the inception of the swap agreement and decreases over time to a notional amount of \$5,000,000 at the expiration date. The notional amount of the swap was \$5,000,000 as of December 31, 2011 and will remain at that amount until the expiration of the interest rate swap agreement on April 18, 2012.

The Company has a senior secured revolving credit facility (the Credit Facility), which was amended on July 25, 2011 to decrease the maximum available for borrowings from \$65,000,000 to \$55,000,000 and to extend its maturity date from March 13, 2012 to January 13, 2013. The amendment also increased the Company's effective interest rate on borrowings, if any, by approximately 0.75% per annum. There are no financial covenant requirements under the Credit Facility unless Excess Availability (as defined in the related Credit Facility agreement) falls below 10% of the Borrowing Base (as defined in the related Credit Facility agreement), in which case the Company would be required to meet a minimum fixed charge coverage ratio of 1.10x. Since the inception of the Credit Facility, the Company has exceeded the applicable Excess Availability requirements and has, therefore, not been subject to any financial covenants. Further, since the inception of the Credit Facility, the Company has never had a fixed charge coverage ratio below the level that would have been required if such financial covenant was effective. As of December 31, 2011, the Company had no outstanding borrowings under the Credit Facility and \$7,309,000 in letters of credit, with \$39,926,000 of availability under the Credit Facility based on the Company's Borrowing Base formula. Borrowings under the Credit Facility as of December 31, 2011 would have borne interest at a rate of between approximately 2.05% and 4.00% per annum. During the first quarter of fiscal 2012 and 2011 the Company did not have any direct borrowings under the Credit Facility.

The Company has \$2,015,000 outstanding under an Industrial Revenue Bond (IRB) at December 31, 2011 and September 30, 2011. The IRB has a variable interest rate that may be converted to a fixed interest rate at the option of the Company. At any time prior to conversion to a fixed interest rate structure, bondholders may put all or part of the IRB back to the Company upon notice to the bond trustee, after which the remarketing agent would attempt to resell the put portion of the IRB. If the remarketing agent is unsuccessful in reselling the put portion of the IRB, the bond trustee may then draw on a letter of credit issued under the Credit Facility to repay the bondholders. Pursuant to this arrangement, the IRB is classified as a current liability in the accompanying consolidated balance sheets at December 31, 2011 and September 30, 2011. During the fourth quarter of fiscal 2011 a bondholder put \$100,000 of the IRB, which was successfully resold by the remarketing agent. The letter of credit issued to secure the bonds has never been drawn upon.

**7. 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:



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**7. FAIR VALUE MEASUREMENTS (Continued)**

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

At December 31, 2011 and September 30, 2011, the Company had cash equivalents of \$24,682,000 and \$11,976,000, respectively. The Company's cash equivalents consist of investments in money market accounts 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 majority of the Company's long-term debt bears interest at variable rates, which adjust based on market conditions and the carrying value of the long-term debt approximates fair value. The fair value of the Company's debt was determined using a discounted cash flow analysis based on interest rates currently available to the Company, or for similar instruments available to companies with comparable credit quality, 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 fixed rates of interest is not significant.

A portion of the Company's floating rate interest risk on variable rate long-term debt is mitigated through an interest rate swap agreement. The Company's interest rate swap is required to be measured at fair value on a recurring basis. At December 31, 2011 and September 30, 2011, the interest rate swap was a liability with a fair value of \$68,000 and \$145,000, respectively, included in deferred rent and other non-current liabilities in the accompanying consolidated balance sheets. The fair value of the interest rate swap was derived from a discounted cash flow analysis utilizing an interest rate yield curve that is readily available to the public, or can be derived from information available in publicly quoted markets, which the Company considers to be Level 2 inputs.

**8. INCOME TAXES**

As of December 31, 2011, the Company had \$2,656,000 of unrecognized tax benefits related to uncertain income tax positions, including accrued interest and penalties of \$1,275,000. The Company records interest and penalties related to unrecognized tax benefits in its income tax provision. If recognized, the portion of the liabilities for unrecognized tax benefits that would impact the Company's effective tax rate was \$1,873,000, net of federal benefit.

During the twelve months subsequent to December 31, 2011, it is reasonably possible that the gross unrecognized tax benefits could potentially increase by approximately \$659,000 (of which approximately \$455,000 would affect the effective tax rate, net of federal benefit) for uncertain tax positions, including the continued effect of interest on unrecognized tax benefits and limitations on certain potential tax credits, partially offset by the effect of expiring statutes of limitations and settlements.

The Company's United States Federal income tax returns for years ended September 30, 2008 and thereafter remain subject to examination by the United States Internal Revenue Service. The Company also files returns in Canada, India and numerous state jurisdictions, which have varying statutes of limitations. Generally, Canadian tax returns for tax years ended September 30, 2007 and thereafter, Indian tax returns for tax years ended March 31, 2009 and thereafter, and state tax returns for tax years ended September 30, 2007 and thereafter, depending upon the jurisdiction, remain subject to examination. However, the statutes of limitations on certain of the Company's state returns remain open for years prior to fiscal 2007.

**9. EQUITY AWARD PLANS**

During the first quarter of fiscal 2012 and 2011, 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, which were 482 and 9,244 shares, respectively, during the first quarter of fiscal 2012 and 2011, are



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reflected as repurchase of common stock in the accompanying financial statements, and were based on the value of the Company's common stock on the exercise or vesting date. The remaining shares, net of those withheld, were delivered to the award holders. Total payments for tax obligations to the tax authorities were \$6,000 and \$155,000 for the first quarter of fiscal 2012 and 2011, respectively.

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**10. RETIREMENT PLANS**

The Company has Supplemental Executive Retirement Agreements (the SERP Agreements ) with Dan Matthias, the Company s former Chief Executive Officer and Rebecca Matthias, the Company s former President and Chief Creative Officer (the SERP Executives ). The Company s transition agreement with Mr. Matthias in connection with his retirement as Chief Executive Officer effective September 30, 2008, amended his SERP Agreement to provide for full vesting of the benefits payable to Mr. Matthias and to increase the total of the amounts payable under the SERP Agreement to approximately 10% more than the amount that would have been payable on September 30, 2012 (the date the SERP Agreement had otherwise been expected to fully vest). The SERP Agreement benefits, totaling \$3,960,000, are being paid to Mr. Matthias in installments, which commenced on April 1, 2009, with the final installment due on October 1, 2012. As of December 31, 2011, the Company has paid SERP benefits to Mr. Matthias totaling \$3,360,000, of which \$150,000 was paid in the first quarter of fiscal 2012 and \$300,000 was paid in the first quarter of fiscal 2011. On January 3, 2012, the Company paid a scheduled SERP benefit installment of \$150,000 to Mr. Matthias, after which Mr. Matthias has \$450,000 remaining to be paid under his SERP Agreement through October 1, 2012.

The Company s transition agreement with Ms. Matthias, entered into on November 6, 2009 in connection with her scheduled retirement, amended her SERP Agreement to provide that she would be credited with having served on a full-time basis during the 2010 fiscal year, and the SERP vested an additional 15% effective on June 15, 2010, to a cumulative total vested percentage of 931/3%. Ms. Matthias received a lump sum payment of \$4,166,000 on December 16, 2010 in full payment of the SERP benefits due under her SERP Agreement.

Net periodic pension cost on a pretax basis for the first quarter of fiscal 2012 and 2011 consisted of interest cost of \$5,000 and \$54,000, respectively.

The Company has a grantor trust, which was established for the purpose of accumulating assets in anticipation of the Company s payment obligations under the SERP Agreements (the Grantor Trust ). The Company s agreements with the SERP Executives and the trustee for the Grantor Trust (the Trustee ) allow the Company to make cash deposits to the Grantor Trust, or provide an irrevocable standby letter of credit (the SERP Letter of Credit ) to the Trustee, in lieu of any deposits otherwise required, for funding obligations under the SERP Agreements. In December 2009, in connection with the additional vesting and scheduled payment of SERP Executives benefits in 2010, the Company made a partial cash contribution to the Grantor Trust of \$1,500,000 and reduced the SERP Letter of Credit by \$1,500,000 to a total of \$4,437,000 as of December 31, 2009. In December 2010, the Company received a distribution of the remaining assets in the Grantor Trust totaling \$1,504,000. The amount withdrawn was used to partially fund the December 2010 lump sum payment of \$4,166,000 of SERP benefits to Ms. Matthias. As of January 3, 2012, the SERP Letter of Credit was \$450,000, which was equal to the amount of SERP benefits remaining to be paid to Mr. Matthias.

**11. RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of stockholders equity. The standard does not change the items which must be reported in other comprehensive income. ASU No. 2011-05 is effective for financial statements issued for annual reporting periods beginning after December 15, 2011 and interim periods within those years. Because this guidance impacts presentation only, the adoption of the new requirements of ASU No. 2011-05 will not have any impact on the Company s consolidated financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in ASU No. 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs and change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. The adoption of the new requirements of ASU No. 2011-04 will not have a material impact on the Company s consolidated financial position or results of operations.

**Table of Contents****12. COMMITMENTS AND CONTINGENCIES**

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.

**13. SEGMENT AND ENTERPRISE WIDE DISCLOSURES**

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

**Geographic Information.** Information concerning the Company's operations by geographic area was as follows (in thousands):

|   | September 30, 2011<br>Three Months Ended<br>December 31,<br>2011 | September 30, 2011<br>Three Months Ended<br>September 30, 2011<br>2010 |
|---|--|--|
| <b><u>Net Sales to Unaffiliated Customers</u></b> |  |  |
| United States                                     | \$ 129,949   | \$ 129,645   |
| Foreign   | 6,401  | 5,790  |

|                                 | September 30, 2011<br>December 31, 2011 | September 30, 2011<br>September 30, 2011 |
|---------------------------------|---|--|
| <b><u>Long-Lived Assets</u></b> |   |  |
| United States                   | \$ 53,206                               | \$ 55,497                                |
| Foreign                         | 1,510                                   | 1,605                                    |

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

**14. INTEREST EXPENSE, NET**

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

|                       | Three Months Ended<br>December 31, |        |
|-----------------------|------------------------------------|--------|
|                       | 2011                               | 2010   |
| Interest expense      | \$ 406                             | \$ 653 |
| Interest income       | (6)                                | (9)    |
| Interest expense, net | \$ 400                             | \$ 644 |

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Our fiscal year ends on September 30. All references in this discussion to our fiscal years refer to the fiscal year, or periods within the fiscal year, ended on September 30 in the year mentioned. For example, our fiscal 2012 will end on September 30, 2012.

**Overview**

We are the leading designer and retailer of maternity apparel in the United States with 2,061 retail locations, including 656 stores in all 50 states, Puerto Rico, Guam and Canada, and 1,405 leased departments located within department stores and baby specialty stores throughout the United States and Puerto Rico. In addition to the 2,061 retail locations we operate, through an exclusive licensed arrangement we are the exclusive provider of maternity apparel to Kohl's, which operates approximately 1,127 stores throughout the United States. We also sell merchandise on the Internet, primarily through DestinationMaternity.com and our various brand-specific websites.

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 determined in accordance with generally accepted accounting principles ( GAAP net income ) and the corresponding net income (or earnings) per share (diluted), net income before restructuring and other charges, stock-based compensation expense and loss on extinguishment of debt ( Non-GAAP adjusted net income ) and the corresponding earnings per share (diluted), Adjusted EBITDA, Net sales, and Comparable sales (which includes Internet sales). Adjusted EBITDA represents operating income before deduction for the following non-cash charges: (i) depreciation and amortization expense; (ii) loss on impairment of tangible and intangible assets; (iii) loss on disposal of assets; and (iv) stock-based compensation expense.

Comparable sales figures include sales at retail locations that have been in operation by us for at least twelve full months at the beginning of the period for which such data is presented, as well as Internet sales. Comparable sales figures do not include retail locations opened during a period even if such location was opened in connection with the closure of other retail locations in the same geographic area (including, for example, the opening of a new Destination Maternity combo store or superstore). Also, our comparable sales figures generally do not include: (i) retail locations which change format; (ii) retail locations which are expanded or relocated if the square footage of the retail location has changed by 20% or more; or (iii) in the case of relocations only, if the retail location is not in the same immediate geographical vicinity (such as the same mall or same street) after the relocation.

Following is a summary of our first quarter fiscal 2012 results with regard to each of the key measures noted above:

***First Quarter Fiscal 2012 Financial Results***

GAAP net income for the first quarter of fiscal 2012 was \$2.3 million, or \$0.17 per share (diluted), a decrease compared to GAAP net income of \$5.2 million, or \$0.40 per share (diluted) for the first quarter of fiscal 2011. This represents a decrease of 58% in diluted earnings per share.

Non-GAAP adjusted net income for the first quarter of fiscal 2012 was \$2.6 million, or \$0.20 per share (diluted), a decrease over the comparably adjusted non-GAAP net income for the first quarter of fiscal 2011 of \$5.7 million, or \$0.44 per share (diluted). This represents a 55% decrease in comparably adjusted diluted earnings per share.

Adjusted EBITDA was \$8.3 million for the first quarter of fiscal 2012, a decrease of 37% compared to \$13.3 million of Adjusted EBITDA for the first quarter of fiscal 2011.

Net sales for the first quarter of fiscal 2012 increased 0.7% to \$136.4 million from \$135.4 million for the first quarter of fiscal 2011.

Comparable sales for the first quarter of fiscal 2012 decreased 4.1% versus a comparable sales increase of 2.1% for the first quarter of fiscal 2011.



**Table of Contents****Stock Split**

On January 26, 2011, we announced that our Board of Directors approved a two-for-one split of our common stock in the form of a stock dividend. On March 1, 2011, stockholders of record at the close of business on February 16, 2011 received one additional common share for every share held. In accordance with the provisions of our equity award plans and as determined by our Board of Directors, the number of shares available for issuance, the number of shares subject to outstanding equity awards and the exercise prices of outstanding stock option awards were also adjusted to equitably reflect the effect of the two-for-one stock split. All share and per share amounts give effect to the stock split and have been adjusted retroactively for all periods presented.

**Results of Operations**

The following tables set forth certain operating data as a percentage of net sales and as a percentage change for the three months ended December 31:

|   | % of Net Sales (1)<br>Three Months<br>Ended<br>December 31, |        | % Change<br>Favorable<br>(Unfavorable)<br>Three Months<br>Ended<br>December 31,<br>2011 vs.<br>2010 |
|---|---|--------|---|
|   | 2011  | 2010   |   |
| Net sales   | 100.0%  | 100.0% | 0.7%  |
| Cost of goods sold (2)                                      | 49.0  | 46.1   | (6.8)   |
| Gross profit  | 51.0  | 53.9   | (4.6)   |
| Selling, general and administrative expenses (3)            | 47.7  | 46.9   | (2.5)   |
| Store closing, asset impairment and asset disposal expenses | 0.3   | 0.2    | (79.8)  |
| Operating income  | 3.0   | 6.8    | (55.5)  |
| Interest expense, net                                       | 0.3   | 0.5    | 37.9  |
| Loss on extinguishment of debt                              | 0.0   | 0.0    | (11.1)  |
| Income before income taxes                                  | 2.7   | 6.3    | (56.9)  |
| Income tax provision  | 1.0   | 2.4    | 56.9  |
| Net income  | 1.7%  | 3.9%   | (56.9)%   |

(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 buying departments), inventory reserves (including lower of cost or market reserves), inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, and the other costs of our distribution network.

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

The following tables set forth certain information concerning the number of our retail locations, and international franchised locations for the periods indicated:

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| Retail Locations (1) | Three Months Ended December 31, |                       |                           |        |                       |                           |
|----------------------|---------------------------------|-----------------------|---------------------------|--------|-----------------------|---------------------------|
|                      | 2011                            |                       |                           | 2010   |                       |                           |
|                      | Stores                          | Leased<br>Departments | Total Retail<br>Locations | Stores | Leased<br>Departments | Total Retail<br>Locations |
| Beginning of period  | 658                             | 1,694                 | 2,352                     | 698    | 1,027                 | 1,725                     |
| Opened               |                                 | 2                     | 2                         | 1      | 168                   | 169                       |
| Closed               | (2)                             | (291)                 | (293)                     | (9)    | (3)                   | (12)                      |
| End of period        | 656                             | 1,405                 | 2,061                     | 690    | 1,192                 | 1,882                     |

(1) Excludes international franchised locations.

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|                                    | Three Months Ended December 31, |            |               |              |            |               |
|------------------------------------|---------------------------------|------------|---------------|--------------|------------|---------------|
|                                    | 2011                            |            |               | 2010         |            |               |
|                                    | Total                           |            | Total         | Total        |            | Total         |
| International Franchised Locations | Shop-in-Shop                    | Franchised | International | Shop-in-Shop | Franchised | International |
|                                    | Stores                          | Locations  | Locations     | Stores       | Locations  | Locations     |
| Beginning of period                | 15                              | 51         | 66            | 8            | 23         | 31            |
| Opened                             |                                 | 13         | 13            |              | 13         | 13            |
| Closed                             |                                 | (1)        | (1)           |              |            |               |
| End of period                      | 15                              | 63         | 78            | 8            | 36         | 44            |

**Three Months Ended December 31, 2011 and 2010**

**Net Sales.** Our net sales for the first quarter of fiscal 2012 increased by 0.7%, or approximately \$1.0 million, to \$136.4 million from \$135.4 million for the first quarter of fiscal 2011. Comparable sales (which includes Internet sales) for the first quarter of fiscal 2012 decreased 4.1% versus a comparable sales increase of 2.1% for the first quarter of fiscal 2011. The increase in total reported sales for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 resulted primarily from increased sales due to the expansion of our maternity apparel leased department relationship with Macy's®, partially offset by the decrease in comparable sales, decreased sales related to our continued efforts to close underperforming stores, and to a much lesser extent, a decrease in sales due to the closure of all of our remaining leased departments within Kmart® stores during the month of October 2011.

As of December 31, 2011, we operated a total of 656 stores and 2,061 total retail locations, compared to 690 stores and 1,882 total retail locations as of December 31, 2010. During the first quarter of fiscal 2012, we did not open any stores and we closed two stores. The increase in leased department locations at the end of December 2011 versus the end of December 2010 predominantly reflects the opening of 517 leased department locations during the second quarter of fiscal 2011 for our Macy's expansion, and the closing of 291 Kmart leased department locations in October 2011. We previously announced that we would discontinue offering maternity apparel in leased departments in Kmart locations by the end of October 2011. Kmart represented only a small portion of the overall sales generated by our leased department relationship with Sears® and Kmart through our agreement with Sears Holdings Corporation. We continue to operate leased departments in Sears stores throughout the United States. As of December 31, 2011, we operate 530 leased department locations in Sears stores. In addition, our Oh Baby by Motherhood® collection is available at Kohl's stores throughout the United States.

**Gross Profit.** Our gross profit for the first quarter of fiscal 2012 decreased by 4.6%, or \$3.3 million, to \$69.6 million from \$72.9 million for the first quarter of fiscal 2011, and our gross profit as a percentage of net sales (gross margin) for the first quarter of fiscal 2012 was 51.0% compared to 53.9% for the first quarter of fiscal 2011. The decrease in gross profit for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 was due to our lower gross margin. The decrease in gross margin for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 was primarily due to higher promotional activity and markdowns, and to a lesser extent, from higher product costs.

**Selling, General and Administrative Expenses.** Our selling, general and administrative expenses for the first quarter of fiscal 2012 increased by 2.5%, or \$1.6 million, to \$65.1 million from \$63.5 million for the first quarter of fiscal 2011. As a percentage of net sales, selling, general and administrative expenses increased to 47.7% for the first quarter of fiscal 2012 compared to 46.9% in the first quarter of fiscal 2011. This increase in expense for the quarter resulted primarily from higher expenses related to the operation of our additional Macy's leased department locations (primarily payroll costs and percentage of net sales occupancy payments to Macy's), and advertising and marketing expenses, partially offset by lower variable incentive compensation expense and our continued overall tight management of expenses.

**Store Closing, Asset Impairment and Asset Disposal Expenses.** Our store closing, asset impairment and asset disposal expenses for the first quarter of fiscal 2012 increased to \$0.4 million from \$0.2 million for the first quarter of fiscal 2011, which primarily reflected higher impairment charges for write-downs of long-lived assets.

**Operating Income.** We had operating income of \$4.1 million for the first quarter of fiscal 2012 compared to \$9.2 million for the first quarter of fiscal 2011. Operating income as a percentage of net sales for the first quarter of fiscal 2012 decreased to 3.0% from 6.8% for the first quarter of fiscal 2011. The decrease in operating income and operating income percentage was primarily due to our lower gross profit, and to a lesser extent, increased selling, general and administrative expenses.





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**Interest Expense, Net.** Our net interest expense for the first quarter of fiscal 2012 decreased by 37.9%, or \$0.2 million, to \$0.4 million from \$0.6 million for the first quarter of fiscal 2011. This decrease was due to our lower debt level, primarily as a result of the \$15.0 million of Term Loan prepayments we made in the previous twelve months, and to a lesser extent, lower interest rates.

**Loss on Extinguishment of Debt.** During the first quarter of fiscal 2012 we prepaid \$5.0 million of our outstanding Term Loan. The \$5.0 million Term Loan prepayment resulted in a first quarter fiscal 2012 pretax charge of \$10,000, representing the write-off of unamortized deferred financing costs. In December 2010, we prepaid \$2.6 million in principal amount of our Term Loan resulting in a pretax charge of \$9,000 in the first quarter of fiscal 2011.

**Income Tax Provision.** For the first quarter of fiscal 2012 and 2011 our effective tax rate was 38.5%. Our effective tax rates for the first quarter of fiscal 2012 and 2011 were higher than the statutory federal tax rate of 35% primarily due to the effect of state income taxes, net of federal benefit, and to a lesser extent, additional income tax expense (including interest and penalties) recognized as required by the accounting standard for uncertain income tax positions. We expect our effective tax rate for the full year fiscal 2012 to be approximately 38.5%.

**Net Income.** Net income for the first quarter of fiscal 2012 was \$2.3 million, or \$0.17 per share (diluted), compared to net income of \$5.2 million, or \$0.40 per share (diluted) for the first quarter of fiscal 2011. Net income for the first quarter of fiscal 2012 includes (net of tax) stock-based compensation expense of \$0.4 million and loss on extinguishment of debt of \$6,000. Net income for the first quarter of fiscal 2011 includes (net of tax) stock-based compensation expense of \$0.5 million and loss on extinguishment of debt of \$6,000. Before stock-based compensation expense and loss on extinguishment of debt, our first quarter fiscal 2012 net income was \$2.6 million or \$0.20 per share (diluted) compared to \$5.7 million or \$0.44 per share (diluted) for the first quarter of fiscal 2011.

Our average diluted shares outstanding of 13,195,000 for the first quarter of fiscal 2012 were 1.6% higher than the 12,993,000 average diluted shares outstanding for the first quarter of fiscal 2011. The increase in average shares outstanding reflects the higher shares outstanding in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011, primarily as a result of the exercise of stock options and vesting of restricted stock, slightly offset by lower dilutive impact of outstanding stock options and restricted stock for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011.

Following is a reconciliation of GAAP net income and net income per share (EPS) (diluted) to Non-GAAP adjusted net income and net income per share (diluted) for the three months ended December 31, 2011 and 2010 (in thousands, except per share amounts):

|  | Three Months Ended December 31, |        |                |               |        |                |
|--|---------------------------------|--------|----------------|---------------|--------|----------------|
|  | 2011                            |        |                | 2010          |        |                |
|  | Net<br>Income                   | Shares | Diluted<br>EPS | Net<br>Income | Shares | Diluted<br>EPS |
| As reported  | \$ 2,263                        | 13,195 | \$ 0.17        | \$ 5,248      | 12,993 | \$ 0.40        |
| Stock-based compensation expense, net of tax   | 357                             |        |                | 465           |        |                |
| Loss on extinguishment of debt, net of tax   | 6                               |        |                | 6             |        |                |
| As adjusted before stock-based compensation expense and loss on extinguishment of debt | \$ 2,626                        | 13,195 | \$ 0.20        | \$ 5,719      | 12,993 | \$ 0.44        |

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Following is a reconciliation of net income to Adjusted EBITDA for the three months ended December 31, 2011 and 2010 (in thousands):

|  | <b>Three Months Ended<br/>December 31,</b> |             |
|--|--|-------------|
|  | <b>2011</b>                                | <b>2010</b> |
| Net income                                   | \$ 2,263                                   | \$ 5,248    |
| Add: income tax provision                    | 1,417                                      | 3,285       |
| Add: interest expense, net                   | 400  | 644         |
| Add: loss on extinguishment of debt          | 10   | 9           |
| <br>   |  |             |
| Operating income                             | 4,090                                      | 9,186       |
| Add: depreciation and amortization           | 3,210                                      | 3,144       |
| Add: loss on impairment of long-lived assets | 456  | 129         |
| Add: loss on disposal of assets              | 9  | 70          |
| Add: stock-based compensation expense        | 570  | 745         |
| <br>   |  |             |
| Adjusted EBITDA                              | \$ 8,335                                   | \$ 13,274   |

**Regulation G Disclosures**

Management's Discussion and Analysis of Financial Condition and Results of Operations contains non-GAAP financial measures within the meaning of the SEC's Regulation G, including: (a) Adjusted net income, before stock-based compensation expense and loss on extinguishment of debt (Non-GAAP adjusted net income); (b) Adjusted net income per share (diluted), before stock-based compensation expense and loss on extinguishment of debt; and (c) Adjusted EBITDA (operating income before deduction for the following non-cash charges: (i) depreciation and amortization expense; (ii) loss on impairment of tangible and intangible assets; (iii) loss on disposal of assets; and (iv) stock-based compensation expense).

Our management believes that each of these non-GAAP financial measures provides useful information about the Company's results of operations and/or financial position to both investors and management. Each non-GAAP financial measure is provided because management believes 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 as a measure of the performance of the Company. We provide these measures to investors to assist them in performing their analysis of our historical operating results. Each of these non-GAAP financial measures reflects a measure of the Company's operating results before consideration of certain charges and consequently, none of these measures should be construed as an alternative to net income or operating income as an indicator of the Company's operating performance, or as an alternative to cash flows from operating activities as a measure of the Company's liquidity, as determined in accordance with generally accepted accounting principles. We may calculate each of these non-GAAP financial measures differently than other companies.

With respect to the non-GAAP financial measures discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, we have provided reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

**Seasonality**

Our business, like that of many other retailers, is seasonal. Our quarterly net sales have historically been highest in our third fiscal quarter, corresponding to the Spring selling season, followed by our first fiscal quarter, corresponding to the Fall/holiday selling season. Given the historically higher sales level in our third fiscal quarter and the relatively fixed nature of most of our operating expenses and interest expense, we have typically generated a very significant percentage of our full year operating income and net income during our third fiscal quarter. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other things, increases or decreases in comparable retail sales and comparable store sales, the timing of new store openings and new leased department openings, net sales and profitability contributed by new stores and leased departments, the timing of the fulfillment of purchase orders under our product and license arrangements, adverse weather conditions, shifts in the timing of certain holidays and promotions, changes in inventory and production levels and the timing of deliveries of



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inventory, and changes in our merchandise mix.

**Liquidity and Capital Resources**

Our cash needs have primarily been for (i) debt service, including prepayments, (ii) capital expenditures, including leasehold improvements, fixtures and equipment for new stores, store relocations and expansions of our existing stores, as well as improvements and new equipment for our distribution and corporate facilities and information systems, and (iii) working capital, including inventory to support our business. In addition, during the second quarter of fiscal 2011, we initiated a regular quarterly cash dividend. We have historically financed our capital requirements from cash flows from operations, borrowings under our credit facilities or available cash balances.

Cash and cash equivalents increased by \$14.0 million during the first quarter of fiscal 2012 compared to an increase of \$11.3 million for the first quarter of fiscal 2011.

Cash provided by operations of \$23.7 million for the first quarter of fiscal 2012 increased by \$5.6 million from the \$18.1 million in cash provided by operations for the first quarter of fiscal 2011. This increase in cash provided by operations versus the prior year was the result of net working capital changes that provided more cash in the first quarter of fiscal 2012 than in the first quarter of fiscal 2011. The net working capital changes were primarily (i) an increase in accounts payable, accrued expenses and other liabilities in the first quarter of fiscal 2012, compared to a decrease in the first quarter of fiscal 2011, which was primarily due to the \$4.2 million SERP benefit payment made in December 2010, (ii) a greater decrease in inventories in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011, which reflects our efforts to tightly control our inventory levels, and (iii) a large decrease in prepaid expenses and other current assets in the first quarter of fiscal 2012, primarily from the collection of landlord construction allowances, compared to a small decrease in the first quarter of fiscal 2011, partially offset by (iv) lower pretax income in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011. Our working capital changes, quarterly net income and cash flow adjustments may fluctuate significantly and net cash provided by operating activities for any quarter is not necessarily indicative of the results that may be achieved for a full fiscal year.

During the first quarter of fiscal 2012 we used cash provided by operations to fund repayments of long-term debt, to pay our quarterly cash dividend, and to pay for capital expenditures. Our \$5.2 million of repayments of long-term debt in the first quarter of fiscal 2012 consisted predominantly of a \$5.0 million prepayment of our Term Loan. In the first quarter of fiscal 2012, we paid \$2.3 million for our quarterly cash dividend. For the first quarter of fiscal 2012, we spent \$1.3 million on capital expenditures, including \$0.9 million for leasehold improvements, fixtures and equipment for new store facilities, as well as improvements to existing stores, and \$0.4 million for our information systems and distribution and corporate facilities. The remaining cash provided during the first quarter of fiscal 2012 was used primarily to increase our available cash.

During the first quarter of fiscal 2011 we used cash provided by operations primarily to pay for capital expenditures and to fund repayments of long-term debt. For the first quarter of fiscal 2011, we spent \$3.6 million on capital expenditures, including \$2.1 million for leasehold improvements, fixtures and equipment for new store facilities, as well as improvements to existing stores, and \$1.5 million for our information systems and distribution and corporate facilities. Our repayments of long-term debt in the first quarter of fiscal 2011 consisted predominantly of a \$2.6 million prepayment of our Term Loan, which was required under the annual Excess Cash Flow provision of the Term Loan. We also withdrew \$1.5 million from our Grantor Trust, which was used to partially fund the \$4.2 million December 2010 SERP benefit payment. The remaining cash provided by operations during the first quarter of fiscal 2011 was used primarily to increase our available cash.

We have in place a Term Loan Agreement for our Term Loan. The interest rate on the Term Loan is equal to, at our election, either (i) the prime rate plus 1.00%, or (ii) a LIBOR rate plus an applicable margin. The applicable margin was initially fixed at 2.50% through and including the fiscal quarter ended September 30, 2007. Thereafter, the applicable margin for LIBOR rate borrowings is either 2.25% or 2.50%, depending on our Consolidated Leverage Ratio. Based upon our applicable quarterly Consolidated Leverage Ratios, the applicable margin for LIBOR rate borrowings was 2.50% prior to December 30, 2009 and has been reduced to 2.25% effective from December 30, 2009. We are required to make minimum repayments of the principal amount of the Term Loan in quarterly installments of \$225,000 each. We are also required to make an annual principal repayment equal to 25% or 50% of Excess Cash Flow in excess of \$5.0 million for each fiscal year, with the 25% or 50% factor depending on our Consolidated Leverage Ratio. The required principal repayment related to fiscal 2010 results, which was calculated based on the 25% factor, was \$2.6 million and was paid in December 2010. There was no required principal repayment related to fiscal 2011 results. Additionally, the Term Loan can be prepaid at our option, in part or in whole, at any time without any prepayment premium or penalty. During the first quarter of fiscal 2012, we made an optional prepayment of \$5.0 million on the outstanding Term Loan. At December 31, 2011, our indebtedness under the Term Loan Agreement was \$24.1 million.

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The Term Loan is secured by a security interest in our trade receivables, inventory, real estate interests, letter of credit rights, cash, intangibles and certain other assets. The security interest granted to the Term Loan lenders is, in certain respects, subordinate to the security interest granted to the Credit Facility lender. The Term Loan Agreement imposes certain restrictions on our ability to, among other things, incur additional indebtedness, pay dividends, repurchase stock, and enter into other various types of transactions. The Term Loan Agreement also contains quarterly financial covenants that require us to maintain a specified maximum permitted Consolidated Leverage Ratio and a specified minimum permitted Consolidated Interest Coverage Ratio. Since the inception of the Term Loan Agreement we have been in compliance with all covenants of our Term Loan Agreement.

In order to mitigate our floating rate interest risk on the variable rate Term Loan, we entered into an interest rate swap agreement with the agent bank for the Term Loan that commenced on April 18, 2007, the date the Term Loan proceeds were received, and expires on April 18, 2012. The interest rate swap agreement enables us to effectively convert an amount of the Term Loan (equal to the notional amount of the interest rate swap) from a floating interest rate (LIBOR plus 2.50% prior to December 30, 2009, reduced to LIBOR plus 2.25% effective from December 30, 2009, based on our specified leverage ratios), to a fixed interest rate (7.50% prior to December 30, 2009, reduced to 7.25% effective from December 30, 2009, based on our specified leverage ratios). The notional amount of the interest rate swap was \$75.0 million at the inception of the swap agreement and decreases over time to a notional amount of \$5.0 million at the expiration date. The notional amount of the swap was \$5.0 million as of December 31, 2011 and will remain at that amount until the expiration of the interest rate swap agreement on April 18, 2012.

We also have in place a Credit Facility, which was amended on July 25, 2011 to decrease the maximum available for borrowings from \$65.0 million to \$55.0 million and to extend its maturity date from March 13, 2012 to January 13, 2013. The amendment also increased our effective interest rate on borrowings, if any, by approximately 0.75% per annum. There are no financial covenant requirements under the Credit Facility provided that Excess Availability does not fall below 10% of the Borrowing Base. If Excess Availability were to fall below 10% of the Borrowing Base, we would be required to meet a minimum fixed charge coverage ratio of 1.10x. Since the inception of the Credit Facility, we have exceeded the applicable Excess Availability requirements and have, therefore, not been subject to any financial covenants. Further, since the inception of the Credit Facility, we have never had a fixed charge coverage ratio below the level that would have been required if such financial covenant was effective. As of December 31, 2011, we had no outstanding borrowings under the Credit Facility and \$7.3 million in letters of credit, with \$39.9 million of availability under our Credit Facility based on our Borrowing Base formula. Borrowings under the Credit Facility as of December 31, 2011 would have borne interest at a rate of between approximately 2.05% and 4.00% per annum. We did not have any direct borrowings under our Credit Facility for the first quarter of fiscal 2012 and 2011.

We have \$2.0 million outstanding under an IRB at December 31, 2011. The IRB has a variable interest rate that may be converted to a fixed interest rate at our option. At any time prior to conversion to a fixed interest rate structure, bondholders may put all or part of the IRB back to us upon notice to the bond trustee, after which the remarketing agent would attempt to resell the put portion of the IRB. If the remarketing agent is unsuccessful in reselling the put portion of the IRB, the bond trustee may then draw on a letter of credit issued under the Credit Facility to repay the bondholders. During the fourth quarter of fiscal 2011 a bondholder put \$0.1 million of the IRB, which was successfully resold by the remarketing agent. The letter of credit issued to secure the bonds has never been drawn upon. In the event that the bondholders put the bonds back to us and the remarketing agent fails to resell the bonds, which we believe is unlikely, we expect the acceleration of the payment of the bonds would not have a material adverse effect on our financial position or liquidity.

In March 2007, we entered into the SERP Agreements with the SERP Executives, which were amended in May 2008. We also have a Grantor Trust, which was established for the purpose of accumulating assets in anticipation of our payment obligations under the SERP Agreements. Our agreements with the SERP Executives and the Trustee for the Grantor Trust allow us to make cash deposits to the Grantor Trust, or provide a SERP Letter of Credit to the Trustee, in lieu of any deposits otherwise required, for funding obligations under the SERP Agreements. In December 2009, in connection with the additional vesting and scheduled payment of SERP Executives' benefits in 2010, we made a partial cash contribution to the Grantor Trust of \$1.5 million, and reduced the SERP Letter of Credit by \$1.5 million to a total of \$4.4 million as of December 31, 2009. In December 2010, we received a distribution of the remaining assets in the Grantor Trust totaling \$1.5 million. The amount withdrawn was used to partially fund the \$4.2 million December 2010 lump sum payment of SERP benefits to Ms. Matthias. As of January 3, 2012, the SERP Letter of Credit was \$0.5 million, which was equal to the amount of SERP benefits remaining to be paid to Mr. Matthias.

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On January 26, 2011, we announced the initiation of a regular quarterly cash dividend. During the first quarter of fiscal 2012 we paid cash dividends of approximately \$2.3 million (or \$0.175 per share). On January 20, 2012 we declared a quarterly cash dividend of \$0.175 per share payable on March 28, 2012, which will total approximately \$2.3 million. Based on our current quarterly dividend rate of \$0.175 per share, we project approximately \$9.3 million of cash dividends for fiscal 2012.

Our management believes that our current cash and working capital positions, expected operating cash flows and available borrowing capacity, will be sufficient to fund our working capital, capital expenditures, debt repayment and dividend payment requirements and to fund stock and/or debt repurchases, if any, for at least the next 12 months.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. 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 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended September 30, 2011. As of December 31, 2011, there were no material changes in, or additions to, our critical accounting policies or in the assumptions or estimates we used to prepare the financial information appearing in this report.

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### **Recent Accounting Pronouncements**

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of stockholders' equity. The standard does not change the items which must be reported in other comprehensive income. ASU No. 2011-05 is effective for financial statements issued for annual reporting periods beginning after December 15, 2011 and interim periods within those years. Because this guidance impacts presentation only, the adoption of the new requirements of ASU No. 2011-05 will not have any impact on our consolidated financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in ASU No. 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs and change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. The adoption of the new requirements of ASU No. 2011-04 will not have a material impact on our consolidated financial position or results of operations.

### **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 following: the continuation of economic recovery 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 licensed relationships and marketing partnerships, future sales trends in our various sales channels, unusual weather patterns, changes in consumer spending patterns, raw material price increases, overall economic conditions and other factors affecting consumer confidence, demographics and other macroeconomic factors that may impact the level of spending for maternity apparel (such as fluctuations in pregnancy rates and birth rates), expense savings initiatives, our ability to anticipate and respond to fashion trends and consumer preferences, unanticipated fluctuations in our operating results, the impact of competition and fluctuations in the price, availability and quality of raw materials and contracted products, availability of suitable store locations, continued availability of capital and financing, our ability to hire and develop senior management and sales associates, our ability to develop and source merchandise, our ability to receive production from foreign sources on a timely basis, potential stock repurchases, potential debt prepayments, the continuation of the regular quarterly cash dividend, the trading liquidity of our common stock, changes in market interest rates, war or acts of terrorism and other factors referenced in our Annual Report on Form 10-K, including those set forth under the caption "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, could, estimates, plans, potential, predicts, goal, objective, or the negative of any of these terms, or comparable terminology, or by discussing 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,



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changes in assumptions or changes in other factors affecting these forward-looking statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Destination Maternity 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 December 31, 2011, we had cash equivalents of \$24.7 million. Our cash equivalents consist of money market accounts that bear interest at variable rates. A change in market interest rates earned on our investments impacts the interest income and cash flows, but does not materially impact the fair market value of the financial instruments. Due to the 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.

As of December 31, 2011, the principal components of our debt portfolio were the \$24.1 million Term Loan and the \$55.0 million Credit Facility, both of which are denominated in United States dollars.

Our Credit Facility carries a variable interest rate that is tied to market indices. As of December 31, 2011, we had no direct borrowings and \$7.3 million of letters of credit outstanding under our Credit Facility. Borrowings under the Credit Facility would have resulted in interest at a rate between approximately 2.05% and 4.00% per annum as of December 31, 2011. 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 Term Loan carries a variable interest rate that is tied to market indices. The sensitivity analysis as it relates to this portion of our debt portfolio assumes an instantaneous 100 basis point move in interest rates from their levels as of December 31, 2011, with all other variables held constant. The principal amount of the Term Loan was \$24.1 million as of December 31, 2011. A 100 basis point increase in market interest rates 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 would correspondingly lower our annual interest expense on the Term Loan by approximately \$0.2 million.

In order to mitigate our floating rate interest risk on the variable rate Term Loan, we entered into an interest rate swap agreement with the agent bank for the Term Loan that commenced on April 18, 2007, and expires on April 18, 2012. The interest rate swap agreement enables us to effectively convert an amount of the Term Loan (equal to the notional amount of the interest rate swap) from a floating interest rate (LIBOR plus 2.50% prior to December 30, 2009, reduced to LIBOR plus 2.25% effective from December 30, 2009, based on our specified leverage ratios), to a fixed interest rate (7.50% prior to December 30, 2009, reduced to 7.25% effective from December 30, 2009, based on our specified leverage ratios). The notional amount of the interest rate swap was \$75.0 million at inception of the swap agreement and decreases over time to a notional amount of \$5.0 million at the expiration date. The notional amount of the swap was \$5 million as of December 31, 2011 and will remain at that amount until the expiration of the interest rate swap agreement on April 18, 2012. Based on the remaining scheduled swap notional amount, a 100 basis point increase in market interest rates would result in interest expense savings for the year of less than \$0.1 million. A 100 basis point decline in market interest rates would correspondingly increase our interest expense for the year by less than \$0.1 million. Thus, a 100 basis point increase in market interest rates during the remainder of the swap agreement would result in additional interest expense for the year of approximately \$0.2 million on the Term Loan and swap agreement combined. A 100 basis point decline in market interest rates during the remainder of the swap agreement would correspondingly lower our interest expense for the year by approximately \$0.2 million on the Term Loan and swap agreement combined.

Based on the limited other variable rate debt included in our debt portfolio as of December 31, 2011, a 100 basis point increase in interest rates would result in additional interest expense incurred for the year of less than \$0.1 million. A 100 basis point decrease in interest rates would correspondingly lower our interest expense for the year by less than \$0.1 million.

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

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**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to our management on a timely basis to allow decisions regarding required disclosure. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2011. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2011, these controls and procedures were effective.

**Internal Control over Financial Reporting**

There have been no changes in internal control over financial reporting identified in connection with the foregoing evaluation that occurred during the fiscal quarter ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

From time to time, we are named as a defendant in legal actions arising from our normal business activities. 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 or liquidity.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors of our Form 10-K for the year ended September 30, 2011, as amended. The risks described in our Form 10-K are not the only risks that 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 actually occur, our business, results of operations, cash flows or financial condition could suffer.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information about purchases by us during the quarter ended December 31, 2011 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

| Period                          | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program (2) | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (2) |
|---------------------------------|--------------------------------------|------------------------------|--|--|
| October 1 to October 31, 2011   |                                      |                              |  | \$ 7,000,000   |
| November 1 to November 30, 2011 | 482                                  | \$ 12.92                     |  | \$ 7,000,000   |
| December 1 to December 31, 2011 |                                      |                              |  | \$ 7,000,000   |
| Total                           | 482                                  | \$ 12.92                     |  | \$ 7,000,000   |

- (1) Represents shares repurchased directly from certain employees to satisfy income tax withholding obligations for such employees in connection with restricted stock awards that vested during the period.
- (2) In July 2008, our Board of Directors approved a program to repurchase up to \$7.0 million of our outstanding common stock. Under the program, we may repurchase shares from time to time through solicited or unsolicited transactions in the open market or in negotiated or other transactions. The program will expire on July 31, 2012. There have been no repurchases of common stock under the program to date.

**Item 6. Exhibits**

| Exhibit No. | Description |
|-------------|-------------|
| *3.2        |             |

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Amended and Restated Bylaws of the Company (Exhibit 3.2 to the Company's Current Report on Form 8-K dated November 9, 2011).

- \*10.45 Amendment, dated November 22, 2011, to the Employment Agreement dated as of July 23, 2008 (as amended) between Judd P. Tirnauer and the Company (Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended September 30, 2011 (the 2011 Form 10-K)).
- \*10.46 Amendment, dated November 22, 2011, to the Employment Agreement dated as of July 16, 2009 (as amended) between Ronald J. Masciantonio and the Company (Exhibit 10.46 to the 2011 Form 10-K).
- 10.47 Form of Restricted Stock Unit Award Agreement under the Company's 2005 Equity Incentive Plan.
- 31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Executive Vice President & Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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| <b>Exhibit<br/>No.</b> | <b>Description</b>  |
|------------------------|---|
| 32.1                   | Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                            |
| 32.2                   | Certification of the Executive Vice President & Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| **101.INS              | XBRL Instance Document  |
| **101.SCH              | XBRL Taxonomy Extension Schema Document   |
| **101.CAL              | XBRL Taxonomy Extension Calculation Linkbase Document   |
| **101.DEF              | XBRL Taxonomy Extension Definition Linkbase Document  |
| **101.LAB              | XBRL Taxonomy Extension Label Linkbase Document   |
| **101.PRE              | XBRL Taxonomy Extension Presentation Linkbase Document  |

\* Incorporated by reference.

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Management contract or compensatory plan or arrangement.

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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DESTINATION MATERNITY

CORPORATION

Date: February 7, 2012

By: /s/ **EDWARD M. KRELL**

Edward M. Krell  
*Chief Executive Officer*

Date: February 7, 2012

By: /s/ **JUDD P. TIRNAUER**

Judd P. Tirnauer  
*Executive Vice President &*

*Chief Financial Officer*

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**INDEX OF EXHIBITS FILED WITH  
FORM 10-Q OF DESTINATION MATERNITY CORPORATION  
FOR THE QUARTER ENDED DECEMBER 31, 2011**

| <b>Exhibit<br/>No.</b> | <b>Description</b>   |
|------------------------|--|
| 10.47                  | Form of Restricted Stock Unit Award Agreement under the Company's 2005 Equity Incentive Plan.  |
| 31.1                   | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2                   | Certification of the Executive Vice President & Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1                   | Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
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| **101.DEF              | XBRL Taxonomy Extension Definition Linkbase Document   |
| **101.LAB              | XBRL Taxonomy Extension Label Linkbase Document  |
| **101.PRE              | XBRL Taxonomy Extension Presentation Linkbase Document   |
| **                     | XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections. |

Management contract or compensatory plan or arrangement.