

Destination Maternity Corp  
Form 10-K  
December 13, 2013

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2013

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 Fifth Street, Philadelphia, PA (Address of principal executive offices)	19123 (Zip Code)
(215) 873-2200	

(Registrant's telephone number, including area code)

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

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

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

Series B Junior Participating Preferred Stock Purchase Rights

(Title of class)

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

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

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

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

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

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

Large accelerated filer

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

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The aggregate market value of the voting and non-voting common equity held by non-affiliates computed using \$23.40, the price at which the common equity was last sold as of March 28, 2013 (the last trading day of the Registrant's most recently completed second fiscal quarter), was approximately \$305,000,000.

On December 4, 2013, there were 13,679,228 shares of the Registrant's common stock, \$.01 par value, outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Stockholders, expected to be held in the second quarter of fiscal 2014, are incorporated by reference into Part III of this Form 10-K.

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## PART I.

Our fiscal year ends on September 30. All references in this report to our fiscal years refer to the fiscal year ended on September 30 in the year mentioned. For example, our fiscal 2013 ended on September 30, 2013. Unless otherwise indicated, operating data referred to in this report is as of September 30, 2013. As used in this report, the term retail locations includes our stores and leased departments and excludes locations where Kohl's® sells our products under an exclusive product and license agreement, and also excludes international franchised locations. As used in this report, stores means our stand-alone stores in the United States, Puerto Rico and Canada, which we operate.

### Item 1. Business Overview

Destination Maternity Corporation (the Company, we, us, our) is the leading designer and retailer of maternity apparel in the United States and is the only nationwide chain of maternity apparel specialty stores. As of September 30, 2013, we operate 1,907 retail locations, including 596 stores in all 50 states, Puerto Rico and Canada, and 1,311 leased departments located within department stores and baby specialty stores throughout the United States and Puerto Rico. We are also the exclusive provider of maternity apparel to Kohl's, which operates approximately 1,158 stores throughout the United States and offers our maternity apparel in a significant number of its stores. We operate our 596 stores under three retail nameplates: Motherhood Maternity®, A Pea in the Pod® and Destination Maternity®. In addition to our 596 stores, we operate 1,311 maternity apparel departments, which we refer to as leased departments, within leading retailers such as Macy's®, Sears®, Gordmans®, buybuy BABY®, Boscov's® and Century 21. We are the exclusive maternity apparel provider in each of our leased department locations. We also sell merchandise on the Internet, primarily through DestinationMaternity.com and our various brand-specific websites.

We have international store franchise and product supply relationships in the Middle East, South Korea, Mexico and India. As of September 30, 2013, we have 143 international franchised locations, comprised of 20 stand-alone stores in the Middle East, South Korea and India operated under the Destination Maternity retail nameplate, and 123 shop-in-shop locations in South Korea and India, in which we have a Company-branded department operated by our franchise partners within other retail stores. In November 2013, we announced our expansion into Mexico through a franchise agreement with the largest department store company in Mexico. Also in November 2013, we announced that we were unable to reach mutual agreement on acceptable renewal terms with our franchisee for India and, thus, this franchise relationship, which began in April 2009 and which covers 110 maternity shop-in-shops and one franchise store, will end in March 2014.

We maintain our leading position across all major price points of maternity apparel through our four distinct merchandise brands, which enable us to reach a broad range of maternity customers. Through our 596 stores and certain of our leased departments, we offer maternity apparel under one or both of our two primary merchandise brands, Motherhood Maternity (Motherhood or Motherhood Maternity) at value prices and A Pea in the Pod (Pea or Pea in the Pod) at both contemporary and luxury prices. Our A Pea in the Pod Collection® (Pea Collection) is the distinctive premier maternity apparel line within the A Pea in the Pod brand, featuring exclusive designer label product at luxury prices. We also have two additional value-priced maternity apparel brands, our Oh Baby by Motherhood® collection, which we sell exclusively through Kohl's, and our Two Hearts® Maternity by Destination Maternity® collection, available exclusively at Sears stores. Our brands are the exclusive maternity apparel offering in each of these chains.

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

We have developed and introduced multi-brand store concepts to offer merchandise from our various brands in a single location, in order to provide a broader product assortment at multiple price ranges to our customers and to increase average store sales and profitability. We believe the continued rollout of our multi-brand store initiative provides the opportunity for us to improve store operating profit margins over time by reducing store operating expense percentages through economies of scale, and may increase overall sales in the geographical markets they serve. Our multi-brand stores are operated under our Destination Maternity nameplate, which includes Destination Maternity combo stores (carrying Motherhood Maternity and A Pea in the Pod merchandise) and Destination Maternity superstores, which also carry both our Motherhood and Pea merchandise brands, as well as a significant array of maternity-related products and customer service features. These Destination Maternity stores are larger and have historically had higher average sales than our average store. Opening these Destination Maternity stores will often involve closing two or more smaller stores and may result in one-time store closing costs resulting primarily from early lease terminations.

In recent years, in addition to having closed some stores in connection with the opening of Destination Maternity nameplate stores, we have also evaluated our retail store base to identify and, in many cases, close underperforming stores (referred to as prunings) where we can do so without disproportionate exit cost. These prunings typically add to our profitability by eliminating the operating expense of an underperforming store while also typically transferring some of the sales from the closed store to other stores and/or leased departments we operate in that geographical area.

In fiscal 2013 we closed 44 stores, 14 of which were closed in connection with the opening of Destination Maternity nameplate stores, with the remaining 30 store closings primarily consisting of prunings of underperforming stores. In fiscal 2013, we opened 15 stores, including nine Destination Maternity nameplate store openings. From fiscal 2005 through fiscal 2013, we closed 436 stores, 143 of which were closed in connection with the opening of Destination Maternity nameplate stores, with the remaining 293 store closings primarily consisting of prunings of underperforming stores. From fiscal 2005 through fiscal 2013, we opened 149 stores, including 67 Destination Maternity nameplate store openings.

We plan to open approximately 19 to 21 new retail stores during fiscal 2014, of which we expect approximately 5 to 6 will be new Destination Maternity nameplate stores. We estimate that we will close approximately 47 to 53 stores in fiscal 2014, with approximately 12 to 14 of these store closings related to the opening of new Destination Maternity nameplate stores, and the remainder of these store closings primarily related to prunings of underperforming stores.

Currently, we operate 31 Motherhood stores and two Destination Maternity superstores in Canada and a Motherhood website under a Canadian URL (MotherhoodCanada.ca). In addition, we believe there is a significant opportunity to continue to develop international sales beyond Canada. We currently have franchise agreements in place in the Middle East, South Korea and Mexico. The initial franchise stores through our arrangement in the Middle East opened during 2009 and, as of September 30, 2013, there are 15 of our franchise stores operating in the Middle East. During fiscal 2011, we began offering our Motherhood Maternity branded merchandise in South Korea in maternity shop-in-shops operated by our franchise partner within other retail stores and in franchise stores. As of September 30, 2013, our merchandise is offered in 13 shop-in-shops and four franchise stores in South Korea. In November 2013, we announced our expansion into Mexico through a franchise agreement with El Puerto de Liverpool, S.A.B. de C.V. (Liverpool), the largest department store company in Mexico. We will initially make our Motherhood Maternity and A Pea in the Pod branded merchandise available for sale in maternity shop-in-shops located in our Mexico franchisee's Liverpool department stores throughout Mexico, with plans to open freestanding franchise stores in Mexico later in 2014 and beyond. In November 2013, we announced that we were unable to reach mutual agreement on acceptable renewal terms with our franchisee for India and, thus, this franchise relationship, which began in April 2009, will end in March 2014. We do not expect that the discontinuation of this franchise relationship will have a significant impact on our financial results. As of September 30, 2013, our merchandise is offered in 110 maternity shop-in-shops and one franchise store in India.

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

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

the 1990s we have partnered with other retailers to sell our products through maternity apparel departments within their stores. On December 8, 2008, we changed our corporate name from Mothers Work, Inc. to Destination Maternity Corporation and our Nasdaq<sup>®</sup> symbol from MWRK to DEST coincident with the name change.

#### Industry Overview

We are unaware of any reliable external data on the size of the maternity apparel business. We believe that there is an opportunity to grow our business by selling maternity clothes to those pregnant women who currently purchase loose-fitting or larger-sized non-maternity clothing as a substitute or partial substitute for maternity wear. We also believe that our business can grow by reducing the amount of hand-me-down and borrowing associated with maternity apparel, particularly in the value-priced segment. Additionally, although we are not wholly unaffected by external factors (such as fluctuations in the birth rate), we believe that the demand for maternity apparel is relatively stable when compared to non-maternity apparel. Expectant mothers continue to need to replace most of their wardrobe and the current rate of approximately four million United States births per year has remained relatively stable over the last decade, although the number of births has declined by approximately 8.4% in the United States from 2007 to 2012,



the period of latest available information. Also, although we are affected by fashion trends, we believe that maternity apparel is less fashion sensitive than women's specialty apparel in general, as demand is driven primarily by the need to replace wardrobe basics as opposed to a desire to add to one's wardrobe in order to meet current fashion trends.

### Our Competitive Strengths

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

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

We are vertically integrated. We design and contract manufacture over 90% of the merchandise we sell. We believe that vertical integration enables us to offer the broadest assortment of maternity apparel, to respond quickly to fashion trends and to optimize in-stock levels. We combine our in-house design expertise, domestic and international sourcing capabilities, a rapid inventory replenishment process and extensive proprietary systems to enhance operational and financial results.

We utilize a rapid inventory replenishment system. We are able to offer a wide selection of merchandise in our retail locations due, in large part, to our rapid inventory replenishment system. Our proprietary inventory replenishment system enables us to offer our customers a much broader selection than any of our competitors, without dedicating retail space to back-stock storage. We coordinate the rapid replenishment of inventory for all of our retail locations through our Mid-Atlantic distribution facilities to meet the individualized needs of our retail locations. Our stores receive shipments from our distribution facilities between one and seven times per week. This enables us to maintain a high percentage in-stock merchandise position in each of our stores.

We have proprietary systems that support our business. In order to support our vertically-integrated business model and inventory replenishment system, we have developed a fully integrated, proprietary enterprise resource planning (ERP) system. This system includes our point-of-sale systems, our merchandise analysis and planning systems, our materials requirement planning system, and our web-based, global sourcing and logistics systems. These systems also support our automated picking and sorting systems and other aspects of our logistics infrastructure. We believe that our proprietary systems enable us to offer a broad product assortment, rapidly replenish inventory in our retail locations, and respond quickly to fashion trends.

We are able to obtain prime real estate locations. We believe our ability to lease attractive real estate locations is enhanced due to the brand awareness of our concepts, our multiple price point approach, our highly sought after

maternity customer and our real estate management and procurement capabilities. We are the only maternity apparel retailer to provide mall operators with differently priced retail concepts, depending on the mall's target demographics. We are also able to provide a Destination Maternity multi-brand store for malls whose maternity customers seek a wide range of price alternatives. In addition, in the case of multi-mall operators, we have the flexibility to provide several stores across multiple malls. As a result, we have been able to locate stores in many of what we believe are the most desirable shopping malls in the country and are able to obtain attractive locations within these malls.

We are able to enhance our leadership position by distributing our products under exclusive leased department and licensed brand relationships. As of September 30, 2013 we operate 1,311 leased departments within leading retailers such as Macy's, Sears, Gordmans, buybuy BABY, Boscov's and Century 21. We are the exclusive maternity apparel provider in each of our leased department locations. We are also the exclusive provider of maternity apparel to Kohl's pursuant to an exclusive licensed brand relationship. We believe that we have an opportunity to continue to increase the sales we generate from these ongoing relationships through expanding our relationships with our current retail partners as well as potentially developing relationships with new retail partners. In fiscal 2013, in connection with our broad-based partnership with Bed Bath & Beyond Inc. and its subsidiary, Buy Buy Baby, Inc., we began opening leased departments in select buybuy BABY stores. According to Bed Bath & Beyond Inc.'s latest public disclosure, as of October 9, 2013 there are 86 buybuy BABY stores. As of September 30, 2013 we operate leased departments in 59

buybuy BABY stores. Over time, we expect to continue to increase the number of buybuy BABY stores in which we have a maternity apparel leased department.

We have a highly experienced management team. We have a management team with significant experience in all aspects of the retail and apparel business, including our Chief Executive Officer ( CEO ), Ed Krell, who has served as a senior executive of the Company for nearly 12 years and has over 25 years of business experience encompassing apparel, retail, finance and overall management, and our President, Chris Daniel, who has over 20 years of women s apparel merchandising experience.

#### Merchandise Brands

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

Brand	Brand Positioning	Typical Apparel Price Range
Motherhood Maternity	Broad assortment of the latest fashions, offering great quality merchandise at everyday low prices	\$10 - \$45
A Pea in the Pod	Contemporary, fashion forward and luxury, offering sophisticated career, as well as fun casual merchandise, including exclusive designer labels	\$18 - \$395
Two Hearts Maternity by Destination Maternity	Select assortment of the latest fashions, offering great quality merchandise at value price points	\$8 - \$36
Oh Baby by Motherhood	Select assortment of the latest fashions, offering great quality merchandise at value price points	\$8 - \$36 (1)

(1)Kohl s, which sells our Oh Baby by Motherhood brand under an exclusive product and license agreement, sets the prices for this merchandise.

Motherhood Maternity. Our Motherhood Maternity brand serves the value-priced portion of the maternity apparel business, which has the greatest number of customers. The Motherhood brand is positioned with a broad assortment of quality fashion at everyday low prices. We believe that the Motherhood customer shops at moderate-priced department stores, specialty stores and discount stores when she is not expecting.

A Pea in the Pod. Our A Pea in the Pod brand serves both the medium-priced (or better ) portion and, through our A Pea in the Pod Collection line, the luxury portion of the maternity apparel business. The Pea brand is generally positioned as contemporary, fashion-forward and luxury, with prices ranging from affordable mid-priced to true luxury prices, offering the mom-to-be exceptional contemporary maternity pieces that reflect her uncompromising sense of style in both casual and career apparel. The Pea Collection is the distinctive premier maternity luxury line within the Pea brand, featuring a selection of extraordinary styles along with exclusive designer labels. In our stores which carry A Pea in the Pod brand merchandise, we also offer exclusive maternity versions of select styles from

well-known designer and contemporary brands, where we have assisted in developing these maternity versions. We believe that the typical Pea customer shops at department stores and specialty apparel chains when she is not expecting, with the Pea Collection customer typically shopping at higher-end department stores and luxury designer boutiques when she is not expecting. We believe the Pea brand is the leading luxury maternity brand in the United States. Publicity, including celebrities wearing our clothes, is an important part of the marketing and positioning of the Pea brand.

Two Hearts Maternity by Destination Maternity. Our Two Hearts Maternity by Destination Maternity collection is available at over 500 Sears locations throughout the United States through an exclusive leased department relationship. This collection delivers the latest in career and casual sportswear as well as dresses, swimwear, lingerie and nursing-friendly sleepwear, all specially designed to compliment the pregnant silhouette, with most items selling for under \$25.

Oh Baby by Motherhood. Our Oh Baby by Motherhood collection is available at Kohl's stores throughout the United States and on Kohls.com. The Oh Baby by Motherhood collection is available under an exclusive product and license agreement with Kohl's. The collection features a modern assortment of quality fashions, with most items having initial prices (before price promotions) under \$40. As of September 30, 2013, Kohl's operates approximately 1,158 stores throughout the United States and offers our maternity apparel in a significant number of its stores.

Retail Nameplates

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

Store Nameplate	Description of Target Location	Brand(s) Carried	Typical	Average
			Apparel Price Range	Size (Sq. Ft.)
Motherhood Maternity	Mid-priced and moderate regional malls, strip and power centers, and central business districts	Motherhood	\$10 - \$45	1,800
A Pea in the Pod	Mid-priced and high-end regional malls, lifestyle centers, central business districts and some stand-alone stores in affluent street locations	Pea (including, in some cases, Pea Collection)	\$18 - \$395	2,100
Destination Maternity	Combo stores located in mid-priced regional malls and lifestyle centers	Motherhood; Pea (including, in some cases, Pea Collection)	\$10 - \$395	Combo stores 3,000
	Superstores located primarily in outdoor and power centers and central business districts			Superstores 6,200
Leased Departments:				
Macy's	Mid-priced regional malls	Motherhood; Pea (including, in some cases, Pea Collection)	\$10 - \$395	
Sears	Mid-priced and moderate regional malls	Two Hearts Maternity by Destination Maternity	\$8 - \$36	
Gordmans	Big box power centers	Motherhood	\$10 - \$45	
buybuy BABY	Big box power centers	Motherhood; Pea	\$10 - \$198	
Boscov's	Mid-priced and moderate regional malls	Motherhood	\$10 - \$45	
Century 21				